
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934

May 27, 2020

Commission File Number 001-36761

Kenon Holdings Ltd.

1 Temasek Avenue #36-01
Millenia Tower
Singapore 039192
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒

Form 40-F ☐

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐

No ☒

If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

EXHIBIT 99.2 TO THIS REPORT ON FORM 6-K IS INCORPORATED BY REFERENCE IN THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-201716) OF KENON HOLDINGS LTD. AND IN THE PROSPECTUSES RELATING TO SUCH REGISTRATION STATEMENT.

CONTENTS

Periodic Report of OPC Energy Ltd. for the Three Months Ended March 31, 2020

On May 27, 2020, Kenon Holdings Ltd.'s subsidiary OPC Energy Ltd. ("**OPC**") reported to the Israeli Securities Authority and the Tel Aviv Stock Exchange its periodic report (in Hebrew) for the three months ended March 31, 2020 ("**OPC's Periodic Report**"). English convenience translations of the (i) Report of the Board of Directors regarding the Company's Matters for the Three-Month Period ended March 31, 2020 and (ii) Condensed Consolidated Interim Financial Statements at March 31, 2020 as published in OPC's Periodic Report are furnished as Exhibits 99.1 and 99.2, respectively, to this Report on Form 6-K. In the event of a discrepancy between the Hebrew and English versions, the Hebrew version shall prevail.

Forward Looking Statements

This Report on Form 6-K, including the exhibits hereto, includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include statements with respect to OPC's business strategy and OPC's plans with respect to the Tzomet and OPC-Hadera projects, including expected COD dates and expected construction completion date for Tzomet, the expected impact of the Covid-19, the expected impact of delays, including expected compensation and insurance reimbursement for delays and expected impact on total costs for the OPC-Hadera project, the working capital deficit, its plans and expectations regarding regulatory clearances and approvals for its projects, and the technologies intended to be used thereto, statements with respect to the potential construction, operation and maintenance of the new 99MW power plant, including with respect to electricity sales, statements with respect to the expected effects of the Covid-19, the Electricity Authority ("EA") tariffs and their expected effects on OPC, including announced changes effective for 2020, expected timing and impact of planned maintenance to be performed at OPC-Rotem in 2020, the expected interpretation and impact of regulations on OPC and its subsidiaries, and OPC's adoption of certain accounting standards and the expected effects of those standards on OPC's results. These statements are based on OPC Energy Ltd. management's current expectations or beliefs, and are subject to uncertainty and changes in circumstances. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond Kenon's and OPC's control, which could cause the actual results to differ materially from those indicated in such forward-looking statements. Such risks include the risk that OPC may fail to obtain any required approvals for its projects or meet the required conditions and milestones for continuation of its projects, OPC may be unable to complete the development of the OPC-Hadera and Tzomet projects on a timely basis, within the expected budget, or at all, including as a result of, among others, IDE does not sign an agreement with the State of Israel and that OPC does not construct, operate or maintain the power plant or effect electricity sales as described or at all, the Covid-19 outbreak, OPC may become subject to new regulations or existing regulations may have different interpretations or impacts than expected, the accounting standards may have a material effect on OPC's results, there may be changes to the EA tariffs with different effects on OPC's results, and other risks and factors, including the impact of the Covid-19 outbreak, including those risks set forth under the heading "Risk Factors" in Kenon's Annual Report on Form 20-F filed with the SEC and other filings. Except as required by law, Kenon undertakes no obligation to update these forward-looking statements, whether as a result of new information, future events, or otherwise.

Exhibits

- 99.1 OPC Energy Ltd. – Periodic Report for the three months ended March 31, 2020— Report of the Board of Directors regarding the Company’s Matters for the Three-Month Period ended March 31, 2020, as published on May 27, 2020 with the Israeli Securities Authority and Tel Aviv Stock Exchange*
- 99.2 OPC Energy Ltd. – Periodic Report for the three months ended March 31, 2020— Condensed Consolidated Interim Financial Statements at March 31, 2020, as published on May 27, 2020 with the Israeli Securities Authority and Tel Aviv Stock Exchange*

*English convenience translation from Hebrew original document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KENON HOLDINGS LTD.

Date: May 27, 2020

By: /s/ Robert L. Rosen

Name: Robert L. Rosen

Title: Chief Executive Officer

OPC ENERGY LTD.

Report of the Board of Directors regarding the Company's Matters for the Three-Month Period Ended March 31, 2020

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, 2020 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, 2019, which were attached to the Company's Periodic Report for 2019 which was published on February 27, 2020 (Reference No.: 2020-01-016870), (hereinafter – “the Consolidated Financial Statements” and “the Periodic Report for 2019”, respectively)¹. The information included in the Periodic Report and the Consolidated Financial Statements is included herein by reference.

As at March 31, 2020, 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.

It is noted that in accordance with the condensed interim separate-company information (Regulation 38D), as at March 31, 2020, the Company has a deficit in the working capital, in the amount of about NIS 1.5 million. The Company's Board of Directors made an analysis of the circumstances and determined that the existence of the deficit in the Company's working capital, as stated, does not indicate a liquidity problem in the Company, taking into account, among other things, the amount thereof and the fact that the said deficit stems from short-term loans, in the amount of NIS 219 million, that were repaid subsequent to the date of the Report. According to the examination of the Board of Directors, the Coronavirus crisis (as described in Section 2 below), did not impact the said deficit in the working capital. It is noted that subsequent to the date of the Report, the Company issued debentures (Series B) as stated below. **The above-mentioned information contains “forward-looking” information as defined in the Securities Law, 1968 (“the Securities Law”) which is based on the Company's estimates regarding liquidity. The actual data could be significantly different than the said estimate if there is a change in one of the risk factors that were taken into account when making these estimates.**

Presented together with this Report are the consolidated interim financial statements as at March 31, 2020 (hereinafter – “the Interim Statements”) and on the assumption that this Report is read together with all the said report parts, which are presented herein by reference. 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. 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.

¹ It is noted that in some of the cases an additional description was provided in order to present a more comprehensive picture of the matter being addressed. References to Immediate Reports in this Report include the information included in the said Immediate Reports by means of reference.

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, the Company is engaged, by itself and through a number of subsidiaries, in one reportable business segment – the generation and supply of electricity. As part of this area of activities, the Company is engaged in generation of electricity and supply thereof to private customers and to Israel Electric Company (hereinafter – “the Electric Company” or “IEC”), including in initiation, development, construction and operation of power plants and facilities for generation of energy.

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

1. As at the date of the Report, the Company's activities with respect to generation and supply of electricity concentrate on generation of electricity using conventional and cogeneration technologies, and the Company is also endeavoring to construct an open-cycle power station using conventional technology (a “Peaker” plant). As at the date of the report the Company owns two power plants: the Rotem Power Plant, which is owned by OPC Rotem Ltd. (“Rotem”), which is held by the Company (80%) and by an additional shareholder (20%), which utilizes conventional generation technology and has an installed capacity of about 466 megawatts; and the Hadera Power Plant, which is owned by OPC Hadera Ltd. (“Hadera”), which is currently in the test-run stages and is planned to operate using cogeneration technology, with an installed capacity of about 148.5 megawatts. 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”), which is located adjacent to the Hadera Power Plant (the balance of the electricity needs of Hadera Paper is supplied by Rotem). In addition, the Company wholly owns Zomet Energy Ltd. (“Zomet”), which is taking action to construct a power plant running through use of natural gas with conventional technology in an open cycle (a “Peaker” plant), having a capacity of about 396 megawatts located proximate to the Plugot intersection, in the area of Kiryat Gat, under Regulation 914 of the Electricity Authority.
2. Due to the spread of the Coronavirus (COVID-19) in the period of the Report and thereafter, movement (traffic) restrictions and restrictions on business activities were imposed by the State of Israel and countries throughout the world. In addition, the said Coronavirus crisis has caused, among other things, uncertainty and instability in the Israeli and global financial markets and economy. The operations of the Company's active power plants, Rotem Power Plant and the Energy Center are continuing in the “restrictions’ period” as a result of their being “essential enterprises” while safeguarding the work teams and taking precautionary measures in order to prevent outbreak and spreading of the infection at the Company's sites. As at the date of the Report, the Coronavirus crisis had not had a significant impact on the Company's results and activities. In light of the uncertainty regarding the duration of the crisis, the intensity thereof and its impacts on the markets and factors relating the Company's activities (such as, employees, significant customers, significant suppliers, lenders, etc.), as well as regarding the measures that will be taken by governments and central banks, as at the date of the Report, the Company is not able to accurately or fully estimate the impacts of the Coronavirus crisis on the Company. Spread of the virus and infections at the Company's power plants and other sites, continuation of the Coronavirus crisis for an extended period, a significant impact of the Coronavirus crisis on main suppliers (such as, suppliers of natural gas, construction and maintenance contractors, etc.) or the Group's main customers, could have an unfavorable impact on the Company's activities and results, as well as on its ability to complete construction projects on time or at all and/or on its ability to execute future projects. Regarding the impacts of the Coronavirus crisis on the Company – see Sections 3, 4 and 5 below, the Section addressing the Company's revenues (Section 6) and Note 1 to the interim financial statements.

OPC Energy Ltd.
Report of the Board of Directors

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

1. General (Cont.)

Brief description of the Group, its business environment and its areas of activity (Cont.)

3. As at March 31, 2020, construction of the generation units of the power plant being constructed by Hadera ("the Hadera Power Plant") was completed, and the Company had commenced the test-run of the Hadera Power Plant, which was underway as at the publication date of the Report. Taking into account the delays that were experienced in construction of the Hadera Power Plant as a result of, among other things, defective components found, the actions required to repair and/or replace the said components and the actions necessary to complete the test-run stage, in the Company's estimation the commercial operation date of the Hadera Power Plant is expected to take place in June 2020². As at March 31, 2020, the total investments in the power plant under construction and the infrastructures of Hadera (including the Energy Center) amounted to about NIS 854 million³. For purposes of the commercial operation, Hadera is required to obtain a permanent generation license and a supply license.

It is noted that in March 2020⁴, the Hadera construction contractor gave notice that, taking into account the quarantine instructions and restrictions on entry into Israel due to spread of the Coronavirus (COVID 19), to the extent arrival of a foreign technical team is necessary in order to perform of certain actions required to complete the acceptance tests of the Hadera Power Plant, commercial operation of the Hadera Power Plant could be delayed beyond June 2020. As at the publication date of this Report, there are delays in arrival of equipment as well as arrival of a foreign technical team required for completion of the stage of the acceptance tests of the Hadera Power Plant. The Company expects that the commercial operation date of the power plant will be in June 2020, however in light of the restrictions described, the said commercial operation date could be delayed even beyond June 2020.

In March 2020 the Electricity Authority approved Hadera's request to extend the commercial operation date by 12 months (up to March 2021). Extension of the commercial operation date was approved together with realization of the bank guarantee provided by Hadera, in the amount of NIS 1.2 million. After realization of the guarantee, Hadera provided a substitute bank guarantee as required by its conditional generation license, in the same amount. In addition, regarding Hadera's request to the lenders in Hadera's financing agreement to extend the final date for commercial operation stipulated in Hadera's financing agreement up to the end of June 2020, in March 2020, Hadera's lenders approved Hadera's said request.

² For details regarding the arrangements provided as part of Hadera's agreements with its customers in connection with delays in the commercial 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 of the Periodic Report for 2019 and Notes 25A and 25D to the consolidated financial statements.

³ The total investments is presented net of compensation from the construction contractor to which the Company is entitled in accordance with Hadera's construction agreement – see Note 25D to the consolidated financial statements.

⁴ As published in the Company's Immediate Report dated March 11, 2020 (Reference No.: 2020-01-019948). That stated therein is presented herein by means of reference.

OPC Energy Ltd.
Report of the Board of Directors

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

1. General (Cont.)

Brief description of the Group, its business environment and its areas of activity (Cont.)

3. (Cont.)

As at the date of this Report, the Company estimates that part of the costs stemming from the said delay, including lost profits, will be covered by Hadera's insurance policy pursuant to the terms of the said policy. In addition, in accordance with the construction agreement, Hadera is entitled to agreed-to compensation (limited to the ceiling stipulated in the construction agreement) from the construction contractor in respect of a delay in the delivery date. Given that stated, the Company estimates that the said delay is not expected to cause a significant deviation from the Company's estimates regarding the total construction cost of the Hadera Power Plant, in the amount of about NIS 1 billion (including the acquisition cost of about NIS 60 million). As at the date of the Report, returns (reimbursements), as stated, from the Company's insurance policies and/or from the construction contractor had not yet been received. There is no certainty that the Company will be able to receive returns (reimbursements) and/or compensation in respect the full amount of its direct and indirect damages⁵. For additional details – see Notes 25A and 25D to the consolidated financial statements.

4. In March 2020, the Company paid the balance of the consideration in respect of acquisition of 95% of the shares of Zomet, in the amount of about U.S.\$15.8 million and thus completed the transaction stated in Section 2.3.1 of Part A of the Periodic Report for 2019. As at the date of the Report, the Company holds 100% of the issued and paid-up share capital of Zomet. As at March 31, 2020, the total investments in the Zomet project amounted to about NIS 410 million.

⁵ It is emphasized that that stated above, including regarding the Company's estimates with respect to the updated expected commercial operation date of the Hadera Power Plant, coverage of the costs stemming from the delay, as stated above (including lost profits) and receipt of compensation for the delay damages, the total estimated construction cost of the Hadera Power Plant and/or with reference to the estimate that a deviation from this estimate is not expected, includes "forward-looking" information, as defined in the Securities Law, which is based on the Company's estimates as at the date of the Report, and regarding which there is no certainty it will be realized. That stated may not be realized or may be realized in a manner different than expected. As a practical matter, the commercial operation date of the Hadera Power Plant may be delayed even beyond June 2020 and the actual construction cost could be higher than this estimate – this being due to, among other things, additional delays in completion of the test-runs and operation of the Power Plant and/or as a result of other technical breakdowns and failures, an increase in costs, non-receipt of a permanent generation license and a supply license, non-receipt of required regulatory permits or approvals, and/or due to occurrence of any of the risk factors involved with completion of the power plant project or the Company's activities. In addition, if compensation is not received for all 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 on the Company's results and activities. For additional details regarding the risk factors involved with construction projects, including the Hadera project – see Section 19.3 of Part A (Description of the Company's Business).

