2019 INTERIM FINANCIAL STATEMENTS

INTERIM FINANCIAL STATEMENTS
JUNE 30, 2019

IDB | UNLOCKING POTENTIAL

IDB Development Corporation Ltd.

Financial Statements

June 30, 2019
(Unaudited)

* **The English version of this information as at June 30, 2019 is a translation of the Hebrew version of the financial statements of IDB Development Corporation Ltd., and is presented solely for convenience purposes. Please note that the Hebrew version constitutes the binding version.**

TRANSLATION FROM HEBREW – IN THE EVENT OF ANY DISCREPANCY THE HEBREW SHALL PREVAIL

IDB Development Corporation Ltd.

Chapter A - Board of Directors' Report and its appendices

Chapter B - Summary of the Interim Consolidated Financial Statements (Unaudited) for June 30, 2019

IDB

IDB Development Corporation Ltd.

Part A - Director's Report and its Annexes

Board of Directors' Report Regarding the State of the Company's Affairs

Table of Contents

Board of Directors' Report Regarding the State of the Company's Affairs

Report for the Second Quarter of 2019

The Board of Directors of IDB Development Corporation Ltd. ("IDB Development" or the "Company") is pleased to present the Board of Directors' Report as of June 30, 2019, which includes a review of the Company's position and principal operations in the second quarter of 2019 (the "Reporting Period"). The report has been prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and based on the assumption that the reader is also in possession of the Company's complete periodic report for the year ended December 31, 2018 (the "Periodic Report"), and the financial statements for 2018, as included in the Periodic Report (the "Annual Financial Statements").

The Company is a private company which qualifies as a debenture company (as defined in the Companies Law, 5759-1999 (the "Companies Law")). In recent years, the Company has worked primarily to stabilize and improve its financial position and liquidity, and as part of the above, it has placed a particular emphasis on the evaluation of various financing alternatives, including the recruitment of equity and debt (including the receipt of subordinated loans from the controlling shareholder), the issuance of debentures, *inter alia*, for the purpose of refinancing debts and servicing its debts to its financial creditors, and to finance its operating activities; and on investing managerial efforts and maximizing the value of its holdings in Discount Investment Corporation Ltd. ("DIC"), a company controlled by the Company's controlling shareholder, which was controlled by the Company until its sale, as detailed below, and in private companies which are directly held by the Company, including the evaluation of various possibilities for optimizing and improving the performance of investee companies, *inter alia*, with the aim of maximizing their value, and, in the appropriate cases, for their realization.

As part of the Company's response to the requirements of the Law to Promote Competition and Reduce Concentration, 5774-2013 (the "Concentration Law"), as stated in Note 3.A. to the annual financial statements, in November 2017, the Company sold its entire stake in DIC to Dolphin IL Investments Ltd. ("Dolphin IL"), a private company incorporated in Israel, which is wholly owned by Dolphin Netherlands B.V. ("Dolphin Netherlands"), a corporation controlled by the Company's controlling shareholder (the "Transaction"). Accordingly, as from the closing date of the transaction, IDB Development no longer holds control of any "other tier companies", and therefore, it now complies with the requirements of the Concentration Law in respect of pyramid structures. It should be noted that certain risk factors and areas of uncertainty, including legal risks, regulatory risks, changes in prices and in characteristics of competition, risks relating to DIC's market value and assets, and other business risks, may harm the debt service capacity of Dolphin IL, and therefore also the repayment ability of Dolphin IL against the debenture and collateral that was provided by Dolphin IL within the framework of the transaction. The Company is therefore continuing to monitor the activities and value of DIC.

In July 2019, the Company's controlling shareholder withdrew his request of March 2019 for a permit for the control of Clal Holdings Insurance Enterprises and of Clal Insurance (see Note 3.B.2. to the financial statements). The Company is continuing to carry out activities and to invest efforts in the sale of its holdings in Clal Holdings Insurance Enterprises Ltd. (see Note 3.B. to the financial statements). The Company also invests managerial efforts in its directly held private companies.

In August 2013, the Commissioner of Capital Markets, Insurance and Savings appointed a trustee for most of the Company's holdings in Clal Holdings Insurance Enterprises, and in December 2014 an outline over time was established for the sale of its holdings in Clal Holdings Insurance Enterprises (the "Outline"). In April 2017, a ruling was given in which the Court ordered the trustee to sell 5% of the Company's holding in Clal Holdings Insurance Enterprises, within 30 days (the "Ruling"). In May and August 2017, and in January, May and August 2018, the Company cumulatively sold 25% of the shares of Clal Holdings Insurance Enterprises, 5% each time, and in parallel, the Company engaged, with three banks, in five swap transactions, according to which, at the end of a period of 24 months from the date of each sale transaction, an accounting will take place between the Company and those banks, in respect of the difference between the selling price of the sold shares to a third party, and the selling price of the shares as of the date of the settling of accounts. In January 2019, the Company sold 4.5% of the shares of Clal Holdings Insurance Enterprises, and the Company also partially concluded, at a rate of 1% of the share capital of Clal Holdings Insurance Enterprises, a swap transaction from May 2017. For details regarding the ruling, the sale transactions and the swap transactions, and regarding the execution of partial prepayments of the debentures (Series M), out of the funds from the aforementioned sale of shares, see Notes 3.B.2. and 8.B.2. to the annual financial statements, as well as sections 1 and 6 in Note 3.B. to the financial statements, and sections 1 and 2 in Note 4.B. to the financial statements.

In April 2019, the Commissioner instructed the continuation of work towards the sale of shares of Clal Holdings Insurance Enterprises, in accordance with the outline. The trustee for the debenture holders (Series I) submitted a letter to the Commissioner, and subsequently, in accordance with the decision of the meeting of debenture holders (Series I), filed a petition with the Court, in which it petitioned the Court to order the Commissioner and the trustee to instruct the Commissioner to suspend the continuation of sales in accordance with the outline (the "Petition"). For additional details regarding the letter, the petition, and the striking thereof, see Note 3.B.4. to the financial statements. In accordance with agreements with three buyers, which are unrelated to the Company, for the sale of shares of Clal Holdings Insurance Enterprises, at a scope of approximately 18% of the issued capital of Clal Holdings Insurance Enterprises, and after the striking of the petition at the request of the trustee for the debentures (Series I), in May 2019, the Company sold 4.99% of the shares of Clal Holdings Insurance Enterprises to one buyer, and completed swap transactions relating to an additional 4.99%, through a sale to another buyer. The transactions were implemented at a price of NIS 47.7 per share. For additional details regarding the transactions in which the Company engaged in connection with shares of Clal Holdings Insurance Enterprises, see Note 3.B.5. to the financial statements. On August 27, 2019, the Company received a binding offer to perform a transaction for the sale of the shares of Clal Holdings Insurance Enterprises in return for bonds of the Company (Series I or Series N) or in return for cash or a combination of the aforesaid elements, at the Company's discretion. On August 28, 2019, the Company received approval from the Commissioner to make the transaction, subject to certain conditions. For details of the offer and of the Commissioner's approval and the conditions that he stipulated, see Note 3.B.9.C to the financial statements.

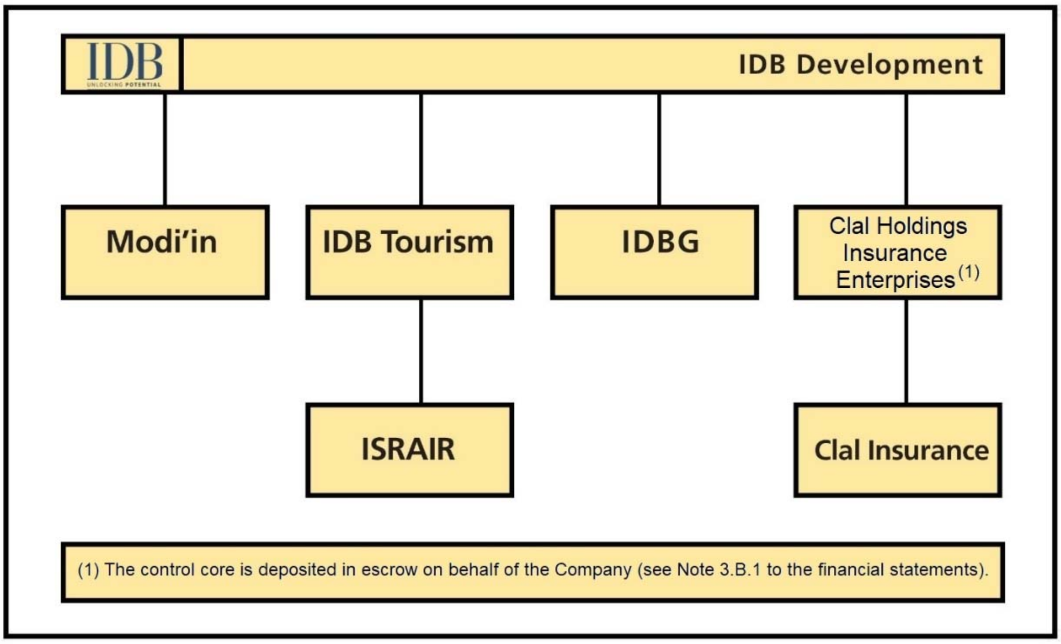
For details of an irrevocable undertaking of Dolphin Netherlands, the controlling shareholder of the Company, to make injections of capital into the Company in a total amount of NIS 210 million, in three equal annual payments, which will be made in return for shares of the Company or as a deferred loan on similar terms to the subordinated loans that were advanced in the past by the controlling shareholder, see Note 9.F to the financial statements. For details of the expected flow forecast statement of the Company and the headquarter companies that are wholly owned by the Company (except IDB Tourism), see section 1.4.4.4 below. For details regarding the net asset value of the Company as of the date of the report and shortly before the date of publication of the report, see section 1.4.3 below.

For details regarding developments with respect to the Company's bonds, including the appointment of (separate) representations for the bond series (Series I and Series N), and appointments of a legal adviser and an economic adviser for each of the aforesaid series of bonds, see Note 4.B.5 to the financial statements. For details regarding the rating of the Company and its bonds as of June 30, 2019, and shortly before the date of approval of the financial statements, see Annex B of the Board of Directors below and note 4.E of the financial statements.

The terms and ratings of the Company's debentures are specified in Appendix B below and in Note 8 to the annual financial statements.

As of June 30, 2019, the Company's investee companies include IDB Tourism (100%) and Clal Holdings Insurance Enterprises (direct holding of 20.3%, and investment through swap transactions in an additional approximately 24%. See also Note 3.B to the financial statements), which are presented under discontinued operations, as well as IDBG (50%) and Modi'in Energy (20%), investee companies treated at equity.

The following is a diagram specifying the significant companies, for the purpose of this report, which are held by the Company as of June 30, 2019



1. Board of Directors' Remarks Regarding the State of the Company's Affairs

1.1 General

As of the date of the financial statements, the Company's main investments include: Clal Holdings Insurance Enterprises, the debenture from Dolphin IL (which was received in the transaction involving the sale of the Company's holdings in DIC in November 2017, as stated above), IDB Tourism and IDBG. The business position of the Company's significant holdings, as well as their operating results, cash flows, changes in equity, and their value and the value of the debenture from Dolphin IL, affect the Company's business position, operating results, equity and cash flows. The value of the debenture from Dolphin IL is primarily affected by DIC's net asset value, whose shares are charged to secure the payment of the debenture.

Additionally, the Company's position, operating results, equity and cash flows are also affected by the Company's headquarter activities, which include financing expenses and income, and general and administrative expenses

The business results of the Company, and sometimes also the capital attributed to its shareholders, may fluctuate (in accordance with current accounting principles) a great deal between the various reporting periods, due to, *inter alia*, the timing and extent of realizations which are executed by the Company, due to the effects of changes in prices of securities on the capital market and the value of assets, as well as changes in the financing expenses of the Company.

The recently increased sector-wide legislation, standardization, regulation and competition in various operating segments of the Israeli economy have a negative effect, and sometimes a significantly negative effect, on the operations of certain material investee companies of the Company, on their financial results and on the prices of their securities, and also on the Company's operations, and the Company believes that the foregoing has a significant impact on the Company and on its business operations.

The Group's operations are affected by many additional external factors (see sections 7 and 22 in Part A of the Periodic Report).

1.2 Results for the first half and second quarter of 2019

The Company concluded the first half of 2019 with loss of NIS 252 million, as compared with loss of NIS 427 million in the corresponding period last year. Income in the second quarter of 2019 amounted to NIS 76 million, as compared with loss of NIS 174 million in the corresponding period last year. In 2018, the Company lost NIS 465 million.

For details regarding primary profit (loss), see section 1.7 below.

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.3 The segments and their contribution to the Company's results, by operating segment

Segment	Holding rate (rounded) As of June 30, 2019	Profit (loss) on the level of the Company — For the six months ended June 30 — 2019	2018	For the three months ended June 30 — 2019	2018	In 2018	Data on the level of the investee company [1] — For the six months ended June 30 — 2019	2018	For the three months ended June 30 — 2019	2018	In 2018
		NIS millions					NIS millions				
IDBG	50%	[2] (22)	[2] (50)	(4)	[2] (45)	[2] (69)	[3](29)	[3](100)	[3] (8)	[3] (90)	[3](139)
Decrease in the fair value of the debenture which was issued by Dolphin IL [4]		(270)	(296)	(27)	(82)	(326)					
IDB Tourism	100%	(12)	(26)	(9)	(7)	11	(27)	(27)	(9)	(7)	38
Clal Holdings Insurance Enterprises[5]	[5]44%	79	(329)	187	(375)	(319)					
All other holdings		-	(1)	-	(1)	(2)					
Total companies		(225)	(702)	147	(510)	(705)					
Decrease in the fair value of convertible subordinated loans which were received from the controlling shareholder		[6]96	[6]427	[6] -	[6]427	[6]530					
Financing, administrative and others[7]		(123)	(152)	(71)	(91)	(290)					
Income (loss) for the period		(252)	(427)	76	(174)	(465)					

[1] The presented data relate to the results of the investee companies, as presented in their financial statements, without taking into account the Company's rate of holding in them and without taking into account, cancelled transactions between the companies and between segments.

[2] Includes the Company's share in the net amortization which was recorded in respect of the Great Wash project and in respect of additional land in Las Vegas: in the first half of 2019, a total of NIS 3 million; in the first half and second quarter of 2018, and in 2018 - a total of NIS 40 million.

[3] The results of IDBG are reported in USD and are presented in this table in NIS, based on a convenience translation according to the average exchange rates during the relevant periods. The data include financing expenses of IDBG in respect of loans which were provided to it by Property & Building, as detailed in Note 3.D.4. to the annual financial statements (a total of NIS 13 and 5 million in the first half and second quarter of 2019, and in 2019, respectively; a total of NIS 9 and 5 million in the first half and second quarter of 2018, respectively; and a total of NIS 20 million in 2018), but do not include the effects of the financing in respect of the loans which were provided by the Company and Property & Building, in equal parts.

[4] For details, see note 3.A. to the financial statements. An economic paper in connection with the fair value of the debenture as of June 30, 2019, is attached to the financial statements. The contribution to comprehensive income primarily includes the change in debenture's fair value. In the first half of 2019, the contribution to profit was after offsetting a total of NIS 32 million for interest that was received with respect to the debenture.

[5] The contribution to profit primarily represents the change in market value of the Company's holding in Clal Holdings Insurance Enterprises (including in respect of swap transactions, as detailed in Note 3.B.6. to the financial statements, and in consideration of the option agreements which the Company provided to third parties with respect to approximately 8% of the shares of Clal Holdings Insurance Enterprises, as detailed in Note 3.B.5. to the financial statements), and is presented in the statement of income under discontinued operations. The holding rate as of June 30, 2019 includes 20.3% through direct holdings and 24% through swap transactions.

[6] In accordance with the provisions of IFRS 9, these amounts include the changes in the value of the subordinated loans which are attributed to market changes. Additional amounts which are attributed to changes in the Company's credit risk were recognized under other comprehensive income. For details, see section 1.4.7 below and Note 4.A. to the financial statements.

[7] See section 1.9 below.

1. **Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)**

1.4 Select Data from the Financial Statements

1.4.1 Summary balance sheet data

	As of June 30		As of December 31
	2019	2018	2018
	NIS millions		
Current assets	2,211	2,044	2,084
Total assets	3,894	4,944	4,545
Current liabilities	1,711	1,391	1,713
Convertible subordinated loans which were received from the controlling shareholder	223	277	529
Other non-current liabilities	2,376	3,114	2,534
Capital (capital deficit) attributed to shareholders in the Company [8]	(418)	159	(230)
Shareholder's equity (capital deficit) plus subordinated loans	(195)	436	299
Capital (capital deficit) (including non-controlling interests)	(416)	162	(231)

1.4.2 Liabilities and financing

Data regarding debt and cash in the Company and in its wholly-owned companies (excluding IDB Tourism):

	As of August 27	As of June 30		As of December 31
	2019	2019	2018	2018
	NIS millions			
Financial liabilities[9]	(2,729)	(2,719)	(3,353)	(2,969)
Liquid asset balances[10]	84	105	421	52
Restricted deposits[11]	455	443	581	621
Debt, net	(2,190)	(2,171)	(2,351)	(2,296)
Average lifetime of liabilities	2.3	2.4	3.0	2.6

[8] See also section 1.4.6 below.

[9] Includes debentures, including accrued interest. The amounts do not include a subordinate convertible loan in the amount of NIS 558 million, which was received from the controlling shareholder (see Note 7.C. to the annual financial statements).

[10] Includes cash and cash equivalents, marketable securities, liquid investments and short term deposits.

[11] Charged deposits which serve as collateral for banking institutions in connection with the swap transactions, as described in Note 3.B.6. to the financial statements, which, as of June 30, 2019, amounted to a total of NIS 430 million; and deposits which serve to secure the repayment of the debentures (Series M and N), which, as of June 30, 2019, amounted to a total of NIS 13 million.

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.4 Select Data from the Financial Statements (Continued)

1.4.3 Presented below is the carrying value of investee companies directly held by the Company the net asset value[12] and the leverage ratio as of June 30, 2019, and shortly before the date of publication of the report:

	Holding rate	Carrying value (As of June 30, 2019, NIS millions)	Asset value (As of June 30, 2019, NIS millions)
Debenture from Dolphin IL[13]		901	901
Clal Holdings Insurance Enterprises - shares held directly	20%	687	668
IDB Tourism	100%	186	186
IDBG[14]	50%	44	174
Others		43	54
		1,861	1,983
Value of the undertaking to sell shares of Clal Holdings Insurance Enterprises (see Note 3.B.5. to the financial statements)			(72)
Value of swap transactions in respect of 24% of the shares of Clal Holdings Insurance Enterprises			15
			1,926
Less financial debt, net (section 1.4.2 above)			(2,171)
Total net asset value [NAV]			(245)
Leverage ratio [LTV] - as of June 30, 2019			113%
Shortly before publication date of the report [15]			
Total net asset value			(416)*
Leverage ratio [LTV]			123%

* Presented below is the effect of changes in the share value of Clal Holdings Insurance Enterprises on the net asset value proximate to the publication date of the report.

-10%	-5%	Net asset value	+5%	+10%
		NIS millions		
(523)	(470)	(416)	(362)	(309)

For details of an irrevocable undertaking of Dolphin Netherlands, the controlling shareholder of the Company, to make capital injections into the Company in a total amount of NIS 210 million, in three equal annual payments, which will be made in return for the Company's shares or as a deferred loan on similar terms to the subordinated loans that were advanced by the controlling shareholder, see Note 9.F of the financial statements.

12 Asset value is determined according to the value of the assets, as stated below: (A) In respect of holdings which constitute listed securities - according to their average market value during the last five trading days preceding June 30, 2019. (B) In respect of non-marketable holdings - according to their value in the Company's financial statements;

13 For details regarding the sale of DIC shares and regarding the terms of the debenture from Dolphin IL, see Note 3.A. to the annual financial statements. As of June 30, 2019, the net asset value of DIC shares which are charged against the debentures, based on the provisions of footnote 12 above, is NIS 993 million. The market value of the shares which are charged against the debenture amounted, as of that date, to NIS 735 million.

14 For details regarding the implications of the initial adoption of the amendment to IAS 28 on the balance of the investment in IDBG, see Note 2.E.1. to the financial statements. The asset value of IDBG was determined based on the Company's share in the assets of IDBG, less its liabilities to externals (including an undertaking to Property & Building, as stated in Note 3.D.4. to the annual financial statements). The value includes a direct liability of GW towards the Company in the amount of USD 2 million. In the statement of financial position, this liability is presented under the item for other receivables.

15 Asset value and the leverage ratio proximate to the publication date of the report, based on market data as of proximate to the publication date of the report. With reference to non-marketable holdings, including the debenture from Dolphin IL, the value of the holdings is in accordance with the carrying value as of June 30, 2019. See also section 1.4.4.3.2 below with respect to the net asset value of DIC shortly before the date of publication of the report.

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.4 Select Data from the Financial Statements (Continued)

1.4.4 The Company's financing sources

1.4.4.1 Presented below are the principal monetary movements in the Company's headquarters

In the first half

	For the six months ended June 30							
	2019				2018			
	Liquid assets [1]	Charged and restricted deposits	Financial debt	Financial debt, net	Liquid assets [1]	Charged and restricted deposits	Financial debt	Financial debt, net
	NIS millions							
Balance at start of period	52	621	(2,969)	(2,296)	955	144	(3,660)	(2,561)
Consideration from the sale of shares of Clal Holdings Insurance Enterprises [2]	-	259	-	259	171	155	-	326
Deposit and supplementation (release) of collateral, net [3]	90	(90)	-	-	(241)	241	-	-
Deposit (release) of collateral with respect to swap transaction on DIC shares	66	(66)	-	-	(66)	66	-	-
Interest from Dolphin IL [4]	5	27	-	32				
Investments in investee companies	(8)	-	-	(8)	(6)	-	-	(6)
Repayment of financial debt - principal	[6] -	[5] (264)	[5],[6] 264	-	(329)	-	329	-
Repayment of financial debt - interest	(33)	(44)	77	-	(59)	(25)	84	-
Receipt in connection with settlement in derivative lawsuits of IDB Holdings	-	-	-	-	14	-	-	14
General and administrative expenses less financing income, net	(12)	-	-	(12)	(11)	-	-	(11)
Payments in respect of derivatives, net	(55)	-	-	(55)	(7)	-	(1)	(8)
Financing expenses - accrual of interest and linkage differentials on financial debt	-	-	(91)	(91)	-	-	(105)	(105)
Balance at end of period	105	443	(2,719)	(2,171)	421	581	(3,353)	(2,351)

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.4 Select Data from the Financial Statements (Continued)

1.4.4 The Company's financing sources (Continued)

1.4.4.1 Presented below are the principal monetary movements in the Company's headquarters (Continued)

In the second quarter

	For the three months ended June 30							
	2019				2018			
	Liquid assets [1]	Charged and restricted deposits	Financial debt	Financial debt, net	Liquid assets [1]	Charged and restricted deposits	Financial debt	Financial debt, net
	NIS millions							
Balance at start of period	57	614	(2,868)	(2,197)	982	247	(3,676)	(2,447)
Consideration from the sale of shares of Clal Holdings Insurance Enterprises [2]	-	132	-	132	-	155	-	155
Deposit and supplementation (release) of collateral, net [3]	148	(148)	-	-	(125)	125	-	-
Deposit of collateral with respect to swap transaction on DIC shares	-	-	-	-	(66)	66	-	-
Investment in investee company	(6)	-	-	(6)	-	-	-	-
Repayment of financial debt - principal	[6] (18)	[5] (135)	[5],[6] 153	-	(329)	-	329	-
Repayment of financial debt - interest	(32)	(20)	52	-	(46)	(12)	58	-
Receipt in connection with compromise agreement in derivative lawsuits of IDB Holdings	-	-	-	-	14	-	-	14
General and administrative expenses less financing income, net	(8)	-	-	(8)	(5)	-	-	(5)
Payments in respect of derivatives, net	(36)	-	-	(36)	(4)	-	(1)	(5)
Financing expenses - accrual of interest and linkage differentials on financial debt	-	-	(56)	(56)	-	-	(63)	(63)
Balance at end of period	105	443	(2,719)	(2,171)	421	581	(3,353)	(2,351)

(1) Liquid assets including cash, cash equivalents, marketable securities and short-term deposits.

