
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**

August 18, 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 June 30, 2020

On August 18, 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 June 30, 2020 ("OPC's Periodic Report"). English convenience translations of the (i) Report of the Board of Directors regarding the Company's Matters for the Six-Month and Three-Month Periods ended June 30, 2020 and (ii) Condensed Consolidated Interim Financial Statements at June 30, 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 plans with respect to the Tzomet project, including expected commercial operation date ("COD") and expected construction completion date, plans and expectations regarding regulatory clearances and approvals, and the technologies intended to be used thereto, statements with respect to the expected effects of planned renovation work on the OPC-Hadera power plant and expected compensation and insurance reimbursement for previous delays in OPC-Hadera's COD, statements with respect to the expected COD of the Karish reservoir, 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 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 Tzomet project on a timely basis, within the expected budget, or at all, including as a result of, among others the Covid-19 outbreak, delays in CODs and costs resulting from such delays, 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, 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 June 30, 2020— Report of the Board of Directors regarding the Company's Matters for the Six-Month and Three-Month Periods ended June 30, 2020, as published on August 18, 2020 with the Israeli Securities Authority and Tel Aviv Stock Exchange*](#)

99.2

[OPC Energy Ltd. – Periodic Report for the three months ended June 30, 2020— Condensed Consolidated Interim Financial Statements at June 30, 2020, as published on August 18, 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: August 18, 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 Six-Month and Three-Month Periods Ended June 30, 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 (together – “the Group”), as at June 30, 2020 and for the six-month and three-month periods then ended, in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter – “the Reporting Regulations”).

The six-month period ended June 30, 2020 will be referred to hereinafter as – “the Period of the Report”.

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). The information included in the Periodic Report and the Consolidated Financial Statements is included herein by means of reference.

Presented together with this report are the consolidated interim financial statements as at June 30, 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 means of 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, 1968 (“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 in the period of the report and thereafter

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 held entirely by the Company), which uses cogeneration technology with an installed capacity of about 144 megawatts, and which on July 1, 2020 reached commercial operation of the power plant (“the Commercial Operation Date”) – this being after receipt of a permanent electricity generation license and a supply license (“Hadera Power Plant”). In addition, the Company wholly owns Zomet Energy Ltd. (“Zomet”), which is in the construction stages of 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.

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 in the period of the report and thereafter (Cont.)

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 ("the Coronavirus Crisis"). 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, Hadera Power Plant and the Energy Center in Hadera 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 Coronavirus 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 estimate the full impact 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 below) and Note 1B to the interim financial statements.

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 in the period of the report and thereafter (Cont.)

3. On July 1, 2020, the commercial operation period of the Hadera Power Plant commenced. The total investment in construction of the power plant and infrastructures of Hadera (including the Energy Center) amounted to about NIS 0.9 billion². In accordance with its decision published on June 30, 2020, the Electricity Authority decided to grant a permanent license for generation of electricity to Hadera Power Plant using cogeneration technology having installed capacity of 144 megawatts and to grant a supply license ("the Licenses"). The Licenses are for a period of 20 years (which may be extended by an additional 10 years)^{3 4}. It is noted that during the upcoming year, replacement or renovation work is expected to be performed with respect to certain components of the gas turbines, by the Head Equipment Contractor, which are anticipated to last for a period (cumulative) of about a month, during which time Hadera Power Plant will be operated in a partial manner⁵.

As at the date of this Report, the Company estimates that part of the costs stemming from the delay in the Commercial Operation Date of Hadera Power Plant, including lost profits, are expected to 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. 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. For details regarding compensation for the construction contractor – see Note 25D to annual consolidated financial statements, and Note 4D(6) to the interim financial statements. There is no certainty that the Company will receive returns (reimbursements) and/or the balance of the compensation in respect the full amount of its direct and indirect damages⁶.

² 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 annual consolidated financial statements and Note 6D(4) to the interim financial statements.

³ Regarding the decision of the Electricity Authority – see <https://www.gov.il/he/departments/policies/58306>.

⁴ For details regarding Hadera Power Plant – see, among other things, Sections 8.24, 8.5 and 8.12.3 to Part A in the Periodic Report for 2019 and the Report of the Board of Directors that is included in the report for the first quarter of 2020 and that was published on May 27, 2020 (Reference No.: 2020-01-047080).

⁵ That stated with reference to the Company's estimates regarding the length of the above-mentioned periods includes "forward-looking" information as defined in the Securities Law. The aforesaid information may not be realized, or may be realized in a manner different than expected, including as a result of circumstances that are not under the Company's control, such as the manner the actions are executed by the contractor or other delays, including factors that are impacted by the Coronavirus.

⁶ It is emphasized that that stated above, including regarding the Company's estimates with respect to coverage of the costs stemming from the delay, as stated above (including lost profits) and receipt of compensation for the delay damages, 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, 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 Hadera – see Section 19.3 of Part A (Description of the Company's Business) in the Periodic Report for 2019.

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 in the period of the report and thereafter (Cont.)

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 ("the dollar") 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 June 30, 2020, the total investments in the Zomet project amounted to about NIS 470 million.

In March 2020, Zomet issued a work commencement order to the construction contractor. 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 2023⁷.

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 be the owner of the land, 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 6C(6) 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 2020⁸. 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 planned technical examinations and internally-initiated tests. The shutdown for several days and the postponement of the date of the maintenance did not have and are not expected to have a significant impact on Rotem's financial results⁹.

⁷ 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.

⁸ 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 1B, to the interim financial statements.

⁹ 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.

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 in the period of the report and thereafter (Cont.)

6. Further to that stated in Section 8.13.6 to Part A of the Periodic Report for 2019 regarding the anticipated operation date of the Karish reservoir and possible delay of the said operation date, as is indicated from publications of Energean in June 2020, commercial operation of the Karish reservoir is expected to take place in the third quarter of 2021¹⁰.
7. 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 half of 2020 compared with the corresponding period 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.
8. In May 2020, a loan was repaid that was taken out by the Company in March 2020 from Bank Mizrahi Tefahot Ltd., in the amount of NIS 50 million¹¹. The loan bore interest at the annual rate of prime + 1.25%.
9. 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.
10. 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 below and Note 4B(6) to the interim financial statements.
11. Further to that stated in Section 2.3.3 to Part A of the Periodic Report for 2019, as at the date of the Report the Company entered into binding agreements with customers that are connected to the electricity distribution network that include construction and operation of a facility for generation of energy on the customers' yards (premises), in the aggregate scope of about 33.5 megawatts, along with arrangements for sale of the energy to the customers. For additional details – see Note 6B(5) to the interim financial statements.

¹⁰ The said operation date constitutes "forward-looking" information as defined in the Securities Law, regarding which there is no certainty it will be realized. The actual operation date could be different than that stated due to, among other things, factors that are not under the Company's control. <https://maya.tase.co.il/reports/details/1300140/2/0>.

¹¹ 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.

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 in the period of the report and thereafter (Cont.)

12. Further to that stated in Section 7.8.5 to Part A of the Periodic Report for 2019 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"). On June 10, 2020, the Company received notification whereby the Tenders Committee declared that the bid of a third party is the winning bid in the Tender, and that the Company was declared as the "second qualifier" in accordance with the Tender documents. Pursuant to the Tender documents, in a case of cancellation of the declaration of the winner or cancellation of the undertaking in a contract with it, the Tenders Committee will be permitted to declare the second qualifier as the winner, subject to certain conditions.
13. 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 desalination facility on the "Sorek B" site ("the Desalination Facility"), whereby 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 Desalination Facility ("the Power Plant"), and will supply the energy required for the Desalination Facility for a period of 25 years¹² from the operation date of the Desalination Facility ("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)¹³.
14. Further to that stated in Section 8.2.6B of Part A of the Periodic Report regarding National Infrastructure Plan 94 (NIS 94), a plan for construction of a power plant for generation of electricity using natural gas adjacent to Rotem ("the Plan"), on July 13, 2020 the National Planning and Building Board for National Infrastructures discussed the Plan and approved transfer of the Plan for comments of the District Planning Boards and objections of the public.

¹² At the end of the said period, ownership of the Power Plant will be transferred to the State. As at the date of the report, a BOT agreement was signed between IDE and the State of Israel.

¹³ 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. **It is emphasized 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 delays 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) in the Periodic Report for 2019.