OPC Energy Ltd.
Report of the Board of Directors

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

1. General (Cont.)

Brief description of the Group, its business environment and its areas of activity (Cont.)

4. (Cont.)

Due to the continued movement (traffic) restrictions in Israel and worldwide and the need for arrival of equipment from overseas, due to the Coronavirus crisis, the Company estimates that the construction period of the Zomet Power Plant could continue beyond the end of 2022, and as at the date of the Report, it is expected to be completed in the first quarter of 2023. Completion of the construction in accordance with the construction agreement covering the Zomet Power Plant was extended by about three months parallel to issuance of the work commencement order⁶.

Further to that stated in Section 8.11.7 of Part A of the Periodic Report for 2019, in May 2020 approval of Israel Lands Authority was received for the Joint Company (Zomet Netiv Limited Partnership, which was set up by Zomet and Kibbutz Netiv HLH) will have ownership rights in the land located at the Plugot intersection, which is for purposes of construction of the Zomet Power Plant, and accordingly transfer of the rights to the Joint Company, as stated, was completed. For details regarding an administrative petition filed by Zomet against the Regional Council of Shafir in respect of the amount in dispute, as stated in Section 8.11.7 of Part A of the Periodic Report for 2019 – see Note 5N to the interim consolidated financial statements.

5. In light of the restrictions on entry into the State of Israel, due to the Coronavirus crisis, the maintenance work at the Rotem Power Plant was postponed and it is planned to be performed in October 2020⁷. It is noted that in light of postponement of the maintenance work, as stated, Rotem shut down the Power Plant for several days in April 2020 in order to perform technical examinations and internally-initiated tests. The shutdown for several days and the postponement of the date of the maintenance are not expected to have a significant impact on Rotem's results⁸.

⁶ It is emphasized that that stated above regarding the construction date of the Zomet Power Plant constitutes "forward-looking" information as defined in the Securities Law, regarding which there is no certainty it will be realized. As a practical matter, the completion date of the construction and the construction work could be delayed (and even significantly) or may encounter difficulties, and in this regarding there could be delays, disruptions or other breakdowns in construction of the Power Plant due to, among other things, continuation of the Coronavirus crisis, failures with respect to the construction work or equipment or as a result of occurrence of one or more of the risk factors to which the Company is exposed.

⁷ As a result of postponement of the maintenance date, Rotem slowed down reduction (amortization) of the maintenance component of the Rotem Power Plant commencing from March 2020. For details – see Note 1, to the interim financial statements.

⁸ It is emphasized that that stated above regarding the planned date for performance of the maintenance work at the Rotem Power Plant and the impact thereof on the generation activities of the Rotem Power Plant and the results thereof constitutes "forward-looking" information as defined in the Securities Law, regarding which there is no certainty it will be realized. As a practical matter, the date of performance of the maintenance work could be delayed and the said delay could impact the generation activities of the Rotem Power Plant and the results thereof in a manner different than that forecasted due to, among other things, continuation of the Coronavirus crisis or as a result of occurrence of one or more of the risk factors to which the Company is exposed.

OPC Energy Ltd.
Report of the Board of Directors

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

1. General (Cont.)

Brief description of the Group, its business environment and its areas of activity (Cont.)

6. On January 1, 2020, the annual update of the electricity tariffs for 2020 of the Electricity Authority entered into effect, whereby the rate of the generation component was reduced by 8% from NIS 290.9 per MWh to NIS 267.8 per MWh. The said reduction in the generation component had a negative impact on the Company's income in the first quarter of 2020 compared with the corresponding quarter last year, and it will also have a negative impact on the Company's income for the entire 2020 year compared with 2019. For additional information regarding the generation component in prior years – see Note 25B to the Consolidated Financial Statements and, among other things, Sections 6 and 7 below. Regarding the factors impacting the generation component – see Section 7.7.1 of Part A of the Periodic Report for 2019.
7. In March 2020, the Company took out a loan from Bank Mizrahi Tefahot Ltd., in the amount of NIS 50 million⁹. The loan bore interest at the annual rate of prime + 1.25% and was repaid in May 2020.
8. On April 6, 2020, the Company repaid the short-term credit, as stated in Section 10 of Part A of the Periodic Report for 2019 – this being by means of taking out a substitute, in the amount of about NIS 169 million (“the Substitute Loan”). The Substitute Loan, which bore interest at the annual rate of prime + 1.7%, was repaid on April 28, 2020.
9. In April 2020, the Company issued a new series of debentures (Series B) of the Company, in the amount of NIS 400 million par value. For additional details – see Section 11 of the Report of the Board of Directors and Note 7B to the interim consolidated financial statements.
10. Further to that stated in Section 2.3.3 to Part A of the Periodic Report for 2019, subsequent to the period of the Report the Company entered into an undertaking with a customer that is connected to the distribution network, in a binding agreement including construction and operation of a facility for generation of energy in the customer's yard (premises), in the scope of about 10 megawatts, along with arrangements for sale of the energy to the customer. For additional details – see Note &A to the interim consolidated financial statements.
11. Further to that stated in Section 7.8.5 to Part A of the Periodic Report regarding the reform in Israel Electric Company and the tender for sale of the Ramat Hovav generation site, a power plant powered by natural gas, which was published by Israel Electric Company (“the Tender”), on May 20, 2020, the Company and Noy Power Plants, Limited Partnership (a partnership established by Noy Fund 3, Limited Partnership) (hereinafter – “the Noy Fund”) submitted a purchase offer in the Tender, through a joint Special Purpose Company (SPC), the share capital of which is held in equal shares (50%–50%) by the Company and the Noy Fund – OPC Noy Ramat Hovav Ltd. (“the Joint Company”). It is emphasized that the stage of submission of purchase bids as part of the Tender is involved, and there is no certainty that the said bid submitted by the Joint Company will be declared the winning bid in the Tender.

⁹ The said undertaking was approved by the Company's Audit Committee and Board of Directors as a transaction that is not unusual taking into account the fact that Mr. Eyal Ofer, a relative of Mr. Idan Ofer, a beneficiary in trust that has holdings in Kenon (indirectly), the Company's controlling shareholder (see Regulation 21A of the Periodic Report for 2019), is considered a controlling shareholder of Bank Mizrahi Tefahot Ltd.

OPC Energy Ltd.
Report of the Board of Directors

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

1. General (Cont.)

Brief description of the Group, its business environment and its areas of activity (Cont.)

12. In May 2020, the Company signed an agreement (through a designated company that is wholly owned by the Company ("the Subsidiary")) with SMS IDE Ltd. ("IDE"), which on May 26, 2020 received notification that it won a tender of the State of Israel for construction, operation, maintenance and transfer of a seawater desalinization facility on the "Sorek B" site ("the Desalinization Facility"), whereby if IDE signs a BOT agreement with the State of Israel¹⁰, the Subsidiary will construct, operate and maintain a power plant powered by natural gas using cogeneration technology with a generation capacity of up to 99 MW on the premises of the Desalinization Facility ("the Power Plant"), and will supply the energy required for the Desalinization Facility for a period of 25 years¹¹ ("the IPP Agreement"). The Power Plant is expected to be constructed under the "Regulation for Generators of Ultra-High Voltage that are Established Without a Competitive Process", which was published by the Electricity Authority in March 2019 (for details – see Sections 8.2.1.2 and 8.2.1.4 of Part A of the Company's Periodic Report for 2019)^{12 13}.

¹⁰ As at the publication date of the Report, the BOT agreement between IDE and the State of Israel had not yet been signed.

¹¹ At the end of the said period, ownership of the Power Plant will be transferred to the State.

¹² Decision No. 10 from Meeting 55, held on March 6, 2019 regarding "Regulation for Generators of Ultra-High Voltage that are Established Without a Competitive Process" and Decision No. 5 (1358) from Meeting 558 of the Electricity Authority held on May 13, 2019 regarding "Publication of Rules, Transactions and Criteria for New Consumers on the Transmission Grid". For details regarding Decision 558 and the trade rules – see Sections 8.2.1.2 and 8.2.1.4 of Part A of the Company's Periodic Report for 2019.

¹³ **It is noted that that stated above regarding construction of the Power Plant, includes "forward-looking" information within the meaning thereof in the Securities Law, 1968, regarding which there is no certainty it will be realized. As at the date of the Report, completion of construction of the Power Plant is dependent on, among other things, completion of planning and/or licensing processes. In addition, as a practical matter there could be delay and/or breakdowns due to, among other things, various factors, as stated above, including factors not under the Company's control or as a result of occurrence of one or more of the risk factors to which the Company is exposed, including construction risk. For additional details regarding risk factors involved with construction projects – see Section 19.3 of Part A (Description of the Company's Business).**

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, 2020 (in thousands of NIS)

| Category | 3/31/2020 | 12/31/2019 | Analysis |
|---|------------------|-------------------|--|
| Current Assets | | | |
| Cash and cash equivalents | 279,404 | 384,748 | <p>Most of the decrease stems from investments in the Zomet project, in the amount of about NIS 263 million, deposits in restricted cash, in the amount of about NIS 65 million and debt payments, in the amount of about NIS 55 million.</p> <p>This decrease was partly offset by taking out of short-term loans, in the aggregate amount of about NIS 219 million, and an increase in the cash balances as a result of the Company's current operating activities, in the amount of about NIS 82 million.</p> <p>For further information – see the Company's condensed consolidated statements of cash flows for the three-month period ended March 31, 2020 in the financial statements.</p> |
| Short-term deposits and restricted cash | 79,307 | 115,765 | <p>Most of the decrease derives from release of a restricted deposit, in the amount of about NIS 37 million, which was deposited as collateral for a bank guarantee securing inflow of shareholders' equity into Zomet. For additional details – see Note 5G to the interim financial statements.</p> |
| Trade receivables and accrued income | 101,602 | 134,794 | <p>Most of the decrease stems from a decrease in accrued income, in the amount of about NIS 32 million, mainly as a result of the impact of the seasonal factor on the sales and reduction of the generation component (as described in Note 5A to the interim financial statements).</p> |
| Receivables and debit balances | 116,420 | 69,975 | <p>Most of the increase stems from an increase in the balance of Value Added Tax (VAT) receivable, in the amount of about NIS 29 million, and an increase in the balance receivable from the Hadera construction contractor, in the amount of about NIS 18 million.</p> |
| Short-term derivative financial instruments | 616 | 188 | |
| Total current assets | 577,349 | 705,470 | |

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, 2020 (in thousands of NIS) (Cont.)

| Category | 3/31/2020 | 12/31/2019 | Analysis |
|--|------------------|-------------------|---|
| Non-Current Assets | | | |
| Long-term deposits and restricted cash | 325,013 | 266,803 | <p>Most of the increase stems from provision of additional collaterals in respect of interest SWAP contracts (as described in Notes 22D and 25D to the consolidated financial statements), in the amount of about NIS 34 million, and from deposit of a collateral, in the amount of about NIS 30 million, to secure a bank guarantee, as described in Note 5G to the interim financial statements.</p> <p>This increase was partly offset by release of collateral, in the amount of about NIS 5 million, which was provided in respect of a bank guarantee in connection with Zomet's conditional license (for additional details – see Note 5G to the interim financial statements).</p> |
| Long-term prepaid expenses | 308,504 | 104,317 | <p>Most of the increase stems from payment of an advance deposit in respect of land of Zomet (as described in Note 5N to the interim financial statements), in the amount of about NIS 187 million, and an increase in deferred expenses as part of Zomet's financing agreement, in the amount of about NIS 15 million.</p> |
| Deferred tax assets, net | 5,263 | 5,240 | |
| Long-term derivative financial instruments | 8,629 | 7,077 | <p>Most of the increase stems from the fair value of "call" options in Zomet, in the amount of about NIS 9 million.</p> <p>This decrease was partly offset by a decrease deriving from change in the fair value of interest SWAP contracts, as described in Notes 22D and 25D to the consolidated financial statements.</p> |
| Property, plant and equipment | 2,420,618 | 2,344,920 | <p>Most of the increase stems from investments in the Zomet project, in the amount of about NIS 93 million (including payment in respect of acquisition of shares, as described in Note 5J to the interim financial statements). This increase was partly offset by depreciation expenses in respect of property, plant and equipment in Rotem and Hadera (the Energy Center), in the aggregate amount of about NIS 22 million.</p> |
| Right-of use assets | 56,009 | 56,832 | |
| Intangible assets | 4,078 | 4,259 | |
| Total non-current assets | 3,128,114 | 2,789,448 | |
| Total assets | 3,705,463 | 3,494,918 | |

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, 2020 (in thousands of NIS) (Cont.)