(2) For details regarding a transaction for the sale of 4.5% of the shares of Clal Holdings Insurance Enterprises, and regarding the partial conclusion, at a rate of 1% (of 5%) of a swap transaction from May 2017, see Note 3.B.1. to the financial statements. For details regarding a transaction for the sale of 5% of the shares of Clal Holdings Insurance Enterprises at a price of NIS 47.7 per share, regarding the conclusion of the balance of the swap transaction from May 2017 (4% of 5%), and regarding the partial conclusion of 1% (out of 5%) of the swap transaction from August 2017, see Note 3.B.5. to the financial statements. At the time of the sale of shares of Clal Holdings Insurance Enterprises, the consideration for which is used as collateral for the repayment of the debentures (Series M), the consideration is placed in a deposit which is charged in favor of the debenture holders (Series M).

(3) For details, see Note 3.B.6. to the financial statements.

(4) For details, see note 3.A.2. to the financial statements.

(5) Including partial early repayments of debentures (Series M), as stated in Notes 4.B.1. and 4.B.2. to the financial statements.

(6) Includes a total of NIS 18 million with respect to the repayment of a loan which was received from IDB Tourism in the first quarter of 2019.

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.4 Select Data from the Financial Statements (Continued)

1.4.4 The Company's financing sources (Continued)

1.4.4.2 Presented below are details regarding the repayment of the Company's liabilities:

	For the year ending June 30, 2020			For the six months ending December 31, 2019		
	Principal	Interest	Total	Principal	Interest	Total
	NIS millions					
Debentures	479	112	591	479	62	541

See also the Company's report regarding the Company's set of liabilities, by maturity dates (T-126), which was published through public electronic reporting on August 31, 2019 (reference number 2019-01-091153).

The amounts stated in this section above is on the assumption that a transaction will be made for the sale of 5% of the shares of Clal Holdings Insurance Enterprises (which the Company is required to sell in accordance with the outline determined with the Commissioner), in return for bonds (Series I and N), in accordance with a binding offer that the Company received, which is subject to the approval of the Board of Directors (including with respect to the scope of the transaction). For details, see note 3.B.9.C of the financial statements.

1.4.4.3 Financial restrictions and ratios -

1.4.4.3.1 In connection with the Company's debentures (Series M), the balance of which (principal and interest) as of June 30, 2019 amounted to a total of NIS 394 million, the Company undertook, in accordance with the trust deed, to fulfill, throughout the entire period of the debentures, a financial covenant which stipulates that the capital of Clal Holdings Insurance Enterprises must not fall below NIS 1.8 billion. Restrictions were also established on the distribution of earnings and on the creation of a general lien (floating lien), as detailed in the trust deed.

In accordance with the last published financial statements of Clal Holdings Insurance Enterprises, the total capital of Clal Holdings Insurance Enterprises amounted to NIS 5.1 billion, and accordingly, the Company is fulfilling the financial covenant which was determined in the trust deed.

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.4 Select Data from the Financial Statements (Continued)

1.4.4 The Company's financing sources (Continued)

1.4.4.3.2 In connection with the Company's debentures (Series N), the balance of which (principal and interest), as of June 30, 2019, amounted to NIS 993 million, the Company undertook, in accordance with the trust deed, to fulfill, throughout the entire period of the debentures, grounds for adjustment of the interest rate, and financial covenants, as detailed below:

	Calculation results	
Grounds for adjustment of interest rate / financial covenant	**As of June 30, 2019**	**Proximate to the publication date of this report**
The long-term issuer rating of DIC will be no lower than the base rating (ilBBB). In case of a reduction of the rating, as stated in the trust deed, a maximum cumulative addition of up to 0.75% will be added to the annual interest rate applicable to the debentures (Series N), as detailed in the trust deed.	Rating of ilBBB+ with negative rating outlook	Rating of ilBBB with negative rating outlook
The asset value [12] less net financial debt ("Net Asset Value") falls below NIS 1.1 billion. In case of an exception, an additional 0.25% will be added to the interest applicable to the debentures (Series N).	DIC's net asset value - NIS 1.2 billion	DIC's net asset value - NIS 1.1 billion
The ratio between DIC's net financial debt and its asset value exceeds 85%. In case of an exception, an additional 0.5% will be added to the interest applicable to the debentures (Series N).	The ratio between DIC's net financial debt and its asset value - 69%.	The ratio between DIC's net financial debt and its asset value - 71%.
A charge on DIC shares in favor of the fulfillment of the undertakings towards the debenture holders (Series N).	Approximately 99.3 million DIC shares were charged.	Approximately 99.3 million DIC shares were charged.

1.4.4.3.3 For details of grounds for demanding payment of the Company's bonds, see note 4.B.4 of the financial statements.

12 Asset value is determined according to the value of the assets, as stated below: (A) In respect of holdings which constitute listed securities - according to their average market value during the last five trading days preceding June 30, 2019. (B) In respect of non-marketable holdings - according to their value in the Company's financial statements;

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.4 Select Data from the Financial Statements (Continued)

1.4.4 The Company's financing sources (Continued)

1.4.4.3 Financial restrictions and covenants (Continued)

1.4.4.3.4 Presented below are details regarding the liens which were provided towards the Company's debenture holders, in favor of the liabilities to those holders:[16]

Charged asset	Charged in favor of the holders of debenture series	As of June 30, 2019		Proximate to the publication date of this report	
		Amount	Rate of charged holdings	Amount	Rate of charged holdings
		Millions of shares	%	Millions of shares	%
Shares of DIC (1)	N	99.26	70.2	99.26	70.2
Shares of Clal Holdings Insurance Enterprises (2)	K	2.77	5.0	2.77	5.0
	M(1)	8.54	15.4	8.54	15.4

(1) It should be noted that since November 2017, the Company does not hold shares of DIC (for details, see Note 3.A. to the annual financial statements). 99.26 million par value of the aforementioned shares were charged by Dolphin IL, through a specific first priority charge in favor of the debenture holders (Series N), through a specific second priority charge in favor of the Company, and through a specific third priority charge in favor of the Company's debenture holders (including Series N). Additionally, 17.16 million shares of DIC are charged through a specific first priority charge in favor of the Company, and through a specific second priority charge in favor of all of the Company's debenture holders. Accordingly, in total, 116.42 million DIC shares are charged to guarantee the debenture from Dolphin IL. The market value of the aforementioned shares as of June 30, 2019, and proximate to the publication date of the report, was NIS 735 million and NIS 625 million, respectively.
Additionally, as of June 30, 2019, and proximate to the publication date of the report, a total of NIS 2 million is also charged in favor of the debenture holders (Series N), which is deposited in a Company account, as well as NIS 58 million par value of Company debentures (Series I), which is deposited in an account of Dolphin IL.

(2) The Company charged, for the debenture holders (Series M), the consideration in respect of the base shares, and not the base shares themselves. See Note 8.B.2. to the annual financial statements.
In February 2019 and May 2019, the Company's Board of Directors resolved to execute partial prepayments of the debentures (Series M), in the amount of NIS 129.5 and 134.3 million par value, respectively, and in the amount of NIS 141 and 143 million par value (including principal, interest and, additional interest on the repaid part of the prepayment), respectively. The prepayments were executed on February 28, 2019, and on May 28, 2019, respectively, and were paid out of the aforementioned trust account. On June 30, 2019, after the execution of the prepayments, a total of NIS 11 million remained in the trust account which is charged in favor of the debenture holders (Series M). See also Notes 4.B.1. and 4.B.2. to the financial statements.

[16] The value of the charged shares, as of the date of the first issuance, was 133% of the debt balance, in accordance with the provisions of the trust deed.

1. **Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)**

1.4 Select Data from the Financial Statements (Continued)

1.4.4 The Company's financing sources (Continued)

1.4.4.4 Report regarding projected cash flows of the Company and its wholly-owned headquarter companies (excluding IDB Tourism)

As of June 30, 2019, the Company has a capital deficit attributed to shareholders and ongoing negative cash flows from ongoing current operations, and the Company's auditors, in their review report, drew attention to Note 1.B to the financial statements, regarding the Company's financial position, the forecasts and the Company's plans based on economic assessments, and specifically to the part relating to the Company's ability to repay its debts when they come due beginning in 2022, which depends, *inter alia*, on factors which are not under its control. For additional details, see Note 1.B. to the financial statements. In light of the above, presented below is a cash flow forecast report, including a breakdown of the liabilities and financial sources from which the Company expects to be able to repay the liabilities during the two-year period ending June 30, 2021.

The information provided in this section should be read together with the periodic report in its entirety, and together with the financial statements, and particularly, together with Note 1.B to the financial statements, regarding the Company's financial position.

	For the period from		
	July 1, 2019 to December 31, 2019	**January 1, 2020 to December 31, 2020**	**January 1, 2021 to June 30 2021**
		NIS millions	
Sources			
Balance of liquid assets at start of period[1]	548	147	240
Receipts from IDB Tourism[2]	-	186	-
Injections from the controlling shareholder[3]	70	70	
Sale of shares of Clal Holdings Insurance Enterprises[4]	439	157	-
Receipts from interest on the debenture from Dolphin IL[5]	4	18	2
Total sources	1,061	578	242
Expected liabilities (expected uses)[6]:			
Cash flows used for operating activities			
General and administrative expenses, net	15	30	15
Cash flows used for financing activities[7]			
Repayment of debenture principal[8]	479	178	-
Repayment of debenture interest [8]	62	100	46
Self-purchase of bonds[9]	145		
Loan to buyer of shares of Clal Holdings Insurance Enterprises [10]	119		
Payments, net, in respect of swap transactions[11]	94	30	-
Total uses	914	338	61
Balance of liquid assets at end of period *	147	240	[12] 181
* Includes balance of restricted deposits in the amount of	130	-	-

1. **<u>Board of Directors' Remarks Regarding the State of the Company's Affairs</u> (Continued)**

1.4 <u>Select Data from the Financial Statements (Continued)</u>

1.4.4 <u>The Company's financing sources</u> (Continued)

1.4.4.4 <u>Reports of projected cash flows for the Company and its wholly-owned headquarter companies (excluding IDB Tourism)</u> (Continued)

(1) The balance of liquid assets includes cash, cash equivalents, short term deposits and restricted deposits. The balance of restricted deposits as of July 1, 2019, amounted to a total of NIS 443 million.

(2) For details, see Note 3.C. to the annual financial statements.

(3) For details, see Note 9.F of the financial statements.

(4) The amount which was included reflects the consideration which the Company is expected to receive from the sale of shares of Clal Holdings Insurance Enterprises, in accordance with the outline for the sale of the Company's holdings in Clal Holdings Insurance Enterprises, and the agreements with the Commissioner. The aforementioned additional consideration was calculated in accordance with the market value of Clal Holdings Insurance Enterprises as of proximate to the publication date of the report. For additional details, see Notes 3.B.8. to the financial statements and 19.A. to the annual financial statements.

(5) Amounts which Dolphin IL has received and will receive in respect of the principal and interest of debentures (Series I), which it received as a payment in kind dividend from DIC, as detailed in Note 3.A.2. to the financial statements, will be transferred to the Company as payments on account of the interest in respect of the debenture from Dolphin IL.

(6) The Company's cash flow forecast does not include repayment in respect of a loan which Property & Building provided to IDBG (for details, see Note 3.D.4. to the annual financial statements). The Company intends to convert the loan into share capital of IDBG, in accordance with the conversion mechanism specified in the aforementioned note.

(7) See also Note 4.D.5 of the financial statements, and it does not include potential ramifications of a demand for early repayment of a loan that IDBG took, as stated in Note 3.D.2 of the financial statements.

(8) The Company's cash flow forecast is presented according to the contractual amortization schedules of the Company's liabilities as of the publication date of the report and on the assumption that a sale transaction of 5% of the shares of Clal Holdings Insurance Enterprises will be made in return for bonds (series I and series N), in accordance with a binding offer that the Company received and that is subject to the approval of the Board of Directors of the Company (including with respect to the scope of the transaction). For details, see note 3.B.9.C of the financial statements.

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.4 Select Data from the Financial Statements (Continued)

1.4.4 The Company's financing sources (Continued)

1.4.4.4 Reports of forecasted cash flows for the Company and its wholly-owned headquarter companies (excluding IDB Tourism) (Continued)

(9) Presented below are details regarding repayments of loans and debentures (based on the Company's current contractual amortization schedules, assuming a transaction for the exchange of 5% of the shares of Clal Holdings Insurance Enterprises, as stated above, including linkage differentials relative to the CPI as of the publication date of the report):

		2019		2020				2021	
		Total Q3	Total Q4	Total Q1	Total Q2	Total Q3	Total Q4	Total Q1	Total Q2
		NIS millions							
Debentures (Series I)	Principal	-	-	-	-	-	178	-	-
	Interest	-	26	-	26	-	26	-	22
Debentures (Series K)	Principal	-	87	-	-	-	-	-	-
	Interest	1	1	-	-	-	-	-	-
Debentures (Series M)	Principal	-	392	-	-	-	-	-	-
	Interest	5	5	-	-	-	-	-	-
Debentures (Series N)	Principal	-	-	-	-	-	-	-	-
	Interest	12	12	12	12	12	12	12	12
Total	**Principal**	**-**	**479**	**-**	**-**	**-**	**178**	**-**	**-**
	Interest	**18**	**44**	**12**	**38**	**12**	**38**	**12**	**34**
Total		**18**	**523**	**12**	**38**	**12**	**216**	**12**	**34**

(10) For details, see Note 3.B.9.C of the financial statements.

(11) The aforesaid amount does not take into account a possibility of partial financing of the loan, see Note 3.B.9.A of the financial statements, and does not take into account a possibility of the Company bringing forward up to NIS 40 million of the amount of the second injection from Dolphin Netherlands, the controlling shareholder of the Company, for the purpose of and in connection with the financing of the loan. For details, see note 9.F of the financial statements.

(12) For details regarding swap transactions on shares of Clal Holdings Insurance Enterprises, see sections 3-5 in Note 3.B. to the annual financial statements, and Note 3.B.6. to the financial statements. It should be noted, in respect of each of the swap transactions, that the Company will be entitled to conclude the transaction before the end of its 24-month period, subject to a prepayment penalty in an immaterial amount, and to release the relevant restricted deposit.
The aforesaid net payments reflect market prices and/or the share price in the option agreements that the Company entered into for the sale of shares of Clal Holdings Insurance Enterprises. See Note 3.B.5 of the financial statements.

1. **Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)**

1.4 **Select Data from the Financial Statements (Continued)**

1.4.4 The Company's financing sources (Continued)

1.4.4.4 Reports of forecasted cash flows for the Company and its wholly-owned headquarter companies (excluding IDB Tourism) (Continued)

(13) Due to the sensitivity of the projected sources, during the cash flow forecast period, to the value of shares of Clal Holdings Insurance Enterprises, presented below is a table showing the projected balance of liquid assets at the end of the cash flow forecast period (June 30, 2021), according to possible changes in the share price of Clal Holdings Insurance Enterprises (NIS millions).

Decrease of 10% in share price	Decrease of 5% in share price	According to the known share price as of proximate to the publication date of the report	Increase of 5% In share price	Increase of 10% in share price
75	128	181	235	288

The data included in the cash flow forecast are based on estimates, and the underlying assumptions and estimates include forward-looking information, as defined in the Securities Law, which is based on the Company's estimates regarding:

The probability of the occurrence of relevant business scenarios from which the Company expects receipts, and the timeframes for the realization of these scenarios; results of business operations; possible alternatives for obtaining sources to repay its liabilities when they come due; repayment dates and amounts in respect of the Company's debentures.

These estimates may not materialize, in whole or in part, or may materialize in a manner which is significantly different from the forecast. The main factors which may affect the above include: The impact of the outline for the forced sale on the share price of Clal Holdings Insurance Enterprises, and the adverse effects on the maximization of proceeds which will be received in respect of the sale of shares of Clal Holdings Insurance Enterprises; Changes in or non-completion of business processes from which the Company expects to receive sources; A depression or deterioration in the status of the capital market and the economy, leading to a significant decrease in the value of the Company's holdings; Dependence on the yields of the Company's debentures; Dependence on the share prices of DIC, which are charged in favor of the Company and its debenture holders, a deterioration in their business or financial position of any other companies held by DIC; dependence on the share price of Clal Holdings Insurance Enterprises; demands of financing parties for significant changes in the repayment dates of existing credit and for the taking of steps by the creditors of the Company against it.

1. **Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)**

1.4 Select Data from the Financial Statements (Continued)

1.4.5 Retained earnings and negative balances of distributable profits[17]

The balance of distributable earnings (as this term is defined in section 302 of the Companies Law), of the Company and of significant investee companies held directly by the Company and by DIC, whose shares are charged in favor of the Company and its debenture holders, as of June 30, 2019, is as follows:

Company	Balance of distributable earnings (negative balances) NIS millions
IDB Development Corporation Ltd.[18]	(951)
IDB Tourism[18]	53
Clal Insurance Enterprises Holdings[19]	2,000
DIC [18]	(425)

1.4.6 Presented below are the changes in the capital (capital deficit) attributed to Company shareholders[20]

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS millions				
Balance at start of period	(230)	730	(444)	518	730
Initial adoption of the amendment to IAS 28	(129)	-	-	-	-
Changes during the period					
Profit (loss) attributed to shareholders in the Company	(252)	(427)	76	(174)	(465)
Capital reserve in respect of fair value changes of the subordinated loans, which is attributed to changes in credit risk	210	(183)	(43)	(203)	(538)
Reserves from translation differences	(15)	23	(5)	17	33
Hedging reserves	(1)	2	(1)	1	(3)
Receipts in respect of settlement	-	14	-	-	14
Capital reserves and other movements, net	(1)	-	(1)	-	(1)
	(418)	159	(418)	159	(230)

17 For information relating to the restrictions on the distribution of dividends, see section 5 of part A of the periodic report.

18 The balance of distributable earnings is calculated based on the net profit (loss) attributed to shareholders, which was accrued in the last eight quarters, in accordance with the provisions of section 302 of the Companies Law, as of June 30, 2019. The balance of cumulative accumulated earnings is lower (in IDB Tourism - negative).

19 For details regarding restrictions on dividend distributions in insurance companies, see sections 11.5.3.2 and 11.5.3.3 in Part A (description of the corporation's affairs) of the periodic report.

20 See also section 1.5 below.

1. **Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)**

1.4 Select Data from the Financial Statements (Continued)

1.4.7 Movement in the balance of convertible subordinated loans which were received from the controlling shareholder

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS millions				
Balance at start of period	529	521	180	501	521
Increase (decrease) in the fair value of the subordinated loans:					
through profit or loss	(96)	(427)	-	(427)	(530)
Through other comprehensive income	(210)	183	43	203	538
	(306)	(244)	43	(224)	8
Balance at end of period	223	277	223	277	529

It is hereby clarified that the aforementioned convertible subordinated loans are subordinate to any current and future debts of the Company, and therefore, the Company does not predict that they will be repaid in the foreseeable future, and accordingly, even though they are presented in the Company's statement of financial position under non-current liabilities, the Company views them as part of the Company's "economic equity" (Non-GAAP measure).

1. **Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)**

1.4 Select Data from the Financial Statements (Continued)

1.4.8 Linkage bases of the assets and liabilities of the Company as of June 30, 2019 (including wholly-owned subsidiaries, other than IDB Tourism)

	Linked to the CPI	Linked to the USD	Unlinked	Non-monetary items	Total
			NIS millions		
Assets					
Debenture from Dolphin IL	-	-	901	-	901
Cost of obtaining collateral for the Company's liabilities from Dolphin IL	-	-	-	148	148
Investments in investee companies	-	-	-	50	50
Restricted and charged deposits	-	-	443	-	443
Non-current financial assets presented at fair value	-	-	-	27	27
Other assets	-	-	-	2	2
Fixed assets	-	-	-	1	1
Current financial assets presented on a fair value basis	-	-	-	4	4
Other receivables	-	8	1	2	11
Investments in investee companies held for sale [(1)]	-	-	-	1,513	1,513
Cash and cash equivalents	-	1	100	-	101
Total assets	-	9	1,445	1,747	3,201
Liabilities					
Debentures	1,291	-	1,380	-	2,671
Financial liabilities presented at fair value	-	-	-	72	72
Liabilities to banks in connection with swap transactions	-	-	618	-	618
Subordinated loans	-	-	223	-	223
Other payables	14	-	7	3	24
Current provisions	-	-	-	2	2
Swap transaction on shares of Clal Holdings Insurance Enterprises	-	-	-	9	9
Total liabilities	1,305	-	2,228	86	3,619
Net exposure as of June 30, 2019	(1,305)	9	(783)	1,661	(418)
Net exposure as of June 30, 2018	(1,267)	119	(1,011)	2,318	159
Net exposure as of December 31, 2018	(1,286)	1	(1,121)	2,176	(230)

(1) Including the value of shares of Clal Holdings Insurance Enterprises in swap transactions.

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.4 Select Data from the Financial Statements (Continued)

1.4.9 Sensitivity tests for financial instruments

For details regarding sensitivity tests for sensitive financial instruments included in the consolidated financial statements as of June 30, 2019, based on changes in market factors, see Appendix A to the Board of Directors' Report.

For details regarding the possible effect of changes in the Consumer Price Index on the operating results of the Company, see section 1.4.8 above.

Presented below are the summing-up lines of the sensitivity tables

As of June 30, 2019:

	Profit (loss) from changes in parameters examined in the sensitivity tests						
	Increase in parameter				Decrease in parameter		
	2% in absolute value	10%	5%	Fair value	5%	10%	2% in absolute value
	NIS millions						
Sensitivity to changes in interest rates	71	74	38	(1,843)	(39)	(80)	(76)

	Profit (loss) from changes in parameters examined in the sensitivity tests				
	Increase in parameter			Decrease in parameter	
	10%	5%	Fair value	5%	10%
	NIS millions				
Sensitivity to changes in the US Dollar exchange rate	(30)	(15)	(297)	15	30
Sensitivity to changes in the prices of marketable securities	123	61	1,496	(61)	(123)

As of June 30, 2018:

	Profit (loss) from changes in parameters examined in the sensitivity tests						
	Increase in parameter				Decrease in parameter		
	2% in absolute value	10%	5%	Fair value	5%	10%	2% in absolute value
	NIS millions						
Sensitivity to changes in interest rates	144	70	36	(2,833)	(36)	(73)	(158)

	Profit (loss) from changes in parameters examined in the sensitivity tests				
	Increase in parameter			Decrease in parameter	
	10%	5%	Fair value	5%	10%
	NIS millions				
Sensitivity to changes in the US Dollar exchange rate	-	-	(2)	-	-
Sensitivity to changes in the prices of marketable securities	175	87	1,749	(87)	(175)

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.4 Select Data from the Financial Statements (Continued)

1.4.9 Sensitivity tests for financial instruments (Continued)
Presented below are the summing-up lines of the sensitivity tables (Continued)

As of December 31, 2018:

	Profit (loss) from changes in parameters examined in the sensitivity tests						
	Increase in parameter				Decrease in parameter		
	2% in absolute value	10%	5%	Fair value	5%	10%	2% in absolute value
	NIS millions						
Sensitivity to changes in interest rates	93	77	39	(2,202)	(41)	(83)	(104)

	Profit (loss) from changes in parameters examined in the sensitivity tests				
	Increase in parameter			Decrease in parameter	
	10%	5%	Fair value	5%	10%
	NIS millions				
Sensitivity to changes in the US Dollar exchange rate	(14)	(8)	(147)	8	14
Sensitivity to changes in the price of Clal Holdings Insurance Enterprises	175	87	1,749	(87)	(175

1.5 Changes in capital and quality of profit (loss)

For details regarding factors which affect net income (loss), and regarding the Company's comprehensive income (loss), see section 1.1 above.

The Company's total comprehensive income in the second quarter of 2019 (including non-controlling interests) amounted to NIS 27 million, as compared with comprehensive loss (including non-controlling interests) of NIS 360 million in the corresponding quarter last year. The aforementioned difference is primarily due to the following factors:

A. Income in the second quarter of 2019 (including non-controlling interests) amounted to NIS 76 million, as compared with loss in the amount of NIS 175 million in the corresponding quarter last year.

B. In the second quarter of 2019, the Company recorded other comprehensive loss in the amount of NIS 43 million, due to the update to the fair value of the convertible subordinated loans from the controlling shareholder, which is attributed to a change in the Company's credit risk. In the corresponding quarter last year, the Company recorded other comprehensive loss, as stated above, in the amount of NIS 203 million.