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 June 30, 2020 (in thousands of NIS)

Category	6/30/2020	12/31/2019	Analysis
Current Assets			
Cash and cash equivalents	503,782	384,748	<p>Most of the increase stems from issuance of debentures (Series B) (net of issuance expenses), in the amount of about NIS 396 million, and increase in the cash balances as a result of the Company's current operating activities, in the amount of about NIS 179 million, and withdrawals under the financing agreements for projects, in the amount of about NIS 89 million.</p> <p>This increase was partly offset by investments in the Zomet project, in the amount of about NIS 276 million, debt payments, in the amount of about NIS 121 million, and investments in property, plant and equipment in Rotem, in the amount of about NIS 50 million.</p> <p>For further information – see the Company's condensed consolidated interim statements of cash flows for the six-month period ended June 30, 2020 in the interim financial statements.</p>
Short-term deposits and restricted cash	56,317	115,765	<p>Most of the decrease, in the amount of about NIS 59 million, stems from a decrease in the deposit used for securing the Company's guarantee to invest shareholders' equity in Zomet. For additional details – Note 6B(10) to the interim financial statements.</p>
Trade receivables and accrued income	105,722	134,794	<p>Most of the decline stems from a decrease in accrued income in Rotem, in the amount of about NIS 33 million, primarily as a result of the seasonal impact on sales and reduction of the generation tariff component (as described in Note 6A to the interim financial statements).</p> <p>The decline was partly offset by an increase in accrued income in Hadera, in the amount of about NIS 10 million, mainly owing to generation of electricity during the test-run period of the Hadera Power Plant.</p>
Receivables and debit balances	53,162	69,975	<p>Most of the decrease stems from a decline in the balance receivable, net, from the Hadera construction contractor, in the amount of about NIS 20 million. For additional details – see Note 6D(4) to the interim financial statements.</p>
Short-term derivative financial instruments	612	188	
Total current assets	719,595	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 June 30, 2020 (in thousands of NIS) (Cont.)

Category	6/30/2020	12/31/2019	Analysis
Non-Current Assets			
Long-term deposits and restricted cash	342,435	266,803	Most of the increase stems from a deposit in collaterals, in the aggregate amount of about NIS 55 million, in order to secure bank guarantees, as described in Note 6B(10) to the interim financial statements. In addition, additional collaterals were provided in respect of interest SWAP contracts (as described in Notes 22D and 25N to the Annual Consolidated Financial Statements and in Note 6B(9) to the interim financial statements), in the amount of about NIS 20 million.
Long-term prepaid expenses	128,427	104,317	Most of the increase stems from an increase in deferred expenses as part of Zomet's financing agreement, in the amount of about NIS 22 million.
Deferred tax assets, net	7,796	5,240	Most of the increase stems from an increase in the losses for tax purposes in Hadera.
Long-term derivative financial instruments	4,405	7,077	The decrease stems from a change in the fair value of interest SWAP contracts (as described in Notes 22D and 25N to the Annual Consolidated Financial Statements and in Note 6B(9) to the interim financial statements). The decrease was partly offset by an increase deriving from a change in the fair value of "call" options in Zomet, in the amount of about NIS 4 million.
Property, plant and equipment	2,458,322	2,344,920	Most of the increase stems from investment in the Hadera Power Plant under construction, in the amount of about NIS 56 million, as well as from investments in the Zomet project, in the amount of about NIS 95 million (including payment in respect of acquisition of shares, as described in Note 6C(2) 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 45 million.
Right-of-use asset	292,773	56,832	Most of the increase derives from allotment of land to Zomet (for additional details – see Note 6C(6) to the interim financial statements).
Intangible assets	4,310	4,259	
Total non-current assets	3,238,468	2,789,448	
Total assets	3,958,063	2,494,918	

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 June 30, 2020 (in thousands of NIS) (Cont.)

Category	6/30/2020	12/31/2019	Analysis
Current Liabilities			
Current maturities	161,833	157,147	Most of the increase stems from update of the current maturities of loans and debentures in accordance with the repayment schedule, in the amount of about NIS 82 million. The increase was partly offset by repayment of the senior debt in Rotem and Hadera, in the amount of about NIS 62 million, and repayment of the Company's debentures (Series A), in the amount of about NIS 16 million.
Trade payables	137,537	123,812	Most of the increase derives from an increase in the balance Israel Electric Company, in the amount of about NIS 30 million, due to timing differences. The increase was partly offset by a decline in the balance of suppliers with respect to acquisition of fuels, in the amount of about NIS 14 million.
Payables and other credit balances	40,679	41,641	Most of the decrease derives from a decrease in the liabilities to employees in respect of salaries, in the amount of about NIS 7 million, and a decrease in the balance of payables in respect of a transaction for acquisition of shares of Zomet, in the amount of about NIS 5 million. This decrease was partly offset by an increase in accrued expenses, in the amount of about NIS 9 million, and from a balance of interest payable, in the amount of about NIS 2 million.
Short-term derivative financial instruments	22,566	21,678	
Current maturities of long-term lease liabilities	54,216	2,400	Most of the increase stems from the balance the capitalization fees relating to Zomet's land that has not yet been paid, in the amount of about NIS 52 million. For additional details – see Note 6C(6) to the interim financial statements.
Current taxes payable	15,397	–	The increase stems from a liability for taxes on income in Rotem.
Total current liabilities	432,228	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 June 30, 2020 (in thousands of NIS) (Cont.)

Category	6/30/2020	12/31/2019	Analysis
Non-Current Liabilities			
Long-term loans from banks and financial institutions	1,756,654	1,740,607	Most of the increase stems in the loans derives from a withdrawals under the financing agreements of Hadera and Zomet, in the amounts of about NIS 64 million and about NIS 25 million, respectively. On the other hand, there was a decrease deriving from update of the current maturities of loans, in the amount of about NIS 61 million, and a decline in the linkage differences in respect of the senior debt of Hadera and Rotem, in the amount of about NIS 11 million.
Debentures	627,243	252,309	The increase stems from issuance of the Company's debentures (Series B), amount of about NIS 396 million (net of issuance expenses). For additional details – see Note 6B(4) to the interim financial statements. On the other hand, there was a decrease stemming from update of the current maturities of the debentures, in the amount of about NIS 21 million.
Long-term lease liabilities	15,520	15,960	
Long-term derivative financial instruments	28,994		– The increase stems from change in the fair value of interest SWAP contracts, as described in Notes 22D and 25N to the annual consolidated financial statements and in Note 6B(9) to the interim financial statements.
Other long-term liabilities	2,375	2,307	
Employee benefits	177	177	
Liabilities for deferred taxes, net	284,247	281,105	Most of the increase stems from update of the deferred taxes as a result of the income for the period in Rotem.
Total non-current liabilities	2,715,210	2,292,465	
Total liabilities	3,147,438	2,639,143	

3. Results of operations for the six- month and three- month periods ended June 30, 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 six- month and three- month periods ended June 30, 2020 (in thousands of NIS) (Cont.)

Category	For the Six Months Ended		Analysis
	6/30/2020	6/30/2019	
Sales	577,467	658,614	For detail regarding the change in the sales – see Section 6, below.
Cost of sales (less depreciation and amortization)	413,034	454,232	For detail regarding the change in the cost of sales – see Section 7, below.
Depreciation and amortization	47,222	54,241	Most of the decrease, in the amount of about NIS 10 million, 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 Annual Consolidated Financial Statements) and from the first quarter of 2020 (for details – see Note 1B to the interim financial statements). This decrease was partly offset by a write off, in the amount of about NIS 3 million, in respect of certain components in the Rotem Power Plant, which were removed from service and were replaced.
Gross profit	117,211	150,141	
Administrative and general expenses	26,003	28,508	Most of the decrease derives from a decline in the expenses for legal and professional services, mainly due to completion of the Tamar arbitration.
Business development expenses	6,269	3,020	Most of the increase stems from an increase in the scope of the development activities.
Other income, net	200	4,483	In the first half of 2019, other income represents income from sale of gas, net, in the amount of about NIS 2 million, and income from sale of a subsidiary, in the amount of about NIS 2 million.
Operating income	85,139	123,096	
Financing expenses, net	47,145	53,277	Most of the decrease stems from a decrease in the financing expenses on the senior debt in Rotem, in the amount of about NIS 6 million (net of the results of the hedge in respect of linkage to the CPI).
Income before taxes on income	37,994	69,819	
Taxes on income	16,186	18,060	The decrease derives from lower income in the first half of 2020 compared with the corresponding period last year.
Income for the period	21,808	51,759	
Allocated to:			
The Company's shareholders	9,451	39,835	
Holders of non-controlling interests	12,357	11,924	

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 six - month and three - month periods ended June 30, 2020 (in thousands of NIS) (Cont.)