| Category | 3/31/2020 | 12/31/2019 | Analysis |
|---|------------------|-------------------|--|
| Current Liabilities | | | |
| Short-term loans and current maturities | 374,776 | 157,147 | <p>Most of the increase stems from taking out of short-term loans, in the amount of about NIS 219 million, and update of the current maturities of loans in accordance with the repayment schedules, in the amount of about NIS 32 million.</p> <p>The increase was partly offset by repayment of the senior debt of Rotem and Hadera, in the amount of about NIS 33 million.</p> |
| Trade payables | 120,365 | 123,812 | <p>Most of the decrease derives from a decline in the balance of suppliers in respect of purchases of fuel, in the amount of about NIS 10 million, and the balance to Israel Electric Company, in the amount of about NIS 6 million.</p> <p>This decrease was partly offset by an increase in the balance of the construction suppliers in Zomet, in the amount of about NIS 11 million.</p> |
| Payables and other credit balances | 38,512 | 41,641 | <p>Most of the decrease derives from a decline in liabilities to employees in respect of salaries, in the amount of about NIS 9 million, and a decline in the balance of payables in respect of a transaction for acquisition of shares of Zomet, in the amount of about NIS 5 million.</p> <p>This decrease was partly offset by an increase in accrued expenses, in the amount of about NIS 5 million, and from a balance of interest payable, in the amount of about NIS 4 million.</p> |
| Short-term derivative financial instruments | 23,311 | 21,678 | |
| Current maturities of lease liabilities | 2,411 | 2,400 | |
| Current taxes payable | 9,725 | — | The increase stems from liabilities for taxes on income in Rotem. |
| Total current liabilities | 569,100 | 346,678 | |

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, 2020 (in thousands of NIS) (Cont.)

| Category | 3/31/2020 | 12/31/2019 | Analysis |
|--|------------------|-------------------|--|
| Non-Current Liabilities | | | |
| Long-term loans from banks and others | 1,726,226 | 1,740,607 | Most of the decrease stems from update of the current maturities of the loans, in the amount of about NIS 32 million, and a decline in the linkage differences in respect of the senior debt of Hadera and Rotem, in the amount of about NIS 8 million. On the other hand, there was an increase in the loans deriving from a withdrawal by Zomet, in the amount of about NIS 25 million, as part of Zomet's financing agreement. |
| Debentures | 252,309 | 252,309 | |
| Long-term lease liabilities | 15,680 | 15,960 | |
| Long-term derivative financial instruments | 29,433 | – | The increase stems from change in the fair value of interest SWAP contracts, as described in Notes 22D and 25N to the consolidated financial statements. |
| Other long-term liabilities | 2,340 | 2,307 | |
| Employee benefits | 177 | 177 | |
| Deferred taxes, net | 287,510 | 281,105 | Most of the increase stems from update of the deferred taxes as a result of income for the period in Rotem. |
| Total non-current liabilities | 2,313,675 | 2,292,465 | |
| Total liabilities | 2,882,775 | 2,639,143 | |

3. Results of operations for the three-month period ended March 31, 2020 (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, 2020 (in thousands of NIS) (Cont.)

| Category | For the Three Months Ended | | Analysis |
|--|-------------------------------|----------------|---|
| | 3/31/2020 | 3/31/2019 | |
| Sales | 312,551 | 353,699 | For detail regarding the change in the sales – see Section 6, below. |
| Cost of sales (less depreciation and amortization) | 205,129 | 223,550 | For detail regarding the change in the cost of sales – see Section 7, below. |
| Depreciation and amortization | 22,836 | 26,830 | Most of the decrease stems from a change in the estimated useful life of various components in the Rotem Power Plant, commencing from the fourth quarter of 2019 (for details – see Note 2E to the Consolidated Financial Statements). |
| Gross profit | 84,586 | 103,319 | |
| Administrative and general expenses | 15,053 | 16,953 | Most of the decrease derives from a decrease in legal expenses and professional services, mainly due to completion of the Tamar arbitration. |
| Other income, net | 70 | 1,001 | |
| Operating income | 69,603 | 87,367 | |
| Financing expenses, net | 15,713 | 18,863 | Most of the decrease stems from changes in the fair value of “call” options, in the amount of about NIS 5 million, and the impact of changes in the exchange rate of the dollar/shekel, in the amount of about NIS 3 million. |
| | | | On the other hand, there was an increase in expenses relating to CPI linkage differences in respect of the senior debt of Rotem, in the amount of about NIS 5 million (mainly in light of the hedging results with reference to linkage). |
| Income before taxes on income | 53,890 | 68,504 | |
| Taxes on income | 15,927 | 17,595 | The decrease derives from lower income in the first quarter of 2020 compared with the corresponding quarter last year. |
| Income for the period | 37,963 | 50,909 | |
| <u>Attributable to:</u> | | | |
| The Company's shareholders | 27,761 | 39,611 | |
| Holders of non-controlling interests | 10,202 | 11,298 | |

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 and depreciation.

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):

| | For the Three Months Ended March 31 | |
|--|--|----------------|
| | 2020 | 2019 |
| Sales | 312,551 | 353,699 |
| Cost of sales (less depreciation and amortization) | (205,129) | (223,550) |
| Administrative and general expenses (less depreciation and amortization) | (14,384) | (16,339) |
| Other income | 70 | 1,001 |
| EBITDA | 93,108 | 114,811 |

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 of KW hours):

| | For the Three Months Ended March 31 | |
|-----------------------------------|--|---------------------|
| | 2020 | 2019 |
| Sales to private customers | 900 | 969 |
| Sales to the System Administrator | <u>97</u> | <u>43</u> |
| Total sales | <u>997</u> | <u>1,012</u> |

| | For the Three Months Ended March 31 | |
|---|--|---------------------|
| | 2020 | 2019 |
| Generation of electricity | 987 | 984 |
| Purchase of electricity from the System Administrator | <u>10</u> | <u>28</u> |
| Total sales | <u>997</u> | <u>1,012</u> |

| | For the Three Months Ended March 31 | | | |
|--------|--|---------------------------|-------------------------------------|---------------------------|
| | 2020 | | 2019 | |
| | Electricity availability | Net generation | Electricity availability | Net generation |
| | (%) | (KW hours) | (%) | (KW hours) |
| Rotem | 100.0% | 966 | 100.0% | 961 |
| Hadera | 88.4% | 22 | 92.8% | 23 |

| | For the Three Months Ended March 31 | |
|---------------------|--|-------------------|
| | 2020 | 2019 |
| | Thousands of Tons | |
| Generation of steam | <u>210</u> | <u>200</u> |

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):

| | For the Three Months Ended March 31 | |
|--|--|----------------|
| | 2020 | 2019 |
| Revenues from sale of energy generated to private customers (1) | 224,519 | 259,068 |
| Revenues from sale of energy purchased for private customers (2) | 1,133 | 6,339 |
| Revenues from private customers in respect of infrastructures services (3) | 59,872 | 67,379 |
| Revenues from sale of energy to the System Administrator (4) | 10,896 | 5,072 |
| Revenues from sale of steam (5) | 16,131 | 15,841 |
| Total revenues | 312,551 | 353,699 |

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 a certain discount. The weighted-average generation component tariff for 2020, as published by the Electricity Authority, is NIS 0.2678 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 2019, the weighted-average of the generation component tariff was NIS 0.2909 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, 2020 and 2019:

- (1) Most of the decrease stems from a decrease in the generation component tariff, in the amount of about NIS 20 million, and a decrease in the total consumption of the customers, in the amount of about NIS 14 million, due to a change in the consumption profile of customers in the desalinization area, as well as a result of unplanned maintenance of a customer in the desalinization area during January and February of 2020. It is noted that the impact of the Coronavirus (COVID-19) reduced the Company's revenues, in the amount of about NIS 1 million – this being in light of a decline in customer consumption.
- (2) Most of the decrease in the revenues from sale of energy purchased stems from a decline in the total consumption of the customers.
- (3) The decrease derives from a decline in the infrastructure tariffs in 2020, in the amount of about NIS 3 million, and a decline of about NIS 4 million as a result of a lower quantity of energy sold.
- (4) Most of the increase, in the amount of about NIS 6 million, stems from an increase in the total amount of energy sold to the System Administrator.
- (5) Most of the increase stems from an increase in the quantities of steam consumed.

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):

| | For the Three Months Ended March 31 | |
|---|--|----------------|
| | 2020 | 2019 |
| Gas and diesel oil (1) | 122,685 | 126,839 |
| Expenses to IEC for infrastructure services and purchase of electricity (2) | 61,005 | 73,718 |
| Gas transmission costs | 8,037 | 8,046 |
| Operating expenses (3) | 13,402 | 14,947 |
| Total cost of sales (less depreciation and amortization) | 205,129 | 223,550 |

| | For the Three Months Ended March 31 | |
|--------------------------------|--|-------------|
| | 2020 | 2019 |
| Gas consumption (MMBTU) | 7,224,872 | 7,136,595 |
| Average gas price (in dollars) | 4.71 | 4.77 |

For the three-month periods ended March 31, 2020 and 2019:

- (1) Most of the decrease derives from a decline in the gas price, mainly as a result of a decrease of and the generation component and a decline in the dollar exchange rate.
- (2) Most of the decrease derives from a decline in purchases of electricity from Israel Electric Company for private customers, in the amount of about NIS 5 million, and a decrease in the expenses for infrastructure services, in the amount of about NIS 7 million, due to a decrease in the infrastructure tariffs in 2020, and a drop in the amount of the consumption by the customers.
- (3) Most of the decrease stems from a decrease in the costs of salaries.

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)

| Category | For the Three Months Ended | | Analysis |
|---|-------------------------------|-----------|---|
| | 3/31/2020 | 3/31/2019 | |
| Cash flows provided by operating activities | 82,277 | 190,636 | Most of the decrease stems from a decrease in the working capital, in the amount of about NIS 87 million (mainly as a result of VAT payments in respect of a land lease agreement, in the amount of about NIS 32 million, and lower gas payments in 2019 stemming from timing differences) and a decrease in current operating activities (mainly in light of lower income) in the amount of about NIS 25 million. |
| Cash flows used in investing activities | (309,535) | (44,699) | <p>Most of the increase derives from higher investments in the Zomet project, in the amount of about NIS 259 million, and a deposit in restricted cash, in the amount of about NIS 42 million (mainly relating to provision of additional collaterals for index transactions and with respect to provision of a guarantee to Israel Lands Authority as a result of a land lease agreement in Zomet).</p> <p>This increase was offset by withdrawals from short-term restricted cash, in the amount of about NIS 37 million.</p> |
| Cash flows provided by (used in) financing activities | 122,466 | (27,020) | <p>Most of the increase stems from taking out of short-term loans, in the amount of about NIS 219 million, and a withdrawal in the framework of the financing agreement for the Zomet project, in the amount of about NIS 25 million.</p> <p>This increase was partly offset by payment in respect of acquisition of non-controlling interests in Zomet, in the amount of about NIS 26 million dividend payments to the holders of non-controlling interests, in the amount of about NIS 22 million, and payment of deferred expenses in the framework of Zomet's financing agreement, in the amount of about NIS 13 million. In addition, payment of the senior debt of Rotem was about NIS 13 million higher, the first payment was made with respect to the senior debt of Hadera, in the amount of about NIS 9 million, and the debt of Zomet was paid, in the amount of about NIS 8 million.</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, 2020 (in thousands of NIS):

| | <u>Rotem</u> | <u>Hadera</u> | <u>Solo</u> | <u>Zomet</u> | <u>Others</u> | <u>Consolidated</u> |
|---|--------------|---------------|-------------|--------------|---------------|---------------------|
| Debt (including accrued interest) | 1,166,482 | 660,075 | 506,509 | 24,672 | 1,313 | 2,359,051 |
| Cash and cash equivalents | 98,084 | 3,496 | 153,973 | 20,366 | 3,485 | 279,404 |
| Debt service reserves (out of the restricted cash)* | 136,608 | – | 66,707 | – | – | 203,315 |

- Rotem repaid the amount of about NIS 24 million (relating to principal only) of its loans.
- Hadera repaid the amount of about NIS 9 million (relating to principal only) of its loans.
- Zomet withdrew the amount of about NIS 25 million from the long-term credit framework, in accordance with its financing agreement. For additional details – see Note 5K to the interim consolidated financial statements.
- The Company took out short-term loans, in the aggregate amount of about NIS 219 million. For additional details – see Note 5E and 5F to the interim consolidated financial statements.

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

| | <u>Rotem</u> | <u>Hadera</u> | <u>Solo</u> | <u>Zomet</u> | <u>Others</u> | <u>Consolidated</u> |
|---|--------------|---------------|-------------|--------------|---------------|---------------------|
| Debt (including accrued interest) | 1,196,650 | 670,797 | 282,864 | – | 1,282 | 2,151,593 |
| Cash and cash equivalents | 112,927 | 9,033 | 256,417 | 731 | 5,640 | 384,748 |
| Debt service reserves (out of the restricted cash)* | 138,224 | – | 66,670 | – | – | 204,894 |

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>Solo</u> | <u>Zomet</u> | <u>Others</u> | <u>Consolidated</u> |
|---|--------------|---------------|-------------|--------------|---------------|---------------------|
| Debt (including accrued interest) | 1,246,838 | 649,564 | 297,300 | – | 1,193 | 2,194,895 |
| Cash and cash equivalents and short-term deposits | 235,144 | 34,995 | 273,545 | 2,825 | 2,418 | 548,927 |
| Debt service reserves (out of the restricted cash)* | 106,810 | – | 46,489 | – | – | 153,299 |

* Including funds used for guaranteeing the debt.

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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.)