C. In the second quarter of 2019, other comprehensive loss (including non-controlling interests), net of tax, was recorded in respect of foreign currency translation differences in respect of foreign operations in the amount of NIS 4 million, as compared with comprehensive income net of tax in the amount of NIS 7 million in the corresponding quarter last year. The difference was due to a decrease of 1.8% in the USD exchange rate in the second quarter of 2019, as compared with the increase of 3.9% in the corresponding quarter last year.

D. In the second quarter of 2019, the Company recorded other comprehensive loss (including non-controlling interests) in respect of investee companies treated at equity net of tax in the amount of NIS 1 million, as compared with other comprehensive income in the amount of NIS 10 million in the corresponding quarter last year. The difference was mainly due to the change in the USD exchange rate, as detailed in section C above.

Comprehensive income attributed to the shareholders in the Company in the second quarter of 2019 amounted to NIS 27 million, as compared with comprehensive loss of NIS 359 million in the corresponding quarter last year.

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.6 Summary of the Company's results (consolidated)

Select data from the Company's results	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS millions				
Profit (loss) attributed to shareholders	(252)	(427)	76	(174)	(465)
Net profit (loss) attributed to non-controlling interests	4	3	-	(1)	1
Loss attributed to shareholders and to non-controlling interests	(248)	(424)	76	(175)	(464)
Profit (loss) from discontinued operations (including non-controlling interests)	71	(352)	178	(383)	(307)
Comprehensive income (loss) attributable to Company shareholders	(58)	(585)	27	(359)	(974)

1.7 Details regarding main non-recurring events

1.7.1 Details regarding main non-recurring profits (losses)

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS millions				
Not involving cash flows - in the statements of income					
Increase (decrease) in the fair value of Clal Holdings Insurance Enterprises (1)	112	(320)	211	(370)	(302)
Decrease in the fair value of convertible subordinated loans from the controlling shareholder, which are attributed to market changes	96	427	-	427	530
Net decrease in the value of the Tivoli project and inventory of real estate in Las Vegas (2)	(3)	(40)	-	(40)	(40)
Decrease in the value of the debenture from Dolphin IL	(302)	(296)	(27)	(82)	(326)
Involving cash flows - in the statements of income					
Interest received in respect of the debenture from Dolphin IL	32	-	-	-	-

(1) Presented under discontinued operations. The increase (decrease) in fair value includes shares which are subject to swap transactions. With respect to approximately 8% of the shares of Clal Holdings Insurance Enterprises - the change in value in the second quarter and in the first half of 2019 was calculated according to the exercise price of the options. For details regarding the options, see Note 3.B.5. to the financial statements.

(2) For details, see Note 3.D.1. to the financial statements and Appendix C below.

1. **Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)**

1.7 Details regarding main non-recurring events (Continued)

1.7.2 Significant non-recurring effects on the Company's capital, which do not involve the recording of profit (loss)

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS millions				
Not involving cash flows - under other comprehensive income					
Other comprehensive income (loss) with respect to the change in fair value of convertible subordinated loans from the controlling shareholder, attributed to the change in the Company's credit risk - see Notes 4.A. and 6. to the financial statements.	210	(183)	(43)	(203)	(538)
Initial adoption of the amendment to IAS 28 (see Note 2.E.1. to the financial statements)	(129)	-	-	-	-
Involving cash flows - directly under capital					
Increase in capital due to receipt with respect to compromise agreement	-	14	-	-	14

1.8 Contribution to the business results of the Company and of investee companies, by operating segment[21]

1.8.1 IDB Tourism segment

The Company's share in the results of the IDB Tourism segment in the second quarter of 2019 amounted to loss of NIS 9 million, as compared with loss of NIS 7 million in the second quarter of 2018.

21 In the tables presented in this section, the percentage of change relating to the comparison of data to the corresponding periods of last year is calculated based on exact figures which are not rounded to the nearest million.

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.8 Contribution to the business results of the Company and of investee companies, by operating segment (Continued)

Summary of the business results of the IDB Tourism segment:

	First six months of 2019	First six months of 2018	Increase (Decrease)	Second quarter of 2019	Second quarter of 2018	Increase (Decrease)	Explanation
	NIS millions		%	NIS millions		%	
Revenues	384	538	(28.6%)	212	299	(29.1%)	The decrease in income, cost of sales and gross profit in the first half of 2019, as compared with the corresponding period last year, was primarily due to the sale of the incoming tourism activity (in December 2018), and from a decrease in the domestic activity in view of the closing of the airport in Eilat and the move to Ramon Airport. The decrease in income and cost of sales in the second quarter of 2019, as compared with the corresponding period last year, was primarily due to the sale of the incoming tourism activity and from the decrease in domestic activity in view of the closing of the airport in Eilat and the move to Ramon Airport. The aforesaid decrease was partially offset as a result of the impact of the timing of the Passover holiday. The increase in gross profit during this period was primarily due to the timing of the Passover holiday, and to actions which Israir performed in order to deal with the increasing competition in the segment, which were offset by the gross profit in incoming tourism activity (which was sold in 2018).
Cost of revenue	360	503	(28.5%)	194	284	(31.6%)	
Gross profit	24	35	(31.2%)	18	15	17.0%	
Rate of gross profit from total revenues	6.2%	6.5%		8.6%	5.2%		
Operating expenses	(45)	(54)	(17.9%)	(24)	(27)	(12.4%)	The decrease in the first half and second quarter of 2019, as compared with the corresponding periods last year, was primarily due to the sale of the incoming tourism activity.
Other revenues (expenses), net	2	(6)		-	(2)		Other revenues in the first half of 2019 included a profit update with respect to the sale of incoming tourism. Other expenses in the first half and second quarter of 2018 included expenses in respect of intake and training of pilots and aircrew members, before the receipt of new airplanes in the second quarter of 2018
Operating loss	(16)	(24)	(31.9%)	(4)	(13)	(68.4%)	
EBITDA (including share in the profits of associate companies)	17	(2)		14	(3)		The improvement in EBITDA in the first half and the second quarter of 2019, as compared with the corresponding periods last year derived mainly from an increase in depreciation expenses as a result of the initial implementation of the IFRS 16 standard and from operations that Israir carried out in order to content with the growing competition in the sector.
Rate of EBITDA from total revenues	4.3%	(0.3%)		6.4%	(0.3%)		
Impairment loss	-	(5)		-	-		Loss in the first half of 2018 included impairment loss in respect of the merger transaction which was expected between Israir and Sun D'or.
Financing income (expenses), net	(10)	2		(6)	4		The transition from financing income to financing expenses in the first half and in the second quarter of 2019 was primarily due to the recording of financing expenses with respect to leases, due to the initial adoption of the provisions of IFRS 16. Moreover, in the second quarter of 2018, Israir recorded a profit in a sum of approximately 1.5 million dollars for the replacement of a debt instrument in accordance with the provisions of IFRS 9.
Tax benefit	3	3		-	1		
Loss for the period	**(27)**	**(27)**	-	**(9)**	**(7)**	**25.5%**	

For details regarding the main changes in tourism segment during the reporting period, see Note 3.C. to the financial statements.

1. **Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)**

1.8 Contribution to the business results of the Company and of investee companies, by operating segment (Continued)

1.8.2 IDBG segment

The Company's share in the results of the IDBG segment, in respect of the Company's direct holding thereof, amounted in the second quarter of 2019 to loss of NIS 4 million, as compared with loss of NIS 45 million in the second quarter of 2018. The loss in the second quarter of 2018 includes loss in respect of the Company's share in the impairment of the Tivoli project, in the amount of NIS 40 million.

Summary of the business results of the IDBG segment:

	First six months of			Second quarter of			
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)	
	NIS millions		%	NIS millions		%	Explanation
Revenues from rentals	22	21	4.3%	12	11	8.5%	
EBITDA	9	3	234.1%	6	2		The increase in the first half and second quarter of 2019, as compared with the corresponding periods last year, was primarily due to the decrease in operating expenses (mostly selling and marketing expenses, legal expenses, doubtful debt expenses and other expenses)
Decrease in fair value of investment property and assets	(6)	(80)		-	(80)		The changes in fair value were due to updates to the valuations of the Tivoli project and real estate inventory in Las Vegas. See also Note 3.D.1 to the financial statements.
Financing expenses, net, to externals	(19)	(14)	38.9%	(9)	(7)	24.3%	The increase in expenses in the first half and second quarter of 2019, relative to the corresponding periods last year, was mainly due to the impact of the change in USD/NIS exchange rate on a NIS loan.
Financing expenses in respect of credit from Property & Building (*)	(13)	(9)	47.7%	(6)	(5)	22.9%	The increase in the first half and second quarter of 2019, relative to the corresponding periods last year, was due to the increase in the balance of debt, as a result of the accrual of interest.
Loss for the period (**)	**(29)**	**(100)**	**(70.8%)**	**(8)**	**(90)**	**(90.9%)**	

(*) Due to credit which was received from Property & Building in 2016 (for details, see Note 3.D.4. to the annual financial statements).

(**) Loss before financing effects in respect of the shareholder's loans which were provided by the Company and Property & Building in equal parts.

For details regarding the main changes in the holdings of the IDBG segment during the reporting period, see Note 3.D. to the financial statements.

1. Board of Directors' Remarks Regarding the State of the Company's Affairs (Continued)

1.8 Contribution to the business results of the Company and of investee companies, by operating segment (Continued)

1.8.3 Clal Holdings Insurance Enterprises Segment

The Company's share in the results of the Clal Holdings Insurance Enterprises segment in the second quarter of 2019 amounted to income of NIS 187 million, as compared with loss of NIS 375 million in the corresponding quarter last year. Following the transfer of the means of control in Clal Holdings Insurance Enterprises, which are held by the Company, to a trustee in August 2013, the results of Clal Insurance Enterprises, from the aforementioned date, are presented in accordance with the changes in the market value of the Company's holdings of the shares of Clal Holdings Insurance Enterprises.
For details regarding the market value of the shares of Clal Holdings Insurance Enterprises, which are owned by the Company, as of June 30, 2019, and proximate to the approval date of this report and regarding SWAP transactions which were executed and regarding the method of accounting treatment and the presentation of the investment in the statement of financial position, and regarding options which were given to third parties for the acquisition of shares of Clal Holdings Insurance Enterprises which are held by the Company, see sections 5, 6, 7 and 8 of Note 3.B. to the financial statements, and Note 3.B.4. to the annual financial statements.

For details regarding the main changes in the Clal Holdings Insurance Enterprises segment during the reporting period, see Note 3.B. to the financial statements.

1.9 Administrative, financing and other expenses, net

	First six months of		Second quarter of		
	2019	2018	2019	2018	
	NIS millions		NIS millions		Explanation
Administration and other expenses, net:	(11)	(11)	(4)	(5)	In the second quarter of 2019, a decrease occurred in the Company's payroll expenses relative to the corresponding period last year. The aforementioned decrease was offset, in the first half of 2019, due to the increase in consulting and legal expenses, primarily with respect to the claim against the Company in connection with the sale of DIC to Dolphin IL.
Financing expenses, net:	(112)	(141)	(67)	(86)	The decrease in net financing expenses, net in the first half and in the second quarter of 2019, as compared with the corresponding periods last year, was primarily due to the decrease in financing expenses on the Company's debentures, as a result of the decrease in the scope of debt. Additionally, in the first half and in the second quarter of 2018, the Company recorded impairment loss of Token (CLN) in the amount of NIS 14 million.
Total	**(123)**	**(152)**	**(71)**	**(91)**	

2. Exposure to and Management of Market Risks

2.1 During the reporting period, no material changes occurred in the Company's exposure to and management of market risks, relative to the Company's reports on this subject in the Company's Board of Directors' Report for 2018.

The Company does not manage the risks of its investee companies.

2.2 Investee companies

During the reporting period, no material changes occurred in the exposure area of the Company's material investee companies to market risks and the management thereof, in respect of the Company's reports on the subject in the Company's Board of Directors' Report for 2018.

3. Disclosure Requirements in Connection with the Corporation's Financial Report

3.1 Major events subsequent to the date of the statement of financial position

For details regarding major events subsequent to the date of the statement of financial position, see Note 9 to the financial statements.

3.2 Reference by the Company's auditors

The auditors' review report includes a reference to the provisions of Note 1.B. to the financial statements regarding the Company's financial position, the Company's projections and plans that are based on economic assessments, and specifically, to the part relating to the Company's ability to repay its liabilities during the period as from 2022. As stated in the aforementioned note, the Company's ability to repay the balance of its debts when they come due, beginning in 2022, is dependent, *inter alia*, on factors which are not under its control, and mostly on the economic value of the debenture from Dolphin IL and on the cash flows therefrom until the conclusion date of the Company's liabilities towards its creditors.

3.3 Specific disclosure for the debenture holders

See Appendix B to the Board of Directors' Report.

Eduardo Elsztain Chairman of the Board	Sholem Lapidot CEO

Tel Aviv, August 31, 2019

Appendix A - Qualitative Reports Regarding the Exposure to and Management of Market Risks

Sensitivity tests in respect of market factors

Presented below are tables of sensitivity tests regarding the market value of sensitive financial instruments held by the Group.

The following tables should be read in light of the following remarks:

1. The specified instruments are not necessarily presented in the financial statements at fair value. The above pertains primarily to the Company's debentures.
2. Changes in exchange rates have an effect on both reported results and on the Company's capital as a result of the charging of translation differences, due to the translation of the financial statements of investee companies which are prepared in foreign currency.
3. As of June 30, 2019, the Company's assets include an investment in the debenture from Dolphin IL in the amount of NIS 901 million, which is measured at fair value (level 3) through profit and loss, and is presented in the Company's financial statements under non-current assets. For details regarding sensitivity analyses in respect of the debenture's fair value, see Note 6.B. to the financial statements.

A. Sensitivity tests as of June 30, 2019 (NIS millions)

Sensitivity test to changes in interest rates							
Instrument	Profit (loss) from the change				Profit (loss) from the change		
	Absolute interest rate increase of 2%	Interest rate increase of 10%	Interest rate increase of 5%	Fair value as of June 30, 2019	Interest rate decrease of 5%	Interest rate decrease of 10%	Absolute interest rate decrease of 2%
Debentures (including maturities)	71	74	38	(1,843)	(39)	(80)	(76)

Sensitivity test to changes in US Dollar exchange rate					
Instrument	Profit (loss) from the change			Profit (loss) from the change	
	Exchange rate increase of 10%	Exchange rate increase of 5%	Fair value as of June 30, 2019	Exchange rate decrease of 5%	Exchange rate decrease of 10%
Assets classified as held for sale	13	6	129	(6)	(13)
Cash and cash equivalents	-	-	1	-	-
Liabilities classified as held for sale	(43)	(21)	(427)	21	43
Total	**(30)**	**(15)**	**(297)**	**15**	**30**

Sensitivity test to changes in the market prices of marketable securities					
Instrument	Profit (loss) from the change			Profit (loss) from the change	
	Price increase of 10%	Price increase of 5%	Fair value as of June 30, 2019	Price decrease of 5%	Price decrease of 10%
Investment in Clal Holdings Insurance Enterprises	123**	61**	1,496*	(61)**	(123)**

* Includes the value of the investment in Clal Holdings Insurance Enterprises, which is measured at fair value through profit and loss and presented in the Company's financial statements under assets held for sale, and the value of the shares on which swap transactions were executed (including the value of the underlying shares in the swap transaction, which is presented net under non-current liabilities). For details regarding the swap transactions which were executed, and the handling method thereof, see Note 3.B.6. to the financial statements and Note 3.B.4. to the annual financial statements.

** The profit (loss) from the change refers to the value of the aforementioned shares, in consideration of the options which the Company gave to third parties for the acquisition of approximately 8% of the share capital of Clal Holdings Insurance Enterprises, as detailed in Note 3.B.5. to the financial statements.

Appendix A - Qualitative Reports Regarding the Exposure to and Management of Market Risks (Continued)

Sensitivity tests in respect of market factors (Continued)

B. Sensitivity tests as of June 30, 2018 (NIS millions)

Sensitivity test to changes in interest rates							
Instrument	Profit (loss) from the change				Profit (loss) from the change		
	Absolute interest rate increase of 2%	Interest rate increase of 10%	Interest rate increase of 5%	Fair value as of June 30, 2018	Interest rate decrease of 5%	Interest rate decrease of 10%	Absolute interest rate decrease of 2%
Current investments, not including derivatives	(11)	(2)	(1)	135	1	2	11
Debentures (including maturities)	155	72	37	(2,968)	(37)	(75)	(169)
Total	**144**	**70**	**36**	**(2,833)**	**(36)**	**(73)**	**(158)**

Sensitivity test to changes in US Dollar exchange rate					
Instrument	Profit (loss) from the change			Profit (loss) from the change	
	Exchange rate increase of 10%	Exchange rate increase of 5%	Fair value as of June 30, 2018	Exchange rate decrease of 5%	Exchange rate decrease of 10%
Current investments, not including derivatives	9	4	85	(4)	(9)
Assets classified as held for sale	16	8	160	(8)	(16)
Cash and cash equivalents	3	2	34	(2)	(3)
Liabilities classified as held for sale	(28)	(14)	(281)	14	28
Total	**-**	**-**	**(2)**	**-**	**-**

Sensitivity test to changes in the prices of marketable securities on Israeli and foreign stock exchanges					
Instrument	Profit (loss) from the change			Profit (loss) from the change	
	Price increase of 10%	Price increase of 5%	Fair value as of June 30, 2018	Price decrease of 5%	Price decrease of 10%
Investment in marketable securities	175	87	1,749*	(87)	(175)

* Including an investment in the amount of NIS 1,553 million in Clal Holdings Insurance Enterprises, which is measured at fair value through profit and loss under assets held for sale (including shares on which swap transactions were executed).

Appendix A - Qualitative Reports Regarding the Exposure to and Management of Market Risks (Continued)

Sensitivity tests in respect of market factors (Continued)

C. Sensitivity tests as of December 31, 2018 (NIS millions)

Sensitivity test to changes in interest rates							
Instrument	Profit (loss) from the change				Profit (loss) from the change		
	Absolute interest rate increase of 2%	Interest rate increase of 10%	Interest rate increase of 5%	Fair value as of December 31, 2018	Interest rate decrease of 5%	Interest rate decrease of 10%	Absolute interest rate decrease of 2%
Debentures (including maturities)	93	77	39	(2,202)	(41)	(83)	(104)

Sensitivity test to changes in US Dollar exchange rate					
Instrument	Profit (loss) from the change			Profit (loss) from the change	
	Exchange rate increase of 10%	Exchange rate increase of 5%	Fair value as of December 31, 2018	Exchange rate decrease of 5%	Exchange rate decrease of 10%
Assets classified as held for sale	9	4	86	(4)	(9)
Cash and cash equivalents	-	-	1	-	-
Liabilities classified as held for sale	(23)	(12)	(234)	12	23
Total	**(14)**	**(8)**	**(147)**	**8**	**14**

Sensitivity test to changes in the prices of marketable securities on Israeli and foreign stock exchanges					
Instrument	Profit (loss) from the change			Profit (loss) from the change	
	Price increase of 10%	Price increase of 5%	Fair value as of December 31, 2018	Price decrease of 5%	Price decrease of 10%
Investment in Clal Holdings Insurance Enterprises	175	87	1,749*	(87)	(175)

* Includes the value of the investment in Clal Holdings Insurance Enterprises, which is measured at fair value through profit and loss and presented in the Company's financial statements under assets held for sale, and the value of the shares on which swap transactions were executed (including the value of the underlying shares in the swap transaction, which is presented net under non-current liabilities). For details regarding the swap transactions which were executed, and the handling method thereof, see Note 3.B.6. to the financial statements and Note 3.B.4. to the annual financial statements.

Appendix B - Financial Position and Financing Sources

Information regarding the Company's debentures

Presented below is a table specifying the Company's debenture series
Summary of data regarding debentures[(1)], NIS millions, as of June 30, 2019

Series	Original issuance date	Par value on the issuance date	Outstanding par value balance	Outstanding linked par value balance	Amount of interest accrued in the books	Carrying value of the debenture balance as of June 30, 2019	Material series[(2)]	Market value	Interest rate (fixed)	Principal payment dates [(3)] From	Principal payment dates [(3)] to	Interest payment dates in each year	Linkage terms	Trust company - Name and address of person in charge and telephone number
I [(4)(5)]	19/12/2006 24/06/2007* 30/03/2016*	547.5 440.2 138.4												
Total Series I [(10),(12),(13)]		1,126.1	1,012.7	1,241.8	2.0	1,205.5	Yes	668.4	4.95%	18/12/2020	18/12/2025	18/06, 18/12	CPI	**Hermetic Trust (1975) Ltd.** (As from April 11, 2013) Person in charge: Dan Avnon, Adv. Sheshet Hayamim St., Bnei Brak 5120261. Tel: 03-5544553
Total Series K [(6), (8)] (Original issuance date: August 3, 2016)		325.0	85.5	87.7	0.3	87.8	No	87.5	4.25%	In a single payment on November 28, 2019		28/2, 28/5, 28/8, 28/11	CPI	**Reznik Paz Nevo Trustees Ltd.** Person in charge: Yossi Reznik, C.P.A., 14 Yad Haroutzim St. Tel Aviv Tel: 03-6393311
Total Series M [(7), (8)] (Original issuance date: February 16, 2017)		1,060.0	392.0	392.0	1.9	390.0	Yes	386.4	5.40%	In a single payment on November 28, 2019		28/2, 28/5, 28/8, 28/11	Unlinked	**Mishmeret Trust Company Ltd.** Person in charge: Rami Sabato, C.P.A. 48 Menachem Begin Road, Tel Aviv Tel: 03-6374351
N [(8),(9),(10),(12),(13)]	24/7/2017 7/11/2017*	642.1 351.2												
Total Series N		993.3	993.3	993.3	-	991.5	Yes	700.3	5.00%	In a single payment on December 30, 2022		30/3, 30/6, 30/9, 30/12	Unlinked	**Reznik Paz Nevo Trustees Ltd.** Person in charge: Yossi Reznik, C.P.A., 14 Yad Haroutzim St. Tel Aviv Tel: 03-6393311
Total			2,483.5	2,714.8	4.2	2,674.8								

* An extension was made to the aforementioned series on this date. The data in the table refer to the entire series, after all its extensions.

Appendix B - Financial Position and Financing Sources (Continued)

Information regarding the Company's debentures (Continued)

Summary of debenture data(1), NIS millions, as of June 30, 2019 (Continued)

Remarks:

(1) As of June 30, 2019, and as of the publication date of the report, the Company has fulfilled and currently fulfills all of the terms and undertakings in accordance with the trust deeds for the debentures, and conditions which would give rise to grounds for requiring the immediate repayment of the liability certificates have not been fulfilled. For details regarding financial restrictions and covenants and grounds for demanding the immediate repayment of the debentures, see Note 4.B.4. to the financial statements.

(2) A material series is a series which comprises 5% or more of the Company's total liabilities.

(3) Annual payments.

(4) Until January 2019, NIS 106.9 million par value was held by a wholly-owned subsidiary. In January 2019, the aforementioned debentures were transferred to the Company, and were delisted from trading on the stock exchange.

(5) In August 2009, NIS 230 million par value of Series G (fully repaid) and NIS 6.5 million par value of Series I were exchanged for NIS 274.1 million par value of Series J (fully repaid).

(6) The debentures (Series K) are secured by a charge on the shares of Clal Holdings Insurance Enterprises, as stated in section 1.4.4.3.3 above. For details regarding the information which is required in respect of Clal Holdings Insurance Enterprises, see also the current reports of Clal Holdings Insurance Enterprises on the MAGNA website. On November 1, 2016, the Company executed a partial early redemption of the debentures. For additional details, see Note 8.B.1. to the annual financial statements.