Category	For the Three Months Ended		Analysis
	6/30/2020	6/30/2019	
Sales	264,916	304,915	For detail regarding the change in the sales – see Section 6, below.
Cost of sales (less depreciation and amortization)	207,905	230,682	For detail regarding the change in the cost of sales – see Section 7, below.
Depreciation and amortization	24,386	27,411	Most of the decrease, in the amount of about NIS 5 million, derives from a change in the estimated useful life of various components in Rotem Power Plant, commencing from the fourth quarter of 2019 (for additional details – see Note 2E to the Annual Consolidated Financial Statements) and from the first quarter of 2020 (for additional details – see Note 1B to the interim financial statements). The decrease was partly offset by a write off, in the amount of about NIS 3 million, in respect of certain components in Rotem Power Plant that were removed from services and were replaced.
Gross profit	32,625	46,822	
Administrative and general expenses	13,315	13,063	
Business development expenses	3,904	1,512	Most of the increase stems from an increase in the scope of the development activities.
Other income, net	130	3,482	In the second quarter of 2019, other income represents income from sale of gas, net, in the amount of about NIS 1 million, and income from sale of a subsidiary, in the amount of about NIS 2 million.
Operating income	15,536	35,729	
Financing expenses, net	31,432	34,414	Most of the decrease stems from a decrease in the financing expenses on the senior debt in Rotem, in the amount of about NIS 11 million (net of the results of the hedge in respect of linkage to the CPI). This decrease was partly offset mainly by impact of the changes in the shekel/dollar exchange rate, in the amount of about NIS 6 million.
Income (loss) before taxes on income	(15,896)	1,315	
Taxes on income	259	465	
Income (loss) for the period	(16,155)	850	
Allocated to:			
The Company's shareholders	(18,310)	224	
Holders of non-controlling interests	2,155	626	

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 Six Months Ended June 30		For the Three Months Ended June 30	
	2020	2019	2020	2019
Sales	577,467	658,614	264,916	304,915
Cost of sales (less depreciation and amortization)	(413,034)	(454,232)	(207,905)	(230,682)
Administrative and general expenses (less depreciation and amortization)	(24,632)	(27,549)	(12,613)	(12,718)
Business development expenses	(6,269)	(3,020)	(3,904)	(1,512)
Other income	200	4,483	130	3,482
EBITDA	133,732	178,296	40,624	63,485

OPC Energy Ltd.
Report of the Board of Directors

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

5. Energy

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

	For the Six Months Ended		For the Three Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Sales to private customers	1,857	1,991	957	1,022
Sales to the System Administrator	108	48	11	5
Total sales	1,965	2,039	968	1,027

	For the Six Months Ended		For the Three Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Generation of electricity and purchases due to load reduction	1,910	1,932	923	948
Purchase of electricity from the System Administrator	55	107	45	79
Total generation of electricity and purchases from the System Administrator	1,965	2,039	968	1,027

	For the Six Months Ended		For the Three Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
In Thousands of Tons				
Net generation of electricity and purchases due to load reduction in Rotem	1,866	1,890	901	929
Net generation in Hadera	44	42	22	19
Total	1,910	1,932	923	948

	For the Six Months Ended		For the Three Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
In Thousands of Tons				
Generation of steam	385	388	175	188

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 Six Months Ended		For the Three Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Revenues from sale of energy generated to private customers and energy purchased due to load reduction (1)	405,340	463,233	180,821	204,165
Revenues from sale of energy purchased at the TAOZ to private customers (2)	11,709	24,912	10,576	18,573
Revenues from private customers in respect of infrastructures services (3)	118,541	134,035	58,669	66,656
Revenues from sale of energy to the System Administrator (4)	12,170	5,622	1,274	550
Revenues from sale of steam (5)	29,707	30,812	13,576	14,971
Total revenues	577,467	658,614	264,916	304,915

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 from the tariff. 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.

In accordance with the instructions of the System Administrator, Rotem was required to reduce the load in the second quarter of 2020. The deficient electricity, which is needed for supply of the consumption of customers, was purchased from Israel Electric Company at Rotem's generation cost.

For the six-month periods ended June 30, 2020 and 2019:

- (1) Most of the decrease stems from a decrease in the generation component tariff, in the amount of about NIS 36 million, a decline in the availability of the Rotem Power Plant, in the amount of about NIS 12 million, resulting from planned technical examinations of the plant during the second quarter of 2020, and a decrease in the total consumption of the customers, in the amount of about NIS 8 million, mainly due to a change in the consumption profile of customers in the desalination area, as well as a result of unplanned maintenance of a customer in the desalination area during January and February of 2020. It is noted that the impact of the Coronavirus Crisis reduced the Company's revenues, in the amount of about NIS 2 million – this being in light of a decline in customer consumption.
- (2) Most of the decrease in revenues from sale of energy purchased stems from a decline in the scope of the consumption of the customers.
- (3) Most of the decrease stems from a decline in the infrastructure tariffs in 2020, in the amount of about NIS 8 million, and from a decline in the scope of the consumption of the customers, in the amount of about NIS 7 million.
- (4) Most of the increase stems from an increase in the scope of the energy sold to the System Administrator.
- (5) Most of the decrease stems from a decline in the total sales of steam along with a decrease in the steam price deriving from a decrease in the price of gas.

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

6. Revenues (Cont.)

For the three-month periods ended June 30, 2020 and 2019:

- (1) Most of the decrease stems from a decrease in the generation component tariff, in the amount of about NIS 16 million and a decline in availability due to planned technical examinations of the Rotem Power Plant, in the amount of about NIS 12 million. On the other hand, there was an increase, in the amount of about NIS 5 million, in the sale of energy to customers, stemming from a higher average sale price.
- (2) Most of the decrease in the sale of energy purchased stems from a decrease in the scope of the consumption of customers.
- (3) Most of the decrease stems from a decline in the infrastructure tariffs in 2020, in the amount of about NIS 5 million, and from a decline in the scope of the consumption of the customers, in the amount of about NIS 3 million.
- (4) The increase stems from an increase in the scope of the energy sold to the System Administrator.
- (5) Most of the decrease stems from a decrease in the total sales of steam along with a decrease in the steam price deriving from a decrease in the price of gas.

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 Six Months Ended		For the Three Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Gas and diesel fuel (1)	224,569	250,749	101,884	123,910
Expenses to IEC for infrastructure services and purchase of electricity (2)	145,538	158,947	84,533	85,229
Gas transmission costs	15,870	16,002	7,833	7,956
Operating expenses (3)	27,057	28,534	13,655	13,587
Total cost of sales (net of depreciation and amortization)	413,034	454,232	207,905	230,682

	For the Six Months Ended		For the Three Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Gas consumption (MMBTU)	13,279,226	14,069,890	6,054,354	6,933,295
Average gas price (in dollars)	4.70	4.79	4.70	4.80

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

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

For the six-month periods ended June 30, 2020 and 2019:

- (1) Most of the decrease derives from a decline in the generation of electricity, in the amount of about NIS 18 million, due to load reductions at and planned technical examinations at the Rotem Power Plant, and as a result of a decline in the gas price, in the amount of about NIS 8 million, as a result of a decrease of the generation component and the dollar exchange rate.
- (2) Most of the decrease derives from a decline in the infrastructure tariffs, in the amount of about NIS 8 million, and a decline in sales of energy generated, in the amount of about NIS 7 million. On the other hand, there was an increase in the scope of purchases of electricity from Israel Electric Company, in the aggregate amount of about NIS 2 million, mainly due to the instruction of the System Administrator to reduce the load at the Rotem Power Plant in the first half of 2020.
- (3) Most of the decrease stems a decline in the wage costs.

For the three-month periods ended June 30, 2020 and 2019:

- (1) Most of the decrease derives from a decline in the generation due to load reductions at and technical examinations at the Rotem Power Plant, in the amount of about NIS 18 million, and as a result of a decline in the gas price, in the amount of about NIS 4 million, mainly as a result of a decrease of the generation component and the dollar exchange rate.
- (2) Most of the decrease is a result of a decline in the infrastructure service costs, in the amount of about NIS 8 million, due to a decrease in the infrastructure tariffs. On the other hand, there was an increase in the scope of purchases of electricity from Israel Electric Company, in the aggregate amount of about NIS 7 million, mainly in light of the instruction of the System Administrator to reduce the load at the Rotem Power Plant in the second quarter of 2020.

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 Six Months Ended		Analysis
	6/30/2020	6/30/2019	
Cash flows provided by operating activities	177,758	265,122	Most of the decrease stems from a decrease in the current operating activities (mainly in light of lower income) in the amount of about NIS 59 million, and a decline in working capital, in the amount of about NIS 33 million.
Cash flows used in investing activities	(342,383)	(211,054)	Most of the increase derives from higher investments in the Zomet project, in the amount of about NIS 259 million. This increase was partly offset by a decrease in deposits in restricted cash, in the amount of about NIS 70 million, and withdrawals from short-term restricted cash, in the amount of about NIS 60 million.
Cash flows provided by (used in) financing activities	285,326	(5,051)	Most of the increase stems from issuance of debentures (Series B), in the amount of about NIS 396 million (net of issuance expenses) and withdrawals in the framework of the financing agreements for the Zomet project and the Hadera project, in the amount of about NIS 89 million. In addition, in the first half of 2019, the Company distributed a dividend, in the amount of about NIS 36 million. This increase was partly offset by an increase in current repayments of loans from banks and others, in the amount of about NIS 39 million, payment in respect of acquisition of non-controlling interests in Zomet, in the amount of about NIS 26 million, payments of deferred expenses in the framework of Zomet's financing agreement, in the amount of about NIS 16 million, and payments in respect of CPI hedging transactions, in the amount of about NIS 11 million, in the first half of 2020. Furthermore, in the first half of 2019, the Company issued shares, in exchange for a net consideration of about NIS 119 million.