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

As at the date of the Report, the Company and the subsidiaries were in compliance with all the financial covenants stipulated in their financing agreements and trust certificates. Set forth below is detail of financial covenants for violations¹⁴:

As at 3/31/2020

Covenants applicable to the Company by the trust certificate for the Company's debentures (Series A)

| | |
|---|-----------------|
| The historical debt coverage ratio, as defined in the trust certificate, may not drop below 1:1.20 | 1:20.6 |
| The Company's shareholders' equity, as defined in the trust certificate, may not drop below NIS 80 million | NIS 765 million |
| The Company's shareholders' equity to the total assets, as defined in the trust certificate, may not drop below 12.5% | 58% |

Covenants applicable to the Company by the trust certificate for the Company's debentures (Series B)

| | |
|--|-----------------|
| The ratio of the net consolidated financial debt less the financial debt designated for construction of projects that have not yet started to produce EBITDA and the adjusted EBITDA may not exceed 13 | 3.45 |
| Minimum shareholders' equity of NIS 250 million | NIS 765 million |
| A ratio of shareholders' equity to total assets at a rate of not less than 17% | 58% |

Covenants applicable to the Company in connection with the agreement for investment of equity in Hadera

| | |
|--|-----------------|
| The Company's shareholders' equity, up to the end of the warranty period of the construction contractor may not drop below NIS 250 million | NIS 765 million |
| The ratio of the Company's shareholders' equity to total assets may not drop below 20% | 58% |
| Up to the commercial operation date of Hadera, the balance of cash may not drop below NIS 90 million | NIS 154 million |

Covenants applicable to Rotem

| | |
|--|------|
| ADSCR (in the preceding 12 months) of 1.05–1.1 depending on supply of electricity to Israel Electric Company | 2.49 |
| ADSCR (in the upcoming 12 months) of 1.05–1.1 depending on supply of electricity to Israel Electric Company | 1.58 |
| LLCR of 1.05–1.1 depending on supply of electricity to Israel Electric Company | 1.84 |

Covenants applicable to Hadera

| | |
|-------------------------------|------|
| Minimum expected DSCR of 1.10 | 1.3 |
| Average expected DSCR of 1.10 | 1.97 |
| LLCR of 1.10 | 2.02 |

Covenants applicable to Zomet

| | |
|--------------------------------|------|
| Minimum expected ADSCR of 1.05 | 1.3 |
| Average expected ADSCR of 1.05 | 1.5 |
| LLCR of 1.05 | 1.51 |

¹⁴ The ADSCR data (in the preceding 12 months), ADSCR data (in the upcoming 12 months), minimum expected DSCR, average expected DSCR, minimum expected ADSCR, average expected ADSCR and LLCR, are based on data that constitute "forward-looking" information, as defined in the Securities Law, which are based on the Company's estimates, and which are conditioned and contingent on various factors, among others, the generation component and the actual revenues and expenses. Accordingly, the said information may not be realized or may be realized in a manner different than expected.

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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.)

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

For details – see Section 1 above and Notes 5 and 6 to the interim consolidated 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. **Debentures (Series B)**

Set forth below are details regarding the Company's debentures (Series B), which were issued in April 2020:

| | |
|---|---|
| Name of the series | Series B |
| Issuance date | April 26, 2020 |
| Total nominal value on the date of issuance | NIS 400,000,000 par value |
| Nominal value on the date of the report | NIS 400,000,000 par value |
| Nominal value after revaluation based on the linkage terms | NIS 400,000,000 par value |
| Amount of the interest accrued as included in the financial statements as at March 31, 2020 | – |
| The fair value as included in the financial statements as at March 31, 2020 | – |
| Stock market value on March 31, 2020 | – |
| Type of interest and interest rate | Fixed annual interest at the rate of 2.75%. |
| Principal payment dates | 16 unequal semi-annual payments, to be paid on March 31 and September 30 of each of the years from 2021 to 2028 (inclusive). |
| Interest payment dates | The interest on the outstanding balance as it will be from time to time on the principal of the debentures (Series B) is payable commencing from September 2020 twice a year (except for 2020) on September 30, 2020, and on March 31 and September 30 of each of the years from 2021 to 2028 (inclusive). The interest payments are to be made for the period of six months that ended on the last day prior to the relevant interest payment date, except for the first interest payment that is to be made on September 30, 2020, and is to be paid for the period that commenced on the first trading day after the tender date of the debentures (Series B) and that ends on the last day prior to the said payment date, and is to be calculated based on the number of days in the said period and on the basis of 365 days per year. |
| Linkage basis and terms | The principal of the debentures (Series B) and the interest thereon are linked to the increase in the Consumer Price Index (CPI) against the CPI for March 2020 that was published on April 15, 2020. The linkage terms will not be changed during the period of the debentures. |
| Are they convertible into another security | No. |

OPC Energy Ltd.
Report of the Board of Directors

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

11. Debentures (Series B) (Cont.)

| | |
|--|--|
| Right of the Company to make early repayment | The Company has the right to make early repayment pursuant to the conditions in the trust certificate. |
| Was a guarantee provided for payment of the Company's liabilities based on the debentures | No. |
| Name of trustee | Reznik Paz Nevo Trustees Ltd. |
| Name of the party responsible for the series of liability certificates with the trustee | Michal Avatlon and/or Hagar Shaul |
| Contact information | Address: 14 Yad Harutzim St., Tel-Aviv Telephone: 03-6389200 Fax: 03-6389222 E-mail: Michal@rpn.co.il |
| Rating of the debentures since the issuance date | Rating of iLA- by Standard & Poor's Maalot from February 2020. Rating of A3.il by Midroog Ltd. from April 2020. See the Company's Immediate Reports dated February 28, 2020 (Reference No.: 2020-01-017383) and April 20, 2020 (Reference No.: 2020-01-035221), which are presented herein by means of reference. |
| Pledged assets | None. There is a future commitment that during the period commencing from the date on which the Company's debentures (Series A) are fully repaid and so long as the debentures (Series B) are still outstanding, the Company will not create a general floating lien on its assets and rights, existing and future, in favor of any third party without the conditions stipulated in the trust certificate being fulfilled. |
| Is the series material | Yes. |
| The Company is in compliance with all the conditions of the Company's debentures (Series A) and (Series B) and the trust certificates. The Company was not required to take any action in accordance with the request of the trustees for the said debentures. | |

12. Corporate Governance

Contributions

As part of the Company's policies with respect to contributions, in the period of the Report, a contribution, in amount of NIS 170 thousand, was approved to The Society for Assistance to the Elderly and Needy Persons in the Period of the Coronavirus.

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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.)

13. Update of the Periodic Report for 2019 regarding the Company's Business¹⁵

Presented below are significant updates and/or changes with respect to the Company's business, which occurred since the signing date of the Company's Periodic Report for 2019, on February 26, 2020 and up to publication of this Report.

13.1 Section 2.3.1 (signing of agreements for acquisition of shares of Zomet and the concentration format) to Part A to the Periodic Report

Further to that stated in Section 2.3.1 to Part A to the Periodic Report regarding the Company's undertaking in a set of agreements for acquisition of shares of Zomet. For details regarding payment of the balance of the consideration in respect of the transaction for acquisition of 95% of the issued and paid-up share capital of Zomet – see Section 4 to the introduction to the Report of the Board of Directors.

13.2 Section 2.3.3 (agreements for construction of decentralized facilities for generation of energy) to Part A to the Periodic Report

For details regarding binding agreements signed with customers in the distribution network and the transmission network and operation of an energy generation facility on the customer's premises (yard) and arrangements for sale of energy to customers, further to that stated in Section 2.3.3 to Part A to the Periodic Report – see Section 10 to the introduction to the Report of the Board of Directors.

13.3 Section 2.3 (nature and results of every significant structural change, merger or acquisition; acquisition, sale or transfer of assets in a significant scope not in the ordinary course of business)

For details regarding the Company's undertaking with IDE, which received notification that it won in a tender of the State of Israel for construction, operation, maintenance and transfer of a seawater Desalinization Facility on the "Sorek B" site, in an agreement for construction, operation and maintenance of a power plant powered by natural gas on the premises of the Desalinization Facility – see Section 12 to the introduction to the Report of the Board of Directors.

13.4 Section 7.8.5 to Part A to the Periodic Report

For details regarding a bid submitted by the Company and the Noy Fund in the tender for sale of the Ramat Hovav power plant, which was published by Israel Electric Company, further to that stated in Section 7.8.5 to Part A to the Periodic Report – see the Company's Immediate Report dated May 20, 2020 (Reference No.: 2020-01-044872), and Section 11 to the Report of the Board of Directors.

¹⁵ Update of the Company's Business including in this Report of the Board of Directors was prepared in accordance with Regulation 39A of the Reporting Regulations, and includes significant changes or new items that occurred in the Company's business from the publication date of the Periodic Report for 2019 and up to the publication date of this Report. It is noted that in some of the case an additional description was provided in order to present a more comprehensive picture of the matter addressed. Reference to Immediate Reports as part of this Report includes the information included in the said Immediate Reports by means of reference.

OPC Energy Ltd.
Report of the Board of Directors

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

13. Update of the Periodic Report for 2019 regarding the Company's Business (Cont.)

13.5 Section 8.2.4 (the Energy Center and Hadera Power Plant) to Part A to the Periodic Report

Regarding the decision of the Electricity Authority to extend the commercial operation date stated in Hadera's conditional license further to the request submitted to the Electricity Authority and approval of the lenders in the Hadera Financing Agreement to extend the last date for commercial operation stipulated in the Hadera Financing Agreement further to Hadera's request to the lenders, as stated in in Section 8.2.4 to Part A to the Periodic Report – see Section 3 to the introduction to the Report of the Board of Directors.

13.6 Section 10 (generation capacity, availability and reliability) to Part A to the Periodic Report

For details regarding postponement of the maintenance work planned for April 2020 at Rotem Power Plant due to restrictions imposed due to spread of the Coronavirus – see the Company's Immediate Report dated March 11, 2020 (Reference No.: 2020-01-019948) and Section 5 to the introduction to the Report of the Board of Directors.

13.7 Sections 8.11.7 (processes and agreement in connection with Zomet land) and 8.15 (legal proceedings) to Part A to the Periodic Report

A. For details regarding a bank guarantee provided by the Company in April 2020 relating to the land on which the Zomet Power Plant is to be constructed – see Note 5N to the interim financial statements.

B. For details regarding an administrative petition filed by Zomet against the Shafir Regional Council in respect of an amount in dispute, as stated in Section 8.11.7 to Part A to the Periodic Report – see Note 5N to the interim financial statements.

13.8 Sections 8.13.1 (agreement for sale of natural gas to Rotem from Tamar) and 8.13.6 (Energean transaction for acquisition and supply of natural gas) to Part A to the Periodic Report

For details regarding fulfillment of the preconditions determined in the revisions to Rotem's agreements for supply of natural gas with the Tamar Group and with Energean as stated in Sections 8.13.1 and 8.13.6 to the Periodic Report – see the Company's Immediate Report dated March 11, 2020 (Reference No.: 2020-01-019945).

13.9 Section 8.13.3 (agreement for sale of natural gas to Hadera from Tamar) to Part A to the Periodic Report

For details regarding fulfillment of the preconditions determined in the revision to Hadera's agreement for supply of natural gas with the Tamar Group as stated in Sections 8.13.3 to the Periodic Report – see the Company's Immediate Report dated March 26, 2020 (Reference No.: 2020-01-026854).

13.10 Section 8.14.1.1 (agreement for construction of Hadera Power Plant) to Part A to the Periodic Report

For details regarding a notice received by the Company from the Hadera construction contract in connection with possible impacts of spread of the Coronavirus on completion of the work in the Hadera Power Plant, as stated in Section 8.14.1.1 to Part A to the Periodic Report – see the Company's Immediate Report dated March 11, 2020 (Reference No.: 2020-01-019948).

OPC Energy Ltd.
Report of the Board of Directors

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

13. Update of the Periodic Report for 2019 regarding the Company's Business (Cont.)

13.11 Section 8.14.1.2 (agreement for construction of Zomet Power Plant) to Part A to the Periodic Report

For details regarding the impact of spread of the Coronavirus on the construction period of the Zomet Power Plant and amendment of the Zomet construction agreement, including issuance of a Work Commencement Order to Zomet's construction contractor – see Section 4 to the introduction to the Report of the Board of Directors.

13.12 Section 10 (financing) to Part A to the Periodic Report

For details regarding a loan taken out by the Company in place of short-term credit, as stated in Section 10 to Part A to the Periodic Report – see Notes 5E and 5F to the interim financial statements.

13.13 Sections 10.2 (loan agreements signed by the Company, Rotem, Hadera and Zomet with third parties), 10.3 (financial covenants the Company, Rotem, Hadera and Zomet have committed to comply with) and 10.4 (restrictions on distribution) to Part A to the Periodic Report

- A. On April 22, 2020, the Company published a shelf offer report for issuance of the Company's debentures (Series B). For details regarding offer of the debentures (Series B) and their terms, financial covenants the Company has committed to comply with, restrictions on distribution and grounds for calling for immediate repayment – see the Company's shelf offer report, dated April 22, 2020, including the trust certificate attached thereto as Appendix A (Reference No.: 2020-01-036220).
- B. For details regarding the results of the issuance to the public of the Company's debentures (Series B) – see the Company's Immediate Report dated April 23, 2020 (Reference No.: 2020-01-036694).

13.14 Section 10.6.1 (guarantees provided by the Company) to Part A to the Periodic Report

For details regarding changes in the amount of the bank guarantee and cash deposit of the Company to secure investment of shareholders' equity in Zomet – see Note 5G to the interim financial statements.

13.15 Section 10.8 (credit rating) to Part A to the Periodic Report

For details regarding granting of a rating of ilA– with a stable rating outlook from Maalot and A3.il with a stable rating outlook from Midroog for issuance of debentures in an amount of up to NIS 400 million – see the Company's Immediate Reports dated February 28, 2020 (Reference No.: 2020-01-017383 and 2020-01-017380) and the Amending Report dated April 20, 2020 (Reference No.: 2020-01-035221).

13.16 Regulation 20 (trading on the Stock Exchange – securities listed for trading – date and reasons for a discontinuance of trading) to Part D to the Periodic Report

Commencing from April 27, 2020 and the start of trading of the Company's debentures (Series B). For additional details – see the Company's Immediate Report dated April 26, 2020 (Reference No.: 2020-01-036967).

OPC Energy Ltd.
Report of the Board of Directors

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

13. Update of the Periodic Report for 2019 regarding the Company's Business (Cont.)

13.17 Regulation 24A (holdings of interested parties and senior officers) to Part D to the Periodic Report

For details regarding holdings of interested parties and senior officers in the Company as at March 31, 2020 – see the Company's Immediate Report dated April 5, 2020 (Reference No.: 2020-01-036117). For details regarding changes in the holdings of interested parties and senior officers subsequent to the date of the said position of the holdings – see the Company's Immediate Report dated May 4, 2020 (Reference No.: 2020-01-039586).