(7) On February 16, 2017, the Company issued debentures (Series M) which are secured by a charge on the right to receive the entire consideration, in cash and in kind, which will result for the Company from the 27,583,104 shares of Clal Holdings Insurance Enterprises which it owns. In accordance with resolutions which were passed by the Company's Board of Directors, the Company repaid, through prepayment, in May 2017, May 2018, November 2018, February 2019 and May 2019, a total of 136 million par value, 129.6 million par value, 138.6 million par value, 129.5 million par value and 134.3 million par value, respectively. For details regarding the debentures (Series M) and the prepayments, see Note 8.B.2. to the annual financial statements, and Notes 4.B.1. and 4.B.2. to the financial statements. The balance of the shares, where the right to receive their consideration is charged in favor of this series, as of June 30, 2019, and proximate to the publication date of the financial statements, amounts to 8,536,317 par value.
For details regarding the information which is required in respect of Clal Holdings Insurance Enterprises, see also the current reports of Clal Holdings Insurance Enterprises on the MAGNA website.

(8) The Company has the right of early redemption in respect of the debentures.

(9) On July 24, 2017, the Company issued debentures (Series N) which are secured by a charge on 60,370,493 DIC shares. On November 7, 2017, the Company issued, by way of a series extension, an additional approximately 351.2 million par value. Against this extension, and against the release of the dividend funds which were received from DIC in respect of the charge DIC shares, the Company charged an additional 38,882,215 DIC shares. For details regarding the sale of the Company's entire stake in DIC to a company owned by the controlling shareholder in November 2017, see Note 3.A. to the annual financial statements. Proximate to the publication date of this report, 99,258,708 shares of DIC and 58,066,344 debentures (Series I) of the Company are charged in favor of the debenture holders (Series N), which are held by Dolphin IL (additional shares of DIC and additional debentures (Series I) of the Company are charged, through lower-ranking charges, in favor of all of the debenture holders). For additional details, see Note 3.A. to the annual financial statements and section 1.4.4.3.3 above. For details regarding the information that is required in respect of DIC, see also DIC's current reports on the MAGNA website.

(10) For details regarding the purchase of debentures (Series I) and debentures (Series N), which were purchased by DIC (a corporation controlled by the Company's controlling shareholder), and regarding the distribution of most of the acquisitions of the debentures (Series I) as a payment in kind dividend, see Note 17.D.(1) to the annual financial statements, and Note 3.A.2. to the financial statements.

(11) For details regarding a petition which was filed by the trustee for the holders of the Company's debentures (Series I) (the "Trustee (Series I)"), on April 30, 2019, after a resolution was passed in the meeting of debenture holders (Series I), against the Director of the Capital Market, Insurance and Savings Authority (the "Commissioner"), the trustee for the Company's holdings in Clal Holdings Insurance Enterprises (the "Trustee") and the Company (with the trustees for the Company's other debenture series being added as formal respondents), in which the trustee for the debentures (Series I) requested, *inter alia*, that the Commissioner and the trustee be ordered to suspend the sale of shares of Clal Holdings Insurance Enterprises (the "Petition"), and the striking thereof by the Court, at the request of the trustee for the debentures (Series I), see Note 3.B.4. to the financial statements. It should be noted, in connection with the petition, that the holders of the Company's debentures (Series M) held a meeting for discussion and consultation purposes.

(12) On July 9, 2019, each of the meetings of the debenture holders (Series I and Series N) resolved to appoint a representation for each series, and to appoint a legal advisor and economic consultant for each representation. For details, see Note 4.B.5. to the financial statements.
For details regarding the resolutions which were passed in the meetings of the debenture holders (Series I and Series N) on the issues specified below, see the Company's immediate reports:
- A resolution of the meeting of the debenture holders (Series I) regarding the election of several representatives to serve in the representation, the identity of the representation members, and restrictions on professional fees for the economic consultant and legal advisor - immediate report dated July 17, 2019; Reference number 2019-01-073828.
- A resolution of the meeting of the debenture holders (Series I) to appoint Fischer Behar Chen Well Orion & Co. Law Office as the legal advisor, and Professor Aharoni (Roni) Ofer-Digar Economic and Financial Consulting Ltd. as the economic consultant - immediate report dated July 23, 2019-10-063816.
- A resolution of the meeting of the debenture holders (Series N) to appoint Omer Sarbinski, CPA and Itzhak Idan, CPA as members of the representation and as economic consultants; and to appoint Erdinast, Ben Nathan, Toledano & Co. - through the attorneys Raanan Kalir and Alon Binyamini, as legal advisor - immediate report dated July 29, 2019; Reference number 2019-10-065643.

(13) On August 27, 2019, the Company received a binding offer to make a transaction for the sale of shares of Clal Holdings Insurance Enterprises in return for bonds of the Company (Series I or Series N) or in return for cash or for a combination of the aforesaid elements, at the Company's discretion. For details, see Note 3.B.9.C of the financial statements.
On August 31, 2019, the Company published a Letter of Undertaking to the holders of the bonds, and an undertaking of the Company, insofar as it will make self-purchases, to carry out purchase and balancing operations, as they are defined in the Letter of Undertaking. For details, see note 4.B.6 of the financial statements and immediate report, ref. no. 2019-01-091144.

Appendix B - Financial Position and Financing Sources (Continued)

Details regarding debenture ratings

Series	Name of rating company	Rating as of June 30, 2019	Rating as of August 29, 2019	Rating determined on the series' issuance date	Date of rating issuance as of August 29, 2019*	Additional ratings and updates to existing ratings during the period between the original issuance date and the current rating as of August 29, 2019	
						Date	Rating
I	Maalot	CC	CC	AA	27.6.2019	18.6.2007, 29.7.2009, 3.1.2011, 3.10.2011, 2.11.2011, 3.5.2012, 19.9.2012, 17.1.2013, 2.5.2013, 4.6.2013, 17.6.2013, 6.7.2014, 20.1.2015, 26.2.2015, 1.1.2016, 29.3.2016, 26.2.2017, 9.8.2018, 18.4.2019	AA, A+, A-BBB+, BB, B, BBB-, CC, D, CCC BB-

* On April 18, 2019, Maalot announced that it was reducing the Company's rating to BB-, negative outlook.
The updated rating report was published by the Company in an immediate report on April 18, 2019 (reference number 2019-01-036732).
On June 27, 2019, Maalot announced, due to the increased risk of insolvency, that it was reducing the Company's rating to CCC, negative rating outlook. Maalot reduced the rating of the debentures (Series I), which are unsecured, to a rating of CC. The updated rating report was published by the Company in an immediate report on June 27, 2019 (reference number 2019-01-064822).

Appendix C

Details Regarding Economic Papers and Valuations in Accordance with Regulation 49(A) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 [“Regulation 49(A) of the Reporting Regulations”]

Details regarding an economic paper as of June 30, 2019, regarding the fair value of the debenture which was received by the Company within the framework of the transaction for the sale of its holdings in DIC to a company controlled by the controlling shareholder (the "Buyer") [Regulation 49(A) the Reporting Regulations]:

The aforementioned economic paper is attached to the Company's financial statements. See also Note 3.A.2. to the annual financial statements and Notes 3.A. and 6 to the financial statements.

Presented below are details regarding the valuation:

A. Identity of the valuation subject - the fair value of the debenture which was received by the Company within the framework of the transaction for the sale of its holdings in DIC to the buyer on June 30, 2019.

B. Date of the valuation - June 30, 2019;

C. Value of the valuation subject in the Company's books shortly before the valuation - the estimated fair value of the debenture as of December 31, 2018, and as of March 31, 2019, was estimated at NIS 1,203 million and NIS 928 million, respectively.

D. Value of the valuation subject - the fair value of the debenture as of June 30, 2019, was estimated at NIS 901 million.

E. Identity and characteristics of the appraiser - Fair Value Ltd. is a private company specialized in the performance of complex professional valuations, economic consulting projects and appraisal of equipment and machines, including projects for accounting purposes. There is no dependence between the appraiser and the party that ordered the paper, the Company. The contractual agreement with the appraiser includes an undertaking by Discount Investment to indemnify the appraiser in respect of any amount which the appraiser may incur in a ruling given in favor of a third party, as well as any reasonable direct legal expenses which it may incur in connection with the valuation, above an amount equal to 3 times the consideration which is paid to the appraiser as part of the engagement with it, save in the event that the appraiser has acted with gross negligence or malice.

F. Valuation model used by the appraiser -
The value of the convertible subordinated loan was determined using a correlative Monte Carlo model. The Monte Carlo model is an algorithmic model which is used to solve calculation problems by running stochastic parameters through a large number of global situations, and the performance of calculations on the various scenarios which were obtained.
For the purpose of calculating the various scenarios, simulations were prepared regarding the future value of DIC's holdings, and the fair value of the Company's holdings, in order to assess the ability to actually repay the debenture and the impact of these values on insolvency situations, both of the Company and of the buyer.
Use was also made of the Merton model, in order to estimate the future value of the debenture at different dates and in different scenarios, in order to assess natural situations of early repayment, both by the buyer and by the Company.

G. Assumptions used to prepare the paper:
1. The threshold ratio and/or insolvency trigger were determined based on a VTL ratio of 90%.
2. Fire sale discount rate of 10% for the assets of Dolphin IL.
3. Discount rate in respect of the sale of a block for realizations which are not part of an insolvency event - 10%.

Details regarding an economic paper on the subject of the fair value of subordinated loans convertible to shares, as of June 30, 2019 [Regulation 49(A) the Reporting Regulations]:

The aforementioned economic paper is attached to the Company's financial statements. See also Note 7.C. to the annual financial statements and Notes 4.A. and 6 to the financial statements.

Presented below are details regarding the valuation:

A. Identity of the valuation subject – the fair value of the convertible subordinated loans as of June 30, 2019.

B. Date of the valuation – June 30, 2019;

C. Value of the valuation subject in the Company's books proximate to the valuation date - the estimated fair value of the convertible subordinated loans as of December 31, 2018, and March 31, 2019, was estimated at NIS 529 million and NIS 180 million, respectively.

D. Value of the valuation subject - the estimated fair value of the convertible subordinated loans as of June 30, 2019, was estimated at NIS 223 million.

E. Identity and characteristics of the appraiser - Fair Value Ltd. is a private company specialized in the performance of complex professional valuations, economic consulting projects and appraisal of equipment and machines, including projects for accounting purposes. There is no dependence between the appraiser and the party ordering the paper, the Company. The contractual agreement with the appraiser includes an undertaking by Discount Investment to indemnify the appraiser in respect of any amount which the appraiser may incur in a ruling given in favor of a third party, as well as any reasonable direct legal expenses which it may incur in connection with the valuation, above an amount equal to 3 times the consideration which is paid to the appraiser as part of the engagement with it, save in the event that the appraiser has acted with gross negligence or malice.

F. Valuation model used by the appraiser -
The value of the convertible subordinated loans was determined using the Monte Carlo model, which is an algorithmic model for solving calculation problems by running stochastic parameters through a large number of global scenarios, and performing calculations on the various scenarios which are obtained. The indication regarding the calculation of the underlying asset was estimated based on market indications in respect of the Company's assets and liabilities, less the effect of fire sale factors and the probability of insolvency, as calculated based on market data, and less a discount in respect of the non-marketability of a block, and based on qualitative indicators that were received from Company management.

G. Assumptions used to prepare the paper:

1. Annual default probability rate - approximately 50%.
2. Fire sale factor in case of insolvency - 10%-25%.
3. Non-marketability factor - approximately 5%.

Details regarding an economic paper on the subject of the fair value of certain elements that are embodied in a transaction for the sale of the company's holdings in the company Clal Holdings Insurance Enterprises to various investors, as of certain dates, as of June 30, 2019 [Regulation 49(A) the Reporting Regulations]:

The aforesaid economic paper is attached to the Company's financial statements. See also notes 3.B.5 and 6.A of the financial statements.

The following are details of the valuation:

A. Identity of the subject of the valuation - the fair value of certain elements that are incorporated in the transaction for the sale of the Company's holdings in the company Clal Holdings Insurance Enterprises, to various investors, as of certain dates.

B. Timing of the valuation - May 2, 2019, and June 30, 2019.

C. Value of the subjects of the valuation in the valuation:

   1. An option that was given to a buyer who bought 5% of the shares of Clal Holdings Insurance Enterprises together with an option for the purchase of an additional 3% of the shares of Clal Holdings Insurance Enterprises ("the first option") - the value of the first option as of the purchase date (May 2, 2019) was assessed at NIS 9.6 million, and as of June 30, 2019, at NIS 18.3 million.
   2. An option that was given to the additional buyer (as defined in note 3.B.5 of the financial statements), including a benefit that is embodied in the Company's undertaking to finance 90% of the cost of realizing the option ("the second option") - the value of the second option as of June 30, 2019, was assessed at NIS 53.2 million.

D. The identification and characterization of the valuer – the company Fair Value Ltd. is a private company that specializes in making complex professional valuations, economic consulting works and appraisals of equipment and machines, including works for accounting purposes. There is no dependence between the valuer and the customer of the work, the Company. The contract with the valuer includes an undertaking of the Company to indemnify the valuer for any amount that the valuer will be found liable to pay in a judgment to a third party and any reasonable legal expense that will be caused to it with respect to the valuation in excess of three times the consideration paid to the valuer within the framework of the contract with him, unless the valuer acted with respect to the opinion with gross negligence and/or fraud and/or maliciously.

E. The valuation model on the basis of which the valuer operated -

   1. The value of the first option was determined using the Black & Scholes model.
   2. The value of the second option was determined as the value of a forward transaction on the shares of Clal Holdings Insurance Enterprises as of the date of the projected realization plus the value of the benefit embodied in the loan.
      The value of the benefit embodied in the loan was calculated as the difference between the amount of the loan and the value of the loan as of the projected date of advancing it, capitalized as of June 30, 2019. The value of the loan was assessed as the expected payments of interest and principal of the loan, capitalized as of June 30, 2019, in accordance with various calculations using the Monte Carlo model.

F. The assumptions on the basis of which the work was done:

   1. The standard deviation in the calculation of the first option* as of May 2, 2019 - 25.9%.
   2. The standard deviation in the calculation of the first option* as of June 30, 2019 - 28.9%.
   3. The standard deviation in the calculation of the benefit embodied in the loan**- 35.7%.

* These standard deviations were assessed on a historic basis during a period of a year as a normative assessment.

** This standard deviation was assessed on the basis of historic periods of 5 years over the last decade.

Details on an economic paper as of March 31, 2019, which the Company received regarding the economic valuation of a commercial and office project in Las Vegas, USA (the "Tivoli project") which is owned by Great Wash Park LLC ("GW"), an investee company of IDBG, which is held (50%) by the Company: [Regulation 49(A) of the Reporting Regulations].

The aforementioned valuation is attached to the Company's financial statements by way of reference to the financial statements of Property & Building Corporation Ltd. For details, see also Note 3.D.1. to the financial statements.

Presented below are the main details of the economic paper:

A. Identity of the subject under valuation - the Tivoli project;

B. Date of the valuation - March 31, 2019;

C. Value of the subject of the valuation in the books of Great Wash Park LLC ("GW") as of March 31, 2019, before the valuation was prepared - USD 250 million;

D. Value of the subject of the valuation, as determined in the valuation - USD 248 million. As a result, the Company recorded, in the first quarter of 2019, its share in the amortization in the amount of NIS 3 million. The amortization was included under the item for the Group's share in the loss of investee companies treated at equity, net.

E. Identity and characteristics of the appraiser - Cushman & Wakefield (for additional details, see Appendix E to the valuation). There is no dependence between the appraiser and the companies who ordered the valuations.

F. Primary valuation model used by the appraiser - revenue-generating property - discounted cash flows (DCF);
- Real estate - comparative approach;

G. Assumptions used to prepare the valuation:

1. Stabilized annual NOI (third year) USD 15 million
2. Annual capitalization rates in respect of the revenue-generating property – Triad A and Triad B:
   - In respect of the forecasted NOI for the first 12 years and the expected consideration from the realization of the property at the end of the 12th year (discount rate) 8.5%
   - In respect of the forecasted NOI in the 13th year, which was used to determine the expected consideration from the realization of the property (Terminal Capitalization Rate) 6.5%
3. Rate of terminal value from the total value determined in the valuation - 56.6%

IDB Development Corporation Ltd.

Part B - Financial Statements

IDB Development Corporation Ltd.

Part C - Condensed Consolidated Interim Financial Statements

Auditors' Review Report to the Shareholders of IDB Development Corporation Ltd.

Introduction

We have reviewed the attached financial information of IDB Development Corporation Ltd. and its subsidiaries (hereinafter: the "Group"), which includes the condensed consolidated statement of financial position as of June 30, 2019, as well as the condensed consolidated 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 this interim financial information in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and are also responsible for compiling the financial information for these interim periods in accordance with Chapter IV of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, insofar as these regulations apply to consolidated companies that are insurance companies. Our responsibility is to express a conclusion regarding the financial information for these interim periods, based on our review.

We have not reviewed the condensed interim financial information of investee companies treated at equity, the investment in which totaled approximately NIS 14 million as of June 30, 2019, and where the Group's share in their losses amounted to approximately NIS 1 million and approximately NIS 0.5 million for the six-month and three-month periods then ended, respectively. We have also not reviewed the condensed interim financial information of a subsidiary which was included in the financial statements as a discontinued operation, where the total assets in respect thereof, as of June 30, 2019, amount to NIS 879 million, and where the loss from discontinued operations after tax in respect thereof amounts to NIS 8 million and NIS 9 million for the six-month and three-month periods then ended, respectively. The interim condensed financial information of those companies was reviewed by other auditors, whose review reports were presented to us, and our conclusion, insofar as it refers to the financial information in respect of those companies, is based on the review reports provided by the other auditors.

Scope of the Review

We have conducted our review according to Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Financial Information for Interim Periods Prepared by the Entity's Auditor." A review of interim financial information consists of inquiries, mainly with the people responsible for financial and accounting matters, and of the application of analytical and other review procedures. This review is significantly limited in scope compared to an audit prepared according to generally accepted Israeli auditing standards, and therefore does not allow us to achieve certainty that we are aware of all material issues that may have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports prepared by other auditors, we have not become aware of any information which would have caused us to believe that the aforementioned financial information has not been prepared, in all material respects, in accordance with IAS 34.

In addition to that stated in the preceding paragraph, based on our review and on the review reports prepared by other auditors, we have not become aware of any information which would have caused us to believe that the aforementioned financial information is not compliant, in all material respects, with the disclosure provisions of Chapter IV of the Securities Law Regulations (Periodic and Immediate Reports), 5730-1970.

Without qualifying our conclusion, we hereby draw attention to what is stated in Note 1.B. to the financial statements regarding the financial position of the company, the company's projections and plans that are based on economic valuations, and specifically, to the part relating to the Company's ability to service its liabilities during the period beginning in 2022. As stated in that note, the Company's ability to repay the balance of its debts when they come due, beginning in 2022, is dependent, *inter alia*, on factors which are not under its control and mostly on the economic value of the debenture from Dolphin IL, and on the cash flows therefrom until the conclusion date of the Company's liabilities towards its creditors.

Tel Aviv,
August 31, 2019

Kesselman & Kesselman
Certified Public Accountants
A member firm of PricewaterhouseCoopers International Limited

Condensed Consolidated Interim Statements of Financial Position as of

	June 30 2019	June 30 2018	December 31 2018
	(Unaudited)	(Unaudited)	(Audited)
		NIS millions	
Non-current assets			
Debenture from Dolphin IL	901	1,233	1,203
Cost of obtaining collateral for the Company's liabilities from Dolphin IL	148	182	165
Investments in investee companies treated at equity	50	212	204
Financial assets presented at fair value	27	27	27
Other assets	2	10	2
Charged deposits	204	248	264
Fixed assets	1	1	1
Assets classified as held for sale:			
Value of shares of Clal Holdings Insurance Enterprises in swap transactions	168	424	292
Investments in shares of Clal Holdings Insurance Enterprises	182	563	303
	1,683	2,900	2,461
Current assets			
Restricted and charged deposits	239	333	357
Financial assets presented at fair value	4	297	3
Other receivables	11	3	3
Assets classified as held for sale:			
Value of shares of Clal Holdings Insurance Enterprises in swap transactions	472	142	438
Investments in shares of Clal Holdings Insurance Enterprises	505	424	570
Assets of IDB Tourism	879	721	664
Cash and cash equivalents	101	124	49
	2,211	2,044	2,084
Total assets	3,894	4,944	4,545

The notes attached to the condensed consolidated interim financial statements constitute an integral part hereof.

	Note	June 30 2019 (Unaudited)	June 30 2018 (Unaudited)	December 31 2018 (Audited)
			NIS millions	
Capital (capital deficit)				
Premium on shares		3,262	3,262	3,262
Other capital reserves		786	943	593
Accumulated losses		(4,466)	(4,046)	(4,085)
Capital (capital deficit) attributed to shareholders in the Company		(418)	159	(230)
Non-controlling interests		2	3	(1)
		(416)	162	(231)
Non-current liabilities				
Debentures		2,195	2,642	2,177
Liabilities to banks in connection with swap transactions (1)		172	472	325
Convertible subordinated loans from the controlling shareholder		223	277	529
Swap transaction on shares of Clal Holdings Insurance Enterprises		9	-	32
		2,599	3,391	3,063
Current liabilities				
Current maturities of debentures		476	633	737
Liabilities to banks in connection with swap transactions(1)		446	165	486
Swap transactions on DIC shares		-	2	6
Derivative financial instruments	3.B.5	72	-	-
Other payables		24	50	30
Provisions		2	2	2
Liabilities classified as held for sale - IDB Tourism		691	539	452
		1,711	1,391	1,713
Total capital and liabilities		3,894	4,944	4,545

(1) Swap transactions which were executed in respect of shares of Clal Holdings Insurance Enterprises.

Eduardo Elsztain	Sholem Lapidot	Gil Kotler
Chairman of the Board	General Manager	CFO

Approval date of the financial statements: August 31, 2019

Condensed Consolidated Interim Statements of Income

	Note	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
		2019	2018	2019	2018	2018
		(Unaudited)		(Unaudited)		(Audited)
		NIS millions				
Income						
Financing income	7.A	130	431	2	432	540
		130	431	2	432	540
Expenses						
The Group's share in the loss of investee companies treated at equity, net		22	51	4	46	71
General and administrative expenses		11	11	4	5	23
Financing expenses	7.B	416	441	96	173	603
		449	503	104	224	697
Profit (loss) for the period from continuing operations		(319)	(72)	(102)	208	(157)
Profit (loss) for the period from discontinued operations, after tax		71	(352)	178	(383)	(307)
Net profit (loss) for the period		(248)	(424)	76	(175)	(464)
Net profit (loss) for the period attributed to:						
The Company's shareholders		(252)	(427)	76	(174)	(465)
Non-controlling interests		4	3	-	(1)	1
		(248)	(424)	76	(175)	(464)

The notes attached to the condensed consolidated interim financial statements constitute an integral part hereof.

Condensed Consolidated Interim Statements of Comprehensive Income

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)		(Unaudited)		(Audited)
	NIS millions				
Net income (loss) for the period	(248)	(424)	76	(175)	(464)
Other comprehensive income (loss) items after initial recognition under comprehensive income which have been transferred or will be transferred to profit and loss, net of tax					
Foreign currency translation differences for foreign operations	(12)	10	(4)	7	14
Effective part in changes to the fair value of cash flow hedging	(1)	2	(1)	1	-
Net change in the fair value of cash flow hedging, carried to profit and loss	-	-	-	-	(3)
The Group's share in other comprehensive income in respect of investee companies treated at equity	(3)	13	(1)	10	19
Total other comprehensive income (loss) after initial recognition under comprehensive income which has been transferred or will be transferred to profit and loss	(16)	25	(6)	18	30
Components of other comprehensive income (loss) which will not be transferred to profit and loss, net of tax					
Net change in the fair value of the subordinated loans, attributed to changes in credit risk	210	(183)	(43)	(203)	(538)
Actuarial losses in defined benefit plan	-	-	-	-	(1)
Total other comprehensive income (loss) which will not be transferred to profit and loss	210	(183)	(43)	(203)	(539)
Total other comprehensive income (loss) for the period, net of tax	194	(158)	(49)	(185)	(509)
Total comprehensive income (loss) for the period	(54)	(582)	27	(360)	(973)
Attributed to:					
The Company's shareholders	(58)	(585)	27	(359)	(974)
Non-controlling interests	4	3	-	(1)	1
Comprehensive income (loss) for the period	(54)	(582)	27	(360)	(973)
Comprehensive income (loss) for the period attributed to Company shareholders, due to:					
Continuing operations	(111)	(242)	(146)	15	(676)
Discontinued operations	53	(343)	173	(374)	(298)
	(58)	(585)	27	(359)	(974)

The notes attached to the condensed consolidated interim financial statements constitute an integral part hereof.