As at June 30, 2020, there are no warning signs in accordance with Regulation 10(B)(14) of the Reporting Regulations that require publication of a "forecasted cash flow" statement by the Company.

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.)

Category	For the Three Months Ended		Analysis
	6/30/2020	6/30/2019	
Cash flows provided by operating activities	95,481	74,486	Most of the increase stems from an increase in the net working capital, in the amount of about NIS 55 million (mainly due to lower payments deriving from timing differences). On the other hand, there was a decrease in the current operating activities, in the amount of about NIS 34 million, mainly as a result of lower income.
Cash flows used in investing activities	(32,848)	(166,355)	Most of the decrease derives from higher deposits in the corresponding period last year: in short-term deposits, in the amount of about NIS 94 million, and in restricted cash, in the amount of about NIS 39 million.
Cash flows provided by financing activities	162,860	21,969	<p>Most of the increase stems from issuance of debentures (Series B), in the amount of about NIS 396 million (net of issuance expenses) and withdrawals in the framework of the financing agreement for the Hadera project, in the amount of about NIS 64 million. In addition, in the second quarter of 2019, the Group paid dividends (including to holders of non-controlling interests), in the amount of about NIS 54 million.</p> <p>This increase was partly offset by repayment of short-term loans, in the amount of about NIS 219 million, and an increase in current repayments of loans from banks and others, in the amount of about NIS 17 million. Furthermore, in the second quarter of 2019, the Company issued shares, in exchange for a net consideration of about NIS 119 million.</p>

As at June 30, 2020, there are no warning signs in accordance with Regulation 10(B)(14) of the Reporting Regulations that require publication of a "forecasted cash flow" statement by the Company.

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 debt service reserves, as at June 30, 2020 (in thousands of NIS):

	Rotem	Hadera	Solo	Zomet	Others	Consolidated
Debt (including accrued interest)	1,142,330	715,226	665,583	24,669	1,346	2,549,154
Cash and cash equivalents	135,311	54,175	309,476	4,252	568	503,782
Debt service reserves (out of the restricted cash)*	137,310	–	67,444	–	–	204,754

- Rotem repaid the amount of about NIS 46 million (relating to principal only) of its loans.
- Hadera withdrew the amount of about NIS 64 million from the long-term credit framework in accordance with its financing agreement and repaid the amount of about NIS 16 million (relating to principal only) of its loans.
- Zomet withdrew the amount of about NIS 25 million from the long-term loans framework, in accordance with its financing agreement. For additional details – see Note 6C(3) to the interim financial statements.
- The Company repaid about NIS 16 million (relating to principal only) from the debentures (Series A).
- In April 2020, the Company issued debentures (Series B) in the amount of NIS 400 million par value. For additional details – see Note 6B(4) to the interim financial statements.

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

	Rotem	Hadera	Solo	Zomet	Others	Consolidated
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 debt service reserves, as at June 30, 2019 (in thousands of NIS):

	Rotem	Hadera	Solo	Zomet	Others	Consolidated
Debt (including accrued interest)	1,255,118	663,109	286,745	–	1,222	2,206,194
Cash and cash equivalents and short-term deposits	140,865	34,017	396,048	4,256	1,764	576,950
Debt service reserves (out of the restricted cash)*	132,198	–	54,064	–	–	186,262

* Including funds used for guaranteeing the debt.

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 the financial covenants for violation, based on the actual results of operations (for significant loans)¹⁴:

	As at June 30, 2020
<u>Covenants applicable to the Company by the trust certificate for the Company's debentures (Series A)</u>	
The historical debt coverage ratio, as defined in the trust certificate, may not drop below 1:1.20	1:22.4
The Company's shareholders' equity, as defined in the trust certificate, may not drop below NIS 80 million	NIS 752 million
The Company's shareholders' equity to the total assets, as defined in the trust certificate, may not drop below 12.5%	51%
<u>Covenants applicable to the Company by the trust certificate for the Company's debentures (Series B)</u>	
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	3.47
Minimum shareholders' equity of NIS 250 million	NIS 752 million
A ratio of shareholders' equity to total assets at a rate of not less than 17%	51%
Up to the commercial operation date of Hadera, the cash balance may not fall below NIS 100 million or a bank guarantee in the amount of NIS 50 million.	A bank guarantee in the amount of NIS 50 million was provided

¹⁴ For a description of the financial covenants relating to the significant loans of the Company and the subsidiaries – see Section 10.3 pf Part A of the Periodic Report.

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

Other Information

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

For details – see Part 1 above and Notes 1, 6 and 7 to the interim financial statements.

10. Outstanding Liabilities by Maturity Dates

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

11. 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 million par value
Nominal value on the date of the report	NIS 400 million par value
Nominal value after revaluation based on the linkage terms	NIS 400 million par value
Amount of the interest accrued as included in the financial statements as at June 30, 2020	About NIS 2 million.
The fair value as included in the financial statements as at June 30, 2020	About NIS 428 million.
Stock market value on June 30, 2020	About NIS 428 million.
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.

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

12. Corporate Governance

Contributions

As part of the Company's policies with respect to contributions, in the period of the Report, the following contributions were made:

Recipient of the Contribution	Amount of the Contribution as at June 30, 2020 (NIS '000)	Relationship of the Recipient of the Contribution
Password for Every Student	1,000	Password for Every Student also receives contributions from entities related to indirect interested parties of the Company. The Company's CFO is a representative on the project's steering committee without remuneration.
Nirim Society	300	–
Rachashei Lev Society	138	–
Technoda Hadera Givat Olga Society	150	–
Nakhakh – Giving as a Way of Life Society	70	–
Running in order to Give Society	50	For the sake of good order, it is noted that a relative of the Company's CEO serves as CEO of the Society without remuneration.

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.

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.

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.)**

13.2 **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 11 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 Desalination 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 Desalination Facility – see Section 13 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 and notification delivered to the Company on June 10, 2020 whereby the Tenders Committee declared that the bid of a third party is the winning bid in the tender, and that the Company was declared the "second qualifier" in accordance with the tender documents – see the Company's Immediate Reports dated May 20, 2020 (Reference No.: 2020-01-044872) and dated June 11, 2020 (Reference No.: 2020-01-052465), and Section 12 to the Report of the Board of Directors.

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 grant a permanent electricity generation license and a supply license to Hadera and approval of the Minister of Energy – see Section 3 to the introduction to the Report of the Board of Directors and the Company's Immediate Reports dated July 1, 2020 (Reference No.: 2020-01-069750) and July 2, 2020 (Reference No.: 2020-01-070587).

13.6 **Section 8.2.6B (Initiations Activities – NIS 94) to Part A to the Periodic Report**

For details regarding transfer of National Infrastructure Plan 94 (NIS 94) for comments to the District Boards and for objections of the public – see Section 14 of the Introduction to the Report of the Board of Directors.

13.7 **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.

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.)

13.8 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 6C(6) 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 6C(6) to the interim financial statements.

13.9 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

- A. 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).
- B. For details regarding the expectation of Energean with respect to its commercial operation date – see Section 6 to the introduction to the Report of the Board of Directors.

13.10 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).

13.11 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 9.6 (additional information regarding information provided to the Company's officers and senior management employees) to Part A to the Periodic Report

On May 12, 2020, the Company's Board of Directors approved a private issuance of 99,228 options (unregistered) and 28,732 Restricted Share Units (RSUs) to Mr. Yoav Gurly, the Company's Deputy CEO of Operations. On June 4, 2020, approval was received from the Stock Exchange to register for trading 99,228 shares that will derive from exercise of the said options and 28,732 shares that will derive from vesting of the said RSUs, and the options and RSUs were issued to Mr. Gurly on June 7, 2020. For additional details – see the Company's Immediate Reports dated May 12, 2020 (Reference No.: 2020-01-042520) and June 8, 2020 (Reference Nos.: 2020-01-051145 and 2020-01-051148) and Note 6B(8) to the interim financial statements.

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.)

13.12 Section 9.6 (additional information regarding information provided to the Company's officers and senior management employees) to Part A to the Periodic Report (Cont.)

On July 22, 2020, the General Meeting of the Company's shareholders approved the reappointment as Company directors of Messrs. Yair Caspi and Antoine Bunyar, the appointment of Messrs. Robert Rosen and Javier Garcia Burgas as Company directors, appointment of Mr. Moshe Lahmani as an independent director of the Company and appointment of Messrs. Joseph Tena and Michal Marom Brickman as external directors of the Company for an additional period of service, who will be entitled to remuneration as detailed in the Immediate Report regarding summoning of a General Meeting of the Company's shareholders dated June 18, 2020 (Reference No.: 2020-01-054775).