13.18 Regulation 24A (authorized, issued and paid-up capital and convertible securities) to Part D to the Periodic Report

For details regarding changes in the position of the Company's capital and convertible securities subsequent to the date of the Periodic Report – see the Company's Immediate Report dated April 26, 2020 (Reference No.: 2020-01-036967).

Avisar Paz
Chairman of the Board of Directors

Giora Almogy
CEO

Date: May 26, 2020

OPC Energy Ltd.

Condensed Consolidated Interim Financial Statements

At March 31, 2020

(Unaudited)

OPC Energy Ltd.
Condensed Consolidated Interim Financial Statements
At March 31, 2020
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, 2020 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 this interim period in accordance with IAS 34 “Financial Reporting for Interim Periods”, and are also responsible for the preparation of financial information for this interim period 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 this interim period based on our review.

Scope of the Review

We conducted our review in accordance with Review Standard (Israel) 2410 “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 26, 2020

OPC Energy Ltd.
Condensed Consolidated Interim Statements of Financial Position

| | At March 31 | | At December 31 |
|---|--|-------------------------|-------------------------|
| | 2020 | 2019 | 2019 |
| | (Unaudited) | | (Audited) |
| | In Thousands of New Israeli Shekels | | |
| Current Assets | | | |
| Cash and cash equivalents | 279,404 | 448,687 | 384,748 |
| Short-term deposits and restricted cash | 79,307 | 185,134 | 115,765 |
| Trade receivables and accrued income | 101,602 | 120,640 | 134,794 |
| Other receivables and debit balances | 116,420 | 25,742 | 69,975 |
| Short-term derivative financial instruments | 616 | 648 | 188 |
| Total current assets | 577,349 | 780,851 | 705,470 |
| Non-Current Assets | | | |
| Long-term deposits and restricted cash | 325,013 | 196,682 | 266,803 |
| Long-term advance deposits and prepaid expenses | 308,504 | 88,959 | 104,317 |
| Deferred tax assets, net | 5,263 | 3,274 | 5,240 |
| Long-term derivative financial instruments | 8,629 | — | 7,077 |
| Property, plant and equipment | 2,420,618 | *2,372,485 | 2,344,920 |
| Right-of-use assets | 56,009 | *61,154 | 56,832 |
| Intangible assets | 4,078 | 5,231 | 4,259 |
| Total non-current assets | 3,128,114 | 2,727,785 | 2,789,448 |
| Total assets | <u>3,705,463</u> | <u>3,508,636</u> | <u>3,494,918</u> |

* 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 |
|--|--|-------------------------|-------------------------|
| | 2020 | 2019 | 2019 |
| | (Unaudited) | | (Audited) |
| | In Thousands of New Israeli Shekels | | |
| Current Liabilities | | | |
| Short-term loans and current maturities | 374,776 | 100,704 | 157,147 |
| Trade payables | 120,365 | 206,449 | 123,812 |
| Dividend payable | – | 53,600 | – |
| Other payables and credit balances | 38,512 | 37,813 | 41,641 |
| Short-term derivative financial instruments | 23,311 | 283 | 21,678 |
| Current maturities of lease liabilities | 2,411 | 2,367 | 2,400 |
| Current tax liabilities | 9,725 | – | – |
| Total current liabilities | 569,100 | 401,216 | 346,678 |
| Non-Current Liabilities | | | |
| Long-term loans from banks and others | 1,726,226 | 1,805,678 | 1,740,607 |
| Debentures | 252,309 | 282,883 | 252,309 |
| Long-term lease liabilities | 15,680 | 17,106 | 15,960 |
| Long-term derivative financial instruments | 29,433 | – | – |
| Other long-term liabilities | 2,340 | 1,193 | 2,307 |
| Employee benefits | 177 | 177 | 177 |
| Liabilities for deferred taxes, net | 287,510 | 246,379 | 281,105 |
| Total non-current liabilities | 2,313,675 | 2,353,416 | 2,292,465 |
| Total liabilities | 2,882,775 | 2,754,632 | 2,639,143 |
| Equity | | | |
| Share capital | 1,433 | 1,319 | 1,433 |
| Premium on shares | 635,283 | 361,005 | 635,283 |
| Capital reserves | 16,340 | 83,159 | 65,384 |
| Retained earnings | 112,987 | 234,342 | 85,226 |
| Total equity attributable to the Company's owners | 766,043 | 679,825 | 787,326 |
| Non-controlling interests | 56,645 | 74,179 | 68,449 |
| Total equity | 822,688 | 754,004 | 855,775 |
| Total liabilities and equity | <u>3,705,463</u> | <u>3,508,636</u> | <u>3,494,918</u> |

Avisar Paz
Chairman of the Board of Directors

Giora Almogy
CEO

Tzahi Goshen
CFO

Approval date of the financial statements: May 26, 2020

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 March 31 | | Year Ended December 31 |
| | 2020 | 2019 | 2019 |
| | (Unaudited) | | (Audited) |
| | In Thousands of New Israeli Shekels | | |
| Sales | 312,551 | 353,699 | 1,329,988 |
| Cost of sales (net of depreciation and amortization) | 205,129 | 223,550 | 910,347 |
| Depreciation and amortization | <u>22,836</u> | <u>26,830</u> | <u>110,997</u> |
| Gross profit | 84,586 | 103,319 | 308,644 |
| Administrative and general expenses | 15,053 | 16,953 | 61,743 |
| Other income | <u>70</u> | <u>1,001</u> | <u>21,409</u> |
| Operating income | <u>69,603</u> | <u>87,367</u> | <u>268,310</u> |
| Financing expenses | 21,334 | 20,145 | 100,028 |
| Financing income | <u>5,621</u> | <u>1,282</u> | <u>6,879</u> |
| Financing expenses, net | <u>15,713</u> | <u>18,863</u> | <u>93,149</u> |
| Income before taxes on income | 53,890 | 68,504 | 175,161 |
| Taxes on income | <u>15,927</u> | <u>17,595</u> | <u>50,425</u> |
| Income for the period | <u>37,963</u> | <u>50,909</u> | <u>124,736</u> |
| Income attributable to: | | | |
| The Company's owners | 27,761 | 39,611 | 90,495 |
| Non-controlling interests | <u>10,202</u> | <u>11,298</u> | <u>34,241</u> |
| Income for the period | <u>37,963</u> | <u>50,909</u> | <u>124,736</u> |
| Income per share attributable to the Company's owners | | | |
| Basic income per share (in NIS) | <u>0.19</u> | <u>0.30</u> | <u>0.66</u> |
| Diluted income per share (in NIS) | <u>0.19</u> | <u>0.30</u> | <u>0.65</u> |

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 March 31 | | Year Ended December 31 |
| | 2020 | 2019 | 2019 |
| | (Unaudited) | | (Audited) |
| | In Thousands of New Israeli Shekels | | |
| Income for the period | 37,963 | 50,909 | 124,736 |
| | ----- | ----- | ----- |
| Components of other comprehensive loss that after the initial recognition in the statement of comprehensive income were or will be transferred to the statement of income | | | |
| Effective portion of change in the fair value of cash-flow hedges | (39,654) | (1,601) | (28,989) |
| Net change in fair value of derivative financial instruments used for hedging cash flows recorded to the cost of the hedged item | 3,444 | (71) | 4,668 |
| Net change in fair value of derivative financial instruments used to hedge cash flows transferred to the statement of income | 7,701 | — | 9,778 |
| Tax benefit (taxes) in respect of items of other comprehensive income (loss) | <u>(172)</u> | <u>384</u> | <u>615</u> |
| Total other comprehensive loss for the period, net of tax | <u>(28,681)</u> | <u>(1,288)</u> | <u>(13,928)</u> |
| | ----- | ----- | ----- |
| Total comprehensive income for the period | <u>9,282</u> | <u>49,621</u> | <u>110,808</u> |
| Total comprehensive income attributable to: | | | |
| The Company's owners | (920) | 38,323 | 76,567 |
| Holders of non-controlling interests | <u>10,202</u> | <u>11,298</u> | <u>34,241</u> |
| Total comprehensive income for the period | <u>9,282</u> | <u>49,621</u> | <u>110,808</u> |

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 | | | | | | | | Non-controlling interests | Total equity |
|--|---|-----------------------|--|------------------------|--|--|-----------------------|-----------------------|---------------------------|-----------------------|
| | 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 | | |
| | (Unaudited) | | | | | | | | | |
| | In Thousands of New Israeli Shekels | | | | | | | | | |
| For the three-month period ended March 31, 2020 | | | | | | | | | | |
| Balance at January 1, 2020 | 1,433 | 635,283 | (3,510) | (13,477) | 77,930 | 4,441 | 85,226 | 787,326 | 68,449 | 855,775 |
| Acquisition of non-controlling interests | — | — | (21,147) | — | — | — | — | (21,147) | (6) | (21,153) |
| Share-based payment | — | — | — | — | — | 784 | — | 784 | — | 784 |
| Dividends to holders of non-controlling interests | — | — | — | — | — | — | — | — | (22,000) | (22,000) |
| Other comprehensive loss for the period, net of tax | — | — | — | (28,681) | — | — | — | (28,681) | — | (28,681) |
| Income for the period | — | — | — | — | — | — | 27,761 | 27,761 | 10,202 | 37,963 |
| Balance at March 31, 2020 | <u>1,433</u> | <u>635,283</u> | <u>(24,657)</u> | <u>(42,158)</u> | <u>77,930</u> | <u>5,225</u> | <u>112,987</u> | <u>766,043</u> | <u>56,645</u> | <u>822,688</u> |
| For the three-month period ended March 31, 2019 | | | | | | | | | | |
| Balance at January 1, 2019 | 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 | 50,909 |
| Balance at March 31, 2019 | <u>1,319</u> | <u>361,005</u> | <u>1,097</u> | <u>(837)</u> | <u>77,930</u> | <u>4,969</u> | <u>234,342</u> | <u>679,825</u> | <u>74,179</u> | <u>754,004</u> |

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 | | | | | | | | Non-controlling interests | Total equity |
|--|---|-----------------------|--|------------------------|--|--|----------------------|-----------------------|---------------------------|-----------------------|
| | 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 | | |
| | In Thousands of New Israeli Shekels | | | | | | | | | |
| For the year ended December 31, 2019 | | | | | | | | | | |
| Balance at January 1, 2019 | 1,319 | 361,005 | 2,598 | 451 | 77,930 | 3,770 | 230,731 | 677,804 | 80,480 | 758,284 |
| Issuance of shares (less issuance expenses) | 110 | 271,485 | — | — | — | — | — | 271,595 | — | 271,595 |
| Acquisition of non-controlling interests | — | — | (6,108) | — | — | — | — | (6,108) | 5 | (6,103) |
| Share-based payment | — | — | — | — | — | 3,468 | — | 3,468 | — | 3,468 |
| Exercise of options and RSUs | 4 | 2,793 | — | — | — | (2,797) | — | — | — | — |
| Issuance of capital notes to holders of non-controlling interests | — | — | — | — | — | — | — | — | 240 | 240 |
| Dividend to the Company's shareholders | — | — | — | — | — | — | (236,000) | (236,000) | — | (236,000) |
| Dividends to holders of non-controlling interests | — | — | — | — | — | — | — | — | (47,600) | (47,600) |
| Elimination of rights of holders of non-controlling interests due to sale of subsidiary (see Other comprehensive loss for the year, net of tax | — | — | — | — | — | — | — | — | 1,083 | 1,083 |
| Income for the year | — | — | — | (13,928) | — | — | — | (13,928) | — | (13,928) |
| Balance at December 31, 2019 | <u>1,433</u> | <u>635,283</u> | <u>(3,510)</u> | <u>(13,477)</u> | <u>77,930</u> | <u>4,441</u> | <u>85,226</u> | <u>787,326</u> | <u>68,449</u> | <u>855,775</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 March 31 | | Year Ended December 31 |
| | 2020 | 2019 | 2019 |
| | (Unaudited) | | (Audited) |
| | In Thousands of New Israeli Shekels | | |
| Cash flows from operating activities | | | |
| Income for the period | 37,963 | 50,909 | 124,736 |
| <u>Adjustments:</u> | | | |
| Depreciation and amortization | 28,895 | 35,208 | 146,647 |
| Financing expenses, net | 15,713 | 18,863 | 93,149 |
| Taxes on income | 15,927 | 17,595 | 50,425 |
| Gain on sale of subsidiary | — | — | (1,777) |
| Share-based payment transactions | 784 | 1,199 | 3,468 |
| Revaluation of derivative financial instruments | — | 1,080 | 1,080 |
| | <u>99,282</u> | <u>124,854</u> | <u>417,728</u> |
| Change in trade and other receivables | 5,709 | 23,490 | (3,015) |
| Change in trade and other payables | <u>(22,965)</u> | <u>46,334</u> | <u>(18,965)</u> |
| | <u>(17,256)</u> | <u>69,824</u> | <u>(21,980)</u> |
| Taxes on income received (paid), net | <u>251</u> | <u>(4,042)</u> | <u>(4,189)</u> |
| Net cash provided by operating activities | <u>82,277</u> | <u>190,636</u> | <u>391,559</u> |
| Cash flows from investing activities | | | |
| Interest received | 378 | 1,037 | 6,563 |
| Short-term deposits and restricted cash, net | 36,458 | (892) | 69,695 |
| Withdrawals from long-term restricted cash | 6,846 | 1,514 | 2,082 |
| Deposits in long-term restricted cash | (64,752) | (16,236) | (91,000) |
| Deferred consideration from sale of subsidiary less cash sold | 341 | — | 3,158 |
| Long-term advance deposits and prepaid expenses | (188,409) | — | (11,184) |
| Acquisition of property, plant and equipment | (51,007) | (28,690) | (121,681) |
| Deferred consideration in respect of acquisition of subsidiary (for details – see Note 5J) | (46,648) | — | — |
| Acquisition of intangible assets | — | (282) | (919) |
| Payments in respect of derivative financial instruments, net | <u>(2,742)</u> | <u>(1,150)</u> | <u>(3,313)</u> |
| Net cash used in investing activities | <u>(309,535)</u> | <u>(44,699)</u> | <u>(146,599)</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 March 31 | | Year Ended December 31 |
| | 2020 | 2019 | 2019 |
| | (Unaudited) | | (Audited) |
| | In Thousands of New Israeli Shekels | | |
| Cash flows from financing activities | | | |
| Interest paid | (14,916) | (15,524) | (75,841) |
| Costs paid in advance in respect of taking out of loans | (13,223) | (984) | (6,535) |
| Dividend paid to the Company's shareholders | — | — | (236,000) |
| Dividends paid to holders of non-controlling interests | (22,000) | — | (47,600) |
| Investments of holders of non-controlling interests in the in the capital of a subsidiary | — | — | 240 |
| Proceeds from issuance of debentures, net of issuance expenses | — | — | 271,595 |
| Receipt of short-term loans from banks, net | 219,400 | — | — |
| Receipt of long-term loans from banks and others | 25,000 | — | — |
| Repayment of long-term loans from banks and others | (40,460) | (9,929) | (67,682) |
| Repayment of debentures | — | — | (11,488) |
| Acquisition of non-controlling interests | (25,680) | — | (1,500) |
| Payment in respect of derivative financial instruments | (5,324) | — | (11,370) |
| Repayment of principal of lease liabilities | <u>(331)</u> | <u>(583)</u> | <u>(1,562)</u> |
| Net cash provided by (used in) financing activities | <u>122,466</u> | <u>(27,020)</u> | <u>(187,743)</u> |
| Increase (decrease) in cash and cash equivalents | (104,792) | 118,917 | 57,217 |
| Cash and cash equivalents at beginning of the period | 384,748 | 329,950 | 329,950 |
| Impact of changes in the currency exchange rate on the balances of cash and cash equivalents | <u>(552)</u> | <u>(180)</u> | <u>(2,419)</u> |
| Cash and cash equivalents at end of the period | <u>279,404</u> | <u>448,687</u> | <u>384,748</u> |