Condensed Consolidated Interim Statements of Changes in Equity

	Attributed to the Company's shareholders										
	Premium on shares	Other reserves	Reserves in respect of transactions with non-controlling interests	Reserves from translation differences	Hedging reserves	Capital reserve in respect of fair value changes of the subordinated loans, which is attributed to changes in credit risk	Controlling shareholders reserves	Accumulated loss	Total capital (capital deficit) attributed to shareholders in the Company	Non-controlling interests	Total capital
	NIS millions										
For the six months ended June 30, 2019 (Unaudited)											
Balance as of January 1, 2019	3,262	270	(117)	22	(1)	(433)	852	(4,085)	(230)	(1)	(231)
Initial adoption of the amendment to IAS 28 (see Note 2.E.1. below). below)	-	-	-	-	-	-	-	(129)	(129)	-	(129)
Income (loss) for the period	-	-	-	-	-	-	-	(252)	(252)	4	(248)
Other comprehensive income (loss) for the period	-	-	-	(15)	(1)	210	-	-	194	-	194
Transactions with shareholders reflected directly in equity and distributions to shareholders											
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(2)	(2)
Acquisition of rights in consolidated company from non-controlling interests	-	-	(1)	-	-	-	-	-	(1)	1	-
Balance as of June 30, 2019	3,262	270	(118)	7	(2)	(223)	852	(4,466)	(418)	2	(416)
For the six months ended June 30, 2018 (Unaudited)											
Balance as of January 1, 2018	3,262	270	(117)	(11)	2	-	852	(3,528)	730	1	731
Initial adoption of the final version of IFRS 9	-	-	-	-	-	105	-	(105)	-	-	-
Net income (loss) for the period	-	-	-	-	-	-	-	(427)	(427)	3	(424)
Other comprehensive income (loss) for the period	-	-	-	23	2	(183)	-	-	(158)	-	(158)
Transactions with shareholders reflected directly in equity and distributions to shareholders											
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(1)	(1)
Receipts in respect of settlement regarding claim	-	-	-	-	-	-	-	14	14	-	14
Balance as of June 30, 2018	3,262	270	(117)	12	4	(78)	852	(4,046)	159	3	162

The notes attached to the condensed consolidated interim financial statements constitute an integral part hereof.

Condensed Consolidated Statements of Changes in Equity (Continued)

	Attributed to the Company's shareholders										
	Premium on shares	Other reserves	Reserves in respect of transactions with non-controlling interests	Reserves from translation differences	Hedging reserves	Capital reserve in respect of fair value changes of the subordinated loans, which is attributed to changes in credit risk	Controlling shareholders reserves	Accumulated loss	Total capital (capital deficit) attributed to shareholders in the Company	Non-controlling interests	Total capital
	NIS millions										
For the three months ended June 30, 2019 (Unaudited)											
Balance as of April 1, 2019	3,262	270	(117)	12	(1)	(180)	852	(4,542)	(444)	3	(441)
Net income for the period	-	-	-	-	-	-	-	76	76	-	76
Other comprehensive loss for the period	-	-	-	(5)	(1)	(43)	-	-	(49)	-	(49)
Transactions with shareholders reflected directly in equity and distributions to shareholders											
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(2)	(2)
Acquisition of rights in consolidated company from non-controlling interests	-	-	(1)	-	-	-	-	-	(1)	1	-
Balance as of June 30, 2019	3,262	270	(118)	7	(2)	(223)	852	(4,466)	(418)	2	(416)
For the three months ended June 30, 2018 (Unaudited)											
Balance as of April 1, 2018	3,262	270	(117)	(5)	3	125	852	(3,872)	518	4	522
Loss for the period	-	-	-	-	-	-	-	(174)	(174)	(1)	(175)
Other comprehensive income (loss) for the period	-	-	-	17	1	(203)	-	-	(185)	-	(185)
Balance as of June 30, 2018	3,262	270	(117)	12	4	(78)	852	(4,046)	159	3	162

The notes attached to the condensed consolidated interim financial statements constitute an integral part hereof.

Condensed Consolidated Statements of Changes in Equity (Continued)

	Attributed to the Company's shareholders										
	Premium on shares	Other reserves	Reserves in respect of transactions with non-controlling interests	Reserves from translation differences	Hedging reserves	Capital reserve in respect of fair value changes of the subordinated loans, which is attributed to changes in credit risk	Controlling shareholders reserves	Accumulated loss	Total capital (capital deficit) attributed to shareholders in the Company	Non-controlling interests	Total capital
	NIS millions										
For the year ended December 31, 2018											
Balance as of January 1, 2018	3,262	270	(117)	(11)	2	-	852	(3,528)	730	1	731
Initial adoption of the final version of IFRS 9	-	-	-	-	-	105	-	(105)	-	-	-
Net income (loss) for the year	-	-	-	-	-	-	-	(465)	(465)	1	(464)
Other comprehensive income (loss) for the year	-	-	-	33	(3)	(538)	-	(1)	(509)	-	(509)
Transactions with shareholders carried directly to equity and distributions											
Dividend distributions to non-controlling interests	-	-	-	-	-	-	-	-	-	(2)	(2)
Non-controlling interests in respect of business combination	-	-	-	-	-	-	-	-	-	(1)	(1)
Receipts in respect of settlement	-	-	-	-	-	-	-	14	14	-	14
Balance as of December 31, 2018	3,262	270	(117)	22	(1)	(433)	852	(4,085)	(230)	(1)	(231)

The notes attached to the condensed consolidated interim financial statements constitute an integral part hereof.

Condensed Consolidated Interim Statements of Cash Flows

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)		(Unaudited)		(Audited)
	NIS millions				
Cash flows from operating activities					
Net profit (loss) for the period	(248)	(424)	76	(175)	(464)
Profit (loss) from discontinued operations, after tax	(71)	352	(178)	383	307
Profit (loss) from continuing operations	(319)	(72)	(102)	208	(157)
Adjustments:					
The Group's share in the loss of investee companies treated at equity, net	22	51	4	46	71
Financing costs, net	286	10	94	(259)	63
Tax refund received	-	-	-	-	1
	308	61	98	(213)	135
	(11)	(11)	(4)	(5)	(22)
Changes in other balance sheet items					
Change in other receivables	(7)	(1)	(9)	(2)	-
Change in other payables	(2)	(4)	(2)	(3)	(9)
	(9)	(5)	(11)	(5)	(9)
Net cash used in continuing operating activities	(20)	(16)	(15)	(10)	(31)
Net cash arising from discontinued operating activities	23	25	16	28	58
Net cash arising from operating activities	3	9	1	18	27
Cash flows from investing activities					
Net gain from sale of current investments in financial assets presented at fair value	-	33	-	13	325
Decrease (increase) in charged and restricted deposits, net	177	(436)	170	(333)	(476)
Repayment of loan from investee company treated at equity	1	-	-	-	-
Payment in respect of settlement of swap transaction on DIC shares	(6)	-	-	-	-
Investment in investee companies treated at equity	(1)	(6)	-	-	(11)
Interest received	(1)32	3	-	1	5
Net cash arising from (used in) continuing investing activities	203	(406)	170	(319)	(157)
Net cash arising from discontinued investing activities(2)	233	300	(3)121	137	469
Net cash arising from (used in) investing activities	436	(106)	291	(182)	312

(1) Interest received in respect of the debenture from Dolphin IL.

(2) Includes amounts that were received from the sale of shares of Clal Holdings Insurance Enterprises, as detailed below: in the first half and second quarter of 2019 - a total of NIS 259 and 132 million, respectively; In the first half and second quarter of 2018 - a total of NIS 326 and 155 million, respectively. And in 2018 - a total of NIS 503 million. For details, see Notes 3.B.1 and 3.B.5 below.

(3) Including positive flows in the amount of NIS 7 million in respect of IDB Tourism, of which a total of NIS 18 million was canceled as part of the consolidation of the financial statements, in respect of a loan which IDB Tourism advanced to the Company in the first quarter of 2019, and which was repaid in the second quarter of 2019.

The notes attached to the condensed consolidated interim financial statements constitute an integral part hereof.

Condensed Consolidated Interim Statements of Cash Flows (Continued)

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)		(Unaudited)		(Audited)
	NIS millions				
Cash flows for financing activities					
Repayment of non-current financial liabilities	(264)	(329)	(135)	(329)	(700)
Interest paid	(77)	(84)	(52)	(58)	(191)
Receipts from settlement regarding claim	-	14	-	14	14
Net cash used for continuing financing activities	(341)	(399)	(187)	(373)	(877)
Net cash arising from (used in) discontinued financing activities	(73)	12	(60)	11	(8)
Net cash used in financing activities	(414)	(387)	(247)	(362)	(885)
Change in cash and cash equivalents from continuing operations	(158)	(821)	(32)	(702)	(1,065)
Change in cash and cash equivalents from discontinued operations	183	337	77	176	519
Change in cash and cash equivalents from continuing and discontinued operations	25	(484)	45	(526)	(546)
Balance of cash and cash equivalents at start of period	49	624	55	673	624
Effects of fluctuations in exchange rates on balances of cash and cash equivalents from continuing operations	-	2	-	2	6
Effects of fluctuations in exchange rates on balances of cash and cash equivalents from discontinued operations	(2)	3	(1)	2	1
Effects of fluctuations in exchange rates on balances of cash and cash equivalents	(2)	5	(1)	4	7
Change in the balance of cash presented under held for sale assets	29	(21)	2	(27)	(36)
Balance of cash and cash equivalents at end of period	101	124	101	124	49

The notes attached to the condensed consolidated interim financial statements constitute an integral part hereof.

Note 1 - General

A. IDB Development Corporation Ltd. (the "Company") is a company registered in Israel and incorporated in Israel, and its official address is 3 Azrieli Center, Triangle Tower, 44th floor, Tel Aviv. In recent years, the Company has worked to stabilize and improve its financial position and liquidity, and as part of the above, it has placed a particular emphasis on the evaluation of various financing alternatives, including the execution of recruitments of equity and debt (including the receipt of subordinated loans), the issuance of debentures, *inter alia*, for the purpose of refinancing debts and servicing its debts to its financial creditors, and to finance its operating activities; and the dedication of managerial efforts to private companies which are directly held by the Company, including the evaluation of various possibilities for optimizing and improving the performance of investee companies, *inter alia*, with the aim of maximizing their value.

On April 3, 2016, upon the completion of the amendment to the debt settlement of IDB Holding Ltd., the trading of the Company's shares was discontinued, and as of the reporting date, the Company's debentures are listed for trading on the Tel Aviv Stock Exchange.

B. In connection with the Company's financial position, its cash flows, and its ability to service its liabilities, the following should be noted:

– The company has a deficit in the capital attributed to the shareholders, which as of June 30, 2019, amounted to a sum of NIS 418 million;

– The company has an ongoing negative cash flow from ongoing current operations;

– The company's bonds are traded at two-digit yield rates, in a manner that apparently prevents any practical method of restructuring the company's financial liabilities by way of raising debt;

– The Net Asset Value of the company (on the basis of the current market prices of its marketable holdings together with the financial value of other assets less its financial liabilities) is negative, in an amount of NIS 416 million;

– In July 2019, Maalot lowered the company's rating to a CCC rating with a negative forecast and the series I bonds, which are not secured, to a CC rating, because of the increased risk of insolvency;

– In July 2019, the controlling owner told the company that he had notified the Commissioner of the withdrawal of the application for a control permit in Clal Holdings Insurance Enterprises. For details, see note 3.B.2 below;

– DIC has a negative balance of distributable profits and the ability of the company to receive a significant flow on account of the bond from Dolphin IL is subject to the terms of the bond (for details, see note 3.A of the annual financial statements);

– For details of meetings of the company's bond series, including the appointment of (separate) representations in the bond series (series I and series N), and the appointment of a legal adviser and an economic adviser for each of the aforesaid bond series, and including a Letter of Undertaking that the company gave to its bondholders, see note 4.B.5 below.

The company is acting and will continue to act in order to contend with the uncertainties arising from the aforesaid.

On August 31, 2019, after the date of the Statement of Financial Position, the Audit Committee and the Board of Directors of the company approved the acceptance of an irrevocable undertaking of Dolphin Netherlands, the controlling owner of the company, to make capital injections in the company in a total amount of NIS 210 million, in three equal annual payments, which will be made in return for the shares of the company or as a deferred loan on similar terms to the subordinated loans that were given by the controlling owner. For details, see note 9.F below.

Within the framework of holding a competitive process for the sale of the shares of Clal Holdings Insurance Enterprises, on August 27, 2019, the company received a binding offer from parties that represent classified investors for the purchase of shares of Clal Holdings Insurance Enterprises that constitute up to approximately 26% of the shares of Clal Holdings Insurance Enterprises, in return for (series I) bonds or (series N) bonds or cash or a combination of the aforesaid, at the company's discretion. For details see note 3.B.9.C below.

Note 1 - General (Continued)

B. (Continued)

The Company is presenting in the Report of the Board of Directors, which is attached to these financial statements, a cash flow projection (unreviewed/unaudited) for the two years ending on June 30, 2021. The balance of the Company's liquid assets as of June 30, 2019 amounts to NIS 548 million, including NIS 443 million charged deposits. It should be noted that most of the Company's charged deposit amounts, as stated above, are expected to be released upon the conclusion of the swap transactions in respect of shares of Clal Holdings Insurance Enterprises (see note 3.B.6 below) or in the period preceding the date of their conclusion, subject to the prior closing of the transactions and the payment of an early repayment commission in an amount that is not material.

The projected cash flow includes the receipts that the Company is expected to receive, *inter alia*, from the sale of shares of Clal Holdings Insurance Enterprises (including actual receipts from the sale of shares of Clal Holdings Insurance Enterprises subsequent to the date of the statement of financial position, as stated in Note 3.B.5. below, and in accordance with the continued execution of the outline for the sale of the Company's holdings in Clal Holdings Insurance Enterprises), from the sale of the Company's holding in IDB Tourism (see Note 3.C. below) and two injections from Dolphin Netherlands, the controlling owner of the company, in a sum of NIS 140 million (see note 9.F below).

The total receipts in the projected cash flow period amount to NIS 946 million. These projected receipts, together with the balance of the company's liquid assets amount to a sum of NIS 1,494 million.

The balance of expected payments during this period, including the required repayments to the Company's debenture holders, plus a loan to the additional buyer of shares of Clal Holdings Insurance Enterprises (as defined in Note 3.B.5 below) is a sum of NIS 1,313 million.

In light of the above, the Company has sources to repay its liabilities for a period of at least 24 months after the date of the financial statements. It is emphasized that the realization of some of the Company's plans in connection with the sale of its assets and receiving the owner's future injections also depends on factors that are not under the Company's control, and especially the price of the shares of Clal Holdings Insurance Enterprises. However, the Company believes that it will be successful in realizing these or other plans and in servicing its liabilities during the aforesaid period.

In connection with periods beginning on July 1, 2021 and until the repayment of all of the Company's liabilities, the following should be noted, *inter alia*: the Company is expected to remain with three main sources, which are expected to be used for the repayment of its liabilities and for the financing of its operating activities throughout this period (in addition to the cash balances which the Company is expected to have at its disposal in a sum of NIS 181 million) - (1) an injection in a sum of NIS 70 million from the controlling owner of the company; (2) the holdings in IDBG, which is the owner of a commercial center in Las Vegas, USA; and (3) the debenture from Dolphin IL, as stated in Note 3.A. below. The debenture from Dolphin IL is secured by charges of various ranks on approximately 116.4 million DIC shares which are held by Dolphin IL.

The company has examined business scenarios, in an orderly and structured process, with the assistance of economic consultants (including independent consultants to the independent directors of the company), assessed their reasonableness and whether they are realistic options, and examined the conditions for realizing them in the timeframes required by the company, and the company's ability to comply with them and the terms of the undertaking of Dolphin Netherlands, the controlling owner of the company, to make financial injections into the company. Accordingly, the company assesses that its existing assets, plus the owner's injection and the making of the sale of the shares of Clal Holdings Insurance Enterprises in accordance with the outline and with respect to some or all of them also in return for (series I and N) bonds in accordance with a binding offer that the company received as aforesaid and the outline of the transaction that is expected to the approved by the Board of Directors, in accordance with the aforesaid offer, will allow it to repay all of its liabilities in an orderly and/or a timely manner. The Board of Directors of the company has determined that the company is solvent and is able to repay all of its liabilities in an orderly and/or a timely manner, and it intends to do so.

Note 1 - General (Continued)

B. (Continued)

Notwithstanding the aforesaid, the company's ability to repay the remainder of its debts at the required time, starting from 2022, depends, *inter alia*, on future factors that are not within its control, mainly the economic value of the Dolphin IL bond and the cash flows that will derive from it until the date of the termination of the company's liabilities to its creditors. With respect to the company meeting the repayment of its liabilities in the years 2022 and thereafter, the company intends to consider, *inter alia*, a restructuring of its liabilities by way of raising debt, in accordance with opportunities in the market, insofar as there will be any, and improving the value of the aforesaid investments in order to maximize their value on the date of selling them.

For details of the provisions included in the Company's credit agreements with respect to rights to demand immediate repayment, see Notes 4.B.4 and 3.B.6 below.

C. These financial statements were prepared according to a condensed framework as of June 30, 2019, and for the six-month and three-month periods then ended (the "Interim Financial Statements") in accordance with IAS 34, "Interim Financial Reporting", and do not include all information required in full annual financial statements. These reports should be read and reviewed together with the Company's annual financial statements as of December 31, 2018, and for the year then ended, and of the accompanying notes, which were approved on March 28, 2019 (the "Annual Financial Statements"). The notes to the interim financial statements in respect of contingent investments, commitments and contingent liabilities only include the main updates on these matters since the approval date of the annual financial statements.

D. The Company did not include, in the quarterly report, condensed separate financial information of the Company ("Separate Reports"), in accordance with Regulation 38D of the Reporting Regulations, since that information would not add any significant information beyond that which is already presented in the consolidated financial statements. The condensed consolidated financial statements are identical to the condensed separate statements, except for the presentation of the assets and liabilities of IDB Tourism, which are presented separately in the consolidated financial statements, under the items for assets and liabilities classified as held for sale (as well as an immaterial balance of non-controlling interests), and in the separate reports would be presented as a net investment, in the item for investment classified as held for sale, under current assets. The net amount of the investment is presented in Note 3.F. below. Additionally, profit and loss from discontinued operations in respect of IDB Tourism, which are presented in the consolidated report, would be presented in the separate report net of non-controlling interests (immaterial amount - see Note 3.G. below).

E. Main Definitions:

In these reports (hereinbefore and hereinafter):

IDB Development	-	The Company and/or the Company together with its wholly-owned headquarter companies;
The Group	-	The Company and/or its investee companies;
Dolphin IL	-	Dolphin IL Investments Ltd., a company incorporated in Israel and wholly-owned by Dolphin Netherlands B.V. ("Dolphin Netherlands"), which is under the control of Mr. Eduardo Elsztain;
DIC	-	Discount Investment Corporation Ltd.;
Clal Holdings Insurance Enterprises	-	Clal Holdings Insurance Enterprises Ltd.;
Clal Insurance	-	Clal Insurance Company Ltd.;
The Commissioner	-	The Commissioner of Capital Markets, Insurance and Savings at the Ministry of Finance;
IDBG	-	IDB Group USA Investments Inc.;
IDB Tourism	-	IDB Tourism (2009) Ltd.;
Modiin	-	Modiin Energy Limited Partnership;
Subordinated Loans	-	Convertible subordinated loans from Dolphin Netherlands, the controlling shareholder of the Company (see Note 7.C. to the annual financial statements);

Note 2 - Significant Accounting Policies

A. Format for the preparation of the interim financial statements

The condensed consolidated interim financial statements were prepared in accordance with generally accepted accounting principles regarding the preparation of financial statements, as determined in International Accounting Standard 34 - “Interim Financial Reporting”, and in accordance with the disclosure provisions set forth in Chapter IV of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

These condensed consolidated interim financial statements were approved for publication by the Company’s Board of Directors on August 31, 2019. The significant accounting policies which were applied in the preparation of the consolidated interim financial statements are consistent with those applied in the preparation of the annual financial statements, except as stated in Note 2.E., regarding the initial adoption of the amendment to IAS 28, and regarding the adoption of IFRS 16.

B. Use of estimates and judgment

In their preparation of the Group’s condensed financial statements in accordance with international financial reporting standards, the managements of the Company and of the investee companies are required to use estimates, approximations and assumptions which affect the implementation of the accounting policy and the amounts of assets, liabilities, revenues and expenses, as well as the capital components presented in the aforementioned statements. It is hereby clarified that actual results may differ from these estimates.

The judgment exercised by the managements of the Company and of its investee companies regarding the implementation of the Group’s accounting policy, regarding the significant issues and assumptions which are used when assessing uncertainty, were consistent with those used in the annual financial statements, excluding significant judgments and assumptions which are associated with the initial adoption of the amendment to IAS 28, as detailed in section E.1. in this note below. See also Note 1.E.(3).A to the annual financial statements regarding the assessment of whether the cash flows in respect of financial assets which were provided include principal and interest only (SPPI).

C. Functional currency and presentation currency

These financial statements are presented in NIS, which is the Company’s functional currency, and are rounded to the nearest million, unless stated otherwise. The New Israeli Shekel is the currency that represents the main economic environment in which the Group operates.

D. Details regarding the rates of change in the CPI and in the USD exchange rate:

	CPI		Exchange rate of the US Dollar (“USD”)
	Known index	Index in lieu	
	Points		NIS
As of			
June 30, 2019	102.7	102.1	3.566
June 30, 2018	101.2	101.3	3.650
December 31, 2018	101.5	101.2	3.748
Rates of change during the period (in percent):			
For the three months ended			
June 30, 2019	1.5%	0.4%	(1.8%)
June 30, 2018	1.2%	1.0%	3.9%
For the six months ended			
June 30, 2019	1.2%	0.9%	(4.9%)
June 30, 2018	0.9%	0.9%	5.3%
For the year ended			
December 31, 2018	1.2%	0.8%	8.1%

Note 2 - Significant Accounting Policies (Continued)

E. Initial adoption of new standards

1. Amendment to International Accounting Standard 28, Investments in Associates and Joint Ventures (the "Amendment to IAS 28")

In accordance with the amendment to IAS 28, an entity will adopt the provisions of IFRS 9 in respect of long-term investments which essentially constitute a part of the entity's net investment in the associate or joint venture. The provisions of IFRS 9 were adopted in respect of those investments before the adoption of sections 38 and 40-43 of IAS 28, regarding the participation in part of the losses of the associate or joint venture, and regarding the recognition of impairment of the investment in the associate or joint venture. Additionally, upon the adoption of IFRS 9 in respect of those long-term investments, the entity will not take into account adjustments which were made to the value of the investment in the books, following the adoption of the provisions of IAS 28.

1. Amendment to International Accounting Standard 28, Investments in Associates and Joint Ventures (the "Amendment to IAS 28") (Continued)

The Company adopted the aforementioned amendment retrospectively as from January 1, 2019, without adjusting comparative figures, as permitted in accordance with the amendment.

Following the adoption of the provisions of the aforementioned amendment, loans which were provided to investee companies were classified as financial assets measured at fair value through profit or loss, and additionally, the Company included its share in the losses of investee companies, after the provision of the aforementioned loans, at fair value. The impact of the initial adoption of the aforementioned amendment resulted in a reduction of the investment in IDBG as of January 1, 2019, against the Company's balance of retained earnings in the same amount, as detailed in the following table. The fair value of the loans was determined according to the fair value of IDBG's assets, which back those loans, in accordance with IDBG's financial statements, which are attached to the Company's financial statements, in the amount of USD 280 million, and which primarily include investment properties, as stated in Note 3.D.1. below, after deducting the liability to Property & Building, as referenced in Note 3.D.4. to the annual financial statements, in the amount of USD 65 million, and net of other liabilities in the amount of USD 119 million.

Additionally, the translation reserve for foreign operations as of January 1, 2019, included a positive balance in the amount of NIS 5 million, in respect of the aforementioned loans. The Company chose to apply the accounting policy according to which foreign currency differences arising from the aforementioned loans will continue being carried to other comprehensive income. Accordingly, the balance of the aforementioned translation reserve remained as part of the Company's capital reserves, including after January 1, 2019.