13.13 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 and which was repaid in April 2020 – see that stated in Section 10 to Part A to the Periodic Report and Notes 6B(2) and 6B(3) to the interim financial statements.

13.14 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.: 2020-01-035220).
- 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).

13.15 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 6B(10) to the interim financial statements.

13.16 Section 10.6.3 (guarantees provided by Hadera) to Part A to the Periodic Report

For details regarding guarantees provided by Hadera in connection with the commercial operation of the Hadera Power Plant – see Note 6D(1) to the interim financial statements.

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 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). For details regarding reconfirmation of a rating of ilA- by Maalot for the Company's debentures (Series A) and (Series B) – see the Company's Immediate Report dated August 5, 2020 (Reference No.: 2020-01-084864).

13.18 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

- A. Commencing from April 27, 2020, trading of the Company's debentures (Series B) started. For additional details – see the Company's Immediate Report dated April 26, 2020 (Reference No.: 2020-01-036967).
- B. For details regarding 44,899 ordinary shares that the Company issued to senior officers on July 10, 2020 as a result of vesting of Restricted Share Units (RSUs) – see the Company's Immediate Reports dated July 12, 2020 (Reference Nos.: 2020-01-073773 and 2020-01-073776).
- C. On July 30, 2020, the Company published a shelf prospectus bearing the date July 31, 2020. For details – see the shelf prospectus as published by the Company on July 30, 2020 (Reference No.: 2020-01-081441).

13.19 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 June 30, 2020 – see the Company's Immediate Report dated July 6, 2020 (Reference No.: 2020-01-072012). 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 July 12, 2020 (Reference No.: 2020-01-073776).

13.20 Regulation 26 (Company directors) to Part D to the Periodic Report

On July 22, 2020, Messrs. Robert Rosen (director), Javier Garcia Burgas (director) and Moshe Lahmani (independent director) commenced serving as Company directors. For details regarding the above-mentioned directors – see the Company's Immediate Reports dated July 22, 2020 (Reference Nos.: 2020-01-077862, 2020-01-077856 and 2020-01-077859, respectively).

To the details regarding Mr. Yair Caspi it is added that he serves a director of Oil Refineries Ltd. (a company considered related to the Company's controlling shareholders).

13.21 Regulation 29(C) (decisions of extraordinary general meeting) and Regulation 29A (Company decisions) to Part D to the Periodic Report

On July 22, 2020, the Annual General Meeting and Extraordinary General Meeting of the Company's shareholders discussed the Periodic Report for 2019, and made the following decisions: (1) reappointment of the Officer of KPMG Somekh Chaikin as the Company's auditing CPAs; (2) reappointment of directors serving in the Company, Messrs. Avisar Paz, Yair Caspi and Antoine Boyner; (3) appointment of Messrs. Robert Rosen and Javier Garcia Burgas as Company directors; (4) appointment of Mr. Moshe Lahmani as an independent director of the Company; (5) appointment of Mr. Joseph Tene as an external director of the Company for an additional period, commencing from July 1, 2020; (6) appointment of Ms. Michal Marom Brickman as an external director of the Company for an additional period, commencing from July 14, 2020; (7) granting of exemption and indemnification certificates to directors serving as officers of the controlling shareholder (Kenon) and/or a company relating thereto and regarding which the controlling shareholder could be considered as having a personal interest in the granting thereof, Messrs. Yair Caspi, Antoine Boyner and Robert Rosen subject to approval of their appointment or reappointment, as applicable. For additional details – see the Company's Immediate Reports dated June 18, 2020 (Reference No.: 2020-01-054775) and July 22, 2020 (Reference No.: 2020-01-077853).

13.22 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 July 12, 2020 (Reference No.: 2020-01-073773).

Avisar Paz

Chairman of the Board of Directors

Giora Almogy

CEO

Date: August 17, 2020

OPC Energy Ltd.

Condensed Consolidated Interim Financial Statements

At June 30, 2020

(Unaudited)

OPC Energy Ltd.
Condensed Consolidated Interim Financial Statements
At June 30, 2020
Unaudited

Contents

	<u>Page</u>
<u>Auditors' Review Report</u>	2
<u>Condensed Consolidated Interim Statements of Financial Position</u>	3 – 4
<u>Condensed Consolidated Interim Statements of Income</u>	5
<u>Condensed Consolidated Interim Statements of Comprehensive Income</u>	6
<u>Condensed Consolidated Interim Statements of Changes in Equity</u>	7 – 9
<u>Condensed Consolidated Interim Statements of Cash Flows</u>	10 – 12
<u>Notes to the Condensed Consolidated Interim Financial Statements</u>	13 – 34

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 June 30, 2020 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month and three-month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of financial information for these interim periods in accordance with IAS 34 “Financial Reporting for Interim Periods”, and are also responsible for the preparation of financial information for these interim periods in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

Scope of the Review

We conducted our review in accordance with Review Standard (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.)**

August 17, 2020

OPC Energy Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At June 30		At December 31
	2020	2019	2019
	(Unaudited)	(Audited)	
In Thousands of New Israeli Shekels			
Current Assets			
Cash and cash equivalents	503,782	378,885	384,748
Short-term deposits and restricted cash	56,317	277,583	115,765
Trade receivables and accrued income	105,722	111,530	134,794
Other receivables and debit balances	53,162	54,221	69,975
Short-term derivative financial instruments	612	—	188
Total current assets	719,595	822,219	705,470
Non- Current Assets			
Long-term deposits and restricted cash	342,435	234,423	266,803
Long-term prepaid expenses	128,427	88,025	104,317
Deferred tax assets, net	7,796	3,547	5,240
Long-term derivative financial instruments	4,405	15,740	7,077
Property, plant and equipment	2,458,322	*2,367,554	2,344,920
Right-of-use assets	292,773	*60,274	56,832
Intangible assets	4,310	4,098	4,259
Total non- current assets	3,238,468	2,773,661	2,789,448
Total assets	3,958,063	3,595,880	3,494,918

* 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 June 30		At December 31
	2020	2019	2019
	(Unaudited)	(Audited)	(Audited)
In Thousands of New Israeli Shekels			
Current Liabilities			
Current maturities	161,833	128,734	157,147
Trade payables	137,537	214,516	123,812
Other payables and credit balances	40,679	31,847	41,641
Short-term derivative financial instruments	22,566	12,227	21,678
Current maturities of lease liabilities	54,216	2,378	2,400
Current tax liabilities	15,397	–	–
Total current liabilities	<u>432,228</u>	<u>389,702</u>	<u>346,678</u>
Non- Current Liabilities			
Long-term loans from banks and others	1,756,654	1,807,784	1,740,607
Debentures	627,243	267,593	252,309
Long-term lease liabilities	15,520	16,513	15,960
Long-term derivative financial instruments	28,994	–	–
Other long-term liabilities	2,375	1,222	2,307
Employee benefits	177	177	177
Liabilities for deferred taxes, net	284,247	247,283	281,105
Total non-current liabilities	<u>2,715,210</u>	<u>2,340,572</u>	<u>2,292,465</u>
Total liabilities	<u>3,147,438</u>	<u>2,730,274</u>	<u>2,639,143</u>
Equity			
Share capital	1,433	1,371	1,433
Premium on shares	635,283	479,398	635,283
Capital reserves	20,432	74,379	65,384
Retained earnings	94,677	234,566	85,226
Total equity attributable to the Company's owners	<u>751,825</u>	<u>789,714</u>	<u>787,326</u>
Non-controlling interests	<u>58,800</u>	<u>75,892</u>	<u>68,449</u>
Total equity	<u>810,625</u>	<u>865,606</u>	<u>855,775</u>
Total liabilities and equity	<u>3,958,063</u>	<u>3,595,880</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: August 17, 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				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
In Thousands of New Israeli Shekels					
Sales	577,467	658,614	264,916	304,915	1,329,988
Cost of sales (net of depreciation and amortization)	413,034	454,232	207,905	230,682	910,347
Depreciation and amortization	47,222	54,241	24,386	27,411	110,997
Gross profit	117,211	150,141	32,625	46,822	308,644
Administrative and general expenses*	26,003	28,508	13,315	13,063	54,805
Business development expenses*	6,269	3,020	3,904	1,512	6,938
Other income, net	200	4,483	130	3,482	21,409
Operating income	85,139	123,096	15,536	35,729	268,310
Financing expenses	48,863	55,469	31,790	35,852	100,028
Financing income	1,718	2,192	358	1,438	6,879
Financing expenses, net	47,145	53,277	31,432	34,414	93,149
Income (loss) before taxes on income	37,994	69,819	(15,896)	1,315	175,161
Taxes on income	16,186	18,060	259	465	50,425
Income (loss) for the period	21,808	51,759	(16,155)	850	124,736
Income (loss) attributable to:					
The Company's owners	9,451	39,835	(18,310)	224	90,495
Non-controlling interests	12,357	11,924	2,155	626	34,241
Income (loss) for the period	21,808	51,759	(16,155)	850	124,736
Income (loss) per share attributable to the Company's owners					
Basic income (loss) per share (in NIS)	0.066	0.300	(0.128)	0.002	0.661
Diluted income (loss) per share (in NIS)	0.065	0.296	(0.128)	0.002	0.651

* Reclassified – see Note 2D.