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, 2020

Note 1 – General

A. 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”).

The Company is a publicly-held company, and its securities are traded on the stock exchange. The Company and its subsidiaries, the financial statements of which are consolidated with those of the Company (hereinafter – “the Group”) are engaged in the area of generation of electricity and supply thereof to private customers and Israel Electric Company Ltd. (hereinafter – “IEC”), including initiation, development, construction and operation of power plants and facilities for the generation of energy. As at the date of the Report, the Group’s activities are carried on only in Israel. The Group’s electricity generation activities and the supply thereof focus on generation of electricity using conventional technology and cogeneration technology. The Group is also taking action to construct an open-cycle power plant using conventional technology (a Peaker plant).

The Company owns two power plants: the Rotem power plant, which is owned by OPC Rotem Ltd. (hereinafter – “Rotem”) (which is held by the Company (80%) and by another shareholder (20%)), which operates using conventional technology having generation capacity of about 466 megawatts (MW); and OPC Hadera Ltd. (hereinafter – “Hadera”), which is currently in the test-run stage of the power plant and its commercial operation date is expected to be in June 2020. The Hadera Power Plant will run using cogeneration technology and having an installed capacity of up to 148.5 MW. Furthermore, Hadera owns the Energy Center, which has installed capacity of 17.9 MW, which up to the date of commercial operation of the Hadera power plant supplies all the steam consumption and part of the electricity consumption of Hadera Paper Mills Ltd. (hereinafter – “Hadera Paper”), which is located adjacent to the Hadera Power Plant (the balance of the electricity consumption of Hadera Paper is supplied by Rotem). In addition, the Company holds full ownership of Zomet Energy Ltd. (hereinafter – “Zomet”), which is taking action to construct a power plant which runs by means of natural gas using conventional technology in an open cycle (a Peaker plant) having a capacity of about 396 MW, located proximate to the Plugot Intersection, in the area of Kiryat Gat, under Regulation 914 of the Electricity Authority. In February 2020, notification was received from the Electricity Authority whereby Zomet is in compliance with the conditions for proof of a financial closing, in accordance with that stipulated in its conditional license for construction of the Zomet Power Plant and in accordance with all law. For additional details regarding Zomet – see Notes 51 through 50.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 1 – General (Cont.)

A. The Reporting Entity (Cont.)

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 Business Concentration, 2013, the provisions of the Economic Competition Law, 1988, and the regulations promulgated thereunder, and regulation in connection with licensing of businesses, planning and construction, and environmental quality (protection). 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 Energy), supervise the license holders (including supply licenses and private generation licenses), 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 Israel Electric Company (IEC) and private electricity generators.

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.

B. Impacts of the Spread of the Coronavirus

At the end of 2019 and in the first quarter of 2020, there was an outbreak in China and thereafter throughout the world of the Coronavirus (COVID-19), which in March 2020 was declared as a worldwide pandemic by the World Health Organization (hereinafter – "the Coronavirus Crisis"). Due to the Coronavirus Crisis, in the period of the Report and thereafter, movement (traffic) restrictions and restrictions on business activities were imposed by the State of Israel and countries throughout the world. In addition, the said Coronavirus crisis has caused, among other things, uncertainty and instability in the Israeli and global financial markets and economy. The operations of the Company's active power plants, Rotem Power Plant and the Energy Center are continuing in the "restrictions" period" as a result of their being "essential enterprises" while safeguarding the work teams and taking precautionary measures in order to prevent outbreak and spreading of the infection at the Company's sites. As at the date of the Report, the Coronavirus crisis had not had a significant impact on the Company's results and activities.

The Coronavirus Crisis and the movement restrictions, as referred to above, have impacted the Group's activities, as stated below:

- Taking into account the quarantine instructions and restrictions on entry into Israel as a result of spread of the Coronavirus (COVID-19), there are delays in arrival of equipment as well as arrival of a foreign technical team required for completion of the stage of the acceptance tests of the Hadera Power Plant. The Company expects that the commercial operation date of the power plant will be in June 2020, however in light of the restrictions described, the said commercial operation date could be delayed even beyond June 2020.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 1 – General (Cont.)

B. Impacts of the Spread of the Coronavirus (Cont.)

- As a result of the continuing global movement restrictions, both in Israel and worldwide, and the need for arrival of equipment from overseas, the Company estimates that the construction period of the Zomet Power Plant is likely to continue beyond 2022 and as at the publication date of the Report, it is expected to take place in the first quarter of 2023. Completion of the construction for purposes of the construction agreement for the Zomet Power Plant (as described in Note 25D to the annual financial statements) was extended by about three months concurrent with issuance of a work commencement order. For details regarding revision of the construction contract for Zomet – see Note 5L.
- In March 2020, the maintenance contractor of the Rotem Power Plant (hereinafter – “Mitsubishi”) gave notice that in light of the restrictions on entry and the quarantine rules of the State of Israel, the maintenance work (hereinafter – “the Maintenance”) that was planned to be performed for the Rotem Power Plant in April 2020 will be postponed to October 2020. Mitsubishi’s position, which was rejected by Rotem, is that the above-mentioned circumstances constitute “*force majeure*” pursuant to the provisions of the agreement with it. In light of postponement of the date of the Maintenance in March 2020, Rotem slowed the reduction (amortization) of the maintenance component in the Rotem Power Plant. The impact of the slowing of the reduction (amortization) on the results of the activities in March 2020 amounted to about NIS 1 million. It is noted that subsequent to the date of the report, in April 2020, Rotem shutdown the power plant for a number of days in order to perform internally-initiated technical tests and treatments. The shutdown for several days and the postponement of the maintenance date are not expected to have a significant impact on the generation activities of the Rotem Power Plant and its results.

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, 2019 (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 26, 2020.

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.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 2 – Basis of Preparation of the Financial Statements (Cont.)

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 1 regarding update of the estimate of the balance of the remaining useful life of various vehicles in light of postponement of the maintenance at Rotem, and in Note 3.

Note 3 – Significant Accounting Policies

A. The Group's accounting policies in these condensed consolidated interim financial statements are the same as the policies applied in the Annual Financial Statements.

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

1. Amendment to IFRS 3 “Business Combinations” (hereinafter – “the Amendment”)

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.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 3 – Significant Accounting Policies (Cont.)

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

2. Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures: Reform of Benchmark Interest Rates” (hereinafter – “the Amendments”).

The Amendments include a number of mandatory leniencies that are relevant to examination of the effectiveness of hedge accounting ratios that are impacted by uncertainty deriving from reform of the IBOR interest rates (this reform is intended to result in cancellation of interest rates such as LIBOR and EURIBOR). For example:

- Determination of the probability of occurrence of the hedged cash flows is to be based on the existing contractual cash flows and future changes due to the IBOR reform are to be ignored.
- When examining prospective effectiveness, account is to be taken of the existing contractual conditions of the hedged item and the hedging instrument, and the uncertainty deriving from the reform is to be ignored.

The Amendments are to be applied retroactively commencing from January 1, 2020. The leniencies included as part of the Amendments will be discontinued prospectively at the earlier of: clarification of the uncertainty arising from the reform or the date on which the hedge ratios are discontinued.

In the Group’s estimation, application of the Amendments did not have a significant impact on the financial statements.

C. Accounting standards not yet adopted

1. Amendment to IAS 1 “Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current”

The Amendment replaces certain classification requirements of liabilities as current or non-current. For example, pursuant to the Amendment, a liability will be classified as non-current where an entity has a right to postpone the payment for a period of at least 12 months after the period of the report, which is “material” and exists at the end of the period of the report. A right exists as at the date of the report only if an entity is in compliance with the conditions for postponement of the payment as at this date. In addition, the Amendment clarifies that a conversion right of a liability will impact is classification as current or non-current, unless the conversion component is capital.

The Amendment will enter into effect for reporting periods commencing on January 1, 2022. Early application is permissible. The Amendment is to be applied retroactively, including adjustment of the comparative data. The Group has not yet commenced examination of the impacts of application of the Amendment on the financial statements.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 3 – Significant Accounting Policies (Cont.)

C. Accounting standards not yet adopted

2. Amendment to IAS 16 “Property, Plant and Equipment: Receipts prior to Intended Use”

The Amendment cancels the requirement whereby in calculation of the costs that may be attributed directly to property, plant and equipment, a reduction is to be made from the costs of testing the proper functioning of the asset for the net proceeds from sale of any items produced in the process (such as samples produced at the time of testing the equipment). Instead, the said proceeds are to be recognized in the statement of income in accordance with the relevant standards and the cost of the items sold is to be measured pursuant to the measurement requirements of IAS 2 “Inventory”.

The Amendment will enter into effect for reporting periods commencing on January 1, 2022 or thereafter. Early application is permissible. The Amendment is to be applied retroactively, including revision of the comparative data, but only for items of property, plant and equipment that were brought to the location and position required for them to be able to function in the manner contemplated by management after the earliest reporting period presented on the initial application date of the Amendment. The cumulative impact of the Amendment will adjust the opening balance of the retained earnings of the earliest reporting period presented.

The Group has not yet commenced examining the impacts of the Amendment on the financial statements.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

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, short-term loans and credit, 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

| | <u>At March 31, 2020</u> | |
|-----------------------------|------------------------------------|--------------------------|
| | <u>Book Value*</u> | <u>Fair Value</u> |
| | <u>In Thousands of NIS</u> | |
| Loans from banks and others | 1,852,542 | 2,063,530 |
| Debentures | <u>286,180</u> | <u>311,061</u> |
| | <u><u>2,138,722</u></u> | <u><u>2,374,591</u></u> |
| | <u>At March 31, 2019</u> | |
| | <u>Book Value*</u> | <u>Fair Value</u> |
| | <u>In Thousands of NIS</u> | |
| Loans from banks and others | 1,896,402 | 2,239,296 |
| Debentures | <u>297,300</u> | <u>321,587</u> |
| | <u><u>2,193,702</u></u> | <u><u>2,560,883</u></u> |
| | <u>At December 31, 2019</u> | |
| | <u>Book Value*</u> | <u>Fair Value</u> |
| | <u>In Thousands of NIS</u> | |
| Loans from banks and others | 1,867,448 | 2,243,290 |
| Debentures | <u>282,864</u> | <u>324,623</u> |
| | <u><u>2,150,312</u></u> | <u><u>2,567,913</u></u> |

* Includes current maturities and accrued interest.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

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 and risks of changes in the CPI. 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):

| | <u>CPI</u> <u>(in points)</u> | <u>Exchange</u> <u>rate of</u> <u>the dollar</u> <u>against</u> <u>shekel</u> | <u>Exchange</u> <u>rate of</u> <u>the euro</u> <u>against</u> <u>shekel</u> |
|---|--|--|--|
| March 31, 2020 | 100.3 | 3.565 | 3.900 |
| March 31, 2019 | 100.2 | 3.632 | 4.078 |
| December 31, 2019 | 100.8 | 3.456 | 3.878 |
| <u>Change during the three-month period ended:</u> | | | |
| March 31, 2020 | (0.5%) | 3.1% | 0.6% |
| March 31, 2019 | (0.3%) | (3.1%) | (4.9%) |
| <u>Change during the year ended:</u> | | | |
| December 31, 2019 | 0.3% | (7.8%) | (9.6%) |

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 5 – Additional Information

General

- A. Further to that stated in Note 25B to the Annual Financial Statements, in January 2020, the decision of the Electricity Authority entered into effect regarding update of the electricity tariffs for 2020, whereby the rate of the generation component was reduced by 8% from NIS 290.9 per MWh to NIS 267.8 per MWh. The decline in the generation component, as stated, had a negative impact on the Company's income in the first quarter of 2020 compared with the corresponding quarter last year.
- B. In February 2020, the Electricity Authority published its Decision from Meeting 573, held on January 27, 2020, regarding Amendment of Standards in connection with Deviations from the Consumption Plans (hereinafter – “the Decision”). Pursuant to the Decision, a supplier is not permitted to sell to its consumers more than the amount of the capacity that is the subject of all the undertakings it has entered into with holders of private generation licenses. In addition, the Authority indicates in the notes (clarifications) to the Decision that it is expected that the supplier will enter into private transactions with consumers in a scope that permits it to supply all their consumption from energy that is generated by private generators over the entire year. Actual consumption of energy at a rate in excess of 3% from the installed capacity allocated to the supplier will trigger payment of an annual tariff that reflects the annual cost of the capacity the supplier used as a result of the deviation, as detailed in the Decision (“Annual Payment in respect of Deviation from the Capacity”). In addition, the Decision provides a settlement mechanism in respect of a deviation from the daily consumption plan (surpluses and deficiencies), which will apply concurrent with the annual payment in respect of a deviation from the capacity. Application of the Decision is commencing from September 1, 2020.