Implications of the adoption of the amendment to IAS 28 on the financial statements as of January 1, 2019:

	In accordance with the previous policy	Impact of the standard	In accordance with the adoption of the amendment to IAS 28
		NIS millions	
Impact on the Company's assets			
Investments in investee companies treated at equity	204	(129)	75
Effect on capital attributed to shareholders			
Accumulated loss	(4,097)	(129)	(4,226)

The impact of the standard is due to loans which were provided by the Company, together with Property & Building (in equal parts), to IDBG. See also Note 3.D.3. below.

Note 2 - Significant Accounting Policies (Continued)

E. Initial adoption of new standards (Continued)

2. IFRS 16, Leases ("IFRS 16" or the "Standard")

IFRS 16 replaces IAS 17, Leases. The standard cancels the classification of leases as operating leases or financial leases. Instead, the standard classifies all leases similarly to a finance lease, in a manner whereby the lessee must recognize a right-of-use asset and a liability in respect of the lease in the Company's statement of financial position. However, IFRS 16 allows the lessees not to adopt these provisions in respect of short-term leases, by groups of underlying assets, and in respect of leases in which the underlying asset in the lease is of low value.

The Group has adopted the standard since January 1, 2019, according to the cumulative effect approach.

As of the date of initial adoption, the standard had no impact on the Company's capital, excluding an increase in assets and liabilities held for sale in the amount of approximately NIS 207 million.

Note 3 - Investments

A. Investment in the debenture from Dolphin IL

1. As of June 30, 2019, the fair value of the debenture from Dolphin IL, as described in Note 3.A. to the annual financial statements, was valued by an independent external appraiser at a total of NIS 901 million, and accordingly, the Company recorded, in the first half and second quarter of 2019, financing expenses in an amount of NIS 302 million and NIS 27 million, respectively. For additional details, see Note 6 below.

   In accordance with Regulation 49(a) of the Reporting Regulations, attached to these financial statements is the economic paper regarding the fair value, as of June 30, 2019, of the debenture which was received by the Company within the framework of the transaction from November 2017, in which the Company's holdings in DIC were sold to a company controlled by the controlling shareholder.
2. In January 2019, DIC announced a dividend distribution in cash and in kind to its shareholders. The distribution was executed on February 3, 2019, and included a total of NIS 40 million in cash, and a total of NIS 84 million par value of Company debentures (Series I), with a value of NIS 64 million (as of the distribution date). Accordingly, Dolphin IL received its share in the dividend in the amount of NIS 32 million in cash, and approximately NIS 68 million par value of Company debentures (Series I), with a value of approximately NIS 52 million (as of the distribution date). These balances are subject to charges of various ranks in favor of the Company and in favor of its debenture holders, in accordance with the terms of the debentures, as detailed in Note 3.A.2. to the annual financial statements. The amount of the dividend which Dolphin IL received in cash was used for repayment on account of the accrued and unpaid interest in respect of the debenture that it issued to the Company, where the amount of the cash dividend in respect of DIC shares, which are charged in favor of the debenture holders (Series N), in the amount of NIS 27 million, was deposited in an account which is charged in favor of the debenture holders (Series N), and which will be used to repay the Company's liabilities towards the debenture holders (Series N), in accordance with the amortization schedule of those debentures, as detailed in Note 8.B.3. to the annual financial statements. Until June 30, 2019, interest in the amount of NIS 25 million has been paid out of the aforementioned deposit funds. The balance of the deposit is presented under current restricted and charged deposits, and will be used to repay interest to the debenture holders (Series N) in September 2019.
3. On May 13, 2019, Dolphin IL notified the Company, in accordance with the terms of the debenture, of the postponement of the interest payment date, which was due on May 22, 2019.

Note 3 - Investments (Continued)

B. Investment in Clal Holdings Insurance Enterprises (held for sale)

1. For details regarding the appointment of a trustee for the Company's holdings in Clal Holdings Insurance Enterprises, regarding the establishment of an outline for the sale of the Company's holdings in Clal Holdings Insurance Enterprises, and regarding the execution of sales of shares of Clal Holdings Insurance Enterprises in accordance with the sale outline, see sections 1-3 in Note 3.B to the annual financial statements.

   In accordance with understandings which were reached with the Commissioner, as stated in Note 3.B.5. to the annual financial statements, on January 2, 2019, the Company sold 4.5% of the issued capital of Clal Holdings Insurance Enterprises, in consideration of NIS 127 million (NIS 50.8 per share). The consideration in respect of the sold shares was deposited in the trust account which is charged in favor of the debenture holders (Series M). On the other hand, the Company paid a total of NIS 5 million in respect of the partial conclusion, at a rate of 1% of the capital of Clal Holdings Insurance Enterprises, in respect of the swap transaction from May 2017 (relates to 555,788 shares). Following the execution of the above actions, the Company's holding rate in Clal Holdings Insurance Enterprises was approximately 25.3% (of which, approximately 20.3% through the trustee for the Company's shares in Clal Holdings Insurance Enterprises, Mr. Moshe Terry), and the Company was bound by swap transactions in respect of shares of Clal Holdings Insurance Enterprises at a rate of approximately 28.9%.

   Additionally, as part of the aforementioned agreements with the Commissioner, the Company has undertaken to refrain, in the future, from executing any swap transactions in addition to those which currently apply to shares of Clal Holdings Insurance Enterprises, as detailed in the aforementioned notes, and to refrain extending the current swap transactions in connection with shares of Clal Holdings Insurance Enterprises.

2. In March 2019, the Company's controlling shareholder submitted to the Commissioner a request for a control permit (the "Request") in Clal Holdings Insurance Enterprises and in Clal Insurance Company.

   The request pertained to shares of Clal Holdings Insurance Enterprises which are held by the Company (shares which constituted, as of the date of the request, approximately 25.3% of the issued capital of Clal Holdings Insurance Enterprises, of which approximately 20.3% through the trustee who was appointed by the Commissioner in accordance with the outline), and to additional shares of Clal Holdings Insurance Enterprises, regarding which the Company engaged in swap transactions (as detailed in section 1 above - shares which constituted, as of the date of the request, approximately 28.9% of the issued capital of Clal Holdings Insurance Enterprises), in whole or in part.

   In July 2019, subsequent to the date of the statement of financial position, the controlling shareholder informed the Company that he had notified the Commissioner of his withdrawal of the request.

3. Further to what is stated in Note 3.B.2. to the annual financial statements in connection with the outline for the sale of the Company's control of and holdings in Clal Holdings Insurance Enterprises, which was formulated by the Commissioner, and further to that stated in section 2 of this note above, regarding the request which was submitted by the Company's (indirect) controlling shareholder, Mr. Eduardo Elsztain, for a permit for the control (the "Request for a Control Permit") of Clal Holdings Insurance Enterprises and of Clal Insurance Company Ltd., (a request that was withdrawn by the controlling shareholder in July 2019, subsequent to the date of the statement of financial position) and further to what is stated in section 4 below about the letter and the petition that was filed by the trustee for the series I bonds (as these terms are defined below), in April 2019, the Company received a copy of the Commissioner's letter, which was sent to the trustee for the Company's shares in Clal Holdings Insurance Enterprises, Mr. Moshe Terry (the "Trustee"), in which the Commissioner notified the trustee, in accordance with the provisions of the outline, and after the Commissioner again evaluated the need for the sale, and its economic implications, and also in consideration of the provisions of the ruling given on April 5, 2017 (as described in Note 3.B.2. to the annual financial statements), that the Commissioner had instructed the trustee to continue working according to the outline in place of the Company, in accordance with all of the authorities which were conferred upon him by virtue of the outline, and to work to sell 5% of the means of control in Clal Holdings Insurance Enterprises which are held by him.

Note 3 - Investments (Continued)

B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)

3. (Continued)

In the letter, the Commissioner stated that the aforementioned sale will not be implemented through a swap transaction, but rather through a different sale technique which will not lead to the formation of any ties between the Company, any related party thereof or any other party on its behalf, and shares of Clal Holdings Insurance Enterprises, which would result, *inter alia*, in the increased property or economic exposure of the aforementioned entities to Clal Holdings Insurance Enterprises, and it will be presented to the Commissioner for approval before it is implemented in practice, by May 4, 2019.

The Commissioner further stated in his letter that at this stage, he does not consider it appropriate to suspend the outline, in light of the fact that the request for a control permit was submitted only recently, and therefore, at this stage, it is not possible to estimate whether it is substantial, and whether it is possible that Mr. Eduardo Elsztain will indeed receive a control permit.

4. On April 15, 2019, the Company received a copy of a letter which was sent on behalf of the trustee for the holders of the Company's debentures (Series I) (the "Trustee for the debentures (Series I)"), which had been sent to the Commissioner (the "Letter").

In the letter, the trustee for the debentures (Series I) requested that the Commissioner instruct a suspension of the sale of shares of Clal Holdings Insurance Enterprises by the trustee, for the maximum possible period, and in any case, until the Commissioner has reached a decision regarding the request for a control permit.

The trustee for the debentures (Series I) presented, *inter alia*, various assertions in respect of the Company's position, which he asserts is in an insolvency environment (in consideration of the Company's asset value, based on the market value of its public holdings and the carrying value of its non-public holdings).

On April 30, 2019, after a decision which was reached in the meeting of the debenture holders (Series I) on that same day, the trustee for the debentures (Series I) filed an urgent administrative petition against the Commissioner, the trustee and the Company (while trustee the Company's other debenture series were added as formal respondents) (the "Petition").

In the petition, the Court was requested, *inter alia*, to order the Commissioner and the trustee to suspend the sale of shares of Clal Holdings Insurance Enterprises, until the date when a determination has been reached regarding the request for a control permit which was submitted to the Commissioner by the Company's (indirect) controlling shareholder in respect of Clal Holdings Insurance Enterprises, or until another date, as determined by the Court; or alternatively, to order the Commissioner to reconsider his instructions to the trustee, while taking into account, *inter alia*, and in addition to the considerations involving the insurer's stability, also the considerations involving the best interests of the Company's creditors and of the institutional entities which hold the Company's debentures.

In parallel with the petition, the trustee for the debentures (Series I) also filed an urgent motion for the issuance of an interim injunction and a provisional injunction (on an *ex parte* basis) (the "Motion for an Interim Injunction"), in which the Court was requested to order the Commissioner and the trustee to refrain from fulfilling the Commissioner's instruction until a determination has been reached regarding the petition.

On May 2, 2019, the Court dismissed the motion for an interim injunction, and on May 7, 2019, at the request of the trustee for the debentures (Series I), the Court ordered that the petition be struck out.

5. On May 2, 2019, the Company entered into agreements with two third parties which are unrelated to the Company (the "Buyers"), according to which each of the buyers will acquire shares of Clal Holdings Insurance Enterprises which constitute approximately 4.99% of its issued capital, in consideration of a cash payment of NIS 47.7 per share. Additionally, one of the buyers was provided the option to acquire additional shares of Clal Holdings Insurance Enterprises which constitute approximately 3% of its issued capital, for a period of 120 days, subject to the receipt of a holding permit, and at a price of NIS 50 per share.

Additionally, on May 2, 2019, the Company entered into an agreement with a third buyer, which is unrelated to the Company, which will acquire the shares through a special purpose company (the "Additional Buyer"), according to which the additional buyer will receive from the Company an option for a period of 50 days to acquire shares of Clal Holdings Insurance Enterprises which constitute up to approximately 4.99% of its issued capital and no less than 3% of its issued capital), in consideration of NIS 47.7 per share.

<u>Note 3 - Investments</u> (Continued)

B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)

5. (Continued)

Subject to the exercise of the option by the additional buyer, the consideration in respect of the option will be paid by the additional buyer in a manner whereby 10% of the consideration will be paid in cash, and the remainder through a loan which will be provided to the additional buyer by the Company and/or by a related party thereof, or alternatively, by a banking corporation and/or financial institution in their place (the "Loan"), subject to the following conditions, *inter alia*: Assuming the full exercise of the option, the loan will amount to a total of approximately NIS 118 million. The loan will bear fixed annual interest at a rate of 4%, and will be repaid (principal and interest) in a single payment at the end of 5 years after the date of provision of the loan (subject to prepayments, including in case of dividend distributions by Clal Holdings Insurance Enterprises).

Shares of Clal Holdings Insurance Enterprises which will be acquired as part of the exercise of the option will not be charged in favor of the Company; however, the buyer undertook to a negative charge in favor of the Company (in other words, the only activity of the aforementioned special purpose company will be the holding of shares of Clal Holdings Insurance Enterprises, that it will not have any other activities and/or transactions, and it will not accept any other loan or debt, and will not sell and/or charge and/or confer any other right to its shares and to shares of Clal Holdings Insurance Enterprises which it will acquire during the loan period of, except if determined otherwise in the agreement). Restrictions were also established in respect of the sale of shares of Clal Holdings Insurance Enterprises which it will acquire as part of its exercise of the option. The agreements with the buyers and the agreement with the additional buyer shall hereinafter be referred to as: the "Agreements".

The agreements include, *inter alia*, an undertaking by one of the buyers and by an additional buyer not to sell the acquired shares during agreed-upon periods. It is hereby clarified that each of the buyers and the additional buyer declared and undertook, towards the Company, that no arrangements or understandings whatsoever have been reached between them and the other buyers and/or the additional buyer (as applicable), regarding the joint holding of the shares of Clal Holdings Insurance Enterprises which form the subject of the agreements.

The total scope of shares of Clal Holdings Insurance Enterprises which may be acquired by the aforementioned three buyers, insofar as the three agreements are completed, and the options thereunder exercised, amounts to approximately 18% of the issued capital of Clal Holdings Insurance Enterprises, of which, until proximate to the publication of the report, transactions have been executed with respect to approximately 10% of the issued capital of Clal Holdings Insurance Enterprises, as detailed below.

The Company's engagement in the aforementioned agreements was approved by the Company's Board of Directors.

The Company requested the Commissioner's consent for the update to the terms of the swap transactions, in a manner which will allow the sale of shares of Clal Holdings Insurance Enterprises which form the subject of the swap transactions, through over the counter transactions, to a certain buyer (instead of sale by way of distribution of the shares), and in a manner which allows the Company to instruct the financial entities through whom the swap transactions were executed to execute the sales to the buyers and to the additional buyer.

After receiving the Commissioner's consent, and after the Court's dismissal of the interim injunction specified in section 4 above, the Company executed the following transactions:

- On May 3, 2019, the Company sold 4.99% of the shares of Clal Holdings Insurance Enterprises which were held Mr. Moshe Terry, in an over-the-counter transaction, at a price of NIS 47.7 per share (the "Sold Shares"). The total consideration in the aforementioned transaction was approximately NIS 132 million (after fees). In accordance with the provisions of section 6.9.2.3 of the trust deed for the Company's debentures (Series M) (see the shelf offering report which was published by the Company on February 14, 2017), the consideration in respect of the sold shares will remain in the trust account which is charged in favor of the Company's debenture holders (Series M), and will serve, in the Company's discretion, to make a prepayment, or to make payments in accordance with the amortization schedule of the Company's debentures (Series M). For details regarding the Board of Directors' resolution to use the funds of the trust account mostly to execute a partial prepayment of the debentures (Series M), see Note 4.B.2. below.

Note 3 - Investments (Continued)

B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)

5. (Continued)

- The Company instructed the financing entity with which it engaged in a swap transaction in connection with shares of Clal Holdings Insurance Enterprises in May 2017, and which concluded on May 2, 2019, and which related to 2,215,521 shares of Clal Holdings Insurance Enterprises, which constitute approximately 4% of the issued capital of Clal Holdings Insurance Enterprises, to conclude the transaction through a sale to one of the buyers (the "Second Buyer"), at a price of NIS 47.7 per share. The swap transaction was concluded in return for a payment in a sum of NIS 28 million.

The Company also instructed the financing entity with whom it engaged in a swap transaction in connection with shares of Clal Holdings Insurance Enterprises in August 2017, to conclude the transaction in respect of 555,788 shares of Clal Holdings Insurance Enterprises, (out of 2,771,309 shares), which constitute approximately 1% of the issued capital of Clal Holdings Insurance Enterprises through a sale to the second buyer, at a price of NIS 47.7 per share.

As of June 30, 2019, the aforementioned options have not been exercised, and therefore, the Company has not written off the shares from the statement of financial position. The fair value of the aforementioned options, which was estimated, as of June 30, 2019, in the amount of NIS 55 million, plus the fair value of the benefit implicit in the loan which the Company undertook to provide to the additional buyer, in the amount of NIS 17 million, were presented in the statement of financial position under current liabilities, in the item for derivative financial instruments. For additional details, see remark (5) in Note 6.A below.

Pursuant to regulation 49(a) of the Reporting Regulations, these financial statements are accompanied by the economic paper regarding the fair value as of June 30, 2019, of certain components that are embodied in the sale transaction of the Company's holdings in Clal Holdings Insurance Enterprises to various investors.

After the execution of the transactions, the Company is invested in Clal Holdings Insurance Enterprises through a direct holding of approximately 20.3% of the shares of Clal Holdings Insurance Enterprises (of which approximately 15.4% through Mr. Moshe Terry), and through swap transactions on approximately 24% of additional shares. The market value of all of the aforementioned shares, as of proximate to the publication date of the report, was approximately NIS 1,298 million. In consideration of the options which were given to the buyers, as detailed above, the value of the aforementioned shares is NIS 1,280 million.

On June 16, 2019, the additional buyer notified the Company of the exercise, in full, of the option to acquire shares of Clal Holdings Insurance Enterprises.

For additional developments in connection with the aforementioned transactions, subsequent to the date of the statement of financial position, see sections A and B in section 9 of this note below.

Note 3 - Investments (Continued)

B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)

6. Execution of sales of shares of Clal Holdings Insurance Enterprises in accordance with the sale outline with the Commissioner

Presented below are the main details regarding the swap transactions, which were executed and are in effect as of June 30, 2019:

Commencement date of the transaction (1)	Base value	Net value (2)	Balance of charged deposit (3)	Net value	Balance of charged deposit
		As of June 30, 2019		Proximate to the publication date of the report	
	NIS	NIS millions			
30/08/2017(5),(7)	55.02	(4)13	(4)49	(4) (5)	(4) 49
01/01/2018(5)	61.54	(3)	115	(25)	114
03/05/2018(5)	56.12	14	62	(9)	76
30/08/2018(5)	62.38	(3)	87	(26)	87
		(2)21	313	(65)	326
08/11/2018(6)	62.00	(9)	117	(26)	116
Total		12	430	(91)	442

(1) All of the transactions were executed, each on its commencement date, in respect of 2,771,309 shares of Clal Holdings Insurance Enterprises.

(2) The net value as of June 30, 2019, constitutes the value of shares of Clal Holdings Insurance Enterprises as of June 30, 2019, in the total amount of NIS 640 million, after deducting the balance of the liabilities to banks in connection with swap transactions, in the amount of NIS 619 million (including accrued interest). The value of the aforementioned shares is presented in the statement of financial position under the item for the value of shares of Clal Holdings Insurance Enterprises in swap transactions, under assets classified as held for sale. The aforementioned balances of assets and liabilities are presented according to a distribution by current and non-current assets and liabilities as of the expected conclusion date of each transaction (24 months after the commencement date of the transaction).

(3) The balance of the charged deposits is presented in the statement of financial position under charged deposits, distributed into current and non-current deposits, in accordance with the expected conclusion date of each transaction. In accordance with the terms of the swap transactions, the Company is obligated to increase the amounts of the charged deposits if the share value declines relative to the price of each transaction, in accordance with the mechanism which was determined in each swap transaction (mark to market). In January 2019, the Company reached an understanding with two banking institutions, regarding an easement in the collateral supplementation terms (mark to market) for swap transactions which were executed by the Company on approximately 25% of the shares of Clal Holdings Insurance Enterprises. These easements are no longer in effect.

(4) The part of the transaction that relates to 555,788 shares of Clal Holdings Insurance Enterprises in respect of this transaction was closed in May 2019, against a payment in the amount of NIS 4 million. For details, see section 5 in this note below.

(5) For additional details regarding the accounting treatment of the sales which were executed in respect of the aforementioned transactions and in the swap transactions, see Note 3.B.3. to the annual financial statements.

(6) For details regarding this transaction and the accounting treatment thereof, please see Note 3.B.4. to the annual financial statements.

(7) On August 28, 2019, the financial institution gave approval to postpone the date of completion of the transaction to September 1, 2019.

<u>Note 3 - Investments</u> (Continued)

B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)

6. <u>Execution of sales of shares of Clal Holdings Insurance Enterprises in accordance with the sale outline with the Commissioner</u> (Continued)

The provisions of the agreements with the banks, by virtue of which the aforementioned swap transactions were executed, include standard provisions regarding the right to demand immediate repayment, including, *inter alia*, in the following circumstances (all or some, as applicable): in case of a breach of any payment obligation whatsoever towards the banking corporation; in case a motion has been filed to liquidate or to appoint a provisional pre-liquidator, receiver, or special manager, or in case a motion has been filed for a stay of proceedings or for the grant of a receivership order or for the initiation of recovery proceedings, or in case a creditors' meeting has been convened for the purpose of a creditors' settlement; in case the Company has initiated liquidation proceedings, or an order has been issued regarding liquidation or compromise or settlement with all or some of the creditors, or the Company has ceased paying its debts (in general); in case a foreclosure has been imposed on the majority of the Company's assets, or on a significant part thereof, or in case enforcement actions have been taken against them; in case the Company has ceased managing its business affairs for a period exceeding 60 days; in case the Company has become a "restricted customer" (for the purpose of the Uncovered Checks Law); in case of a change in control of the Company; in case of a breach of the terms of the agreement between the Company and the bank; in case the bank has determined that the Company's exposure to the derivative transaction has increased, or may increase, due to changes which have occurred or may occur in market prices and/or volatility and/or according to scenario methods and/or according to other methods, as will be determined by the bank, in its discretion, and/or in any other case where the bank will decide that a concern may arise of an increase in the Company's exposure to the derivative transaction, based on, *inter alia*, the balance of the Company's contingent liabilities towards the bank with respect to the swap transaction; in case of a suspension of trading of the shares of Clal Holdings Insurance Enterprises for 5 consecutive trading days, subject to the Company's right to increase collateral; in case an event or circumstance has occurred, at any time, which, in the bank's opinion, worsens or endangers the bank's possibility of receiving repayment and/or of receiving any asset with respect to the swap transaction, including a material change for the worse in the Company's financial position and/or activities and/or business affairs, and/or in case there is any concern, in the bank's opinion, that the aforementioned event or circumstance is expected to occur, regardless of whether or not the occurrence of the aforementioned event or the materialization of the aforementioned circumstances depends on the Company.

Note 3 - Investments (Continued)

B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)

7. The investment in Clal Holdings Insurance Enterprises is presented in the Company's financial statements as of June 30, 2019, as an asset held for sale, and it is measured at fair value through profit and loss.
The investment in Clal Holdings Insurance Enterprises in the statement of financial position is presented as follows:

Section in the statement of financial position	Rate of capital of Clal Holdings Insurance Enterprises	Amount of the asset (liability) NIS millions
Non-current assets held for sale		
Value of shares of Clal Holdings Insurance Enterprises in swap transactions	5%	168
Investment in shares of Clal Insurance Enterprises Holdings	5.3%	182
Current assets held for sale		
Value of shares of Clal Holdings Insurance Enterprises in swap transactions	13.9%	472
Investment in shares of Clal Holdings Insurance Enterprises	15%	505
Non-current liabilities		
Swap transaction on shares of Clal Holdings Insurance Enterprises	5%	(9)

The resultant effects on the Company's holdings in Clal Holdings Insurance Enterprises, mostly the changes in the fair value of the Company's holdings, are presented under discontinued operations, in light of the Commissioner's outline for the sale of the shares. The Company intends to work towards the sale of the shares also in accordance with its financing requirements, and with the intention of maximizing the consideration for them. The aforementioned presentation is in accordance with the provisions of IFRS 5.

8. The market value of the shares of Clal Holdings Insurance Enterprises which are held by the Company (including the market value of the shares regarding which the swap transactions were executed, as detailed in section 6 above, and including the value of the shares for which options were given, as detailed in section 5 above - according to the option exercise prices) as of June 30, 2019 amounts to NIS 1,441 million. The difference between the value of the shares of Clal Holdings Insurance Enterprises which the Company holds as of June 30, 2019, and the value of the shares as of December 31, 2018, amounted to a positive total of NIS 112 million, and was carried to the statement of income, under discontinued operations. The aforementioned difference includes taking into account the sale of shares of Clal Holdings Insurance Enterprises (including the options) and the closing of the swap transactions on shares of Clal Holdings Insurance Enterprises, as detailed in section 5 above.