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				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
In Thousands of New Israeli Shekels					
Income (loss) for the period	21,808	51,759	(16,155)	850	124,736
Components of other comprehensive income (loss) that after the initial recognition in the statement of comprehensive income were or will be transferred to the statement of income					
Effective portion of the change in the fair value of cash-flow hedges	(45,585)	512	(5,931)	2,113	(28,989)
Net change in fair value of derivative financial instruments used for hedging cash flows recorded to the cost of the hedged item	7,100	(2,322)	3,656	(2,251)	4,668
Net change in fair value of derivative financial instruments used to hedge cash flows transferred to the statement of income	12,801	(5,330)	5,100	(5,330)	9,778
Taxes in respect of items of other comprehensive income	205	412	377	28	615
Total other comprehensive income (loss) for the period, net of tax	(25,479)	(6,728)	3,202	(5,440)	(13,928)
Total comprehensive income (loss) for the period	(3,671)	45,031	(12,953)	(4,590)	110,808
Total comprehensive income (loss) attributable to:					
The Company's owners	(16,028)	33,107	(15,108)	(5,216)	76,567
Holders of non-controlling interests	12,357	11,924	2,155	626	34,241
Total comprehensive income (loss) for the period	(3,671)	45,031	(12,953)	(4,590)	110,808

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

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

Attributable to the owners of the Company										
	Share capital	Premium on shares	Capital reserve for transactions with non-controlling interests and in respect of merger	Hedging reserve	Capital reserve for transactions with shareholders	Capital reserve for share-based payments	Retained earnings	Total	Non-controlling interests	Total equity
(Unaudited)										
In Thousands of New Israeli Shekels										
For the six-month period ended June 30, 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	—	—	—	—	—	1,674	—	1,674	—	1,674
Dividends to holders of non-controlling interests	—	—	—	—	—	—	—	—	(22,000)	(22,000)
Other comprehensive loss for the period, net of tax	—	—	—	(25,479)	—	—	—	(25,479)	—	(25,479)
Income for the period	—	—	—	—	—	—	9,451	9,451	12,357	21,808
Balance at June 30, 2020	1,433	635,283	(24,657)	(38,956)	77,930	6,115	94,677	751,825	58,800	810,625
For the six-month period ended June 30, 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	52	118,393	—	—	—	—	—	118,445	—	118,445
Acquisition of non-controlling interests	—	—	(6,005)	—	—	—	—	(6,005)	5	(6,000)
Share-based payment	—	—	—	—	—	2,363	—	2,363	—	2,363
Dividends to the Company's shareholders	—	—	—	—	—	—	(36,000)	(36,000)	—	(36,000)
Dividends to holders of non-controlling interests	—	—	—	—	—	—	—	—	(17,600)	(17,600)
Elimination of non-controlling interests due to sale of subsidiary	—	—	—	—	—	—	—	—	1,083	1,083
Other comprehensive loss for the period, net of tax	—	—	—	(6,728)	—	—	—	(6,728)	—	(6,728)
Income for the period	—	—	—	—	—	—	39,835	39,835	11,924	51,759
Balance at June 30, 2019	1,371	479,398	(3,407)	(6,277)	77,930	6,133	234,566	789,714	75,892	865,606

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

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

Attributable to the owners of the Company										
	Share capital	Premium on shares	Capital reserve for transactions with non- controlling interests and in respect of merger	Hedging reserve	Capital reserve for transactions with shareholders	Capital reserve for share- based payments	Retained earnings	Total	Non- controlling interests	Total equity
(Unaudited)										
In Thousands of New Israeli Shekels										
For the three-month period ended June 30, 2020										
Balance at April 1, 2020	1,433	635,283	(24,657)	(42,158)	77,930	5,225	112,987	766,043	56,645	822,688
Share-based payment	—	—	—	—	—	890	—	890	—	890
Other comprehensive income for the period, net of tax	—	—	—	3,202	—	—	—	3,202	—	3,202
Income (loss) for the period	—	—	—	—	—	—	(18,310)	(18,310)	2,155	(16,155)
Balance at June 30, 2020	1,433	635,283	(24,657)	(38,956)	77,930	6,115	94,677	751,825	58,800	810,625
For the three-month period ended June 30, 2019										
Balance at April 1, 2019	1,319	361,005	1,097	(837)	77,930	4,969	234,342	679,825	74,179	754,004
Issuance of shares	52	118,393	—	—	—	—	—	118,445	—	118,445
Acquisition of non-controlling interests	—	—	(4,504)	—	—	—	—	(4,504)	4	(4,500)
Share-based payment	—	—	—	—	—	1,164	—	1,164	—	1,164
Elimination of non-controlling interests due to sale of subsidiary	—	—	—	—	—	—	—	—	1,083	1,083
Other comprehensive loss for the period, net of tax	—	—	—	(5,440)	—	—	—	(5,440)	—	(5,440)
Income for the period	—	—	—	—	—	—	224	224	626	850
Balance at June 30, 2019	1,371	479,398	(3,407)	(6,277)	77,930	6,133	234,566	789,714	75,892	865,606

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			
	(Audited)										
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	–	–	–	–	–	–	–	–	1,083	1,083	
Other comprehensive loss for the year, net of tax	–	–	–	(13,928)	–	–	–	(13,928)	–	(13,928)	
Income for the year	–	–	–	–	–	–	90,495	90,495	34,241	124,736	
Balance at December 31, 2019	1,433	635,283	(3,510)	(13,477)	77,930	4,441	85,226	787,326	68,449	855,775	

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				
	Six Months Ended		Three Months Ended		Year Ended
	June 30		June 30		
	2020	2019	2020	2019	2019
(Unaudited)					
In Thousands of New Israeli Shekels					
Cash flows from operating activities					
Income (loss) for the period	21,808	51,759	(16,155)	850	124,736
Adjustments:					
Depreciation and amortization and use of diesel oil	56,009	77,490	27,114	42,282	146,647
Financing expenses, net	47,145	53,277	31,432	34,414	93,149
Taxes on income	16,186	18,060	259	465	50,425
Gain on sale of subsidiary	–	(1,777)	–	(1,777)	(1,777)
Share-based payment transactions	1,674	2,363	890	1,164	3,468
Revaluation of derivatives	–	1,080	–	–	1,080
	<u>142,822</u>	<u>202,252</u>	<u>43,540</u>	<u>77,398</u>	<u>417,728</u>
Change in trade and other receivables	34,718	21,180	29,009	(2,310)	(3,015)
Change in trade and other payables	(27)	45,792	22,938	(542)	(18,965)
	<u>34,691</u>	<u>66,972</u>	<u>51,947</u>	<u>(2,852)</u>	<u>(21,980)</u>
Taxes refunded (paid), net	245	(4,102)	(6)	(60)	(4,189)
Net cash provided by operating activities	177,758	265,122	95,481	74,486	391,559

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				
	Six Months Ended		Three Months Ended		Year Ended
	June 30		June 30		
	2020	2019	2020	2019	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2019
	In Thousands of New Israeli Shekels				
Cash flows from investing activities					
Interest received	653	1,308	275	271	6,563
Short-term deposits and restricted cash, net	59,448	(94,844)	22,990	(93,952)	69,695
Withdrawals from long-term restricted cash	7,416	1,943	570	429	2,082
Deposits in long-term restricted cash	(84,352)	(54,214)	(19,600)	(37,978)	(91,000)
Deferred proceeds from sale of subsidiary less cash sold	341	2,731	–	2,731	3,158
Long-term advance deposits and prepaid expenses	(188,448)	–	(39)	–	(11,184)
Acquisition of property, plant and equipment	(88,467)	(66,218)	(37,460)	(37,528)	(121,681)
Deferred consideration in respect of acquisition of subsidiary – see Note 6C(2)	(46,648)	–	–	–	–
Acquisition of intangible assets	(412)	(433)	(412)	(151)	(919)
Receipts (payments) in respect of derivative financial instruments, net	(1,914)	(1,327)	828	(177)	(3,313)
Net cash used in investing activities	(342,383)	(211,054)	(32,848)	(166,355)	(146,599)