According to the Decision, the said amendment will apply to Rotem after determination of supplemental arrangements for Rotem, which as the date of the Report had not yet been determined, and the Company is closely monitoring this matter. Therefore, as the publication date of the Report there is no certainty regarding the extent of the unfavorable impact of the Decision, if any, on the Company's activities.

- C. In the first quarter of 2020, the Group acquired property, plant and equipment not for cash, in the amount of about NIS 13 million (in the first quarter of 2019 – about NIS 13 million).

The Company

- D. In January 2020, Maalot reconfirmed a rating of A– for the Company's debentures (Series A).
- E. Further to that stated in Note 15C4 to the Annual Financial Statements, in January 2020, Company withdrew a loan in the amount of about NIS 169 million from the short-term credit framework (hereinafter – “the Loan”), which was used by the Company for purposes of payment of the Initial Assessment, as described in Note 5N. The loan bears interest at the annual rate of prime+0.6%. Subsequent to the date of the Report, on April 6, 2020, the Company repaid the Loan by means of taking out a substitute loan, in the amount of about NIS 169 million (hereinafter – “the Substitute Loan”). The Substitute Loan, which bore interest at the annual rate of prime + 1.7% was repaid on April 28, 2020.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 5 – Additional Information (Cont.)

The Company (Cont.)

- F. In March 2020, the Company took out a loan from Bank Mizrahi Tafahot Ltd., a related party of the Company, in the amount of NIS 50 million. The loan bore interest at the annual rate of prime+1.25% and was repaid, subsequent to the date of the Report, in May 2020.
- G. Guarantees provided by the Company in the period of the Report
- Further to that stated in Note 5N to the Annual Financial Statements, in January 2020, the Company provided a bank guarantee in the name of Zomet for the benefit of Israel Lands Authority (hereinafter – “ILA”), in the amount of about NIS 60.5 million. For purposes of securing the guarantee, the Company made a bank deposit, in the amount of about NIS 30 million.
 - Further to that stated in Note 24A3 to the Annual Financial Statements regarding development levies to the Shafir Local Council, in March 2020 the Company updated the amount of the bank guarantee to the amount of about NIS 24 million. For additional details – see Note 5N.
 - Further to that stated in Note 24A3 to the Annual Financial Statements regarding a bank guarantee provided by Zomet provided for the benefit of the Electricity Authority in respect of its conditional license, in March 2020, the said guarantee was cancelled and the Company provided a bank guarantee on behalf of Zomet, in an amount that was updated to about NIS 15 million, pursuant to that stipulated in Zomet’s conditional license.
 - Further to that stated in Note 15C3 to the Annual Financial Statements regarding provision of a bank guarantee in order to secure the commitment to provide shareholders’ equity to Zomet, in the period of the Report, the bank guarantee was reduced to the amount of about NIS 157 million (linked to the CPI), and the deposit for securing the guarantee was reduced to the amount of about NIS 80 million. In addition, subsequent to the date of the Report, in May 2020, the guarantee was reduced to the amount of about NIS 110 million (linked to the CPI), and the deposit for securing the guarantee was reduced to the amount of about NIS 55 million.
 - Subsequent to the date of the Report, in April 2020, the Company provided on behalf of the Joint Company (as defined in Note 5N below) a bank guarantee, in the amount of about NIS 12.5 million. For additional details – see Note 5N.
- H. In the first quarter of 2020, due to changes in the inflationary expectations and in light of the changes in the projected interest rates, the Company recorded an increase in the liabilities as a result of revaluation of the financial derivative in respect of interest SWAP contracts, as described in Note 25N and Note 22D to the Annual Financial Statements (hereinafter – “the Derivative”), in the amount of about NIS 35 million, which was included in other comprehensive income. As at the date of the Report, the fair value of the Derivative amounted to about NIS 50 million. The Company deposits collaterals in order to secure its liabilities to the bank in connection with the Derivative. As at the date of the Report, the collateral amounted to about NIS 48 million. The valuation of the Derivative was made by an external independent appraiser. The value of the Derivative was calculated based on the discounted shekel cash flows linked to the CPI expected to be received less the discounted fixed shekel cash flows payable. The value was adjusted for the credit risks of the parties.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 5 – Additional Information (Cont.)

Zomet

- I. In February 2020, the Supreme Court sitting as the High Court of Justice cancelled the petition that was filed against the Electricity Authority, the plenary Electricity Authority, the State of Israel – the Ministry of Energy and Zomet by Or Power Energies (Dalia) Ltd. and Dalia Power Energies Ltd., which mainly included claims in connection with decisions and actions of the Electricity Authority relating to Regulation 914, and with reference to Zomet's conditional license, as described in Note 24A3 to the Annual Financial Statements. Further to cancellation of the petition, as stated, notification of the Electricity Authority was received whereby Zomet is in compliance with the conditions for proving a financial closing, pursuant to that stated in the its conditional license and in accordance with law (hereinafter – "Financial Closing Approval").
- J. In February 2020, in light of receipt of Financial Closing Approval, the conditions were completed for payment of the consideration in respect of Zomet's shares in accordance with the third milestone, as described in Note 24A3 to the Annual Financial Statements, in the amount of about \$15.8 million (about NIS 54 million) and about NIS 21 million in respect of 95% and 5% of the shares of Zomet, and the said consideration was paid in February and March 2020. As at the date of the Report, the Company had paid the full amount of the consideration for acquisition of Zomet's shares and it holds 100% of the issued and paid-up shares of Zomet.
- K. In February 2020, Zomet made the first withdrawal, in the amount of NIS 25 million, from the long-term loan framework, as described in Note 15C3 to the Annual Financial Statements. The loan bears interest at the annual rate of prime+0.95% (which will be added to the loan principal up to the first interest payment date). The loan is to be repaid in quarterly payments, which will fall shortly before the end of the first or second quarter after the commencement date of the commercial operation of the Zomet Power Plant.
- L. Further to that stated in Note 25D to the Annual Financial Statements, regarding Zomet's construction agreement (hereinafter – "the Agreement"), against the background of the crisis caused by the outbreak of the Coronavirus and the restrictions imposed as a result thereof, March 2020, an amendment to the Agreement was signed whereby, among other things, it was agreed to issue a work commencement order to the construction contractor for commencement of the construction work and with respect to extension of the period for completion of the construction work pursuant to the Agreement by three months, and additional revisions were made taking into account extension of the period as stated.
- M. Further to that stated in Note 25F to the Annual Financial Statements, regarding Zomet's gas transmission agreement, in February 2020 Zomet delivered to Israel Natural Gas Lines Ltd. a notification for commencement of performance of the construction work.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 5 – Additional Information (Cont.)

Zomet (Cont.)

- N. In January 2020, ILA approved allotment of an area measuring about 85 dunams for purposes of construction of the Zomet Power Plant (hereinafter in this Section – “the Land”) and it signed a development agreement with Kibbutz Netiv Halamed Heh (hereinafter – “the Kibbutz”) in connection with the Land, which is valid up to November 5, 2024, which after fulfillment of its conditions a lease agreement will be signed for a period of up to November 4, 2044. In addition, in January 2020, the option agreement signed by Zomet and the Kibbutz for lease of the Land expired, and as part of its cancellation the parties signed an agreement of principles for establishment of a joint company, Zomet Netiv Limited Partnership (hereinafter – “the Joint Company” and “the Agreement of Principles for Establishment of the Joint Company”, respectively). Subsequent to the date of the Report, in May 2020, transfer of the rights from the Kibbutz to Joint Company in the registration records of ILA was made.

The Joint Company was established by the Company and the Kibbutz as a limited partnership under the name “Zomet Netiv Limited Partnership”, where the composition of the partners therein is: (1) General Partner – will hold 1% of the Joint Company; and the shares of the General Partner will be held by the Kibbutz (26%) and Zomet (74%); (2) limited partners – the Kibbutz and Zomet will hold 26% and 73% of the rights in the Joint Company as limited partners, respectively.

As part of the agreement of principles for establishment of the Joint Company, it was provided that the Kibbutz will sell to the Joint Company its rights in the Land by force of which it will be possible to sign a development agreement with ILA – this being in exchange for an aggregate amount of NIS 30 million, plus VAT as per law, which the Joint Company paid to the Kibbutz in the period of the Report (amounts that were provided to it by Zomet). In the Agreement of Principles for Establishment of the Joint Company it was clarified that the Kibbutz acted as a trustee of the Joint Company when it signed the Development Agreement with ILA, and acted as an agent of the Joint Company when it signed the financial specification by virtue of which capitalization fees for the Land were paid, in the amount of about NIS 207 million (as detailed below). The Kibbutz also undertook that it will act as an agent and a trustee of the Joint Company, for all intents and purposes, in connection with every report that is required in connection with the transaction that is the subject of the above-mentioned agreement of principles and regarding every matter that will be required from it by the Joint Company. Further to that stated above, in February 2020, an updated lease agreement was also signed whereby the Joint Company, as the owner of the Land, will lease the Land to Zomet, for the benefit of the project.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 5 – Additional Information (Cont.)

Zomet (Cont.)

N. (Cont.)

After approval by the competent authorities of ILA for allotment of the land for purposes of construction of the Zomet Power Plant, in January 2020, a financial specification was received from ILA in respect of the capitalization fees, whereby value of the Land (not including development expenses) was set based on the assessment at the amount of about NIS 207 million (not including VAT) (hereinafter – “the Initial Assessment”). The Initial Assessment is subject to control procedures that have not yet been completed and it may be updated at the close of the said control procedures. Pursuant to that stated in the Initial Assessment and for purposes of completion of the land transaction and receipt of the building permit (which was received in January 2020 and is required in order to receive approval of the Electricity Authority for the financial close for the Zomet Project), Zomet, in the name of the Joint Company and by means of the Kibbutz, arranged payment of the Initial Assessment in January 2020 at the rate of 75% of amount of the Initial Assessment and provided through the Company, the balance, at the rate of 25% as a bank guarantee in favor of ILA. For details regarding a short-term loan the Company took out in order to pay the Initial Assessment, as stated, – see Note 5E. It is noted that the assessment is preliminary and there is no certainty regarding the amount of the final assessment that will be received. Pursuant to the arrangement with ILA, the Company will be permitted to contest the amount of the assessment when the final assessment is received after the conclusion of the required control processes. The Company intends to examine filing of a contest of the final assessment on the relevant dates. Furthermore, subsequent to the date of the Report, in April 2020, the Company provided a bank guarantee, in the amount of about NIS 12.5 million, at the request of the Taxes Authority in Israel, which requested to examine whether the Joint Company is subject to Purchase Tax in respect of payment of the capitalization fees made for the Land. In the position of Zomet, based on its legal advisors, it is more reasonable than not that the Joint Company will not be charged for payment of Purchase Tax, as stated and accordingly no provision was included in the financial statements.

In addition, further to that stated in Note 24A3 to the Annual Financial Statements, regarding imposition of development levies to the Shafir Local Council (hereinafter – “the Council”), in January 2020 the Council sent Zomet a charge notification in respect of calculation of the levies, in the amount of NIS 36.5 million, of which in December 2019 the amount of NIS 13 million, which is not in dispute, was paid. In light of that stated, the Company updated the amount of the automatic guarantee it provided for Zomet in favor of the Council in respect of the amount in dispute between the parties to about NIS 24 million. In March 2020, Zomet filed an administrative petition against the Council in respect of the amount in dispute, as stated. As at the publication date of the Report, a hearing on the matter had not yet been held. In Zomet’s estimation, based on an opinion of its legal advisors, it is more reasonable than not that Zomet will not be required to pay an additional amount beyond the amount it paid in respect of the development levies and, accordingly, no provision was included in the financial statements.

OPC Energy Ltd.
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At March 31, 2020

Note 5 – Additional Information (Cont.)

Zomet (Cont.)

N. (Cont.)

All of the amounts paid in respect of the Land, as stated, were classified in the Company's statement of financial position as at March 31, 2020 as "advance deposits" in the "long-term receivables" category since transfer of the rights from the Kibbutz to the Joint Company in the records of ILA has not yet been made as at the date of the Report. In light of transfer of the rights from the Kibbutz to the Joint Company in the records of ILA subsequent to the date of the Report, in May 2020, the amounts paid in respect of the land, as stated, will be reclassified in the Company's statement of financial position as at June 30, 2020 to the category "right-of-use assets".