<u>Note 3 - Investments</u> (Continued)

B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)

9. <u>Developments subsequent to the date of the statement of financial position</u>

A. Proximate to the publication date of the report, an agreement has not yet been finalized or signed with the additional buyer, as defined in Note 3.B.5. above. On July 29, 2019, a letter was received by the Company, addressed to the Company and to its Board members, from the additional buyer's attorney (the "Letter"). *Inter alia*, in the letter it was asserted that the Company had breached the agreement by not completing the execution thereof on time, and that the additional buyer insists that the Company complete immediately all of the actions which are required in order to complete the agreement. It was further stated that insofar as the Company does not do so, the additional buyer intends to take all measures which are at its disposal in accordance with the law to enforce the agreement, and to receive payment, from the Company and its Board members, for any damage or financial loss which it may incur.

The Company clarifies that the agreement specifies the principal terms of the loan (as detailed in section 5 of this note above), and also specifies that the parties undertake to work in collaboration and in good faith towards signing a detailed loan agreement, based on the principles of the loan as detailed in the agreement, and that the foregoing shall not derogate from the obligation to provide the loan. As of the present date, the negotiations between the parties in connection with the terms of the loan agreement have not yet been completed, and therefore, in light of the circumstances, according to the Company's position, the deadline for implementation of the agreement has not yet passed. The Company is continuing to work on preparing for the completion of the agreement, and as part of the foregoing, is working, *inter alia*, to evaluate alternatives to the provision of the loan. The Company received preliminary indications from financial institutions that they would provide partial financing in an amount of approximately 50% of the amount of the loan to the additional buyer pursuant to the aforesaid agreement.

It should be noted that the company intends to continue to act to receive additional outside financing. For details of an undertaking of Dolphin Netherlands to inject money into the company, including a possibility of bringing forward the second injection in a sum of up to NIS 40 million for the purpose of financing the aforesaid loan, see Note 9.F below.

B. On August 15, 2019, the Company received a copy of a letter of the Commissioner that was sent to the trustee for the company's shares in Clal Holdings Insurance Enterprises, Mr. Moshe Tery ("the Trustee"), that according to the provisions of the outline, and after the Commissioner examined once again the need for a sale and its economic repercussions, and in view of the provisions of the judgment of April 5, 2017 (which is described in Note 3.B.2 of the annual financial statements), the Commissioner ordered the Trustee to continue to act according to the outline instead of the company, in accordance with all the powers that were granted to him by virtue of the outline, and to act to sell 5% of the means of control in Clal Holdings Insurance Enterprises held by him.

The Commissioner said in his letter that the aforesaid sale should not be made by way of a swap transaction, but by means of another sale technique that would not create any connection between the Company, a party related to it or anyone acting on its behalf, on the one hand, and the shares of Clal Holdings Insurance Enterprises, on the other, as a result of which, *inter alia*, there would be an increase in the property or economic exposure of the aforesaid with respect to Clal Holdings Insurance Enterprises and it should be submitted for the Commissioner's approval before it would actually be performed by September 2, 2019. As stated in section C below, this date has been postponed to September 15, 2019.

C. In August 2019, the Company gave notice that it is examining the holding of a competitive proceeding for the sale of shares that constitute 5% of the issued capital of Clal Holdings Insurance Enterprises, in accordance with the timetable determined in the outline, for consideration that may be paid in cash and/or in return for marketable securities (including the company's bonds). For the purpose of making the aforesaid sale, and insofar as will be necessary (in view of making the aforesaid sale insofar as it will be made for non-cash consideration), the Company is examining with the controlling owner the possibility that the controlling owner of the Company will make a capital injection into the company. Such an injection of capital may be made conditionally and in several stages, over a period that will be determined.

<u>Note 3 - Investments</u> (Continued)

B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)

9. <u>Developments subsequent to the date of the statement of financial position</u> (Continued)

C. (Continued)

Within the framework of the aforesaid proceeding, on August 27, 2019, the Company received a binding offer from entities ("the Managers") representing classified investors (which the managers confirmed are not acting in a manner that gives them joint control of Clal Holdings Insurance Enterprises, or a joint holding, together with others, of the means of control in Clal Holdings Insurance Enterprises, in an amount that would require a permit in accordance with the provisions of the Control of Financial Services (Insurance) Law, 5741-1981, for the acquisition of up to 26% of the shares of Clal Holdings Insurance Enterprises on the terms and in accordance with the mechanisms stated therein ("the Transaction").

According to the offer, the transaction may be made in return for cash, or in return for the Company's (series I) bonds or in return for the Company's (series N) bonds, or with a combination of the aforesaid, at the discretion of the company according to the scope of the Transaction that it will be interested in making, on the basis of details of the situation report that was attached to the offer, which gives details of the irremovable offers that were received from the Managers, for the purchase of shares of Clal Holdings Insurance Enterprises. From the details that were attached to the aforesaid offer, it appears that insofar as a transaction will be made in accordance with the terms of the offer, on a scale of approximately 5% of the shares of Clal Holdings Insurance Enterprises, at a price of NIS 52.5 per share of Clal Holdings Insurance Enterprises, in return for (series I) bonds and (series N) bonds of the company, at a ratio of approximately 1:3 (i.e., for each NIS 3 of liability (par) value of the (series I) bonds that will serve as consideration in the transaction, there will be consideration of NIS 1 of liability (par) value of (series N) bonds that will be used as consideration in the transaction), then the price for the (series I) bonds of the company will be 75 agorot and the price for the (series N) bonds of the company will be 79 agorot. Insofar as the Company will accept the offer, it intends to act with respect to it in accordance with a Letter of Undertaking to the bondholders, which the Board of Directors of the company approved on August 29, 2019 (for details, see Note 4.B.6 below).

Pursuant to the terms of the offer, the Company resolved to give the Managers exclusivity for the Transaction, until September 5, 2019, at 12:00 noon. Accordingly, and in view of the terms of the offer, it will be valid subject to obtaining the approval of the Board of Directors of the company, until September 2, 2019.

With respect to the aforesaid offer, on August 28, 2018, in response to the Company's request, the Company received a letter from the Commissioner that, *inter alia*, the Capital Market, Insurance and Savings Authority has no objection to the sale of shares of Clal Holdings Insurance Enterprises in the format of the transactions as stated in the aforesaid Note ('the Transactions'), provided that all the following conditions are fulfilled: (a) at least 5% of the means of control in Clal Holdings Insurance Enterprises will be sold out of the means of control currently held by the Trustee; (b) the sale of the shares that are the subject of the Transactions will not be made by way of a swap transaction, but by means of another sale technique which will not create a connection between the company, a party related to it or anyone acting on its behalf and the shares of Clal Holdings Insurance Enterprises, as a result of which, *inter alia*, there is an increase in the property or economic exposure of the aforesaid with respect to Clal Holdings Insurance Enterprises, and it should be submitted for the approval of the Commissioner before it will be carried out in practice by September 10, 2019; each buyer of shares of Clal Holdings Insurance Enterprises within the framework of the Transactions, and all the controlling owners in it, insofar as the buyer is a corporation (up to the ultimate owner), or anyone who acts for him or on his behalf, in trust or not in trust, shall send a written undertaking that he, or a corporation held by him or acting on his behalf, is not acting "together with others" (as this term is defined in the Control of Financial Services (Insurance) Law, 5741-1981, "the Control Law"), in a manner that gives him control of Clal Holdings Insurance Enterprises, or a joint holding with others of the means of control in Clal Holdings Insurance Enterprises in an amount that requires a permit pursuant to the provisions of the Control Law.

<u>Note 3 - Investments</u> (Continued)

B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)

9. <u>Developments subsequent to the date of the statement of financial position</u> (Continued)

C. (Continued)

Moreover, the Commissioner said in his letter that notwithstanding what is stated in his letter to the Trustee (see section B above), the last date for making the sale of 5% of the means of control in Clal Holdings Insurance Enterprises held by the Trustee in accordance with the outline, whether by the Company or by the Trustee, will be September 15, 2019.

Moreover, with respect to the Company's requests to grant consents to an update of the terms of the company's current swap transactions with respect to shares of Clal Holdings Insurance Enterprises ('the swap transactions'), so that it will be possible for the third parties that bought the shares of Clal Holdings from the Company within the framework of the swap transactions to sell their holdings in Clal Holdings Insurance Enterprises that are the subject of the swap transactions by means of over-the counter transactions, to specific and designated buyers as the Company shall direct (instead of a sale by way of the distribution of the shares); and it will be allowed to order the financial institutions through which the swap transactions were made to make the sales to the aforesaid specific buyers; and for its consent to give a short time for the sale of the shares that will be sold within the framework of the closing/conclusion of the swap transactions, so that they will be sold by September 15, 2019 – the Commissioner said in his letter of August 28, 2019, that insofar as in the company's opinion the transactions conflict with the bindings agreements of the company with respect to the manner of concluding the company's existing swap transactions with respect to the shares of Clal Holdings Insurance Enterprises (as stated below), the Commissioner shall not regard this as a breach of the outline for this purpose only, as long as they satisfy the aforesaid restrictions.

D. On August 28, 2019, the second buyer, as defined in Note 3.B.5. above, gave notice that it was exercising the option given to it to acquire 3% of the shares of Clal Holdings Insurance Enterprises, at a price of NIS 50 per share.

E. Proximate to the approval date of the reports, there is a negative difference in the amount of NIS 162 million between the value of the shares of Clal Holdings Insurance Enterprises (including the shares regarding which the swap transactions were executed) proximate to the approval date of the reports, and the value of the shares as of June 30, 2019. The foregoing difference includes taking into account the possible exercise of the options on shares of Clal Holdings Insurance Enterprises, as stated in section 5 above.

C. Investment in IDB Tourism (held for sale)

Further to that stated in Note 3.C.1. to the annual financial statements, the Company is continuing to assess, with the assistance of external consultants, as detailed in the aforementioned note, alternatives in connection with the sale of its holdings in IDB Tourism and/or in Israir, and therefore, the Company is continuing to treat IDB Tourism, in the financial statements as of June 30, 2019, as held for sale and as a discontinued operation, in accordance with the provisions of IFRS 5.

D. Investment in IDBG (an investee treated at equity)

1. The valuation of the Tivoli project in Las Vegas was updated in the first quarter of 2019 to a total of USD 248 million. As a result, the Company recorded its share in the net amortization in the amount of NIS 3 million, which was included under the item for the Group's share in the loss of investee companies treated at equity, net. The valuation of the Tivoli project is attached to the financial statements by way of reference to the financial statements of Property & Building as of March 31, 2019, which were filed with the Israel Securities Authority and published on May 30, 2019 (ref. no. 2019-01-046311).
2. In January 2019, IDBG signed an addendum to a loan agreement (the "Loan Agreement") dated January 3, 2017, from an Israeli financing entity (the "Lender"). The original loan was in USD, and amounted to a total of USD 41.4 million. It was taken in January 2017, and was due in January 2019. The new loan, in the amount of NIS 153 million, is in shekels, and bears annual interest at a rate of 5.93%, or 7.93%, so long as a default event occurs, as detailed below. The main terms of the loan agreement are specified in Note 3.D.3. to the annual financial statements, including a guarantee which was provided by the Company and Property & Building, jointly and severally, to secure the loan.

<u>Note 3 - Investments</u> (Continued)

D. Investment in IDBG (an investee treated at equity) (Continued)

2. (Continued)

The following is a brief description of the ground for demanding immediate repayment of IDBG's aforesaid loan that relate to the Company and to Property & Building ("the Guarantors"): if it transpires that a representation or declaration of the Guarantors is incorrect or imprecise and this is not amended (insofar as it is possible to amend it); if the Guarantors adopted a voluntary liquidation resolution or insolvency proceedings are filed against it (in the broad sense of the term, including an arrangement) that are not canceled within 30 days.

Insofar as a proceeding as aforesaid is carried out by holders of the Company's bonds that were in circulation on the date of taking the original loan or on the date of the amendment to it (January 2017 and January 2019, respectively), or by financial lenders with respect to debts that existed on the aforesaid dates, this event will be regarded as taking place only if a judicial order will be given with respect to the appointment of a functionary; if a receivership motion will be filed against the Guarantors with respect to an asset or debt that exceeds NIS 300 million, and it is not repaired within 14 days. With respect to the Company, the same exclusion stated above applies; if the Guarantors do not repay a debt that exceeds 10 million dollars in a timely manner, unless the postponement is made with the lender's consent; if the Guarantors stop managing their businesses for a period exceeding 30 days; if a third party declared that it is demanding immediate repayment of a debt of the Guarantors that exceeds 10 million dollars.

Insofar as this step is taken against the Company and the Company will claim that it is being done unlawfully, the event will be regarded as occurring only if a competent court will approve that it was done lawfully; if the Guarantors reach a settlement with respect to bringing forward the date of repayment of a loan, credit or bonds that is not in accordance with the payment schedule (unless it is an act that is carried out for the purpose of complying with the Centralization Law, or it is a replacement or repayment of a series of bonds that is not against the background of an arrangement; if the guarantees that were given by the Guarantors can be canceled without the consent of the lender or will be declared as void or if a restriction will apply to the ability to realize the guarantee; if an event that has a material adverse effect on the Guarantors (as defined in the agreement) occurs, which includes, *inter alia*, any factor, event or circumstances that has or it is reasonable to believe will have or is materially likely to have a material adverse effect on: (a) the assets and/or financial position and/or liquidity and/or the results of the operations and/or business of any of the Guarantors; and/or (b) the ability of any of the Guarantors to carry out and comply with the undertakings imposed on it pursuant to the loan documents in full and in a timely manner; and/or (c) the validity of the letters of guarantee, or any of them, on the ability to enforce any of them or on any of the lender's rights pursuant to them; and/or (d) the ability of any of the Guarantors to pay (all or a significant portion of) its debts in a timely manner (including by way of refinancing), and/or insofar as any of the aforesaid stopped its payments as a rule.

The following events will constitute a "material adverse effect on the Guarantors": (1) if the equity attributed to the shareholders of any of the Guarantors according to its financial statements (audited or reviewed) is less than NIS 850 million, in relation to the capital attributed to the shareholders according to the financial statements of that Guarantor as of September 30, 2018; (2) if the rating of any of the Guarantors or the rating of any of the bonds of any of the Guarantors, as applicable, will decrease by four ratings or more from the rating that exists on the date of the signing of the agreement and/or if any of the Guarantors or any of the series of bonds of any of the Guarantors, as applicable, stops being rated by a rating company that has been approved by the Commissioner of the Capital Market; (3) if a merger is made of any of the Guarantors, other than a merger with a corporation held by it.

Moreover, it has been agreed that with respect to the Guarantors, any event that had occurred on the date of signing the agreement will not be regarded as having a material adverse effect on the Guarantors.

Following the reduction of the rating for the Company's debentures (Series I) in June 2019, as detailed in Note 4.E. below, and in accordance with the aforesaid loan agreement, as of June 30, 2019, the lowering of the rating as aforesaid entitled the lender to demand the immediate repayment of the loan. The lowering of the rating also led to an increase of the interest rate to 7.93%. According to the position of the Company's legal advisers, as of the date of the report, IDBG has good defense claims against a demand for immediate repayment of the loan, insofar as such a step will be taken. The loan was classified in IDBG's financial statements under current liabilities.

Note 3 - Investments (Continued)

D. Investment in IDBG (an investee treated at equity) (Continued)

3. In January 2019, the Company and Property & Building decided to waive the accrued interest and some of the principal of the loans, which they had invested in IDBG over the years, excluding the principal of loans in the amount of approximately USD 100 million (the Company's share - USD 50 million). The aforementioned waiver had no effect on the Company's results. On the date of the aforementioned waiver, which constituted a significant change to the terms of the loans, IDBG designated the balance of the loans to fair value through profit and loss.
   Following the initial adoption of the amendment to IAS 28, as detailed in Note 2.E.1. above, until the waiver date, the Company recorded impairment in respect of the aforementioned loans in the amount of NIS 8 million.
4. Further to that stated in Note 3.D.5. to the annual financial statements, regarding an agreement for the sale of residential land that is attached to the Tivoli project, due to the non-fulfillment of a condition precedent, the agreement was terminated. In July 2019, subsequent to the date of the statement of financial position, GW, a wholly-owned company of IDBG, signed an agreement for the sale of the aforementioned land, in consideration of a total of USD 18 million. The buyer was given a due diligence period. At this stage, there is no certainty that the sale transaction will be completed.
5. Further to that stated in Note 3.D.4. to the annual financial statements, regarding the framework agreement which was provided to IDBG by Property & Building, which determines that, in case at the end of the period of the loan which was provided by Property & Building, i.e., on September 20, 2019, the Company does not provide its shares, or the loan repayment period is not extended with the parties' consent, the conversion mechanism will be activated, which will dilute the Company's share in IDBG, and will increase Property & Building's share in IDBG, in May 2019, the Company informed Property & Building that it does not intend to provide its share or to take action to extend the repayment period, and therefore, the aforesaid conversion mechanism will be activated.

E. Investment in Modiin (an investee partnership treated at equity)

In March 2019, Modiin Energy Management (1992) Ltd., the general partner of Modiin (the "General Partner"), distributed its holdings in Modiin as a payment in kind dividend to its shareholders. The share of Noia Oil and Gas Explorations Ltd. ("Noia"), the general partner's controlling shareholder, which is held 47.5% by the Company, in the aforementioned dividend, was 204,613 participation units of Modiin. The Company acquired half of the aforementioned participation units from Noia, at a price of NIS 8.84 per participation unit, and its direct holding rate in Modiin increased to 20.2%. The aforementioned acquisition was executed against the repayment of a shareholder's loan of the Company to Noia. The difference between the cost of the shares and the balance of the loan was financed by a cash dividend in a negligible amount, which Noia distributed to its shareholders.

Note 3 - Investments (Continued)

F. Summary of main companies directly held by the Company, and additional details regarding those companies [1]

	Holding rate in share capital and in voting rights	Scope of investment in investee company	Reserves[2]	Total	Country of incorporation
	%	NIS millions			
Consolidated company					
IDB Tourism [3],[5]	100	186	9	195	Israel
Investee companies treated at equity					
IDBG [4],[5]	50	36	(11)	25	United States
Modiin Energy Limited Partnership [6]	20.2	13	(3)	10	Israel
Noia Oil and Gas Explorations	47.5	1	-	1	Israel
Total		236			

(1) The foregoing investments do not include investments in the Company's wholly-owned headquarter companies.

(2) In case of realization of the investment in associate companies, or in case of realization of the investment in consolidated companies, as a result of which the Company discontinues the consolidation of their financial statements in its financial statements, these capital reserves will be carried to profit and loss or to retained earnings.

(3) Assets and liabilities of IDB Tourism are presented under assets classified as held for sale and liabilities classified as held for sale, respectively.

(4) The holding in capital is through a wholly-owned subsidiary. The scope of the investment in the investee company was after the adoption of the amendment to IAS 28, as stated in Notes 2.E.1. and 3.D.3. above. The Company's share in the net asset value of IDBG as of June 30, 2019, was NIS 167 million.

(5) The scope of the investment includes investment in loans and/or capital notes.

(6) The participation units of Modiin are traded on the Tel Aviv Stock Exchange. The market value of the Company's stake in Modiin as of June 30, 2019, and August 27, 2019, was NIS 23 million and NIS 22 million, respectively.

-

Note 3 - Investments (Continued)

G. Discontinued operations

- Further to what is stated in Note 3.B. above, and in accordance with international accounting standards, the resulting effect of the Company's stake in Clal Holdings Insurance Enterprises (mostly changes in the investment's fair value, including through swap transactions) are presented under discontinued operations;
- Further to that stated in Note 3.C. above, the Company is evaluating alternatives in connection with the sale of shares of IDB Tourism, and therefore, is continuing to treat IDB Tourism as a discontinued operation.

Presented below are the summary results of discontinued operations:

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)		(Unaudited)		(Audited)
	NIS millions				
Clal Holdings Insurance Enterprises	79	(329)	187	(375)	(319)
IDB Tourism	(8)	(23)	(9)	(8)	12
Profit (loss) for the period from discontinued operations	71	(352)	178	(383)	(307)
Attributed to shareholders in the Company	67	(355)	178	(382)	(308)
Attributed to non-controlling interests	4	3	-	(1)	1
Profit (loss) for the period from discontinued operations	71	(352)	178	(383)	(307)
Other comprehensive income (loss) for the period from discontinued operations attributed to:					
The Company's shareholders	(14)	12	(5)	8	10
Non-controlling interests	-	-	-	-	-
	(14)	12	(5)	8	10
Comprehensive income (loss) for the period from discontinued operations attributed to:					
The Company's shareholders	53	(343)	173	(374)	(298)
Non-controlling interests	4	3	-	(1)	1
	57	(340)	173	(375)	(297)

Note 3 - Investments (Continued)

H. Data regarding associate companies and joint ventures

1. **Addition of the reports of material associate companies**

   The Company is attaching to these financial statements the financial statements as of June 30, 2019, of IDBG, which is a material investee company under the joint control of the Company and Property & Building, and which is treated at equity.

2. **Summary information regarding a material joint venture - IDBG**

	As of June 30		As of December 31
	2019	2018	2018
	(Unaudited)		(Audited)
	NIS millions		
IDB Group USA Investments Inc. [(a),(b)]			
Cash and cash equivalents	14	31	17
Total current assets	83	113	96
Total non-current assets	913	900	964
Current financial liabilities (excluding trade payables, other payables and provisions) *	(391)	(588)	(392)
Total current liabilities *	(415)	(605)	(420)
Non-current financial liabilities (excluding trade payables, other payables and provisions)**	(581)	(561)	(898)
Total non-current liabilities **	(581)	(561)	(898)

* Includes shareholder's loans which were provided by Property & Building (for details, see Note 3.D.4. to the annual financial statements) in the amount of NIS 238 million, 219 million and NIS 237 million as of June 30, 2019, June 30, 2018, and December 31, 2018, respectively.

** Mostly including shareholder's loans which were provided to the joint venture, in equal parts, by the Company and by Property & Building.

(a) IDBG's field of activity is holding rights to commercial and office areas (built in stages), its country of incorporation is the United States, its business operations are in the United States, and the Group's rate of ownership in its capital and voting rights is 50% (held by Property & Building).

(b) Assets and liabilities were translated according to the representative exchange rate as of the date of the relevant statement of financial position.

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)		(Unaudited)		(Audited)
	NIS millions				
IDB Group USA Investments Inc. [(a)]					
Income	22	21	12	11	42
Financing expenses*	(19)	(75)	(7)	(40)	(163)
Loss and comprehensive loss from continuing operations *	(16)	(151)	-	(117)	(251)
Total comprehensive loss attributed to shareholders of IDBG *	(16)	(151)	-	(117)	(251)
* Includes interest expenses with respect to shareholder's loans in the amount of	-	(61)	2	(33)	(134)
Of which, income (expenses) against loans from the Company	7	(26)	4	(14)	(57)
The Company's share in net loss, after deducting financing income in respect of shareholder's loans	(22)	(50)	(4)	(45)	(69)

(a) Income and profit or loss were translated according to average exchange rates during the relevant period.

Note 4 - Events During the Reporting Period

A. Subordinated loans

As of June 30, 2019, the fair value of the subordinated loans which are described in Note 7.C. to the annual financial statements was valued by an independent external appraiser in the total amount of NIS 223 million.