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				
	Six Months Ended		Three Months Ended		Year Ended
	June 30		June 30		
	2020	2019	2020	2019	December 31
	(Unaudited)	(Unaudited)			2019
	In Thousands of New Israeli Shekels				
Cash flows from financing activities					
Interest paid	(36,020)	(38,214)	(21,104)	(22,690)	(75,841)
Costs paid in advance in respect of taking out of loans	(19,962)	(1,170)	(6,739)	(186)	(6,535)
Dividends paid to the Company's shareholders	–	(36,000)	–	(36,000)	(236,000)
Dividends paid to holders of non-controlling interests	(22,000)	(17,600)	–	(17,600)	(47,600)
Investments of holders of non-controlling interests in the capital of a subsidiary	–	–	–	–	240
Proceeds from issuance of shares, less issuance expenses	–	118,562	–	118,562	271,595
Proceeds from issuance of debentures, less issuance expenses	395,820	–	395,820	–	–
Repayment of short-term loans from banks, net	–	–	(219,400)	–	–
Receipt of long-term loans from banks and others	89,000	–	64,000	–	–
Repayment of loans from banks and others	(69,016)	(20,148)	(28,556)	(10,219)	(67,682)
Repayment of debentures	(15,520)	(7,360)	(15,520)	(7,360)	(11,488)
Acquisition of non-controlling interests	(25,680)	(1,500)	–	(1,500)	(1,500)
Payment in respect of derivative financial instruments	(10,630)	(714)	(5,306)	(714)	(11,370)
Repayment of principal of lease liabilities	(666)	(907)	(335)	(324)	(1,562)
Net cash provided by (used in) financing activities	285,326	(5,051)	162,860	21,969	(187,743)
Increase (decrease) in cash and cash equivalents	120,701	49,017	225,493	(69,900)	57,217
Cash and cash equivalents at beginning of the period	384,748	329,950	279,404	448,687	329,950
Impact of changes in the currency exchange rate on the balances of cash and cash equivalents	(1,667)	(82)	(1,115)	98	(2,419)
Cash and cash equivalents at end of the period	503,782	378,885	503,782	378,885	384,748

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

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 the Hadera Power Plant which is owned by OPC Hadera Ltd. (hereinafter – “Hadera”), which runs using cogeneration technology and has an installed capacity of 144 MW (the commercial operation of which commenced subsequent to the date of the report, on July 1, 2020). For additional details regarding Hadera – see Note 6D. In addition, the Company holds Zomet Energy Ltd. (hereinafter – “Zomet”), which is in the construction stages of a power plant powered 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 power plant and in accordance with all law. For additional details regarding Zomet – see Note 6C.

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. As at the date of the report, the operations of the Company's active power plants, Rotem Power Plant and Hadera Power Plant are continuing 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 publication date of the Report, the Coronavirus crisis had not had a significant impact on the Company's results and activities.

Note 1 – General (Cont.)

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

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

- Due to the continued travel restrictions, both in Israel and worldwide, along with the need for equipment from overseas, the Company estimates that construction of the Zomet Power Plant could extend beyond the end of 2022, and as at the publication date of the report, completion is expected to take place in the first quarter of 2023. For details regarding revision of the Zomet Power Plant construction agreement – see Note 6C(4).
- 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 Roterm, is that the above-mentioned circumstances constitute “*force majeure*” pursuant to the provisions of the agreement with it. 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, as stated, did not have and are not expected to have a significant impact on the generation activities of the Rotem Power Plant and its results. 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 the period of the report amounted to about NIS 3 million.

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 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 as at and 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 August 17, 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.

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 components in light of postponement of the maintenance at Rotem Power Plant, and in Note 3.

D. Reclassification

In the period of the report, the Company classified business development expenses that were previously presented in the “administrative and general expenses” category in a separate category in the statement of income. Accordingly, the Company reclassified from the “administrative and general expenses” category to the “business development expenses” category the amounts of NIS 3,020 thousand, NIS 1,512 thousand and NIS 6,938 thousand for the six-month and three-month periods ended June 30, 2019 and for the year ended December 31, 2019, respectively.

Note 3 – Significant Accounting Policies

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

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.

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”) (Cont.)

The Amendments were 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. New standards and amendments to 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 its 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, 2023. 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.

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”.

Note 3 – Significant Accounting Policies (Cont.)

C. New standards and amendments to standards not yet adopted (Cont.)

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

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.

3. Amendment to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets – Contract Performance Costs”

Pursuant to the Amendment, when examining whether a contract is onerous, the costs for performance of the contract that are to be taken into account are costs relating directly to the contract, which include the following costs:

- Incremental costs; and
- Allocation of other costs relating directly to the contract (such as depreciation expenses on property, plant and equipment used to perform this contract and other additional contracts).

The Amendment is to be applied retrospectively, commencing on January 1, 2022, for contracts the entity has not yet completed its obligations in respect thereof. Early application is permissible. Upon initial application of the Amendment, the entity is not to restate the comparative data but, rather, it is to adjust the opening balance of the retained earnings on the initial application date, in the amount of the cumulative impact of the Amendment.

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 June 30, 2020

Note 4 – Financial Instruments

Financial instruments measured at fair value for disclosure purposes only

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

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

Fair value

	At June 30, 2020	
	Book Value*	Fair Value
	In Thousands of NIS	
Loans from banks and others (Level 2)	1,883,684	2,093,765
Debentures (Level 1)	665,583	731,251
	2,549,267	2,825,016

	At June 30, 2019	
	Book Value*	Fair Value
	In Thousands of NIS	
Loans from banks and others (Level 2)	1,918,227	2,284,207
Debentures (Level 1)	286,745	320,164
	2,204,972	2,604,371

	At December 31, 2019	
	Book Value*	Fair Value
	In Thousands of NIS	
Loans from banks and others (Level 2)	1,867,448	2,243,290
Debentures (Level 2)	282,864	324,623
	2,150,312	2,567,913

* Includes current maturities and accrued interest.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At June 30, 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 of the United States dollar (hereinafter – “the dollar”) and the euro and the Consumer Price Index (CPI):

	CPI (in points)	Exchange rate of the dollar against shekel	Exchange rate of the euro against shekel
June 30, 2020	100.1	3.466	3.883
June 30, 2019	101.7	3.566	4.062
December 31, 2019	100.8	3.456	3.878
<u>Change during the six months ended:</u>			
June 30, 2020	(0.7)%	0.3%	0.1%
June 30, 2019	1.2%	(4.9)%	(5.4)%
<u>Change during the three months ended:</u>			
June 30, 2020	(0.2)%	(2.8)%	(0.4)%
June 30, 2019	1.5%	(1.8)%	(0.4)%
<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 June 30, 2020

Note 5 – Revenues from Contracts with Customers

Breakdown of the revenues from sales:

	For the				
	Six Months Ended		Three Months Ended		Year Ended
	June 30		June 30		
	2020	2019	2020	2019	December 31
(Unaudited)					
In Thousands of New Israeli Shekels					
Revenues from sale of electricity	547,760	627,802	251,340	289,944	1,271,200
Revenues from sale of steam	29,707	30,812	13,576	14,971	58,788
	577,467	658,614	264,916	304,915	1,329,988

Note 6 – Additional Information

A. General

1. 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 period of the report compared with the corresponding period last year.
2. 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 (hereinafter – "the 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 only 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 approval date of the financial statements there is no certainty regarding the extent of the unfavorable impact of the Decision, if any, on the Company's activities.

3. In the six-month periods ended June 30, 2020 and 2019, the Group acquired property, plant and equipment not for cash, in the amounts of about NIS 3 million and about NIS 30 million, respectively.

Note 6 – Additional Information (Cont.)

B. **The Company**

1. In April 2020, Maalot reconfirmed a rating of A3 for the Company's debentures (Series A) with a stable rating outlook. In January 2020, and subsequent to the date of the report in August 2020, Maalot reconfirmed a rating of A– for the Company's debentures (Series A) with a stable rating outlook.
2. Further to that stated in Note 15C(4) 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 6C(6). The loan bore interest at the annual rate of prime+0.6% for the first part of the period, while for the second part of the period the interest was at the rate of prime + 1.7%. The Loan principal and the accrued interest were repaid in April 2020.
3. 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 in May 2020.
4. In April 2020, the Company issued debentures (Series B) having a par value of NIS 400 million (hereinafter – “the Debentures”). 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. Subsequent to the date of the report, in August 2020, Maalot reconfirmed a rating of A3 for the Debentures, with a stable rating outlook.

The trust certificate covering the debentures 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 \$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);

Note 6 – Additional Information (Cont.)

B. **The Company** (Cont.)

4. (Cont.)

(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%).

As at June 30, 2020: (1) the Company's shareholders' equity was NIS 752 million; (2) the ratio of the shareholders' equity to the Company's total assets was 51%; (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 3.47.

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).

Note 6 – Additional Information (Cont.)

B. The Company (Cont.)

4. (Cont.)

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.