- O. In January 2020, Zomet signed an agreement for acquisition of available capacity and energy and provision of infrastructure services between Zomet and Israel Electric Company (IEC). As part of the agreement, Zomet undertook to sell energy and available capacity from its facility to IEC, and IEC committed to provide Zomet infrastructure services and management services for the electricity system, including back-up services – all of this in accordance with that stipulated in the agreement, the provisions of law and the benchmarks. Pursuant to the terms of the agreement, part of the rights and obligations of IEC pursuant to the agreement will be assigned in the future to the System Administrator.

The agreement will remain in effect up to the end of the period in which Zomet is permitted to sell available capacity and energy in accordance with the provisions of its generation license (that is, up to the end of 20 years from the commercial operation date of Zomet). Nonetheless, in a case where IEC will be prevented from acquiring available capacity and energy due non-extension of its license or receipt of an alternative license, the agreement will come to an end on the date on which the preventing factor, as stated, occurs. The agreement provides that Zomet will allot all of the power plant's capacity to a fixed availability arrangement, where a condition for acquisition of fixed availability will be compliance with mandatory criteria, as stipulated in Regulation 914. The power plant will be operated based on the directives of the System Administrator, pursuant to the provisions of Regulation 914. Furthermore, the agreement includes provisions that cover connection of the power plant to the electricity grid, provisions relating to the planning, construction and maintenance of the power plant, and provisions addressing acquisition of the power plant's available capacity.

The agreement provides, among other things, that the System Administrator will be permitted to disconnect supply of the electricity to the electricity grid if Zomet does not comply with the safety provisions as provided by law or a safety provision of the System Administrator that were delivered to it in advance and in writing. In addition, Zomet committed to comply with the availability and credibility requirements stipulated in its license and in Regulation 914, and to pay for non-compliance therewith, in accordance with that provided in Regulation 914.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 5 – Additional Information (Cont.)

Hadera

- P. Further to that stated in Note 25G to the Annual Financial Statements, in March 2020, the preconditions provided in the amendment to Hadera's natural gas supply agreement with the Tamar Group were fulfilled.
- Q. Further to Hadera's request in January 2020 to the Electricity Authority for an extension of the commercial operation date stipulated in Hadera's conditional license (as described in Note 15C2 to the Annual Financial Statements), in March 2020, the Electricity Authority approved Hadera's request for an extension of the commercial operation date, as stated, by 12 months (up to March 2021). Extension of the commercial operation date was approved together with realization of the bank guarantee provided by Hadera, in the amount of NIS 1.2 million. After realization of the guarantee, Hadera provided a substitute bank guarantee as required by its conditional generation license, in the same amount. In addition, in March 2020, Hadera's lenders approved extension of the final date for commercial operation stated in Hadera's financing agreement up to the end of June 2020, as well as to update of the financial covenant regarding the minimum balance of cash and cash equivalents the Company is committed to hold by the amount NIS 100 million, such that only as at March 31, 2020, the Company was required to hold a balance of cash and cash equivalents in the amount of NIS 90 million.
- R. In March 2020, Hadera made the first payment of principal and interest in accordance with the repayment schedule including in Hadera's financing agreement, in the amount of about NIS 9 million and NIS 7 million, respectively. Payment of the debt as stated was made out of sources the Company provided to Hadera.
- S. Further to that stated in Note 25D to the Annual Financial Statements, pursuant to the construction agreement Hadera is entitled to certain compensation from SerIDOM Servicios Integrados IDOM S.A.U. (hereinafter – "the Construction Contractor") in respect of delay in completion of the construction. As a result, as at March 31, 2020 the balance of the asset receivable in respect of agreed compensation from the Construction Contractor amounts to about NIS 67 million (and in the period of the Report, Hadera recognized an asset, in the amount of about NIS 16 million).

Rotem

- T. Further to that stated in Note 25G to the Annual Financial Statements, in March 2020, the preconditions provided in the amendments to Rotem's natural gas supply agreement with the Tamar Group and Energean were fulfilled.
- U. In March 2020, Rotem distributed dividends, on two dates, in the aggregate amount of NIS 110 million. The shares of the Company and of the non-controlling interests amount to NIS 88 million and NIS 22 million, respectively. For purposes of securing distribution of the dividends, Rotem's shareholders provided bank guarantees in favor of Rotem's lenders, in the aggregate amount of NIS 40 million – this being based on the relative shares of the shareholders in their holdings in Rotem (the Company share amounted to NIS 32 million). The guarantee will remain in effect up to the date the semi-annual (six months) and/or annual financial statements of Rotem indicate that in accordance with the provisions of Rotem's financing agreement, Rotem was entitled to make a distribution, based on the said statements, in a cumulative amount of at least NIS 40 million.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 5 – Additional Information (Cont.)

Rotem (Cont.)

- V. In February 2020, the Rating Committee of Midroog Ltd. (hereinafter – “Midroog”) reconfirmed Rotem’s long-term rating at the level of Aa2 with a stable rating outlook and the rating of Rotem’s senior debt at the level of Aa2 with a stable rating outlook.

Note 6 – Revenues from Contracts with Customers

Breakdown of the revenues from sales:

| | For the | | |
|-----------------------------------|-------------------------------------|-----------------------|-------------------------|
| | Three Months Ended | | Year Ended |
| | March 31 | | December 31 |
| | 2020 | 2019 | 2019 |
| | (Unaudited) | | (Audited) |
| | In Thousands of New Israeli Shekels | | |
| Revenues from sale of electricity | 296,420 | 337,858 | 1,271,200 |
| Revenues from sale of steam | <u>16,131</u> | <u>15,841</u> | <u>58,788</u> |
| | <u>312,551</u> | <u>353,699</u> | <u>1,329,988</u> |

Note 7 – Events Occurring Subsequent to the Date of the Report

- A. In April 2020, the Company signed an agreement for construction of a facility for generation of electricity (hereinafter – “the Generation Facility”), which is to be constructed in the factory yard of the consumer, having an aggregate capacity of 10 megawatts that is powered by natural gas. The Company is to sell electricity to the consumer from the Generation Facility for a period of 15 years, starting from the commercial operation date of the Generation Facility. The planned commercial operation date is in accordance with terms stipulated in the agreement, and in any case no later than after the passage of 24 months from the signing date of the agreement. The construction cost of the Generation Facility is estimated at about NIS 40 million.
- B. In April 2020, the Company issued debentures (Series B) having a par value of NIS 400 million. The debentures are registered for trading on the Tel-Aviv Stock Exchange, are linked to the CPI and bear interest at the annual rate of 2.75%. The debentures are to be repaid in unequal semi-annual payments (on March 31, and September 30 of every calendar year), commencing from March 31, 2021 and up to September 30, 2028 (the first payment of interest falls on September 30, 2020). The debentures were rated A3 by Midroog and A– by Maalot.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 7 – Events Occurring Subsequent to the Date of the Report (Cont.)

B. (Cont.)

The trust certificate includes customary grounds for calling the debentures for immediate repayment (subject to the cure periods provided), including insolvency events, liquidation proceedings, receivership, a stay of proceedings and creditors' arrangements, certain structural changes, a significant worsening in the Company's position, etc. In addition, there is a right to call the debentures for early repayment: (1) in a case of calling another debenture series (traded on the Stock Exchange or on the Consecutive Institutional System) issued by the Company or other financial debt (or a number of debts, as stated, cumulatively) of the Company and of subsidiaries (not including a case of calling for immediate repayment of non-recourse debt), including foreclosure of guarantees (which secure repayment of debt to a financial creditor) provided by the Company or by subsidiaries to a creditor, in an amount that is not less than U.S.\$40 million; (2) upon breach of financial covenants provided during two consecutive examination periods; (3) in a case as stated in subsection (2) (this being even without waiting for the second examination period), if the Company executed an unusual transaction with a controlling shareholder (that is not in accordance with the Companies Regulations (Leniencies in Transactions with Interested Parties), 2000, without receipt of advance approval from the holders of the debentures in a special decision); (4) if an asset or number of assets of the Company was/were sold in an amount constituting more than 50% of the value of the assets in the consolidated financial statements during a consecutive period of 12 months or upon executing a change in the Company's main activities ("the Company's main activities" – the energy sector, including the area of generation of energy from power plants and from renewable energy sources); (5) upon occurrence of certain events of loss of control by the controlling shareholder; (6) in a case of discontinuance of a rating for a certain period of time; (7) in a case of discontinuance of trading for a certain period of time or elimination of the debentures from trading; (8) if the Company ceases to be a reporting corporation; (9) in a case where a "going concern" caveat is recorded in the Company's financial statements relating only to the Company itself, for a period of two consecutive quarters; and (10) if the Company breaches its commitment not to create a general floating lien on its existing and future assets and rights in favor of any third party without the conditions provided in the trust certificate having been fulfilled – all of the above as detailed in the trust certificate signed between the Company and Reznik Paz Nevo Trusts Ltd. on April 22, 2020.

In addition, the trust certificate includes a commitment of the Company to comply with financial covenants and restrictions provided (including restrictions applicable to a distribution, restrictions applicable to expansion of a series, provisions for adjustment of interest in a case of a rating change or non-compliance with a financial covenant). Financial covenants include compliance with a ratio of the consolidated net financial debt less the financial debt designated for construction of projects that have not yet commenced producing EBITDA, to the adjusted EBITDA that does not exceed 13 (and for purposes of a distribution as defined in the trust certificate that does not exceed 11), there must be minimum shareholders' equity of NIS 250 million (and for purposes of a distribution NIS 350 million), and the ratio of the shareholders' equity to the total assets must be at a rate that is not less than 17% (and for purposes of a distribution a rate that is not less than 27%).

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 7 – Events Occurring Subsequent to the Date of the Report (Cont.)

B. (Cont.)

As at March 31, 2020: (1) the Company's shareholders' equity was NIS 765 million; (2) the ratio of the shareholders' equity to the Company's total assets was 58%; (3) the ratio of the net consolidated financial debt less the financial debt designated for construction of projects that have not yet commenced producing EBITDA and the adjusted EBITDA is 3.45.

In addition, the trust certificate includes a commitment not to create a general floating lien on the Company's existing and future assets and rights in favor of any third party without one of the conditions provided in the draft trust certificate having been fulfilled – all of this in accordance with the conditions provided in the trust certificate (it is clarified that the Company and/or related companies (including partnerships) will be permitted to create a fixed or floating lien on a Company asset or assets, without any of the said conditions having been fulfilled).

The terms of the debentures also include the possibility of an increase in the interest rate in certain cases of a change of the rating and in certain cases of non-compliance with a financial covenant (in accordance with clauses provided in the trust certificate). The Company's ability to expand the debenture series was limited under certain conditions, including maintenance of the rating of the debentures as it was immediately preceding expansion of the series and an absence of a breach.

- C. In May 2020, the Company and Noy Power Plants, Limited Partnership (a partnership established by Noy Fund 3, Limited Partnership) (hereinafter – “the Noy Fund”) submitted a purchase offer in the framework of the tender for sale of the Ramat Hovav power plant, a power plant powered by natural gas, that was published by Israel Electric Company (hereinafter – “the Tender”) – this being through by means of a joint special purpose company (SPC) the shares of which are held in equal shares (50%–50%) by the Company and the Noy Fund – OPC Noy Ramat Hovav Ltd. (hereinafter – “the Joint Company”). In addition, for purposes of securing the commitments of the Joint Company in the framework of the purchase offer submitted, the Company and the Noy Fund provided a financial guarantee, in the aggregate amount of about NIS 30 million (in equal shares between them).
- D. In May 2020, the Company's Board of Directors approved a private issuance to an officer of 99,227 options exercisable for 99,228 ordinary shares of NIS 0.01 par value of the Company and 28,732 RSUs (hereinafter – “the Offered Securities”). The Offered Securities were issued in accordance with the Company's options' plan (for details see Note 17B to the annual financial statements) under the Capital Track (with a trustee), in accordance with Section 102 of the Income Tax Ordinance, in four equal tranches, which may be exercised on a net basis. The vesting conditions and expiration dates of the Offered Securities are as follows:

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At March 31, 2020

Note 7 – Events Occurring Subsequent to the Date of the Report (Cont.)

D. (Cont.)

| <u>Tranche No.</u> | <u>Vesting Conditions</u> | <u>Expiration Dates</u> |
|---------------------------|---|---|
| 1 st tranche | At the end of 12 months from the grant date | At the end of 36 months from the vesting date |
| 2 nd tranche | At the end of 24 months from the grant date | At the end of 24 months from the vesting date |
| 3 rd tranche | At the end of 36 months from the grant date | At the end of 24 months from the vesting date |
| 4 th tranche | 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 of the options issued is NIS 25.81 (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 each option granted was estimate proximate to the issuance date, using the Black and Scholes model, at NIS 7.76 per option. The calculation is based on a standard deviation of 31.48%, a risk-free interest rate of 0.36% to 0.58% and an expected life of 4 to 6 years. The fair value of the RSU Units was estimated based on the price of a Company share on May 11, 2020, which was NIS 26.80.

The cost of the benefit embedded in the options based on the fair value on the date of their issuance amounted to about NIS 1,540 thousand. This amount will be recorded in the statement of income over the vesting period of each tranche.

- E. In May 2020, the Company signed an agreement (through a designated company that is wholly owned by the Company (“the Subsidiary”)) with SMS IDE Ltd. (“IDE”), which on May 26, 2020 received notification that it won a tender of the State of Israel for construction, operation, maintenance and transfer of a seawater desalinization facility on the “Sorek B” site (“the Desalinization Facility”), whereby if IDE signs a BOT agreement with the State of Israel, the Subsidiary will construct, operate and maintain a power plant powered by natural gas with a generation capacity of up to 99 MW on the premises of the Desalinization Facility (“the Power Plant”), and will supply the energy required for the Desalinization Facility for a period of 25 years (“the IPP Agreement”). The Power Plant is expected to be constructed under the “Regulation for Generators of Ultra-High Voltage that are Established Without a Competitive Process”, which was published by the Electricity Authority in March 2019.