5. As at the publication date of the financial statements, the Company had signed binding agreements for construction of electricity generation facilities (hereinafter – "the Generation Facilities"), which will be constructed in the consumer's yard, with an aggregate capacity of 33.5 MW and which are powered using natural gas. The Company will sell electricity to consumers from the Generation Facilities for a period of 15 years from the commercial operation date of the Generation Facilities. The planned commercial operation dates are in accordance with the terms spelled out in the agreements, and in any event not later than 24 or 48 months from the signing date of the agreement.
6. 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). In June 2020, the Company received notification whereby the Tenders Committee announced that the bid of a third party was the winning bid in the tender, and that the Company was announced as a "second qualifier" according to the tender documents, meaning that in a case of cancellation of the declaration of the winner or cancellation of the undertaking in an agreement with it, the Tenders Committee will be permitted to declare the second qualifier as the winner, subject to the terms of the Tender.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At June 30, 2020

Note 6 – Additional Information (Cont.)

B. **The Company** (Cont.)

7. In May 2020, the Company signed an agreement, through a designated company that is wholly owned by the Company (hereinafter – “the Subsidiary”), with SMS IDE Ltd., which won a tender of the State of Israel for construction, operation, maintenance and transfer of a seawater desalination facility on the “Sorek B” site (“the Desalination Facility”), whereby 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 Desalination Facility (“the Power Plant”), and will supply the energy required for the Desalination Facility for a period that will end of 25 years after the operation date of the Desalination Facility. At the end of the aforesaid period, ownership of the power plant will be transferred to the State. 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.
8. In May 2020, the Company’s Board of Directors approved a private issuance to an officer of 99,228 options exercisable for 99,228 ordinary shares of NIS 0.01 par value of the Company and 28,732 restricted share units (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. The vesting conditions and expiration dates of the Offered Securities are as follows:

Tranche No.	Vesting Conditions	Expiration Dates
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 restricted share units (RSUs) 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 securities offered 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.

Note 6 – Additional Information (Cont.)

B. **The Company (Cont.)**

9. In the period of the report, 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 the 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 43 million, which was recorded as part of other comprehensive income. As at the date of the report, the fair value of the Derivative amounted to about NIS 47 million. The Company deposits collaterals 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 33 million. Valuation of the Derivative was made by an external independent appraiser. The value of the Derivative was calculated by means of discounting the linked shekel cash flows expected to be received less the discounted fixed shekel cash flows payable. An adjustment was made to this valuation for the credit risks of the parties.

10. **Guarantees provided by the Company in the period of the Report**

- Further to that stated in Note 24A(3) 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 24A(3) 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, and subsequent to the date of the report, in July 2020 to the amount of about NIS 21 million. For additional details – see Note 6C(6).
- Further to that stated in Note 24A(3) to the Annual Financial Statements regarding a bank guarantee provided by Zomet 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 (linked to the dollar), pursuant to that stipulated in Zomet’s conditional license.
- Further to that stated in Note 15C(3) 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 110 million (linked to the CPI), and the deposit for securing the guarantee was reduced to the amount of about NIS 56 million.
- In April 2020, the Company provided on behalf of the Joint Company a bank guarantee, in the amount of about NIS 12.5 million. For additional details – see Note 6C(6).

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At June 30, 2020

Note 6 – Additional Information (Cont.)

B. **The Company** (Cont.)

10. **Guarantees provided by the Company in the period of the Report** (Cont.)

- Further to that stated in Note 15C(2) to the Annual Financial Statements, in May 2020 the Company provided in favor of Hadera's lenders a bank guarantee in the amount of NIS 50 million (which is secured by a deposit in the amount of NIS 25 million) in place of a commitment to company the minimum cash and cash equivalents balance requirement.

C. **Zomet**

1. 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 24A(3) 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 its conditional license and in accordance with law (hereinafter – "Financial Closing Approval").
2. In February 2020, upon 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 24A(3) 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, respectively. 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.
3. 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 15C(3) 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. Subsequent to the date of the Report, in July 2020, Zomet made an additional withdrawal from the long-term loan framework, in the amount of about NIS 24 million.

Note 6 – Additional Information (Cont.)

C. Zomet (Cont.)

4. 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.

In addition, in the period of the report, Zomet partly hedged its exposure to changes in the cash flows from payments in dollars in connection with the agreement by means of forward contracts on the exchange rates. Zomet chose to designate the said forward contracts as an accounting hedge.

5. 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.
6. 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). 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.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At June 30, 2020

Note 6 – Additional Information (Cont.)

C. Zomet (Cont.)

6. (Cont.)

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.

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 for the financial close as described above), 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 6B(2). 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, 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.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At June 30, 2020

Note 6 – Additional Information (Cont.)

C. **Zomet** (Cont.)

6. (Cont.)

In addition, further to that stated in Note 24A(3) 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 part of its response to the petition, the Council updated the amount of the development levies, to the amount of about NIS 34 million and, accordingly, the Company reduced the guarantee provided to the Council to the amount of about NIS 21 million. As at the publication date of the Report, a decision regarding the matter had not yet been received. 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.

All of the amounts relating to acquisition of the Land, as stated, were classified in the Company’s statement of financial position as at June 30, 2020 in the category “right-of-use assets”. The unpaid balance of the Initial Assessment, in the amount of about NIS 52 million, was classified in the statement of financial position as at June 30, 2020, as part of “current maturities of lease liabilities”.

7. 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.

OPC Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At June 30, 2020

Note 6 – Additional Information (Cont.)

C. **Zomet** (Cont.)

7. (Cont.)

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.

D. **Hadera**

1. On June 30, 2020, the Electricity Authority decided to grant a permanent license for generation of electricity to the Hadera Power Plant, a power plant using cogeneration technology having installed capacity off 144 MW and granting of a supply license (hereinafter – “the Licenses”). The Licenses are for a period of 20 years, which may be extended for an additional period of 10 years by the Electricity Authority and with approval of the Minister of Energy, which entered into effect after approval of the Minister of Energy on July 1, 2020. Hadera provided bank guarantees for the benefit of the Electricity Authority, in the amount of about NIS 4.5 million (some of which are linked to the dollar) as required by the Licenses, and a bank guarantee in favor of Israel Electric Company, in the amount of about NIS 27 million (linked to the dollar), as required in accordance with the benchmarks of the Electricity Authority.

It is noted that during the first year of activities, replacements or renovations of certain parts of the gas and steam turbines are expected to be executed by the head equipment contractor, which are expected to last for a period of about a month (cumulative), during which time the Hadera Power Plant will be operated on a partial basis.

2. 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.

Note 6 – Additional Information (Cont.)

D. **Hadera** (Cont.)

3. In the period of the report, Hadera withdrew about NIS 64 million from the framework amount in accordance with its financing agreement, as described in Note 15C(2) to the Annual Financial Statements. The interest rates on the amounts withdrawn in the period of the report range between about 2.4% and about 2.6% on the CPI-linked loans and between about 3.6% and about 3.8% on the unlinked loans. In addition, in the period of the report Hadera made two payments based on the repayment schedule included in its financing agreement, in the amounts of about NIS 16 million in respect of principal and about NIS 14 million, in respect of interest. The said debt repayment was made out of sources the Company provided to Hadera.
4. Further to that stated in Note 25D to the Annual Financial Statements, pursuant to the construction agreement Hadera is entitled to receive agreed compensation from the construction contractor in respect of the delay in completion of the construction of the Hadera Power Plant (hereinafter – “the Compensation”). In Hadera’s estimation, as at the date of the report the amount of the Compensation due to it is about NIS 79 million. In addition, in accordance with the construction agreement, Hadera has a contractual right to offset every amount due to it under the construction agreement, including the amount of the Compensation, against amounts it owes the construction contractor.

Subsequent to the date of the report, in July 2020, upon completion of the construction of the Hadera Power Plant, a request was received from the construction contractor for the final milestone payment in accordance with the construction agreement, in the amount of about NIS 48 million, along with a letter stating that in accordance with the construction contractor’s position, Hadera is entitled to compensation, in the amount of about NIS 22 million only, as opposed to NIS 79 million as demanded by Hadera. In Hadera’s estimation, it has an unconditional contractual right to receive the Compensation as stated and it is more likely than not that its position will be accepted. Accordingly and based on the right of offset, as stated, Hadera offset the payment in respect of the final milestone against the Compensation it contends it is entitled to, such that as at the date of the report, the balance of the Compensation receivable is about NIS 31 million.

E. **Rotem**

1. 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.

As is indicated by publications of Energean in June 2020, commercial operation of the Karish Reservoir is expected to take place in the third quarter of 2021.

Note 6 – Additional Information (Cont.)

E. Rotem (Cont.)

2. 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. As at the date of the Report, Rotem is in compliance with the conditions for cancellation of the guarantee.
3. 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 7 – Events Occurring Subsequent to the Date of the Statement of Financial Position

Further to that stated in Note 17(B) to the Annual Financial Statements, in July 2020, the Company issued 44,899 of the Company's ordinary shares of NIS 0.01 par value each to six managers and officers in the Group, in light of the vesting of the second tranche of the Restricted Stock Units (RSUs) that were granted to them as part of the equity remuneration plan for Company employees.