Presented below are the changes in fair value:

Period	Financing income*	Other comprehensive income (loss) **	Explanation
	NIS millions		
Six months ended June 30, 2019	96	210	The financing income was due to the decrease in the value of the subordinated loans, which was due to market changes, relative to the calculation that was made as of December 31, 2018, with parameters which reflect the same credit risk of the Company. The decline was mostly due to the decrease in the value of the holdings in Clal Holdings Insurance Enterprises, in the first quarter of 2019, and as a result of the decrease in the value of the debenture from Dolphin IL, as stated in Note 3.A. above. The balance of the decrease in the value of the subordinated loans is attributed to the change in the Company's credit risk, and is presented under other comprehensive income.
Six months ended June 30, 2018	427	(183)	The financing income was due to the decrease in the value of the subordinated loans, which was due to market changes, mostly as a result of a decrease of approximately NIS 320 million in the value of the holdings in Clal Holdings Insurance Enterprises, and a decrease of approximately NIS 296 million in the value of the debenture from Dolphin IL. The other comprehensive loss was due to the increase in the value of the subordinated loans, which is attributed to the increase of the Company's credit risk, as reflected in the decrease of the fair value of the Company's liabilities towards its debenture holders.
Three months ended June 30, 2019	-	(43)	The entire change in the value of the subordinated loans in the second quarter of 2019 was attributable to the increase in the Company's credit risk.
Three months ended June 30, 2018	427	(203)	The financing income was due to the decrease in the value of the subordinated loans, which was due to market changes, mostly as a result of a decrease of approximately NIS 370 million in the value of the holdings in Clal Holdings Insurance Enterprises, and a decrease of approximately NIS 82 million in the value of the debenture from Dolphin IL. The other comprehensive loss was due to the increase in the value of the subordinated loans, which was attributed to the increase in the Company's credit risk, as reflected in the decrease of the fair value of the Company's liabilities to its debenture holders.
2018	530	(538)	The financing income was due to the decrease in the value of the subordinated loans, which was due to market changes, mostly as a result of the decline in the value of the holdings in Clal Holdings Insurance Enterprises, as stated in Note 3.B.7. to the annual financial statements and regarding the decrease in value of the debenture from Dolphin IL, as stated in Note 3.A.4. to the annual financial statements. The other comprehensive loss was mostly due to the increase in the value of the subordinated loans, which was attributed to the increase of the Company's credit risk, as reflected in the decrease of the fair value of the Company's liabilities towards its debenture holders.

* In the statement of income.

** In the statement of other comprehensive income, under the item for net change in the fair value of subordinated loans.

<u>Note 4 - Events During the Reporting Period</u> (Continued)

A. <u>Subordinated loans</u> (Continued)

For additional details, see Note 6.B. below.

In accordance with Regulation 49(a) of the Reports Regulations, the economic paper regarding the fair value of the subordinated loans as of June 30, 2019, is attached to these financial statements.

B. <u>The Company's liabilities</u>

1. On February 6, 2019, the Company's Board of Directors resolved to execute a prepayment in the amount of approximately NIS 129.5 million par value of Company debentures (Series M). The repayment, in the total amount of NIS 141 million (including interest and payment of additional interest on the repaid part of the prepayment) was executed on February 28, 2019, and was paid out of funds which were charged in favor of the debenture holders (Series M), which were received from the sale of shares of Clal Holdings Insurance Enterprises.
2. After additional realization of the shares of Clal Holdings Insurance Enterprises (see Note 3.B.5. above), on May 8, 2019, the Company's Board of Directors resolved to execute a prepayment in the amount of approximately NIS 134.3 million par value of Company debentures (Series M). The prepayment, in the total amount of NIS 142.9 million (including interest and payment of additional interest on the repaid part of the prepayment), was executed on May 28, 2019, and was paid out of the consideration from the sale of the aforementioned shares of Clal Holdings Insurance Enterprises, which was held by the trustee for the debentures (Series M).

   Accordingly, as of June 30, 2019, 8.54 million shares of Clal Holdings Insurance Enterprises remain, the consideration for which is charged in favor of the debenture holders (Series M). Additionally, the balance of the funds which are charged in the trust account in favor of the debenture holders (Series M) was NIS 11 million.
3. For details regarding interest payments on the debentures (Series N), in the amount of NIS 25 million, out of the funds of a deposit that was received from Dolphin IL, following the dividend that was distributed by DIC, see Note 3.A.2. above.
4. <u>Financial restrictions and covenants</u> - In connection with the Company's debentures (Series M and N), the balance of which (principal and interest), as of June 30, 2019, amounted to NIS 1,382 million, the Company undertook, in accordance with the trust deed, to fulfill, throughout the entire period of the debentures, grounds for adjustment of the interest rate and financial covenants. For additional details, see sections 2 and 3 in Note 8.B. to the annual financial statements. As of June 30, 2019, the Company fulfilled the financial covenants which it had undertaken.

   In addition to the aforementioned restrictions, the debentures (Series K, M and N) which were issued by the Company, the balance of which as of June 30, 2019, amounted to NIS 1,469 million, also include standard provisions regarding the right to demand immediate repayment, including, *inter alia*, all or some of the following circumstances, as applicable: non-payment or non-fulfillment of an undertaking in the trust deed, in a manner which, in the trustee's opinion, significantly prejudices the rights of the debenture holders, insolvency events (stay of proceedings, settlement in accordance with section 350, settlement or arrangement, liquidation, foreclosure of (all or some of) the Company's assets, and realization of a charge on the Company's main assets, receivership, etc.), and various enforcement actions taken against the Company, merger subject to exceptions, or a fundamental breach of the debenture terms. Additionally, immediate repayment of the debentures may be demanded in a case where the Company has ceased engaging in and/or managing its business affairs, as they stand from time to time, or intends to do so, and in a case where the Company will discontinue or will give notice of its intention to discontinue the payment of its debts, the trustee will view this as a danger to the rights of the debenture holders.

<u>Note 4 - Events During the Reporting Period</u> (Continued)

B. <u>The Company's liabilities</u> (Continued)

4. <u>Financial restrictions and covenants</u> (Continued)

In addition to the standard grounds specified above, the debentures (Series K, M and N) also include the following grounds: Cross Default - if a lawful demand for immediate repayment has been issued with respect to one of the following: (A) Another debenture series that the Company has issued; (B) A debt of the Company to any financial institution, including any institutional entity, the balance of which, as of the date of the demand for its immediate repayment, exceeds a total of NIS 30-50 million; a material adverse change - if a material adverse change has taken place in the Company's business, as compared with the situation on the issuance date of the debentures, and there is real concern that the Company will be unable to repay the debentures on time; a change in control - if Mr. Eduardo Elsztain (directly or indirectly, including through corporations under his control) ceases being the Company's controlling shareholder, for any reason whatsoever, and there is real concern that the Company will be unable to repay the debentures on time; a series expansion - if the Company has breached its undertakings in connection with a series expansion, as stated in the trust deed; if the Company has breached its undertakings in connection with the sale of the assets that are charged in favor of the debenture holders, as stated in the trust deeds.

The debentures (Series I), the balance of which, as of June 30, 2019, amounted to NIS 1,205 million. A demand may be made for immediate repayment of the debentures (Series I) upon the occurrence of standard grounds for repayment, including, inter alia, non-repayment or non-fulfillment of an undertaking in the trust deed, in a manner which, in the trustee's opinion, significantly prejudices the rights of the debenture holders, events involving insolvency (stay of proceedings, liquidation, forfeiture of a charge on a majority of the Company's assets, receivership, etc.), and various enforcement actions taken against the Company. Additionally, it is possible to demand immediate repayment of the debentures (Series I) in a case where the Company has discontinued engaging in and/or managing its business affairs, as they stand from time to time, or intends to do so; and in a case where the Company has discontinued, or has announced its intention to discontinue, the payment of its debts, the trustee will view this as a danger to the debenture holders' rights.

5. <u>Developments subsequent to the date of the statement of financial position</u>

A. On July 1, 2019, meetings of the holders of each of the Company's debenture series were convened for the purpose of receiving a report from the Company's representatives regarding the Company's business position, and for the purpose of holding a discussion of the debenture holders regarding the Company's position, whether there is any need to take action to protect the debenture holders' rights, including the appointment of a representation for the debenture holders, an economic consultant and a legal advisor on behalf of the debenture holders and the trustees for the debenture series.

B. On July 9, 2019, each of the meetings of the debenture holders (Series I and Series N) resolved to appoint a representation for each series. The representations will have the following main authorities:

1. To assist the trustee, and to act as an agent of the trustee for each series, and of the debenture holders.
2. Conducting negotiations with the Company towards reaching understandings which, insofar as they are formulated, will lead to approvals of the meetings of each debenture series.
3. Formulation of alternative methods of action to protect the debenture holders' rights.

Additionally, each of the meetings resolved to appoint a legal counsel and an economic consultant (for each series separately), to represent and assist the representations and the trustees for the debentures.

C. Further to the conversations that have been held between representatives of the Company and some of the holders of the Company's debentures and of the trustees, and as a goodwill gesture and an intention to act in cooperation between the Company and its creditors, on August 15, 2019, the Company gave notice of an undertaking of the Company to its bondholders as follows:

1. The Company undertakes that the Company, by itself or through a third party acting on its behalf, and every company under its control (except for the public companies under its control) will not execute and will not undertake to execute any of the transactions that are set forth below, unless at least 10 days in advance the Company will publish an immediate report or will deliver notification to the trustees in writing, at its sole discretion:

<u>Note 4 - Events During the Reporting Period</u> (Continued)

B. <u>The Company's liabilities</u> (Continued)

5. <u>Developments subsequent to the date of the statement of financial position</u> (Continued)

C. (Continued)

1. (Continued)

1.1 The purchase of debentures (Series I) ("Debentures I") of the Company in cash or against some other consideration;

1.2 Any payment of any sort and type, in cash or a cash equivalent, directly or indirectly, to all or some of the holders of the Company's Debentures I (or anyone acting on their behalf), except pursuant to the repayment schedule that exists at this time for the Debentures I (without any change thereto), except for payments in respect of the current expenses of the trustee for the Debentures (Series I) and his agents, such as fees, etc.;

1.3 Any transaction or act in connection with a direct or indirect sale or transfer of (or a grant of a right in) shares of Clal Holdings Insurance Enterprises, in (all or some of) which the Company has rights , and which - (1) is made, directly or indirectly, in return for Debentures I (as the sole consideration or together with additional consideration); and/or (2) including, directly or indirectly, a waiver of any type or kind by the holders of the Debentures I or which has implications for the volume of the Company's debt in respect of Debentures I; and/or (3) is connected, directly or indirectly, to Debentures I (it should be clarified that the mere holding of a purchaser of Debentures I alone shall not cause the transaction to be subject to the restriction that is determined in this subsection 3).

2. The Company's undertakings, as set forth above, will be cancelled at the end of a period of 10 days from the occurrence of one or more of the events that are detailed below, with respect to each series that institutes proceedings or passes a resolution, as set forth in this Section 2, as follows:

2.1 The passing of a resolution at a meeting of the holders of (all or some of) the Company's debentures regarding the institution of legal proceedings against the Company of any sort whatsoever, including, *inter alia*, a demand for immediate repayment of the Company's debt to (all or some of) the holders of the Company's debentures.

2.2 The institution of legal proceedings of any sort whatsoever by the trustees or the representatives of (all or some of) the holders of the debentures against the Company, including, *inter alia*, a demand for immediate repayment of (all or some of) the debentures.

It should be clarified that the cancellation of the Company's undertaking pursuant to what is stated in this Section 2, shall only apply in relation to one or more series of debentures, in respect of which any of the events that are set forth above has occurred and there shall be nothing in this that detracts from the Company's undertaking with respect to the other series of the Company's debentures, regarding which none of the events that are set forth above have occurred, such that the provisions of this letter of undertaking shall continue to apply to them, without any change.

3. In addition to what is stated in section 2 above, the company's undertakings as stated above to all the company's bondholders shall be canceled within 10 days of the date of the company's written notice to the trustees regarding the cancelation of this Letter of Undertaking at its sole discretion.

4. For the avoidance of doubt, it is clarified that cancelation of the company's undertakings pursuant to what is stated in section 2 or section 3 above shall not constitute and shall not be regarded as any breach by the company of this letter of undertaking and/or of the terms of the trust deeds and the company's bonds.

5. For the avoidance of doubt, it is clarified, without derogating from the company's undertakings as stated above, that the company's undertakings as stated above do not apply to the controlling shareholder of the company.

<u>Note 4 - Events During the Reporting Period</u> (Continued)

B. <u>The Company's liabilities</u> (Continued)

5. <u>Developments subsequent to the date of the statement of financial position</u> (Continued)

C. (Continued)

6. It should be emphasized that the undertakings stated above are being given voluntarily and out of a desire to cooperate with the holders of the company's bonds and not because of a duty that applies to the company pursuant to the provisions of the law and/or the provisions of the trust deeds, and nothing stated above shall impose on the company any obligation and/or give the shareholders of the company or the trustees any right beyond what is expressly stated above.

6. On August 29, 2019, the Board of Directors of the Company approved a letter of undertaking to the (series I, K, M and N) bondholders of the company (jointly – "the bondholders"), in which the Company undertook that, insofar as a purchase of bonds by the Company of any of the series I, K, M or N of the Company's bonds ("the repaid series") will actually take place by November 30, 2019, and insofar as the debt to that series, in whole or in part, is an unsecured debt ("purchase operation"), then the Company will act, within 60 days of the date of making the purchase operation ("the balancing period") to buy bonds of each of the other series of bonds, which has an unsecured debt (the adjusted (par) balance of the relevant series, less the value of the collateral at the market price for that series, insofar as there will be any (provided that the resulting amount is positive) ("unsecured debt") and which is not the repaid series ("the relevant series"), in an amount (at par) out of the relevant series ("the amount of the balancing bonds") which will be equal to the acquired liability value (at par) of the repaid series divided by the unsecured debt of the repaid series before the purchase operation multiplied by the unsecured debt of the relevant series ("the balancing operation"), which shall be calculated as of the date of performing the purchase operation.

   On the date of performing the purchase operation, the company shall deposit with the trustee for the relevant series a sum in cash that is equal to the amount of the par value of the amount of the balancing bonds multiplied by the closing price of the bonds of the relevant series on the trading day preceding the date of performing purchase operation, plus the amount of the premium ("the amount in the deposit"). The amount of the premium will be determined in accordance with the average price that the company paid within the framework of the purchase operation for the bonds from the relevant series divided by the closing price of that bond on the trading day that preceded the date of performing the purchase operation.

   The amount in the deposit will be charged with a first-degree charge in favor of the trustee for the relevant series and shall serve as collateral for the Company's undertaking to the relevant series pursuant to the Letter of Undertaking. The Company shall be entitled to order the trustee to make a purchase of bonds from the relevant series out of the amount in the deposit, up to the completion of the purchase of the amount of the balancing bonds as stated in the above paragraph, with respect to the relevant series, by the end of the balancing period. If the Company bought, during the balancing period, the whole amount of the balancing bonds, the amount in the deposit or the balance thereof shall be returned to the Company, immediately upon the Company's first demand. For the avoidance of doubt, if the Company bought the whole amount of the balancing bonds, during the balancing period, the amount of the deposit or the balance thereof shall be returned to it, and in such a case, the trustee shall not be entitled to delay its repayment for any reason whatsoever. If the Company does not buy the whole amount of the balancing bonds during the balancing period, then the Company undertakes that the balance of the amount in the deposit shall be used for the early redemption of the bonds from the relevant series, on the earliest date possible after the end of the balancing period, and the trustee of the relevant series will be entitled to carry out any operation in order to realize the amount in the deposit for this purpose.

   A failure to purchase the whole amount of the balancing bonds shall not be regarded as a breach of the Company's undertaking, provided that the amount has been deposited in the deposit.

   In a case where a purchase operation of more than one series of bonds will be made on the same date, then for the purpose of calculating the amount of the balancing bonds, each purchase operation will be taken into account as balancing bonds with respect to the second series.

   In addition, the Company undertook that a purchase operation can be made only in a case where before the making of the purchase operation or at the same time as making it, a cumulative injection of capital is made into the company (with the options stated in the Letter of Undertaking), in a total amount that has not yet been determined.

<u>Note 4 - Events During the Reporting Period</u> (Continued)

B. <u>The Company's liabilities</u> (Continued)

6. (Continued)

In addition, during the undertaking period, no purchase or balancing operations shall be performed where the amount of the consideration that the Company will pay for them (in cash or by means of a transfer of shares of Clal Holdings Insurance Enterprises as aforesaid), cumulatively, exceeds a certain amount (that has not yet been determined), unless the Company gives for this to the trustees of all the series of the bonds at least ten days' written notice before performing the operation.

A purchase or balancing operation shall be made solely in cash or by means of a transfer of shares of Clal Holdings Insurance Enterprises to the seller. In the event of a purchase of bonds by means of a transfer of shares of Clal Holdings Insurance Enterprises to the seller as aforesaid, it will be taken into account, for the purpose of calculating the amount of the premium (in order to calculate the amount of the deposit) or for the purpose of calculating the payment that the Company made (in order to examine the restriction as stated above), that the value of the shares of Clal Holdings Insurance Enterprises is equal to the average closing price on the stock exchange of the shares of Clal Holdings Insurance Enterprises during the 30 trading days that preceded the date of performing the purchase or balancing operation, as applicable.

During the period of the Company's undertaking, no early payment shall be made of bonds from a series of bonds where the debt to it in whole or in part is unsecured debt, unless the trustees of all the series of the bonds give at least ten days' written notice before making the prepayment. The aforesaid shall not apply with respect to early repayment that will be made pursuant to the Letter of Undertaking. It was also clarified in the Letter of Undertaking that, in the Company's estimation, in view of the scope of the unsecured debt that exists on the date of giving the Letter of Undertaking, during the period of the undertaking, the order of the purchases, insofar as there will be any, will be the purchase of (series I) bonds, and on the same date or thereafter, the making of a balancing operation with respect to (series N) bonds. Insofar as the Company will plan to act in accordance with a different order, it will be liable to deliver seven days' written notice of this to all the trustees.

The Company's undertakings as stated above shall be immediately canceled with respect to bondholders of one or more series that will perform one or more of the following acts:

a. Adopt a resolution at a meeting of (all or some of) the company's bondholders with respect to the filing of legal proceedings against the company of any kind, including, without derogating from the generality of the aforesaid, demanding immediate repayment of (all or some of) the debt to the company's bondholders, the realization of collateral or any other matter of a similar nature to the aforesaid matters.

b. The filing of legal proceedings of any kind whatsoever by the trustee or the representation of (all or some of) the bondholders against the company, including, without derogating from the generality of the aforesaid, demanding immediate repayment of (all or some of) the bonds or the realization of collateral.

C. Further to that stated in Note 9 to the annual financial statements, regarding swap transactions which were executed by the Company with a banking institution (the "Banking Institution"), in connection with approximately 6.5 million shares of DIC, a company controlled by the Company's controlling shareholder, and which was controlled, until November 2017, by the Company, it should be noted that, in January 2019, the Company paid a total of NIS 6 million in respect of the conclusion of all of the swap transactions, and the balance of the deposit funds, in the amount of NIS 66 million, was released in favor of the Company.

D. <u>Cost distribution agreement (service agreement) with DIC</u>

Further to that stated in Note 17.B.(2) to the annual financial statements, on March 20, 2019, the Company's Board of Directors approved (after approval for this purpose was given by the Company's audit committee) an extension of the Company's engagement in an agreement for a period of three additional years, under identical terms as the terms of the current agreement, effective from April 1, 2019 to March 31, 2022. On April 30, 2019, subsequent to the date of the statement of financial position, the shareholders' meeting of DIC approved the extension of DIC's engagement in the aforementioned agreement with the Company.

Note 4 - Events During the Reporting Period (Continued)

E. On April 18, 2019, S&P Maalot ("Maalot") announced that it was reducing the Company's rating to BB- negative outlook. On June 27, 2019, Maalot announced, due to the increased risk of insolvency, that it was reducing the Company's rating to CCC, negative rating outlook. Maalot reduced the rating of the debentures (Series I), which are unsecured, to a rating of CC.

F. In May 2019, the Israel Securities Authority approved the extension of the Company's shelf prospectus dated May 10, 2017, for one additional year. Accordingly, the Company will be able to offer securities in accordance with the shelf prospectus until May 10, 2020.

Note 5 - Claims and Contingent Liabilities

A. No material changes occurred in the claims and contingent liabilities against the Company which are described in Note 13 to the annual financial statements, save as detailed below.
Further to that stated in Note 21.C.(1).B.7 to the Company's financial statements for 2016, in connection with a motion to approve a derivative lawsuit on behalf of DIC (the "Motion to Approve"), which was filed by two petitioners who allege to be shareholders of DIC, with the Economic Department of the District Court of Tel Aviv-Yafo (the "Court"), against directors and corporate officers who served in DIC during the years 2010-2011, certain shareholders of DIC (excluding the Company, which has been removed from the proceedings), and against its auditors during the relevant period (the "Respondents"), with respect to DIC's tender offer for shares of Shufersal Ltd. in 2010, and regarding dividend distributions which were subsequently announced by DIC, on May 23, 2019, concurrently with their responses to the motion to approve, a majority of the respondents filed with the Court a motion to file a third party notice against the Company.
The Company's financial statements as of June 30, 2019, do not include provisions in respect of legal claims against the Company.

B. B.Further to what is stated in Note 13.B.(1) to the annual financial statements, regarding an amended motion to certify a class action, which was filed in January 2018 with the Central District Court of Lod (the "Court"), by petitioners who allege that they hold shares of the Company, and that they are entitled parties under the debt settlement in IDB Holding Corporation Ltd. (the "Petitioners" and the "Debt Settlement", respectively), against the Company; Mr. Eduardo Elsztain, the Company's controlling shareholder; Dolphin Netherlands, the Company's controlling shareholder; and other parties; on causes of action involving damages which were incurred, as alleged by the petitioners, due to prejudice of rights by virtue of consideration that was given in the debt settlement (and particularly, in connection with the expiration of a transaction for the sale of the Company's holdings in Clal Holdings Insurance Enterprises in May 2014, and in connection with an alternative Clal transaction), on May 30, 2019, the petitioners filed with the Court a notice stating that the petitioners intend to act to file a motion to withdraw from the proceeding with respect to the Company, Mr. Eduardo Elsztain and Dolphin Netherlands. Following a decision of the Court, and after several extensions were granted, on July 19, 2019, the applicants filed a motion to withdraw from the Motion for Certification.
The financial statements of the Company as of June 30, 2019, do not include provisions for legal claims against the Company.

Note 6 - Financial Instruments

A. Fair value of financial instruments for disclosure purposes only

The carrying value of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, deposits, other investments, derivatives, the debenture from Dolphin IL, liabilities to banks in connection with swap transactions and other payables, correspond to or approximate their fair value.

The fair value of the other financial assets and liabilities, and their carrying values, as presented in the statement of financial position, are as follows:

	As of June 30, 2019		As of June 30, 2018		As of December 31, 2018	
	(Unaudited)		(Unaudited)		(Audited)	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	NIS millions					
Financial assets						
Debenture from Dolphin IL [(1)]	901	901	1,233	1,233	1,203	1,203
Investment in Colu	27	27	27	27	27	27
	928	928	1,260	1,260	1,230	1,230
Financial liabilities						
Debentures [(2),(3)]	(2,675)	(1,843)	(3,297)	(2,968)	(2,920)	(2,202)
Subordinated loans [(4)]	(223)	(223)	(277)	(277)	(529)	(529)
Swap transaction on shares of Clal Holdings Insurance Enterprises	(9)	(9)	-	-	(32)	(32)
Options for the sale of 8% of the shares of Clal Holdings Insurance Enterprises [(5)]	(72)	(72)	-	-	-	-
Swap transaction on DIC shares	-	-	(2)	(2)	(6)	(6)
	(2,979)	(2,147)	(3,576)	(3,247)	(3,487)	(2,769)

(1) The fair value of the debenture from Dolphin IL was determined by an external appraiser using the correlative Monte Carlo model. The Monte Carlo model is an algorithmic model which is used to solve calculation problems by running stochastic parameters through a large number of global situations and performing calculations on the various scenarios which were obtained. For the purpose of calculating the various scenarios, simulations were prepared regarding the future value of DIC's holdings, and the fair value of the Company's holdings, in order to assess the ability to actually repay the debenture and the impact of these values on insolvency situations, both of the Company and of the buyer. Use was also made of the Merton model, in order to estimate the future value of the debenture at different dates and in different scenarios, in order to assess natural situations of early repayment, both on the part of the Buyer, and on the part of the Company. For additional details regarding the debenture and its terms, see Note 3.A. to the annual financial statements.

(2) Carrying value including current maturities and accrued interest.

(3) The fair value of debentures traded on the stock exchange was estimated based on their quoted price, and the interest rate in respect of them reflects the yield to maturity embodied in the aforementioned quoted price.

(4) The convertible subordinated loans are presented in the Company's books at fair value. The fair value of the aforementioned loans was determined by an external appraiser based on a calculation used to estimate indications of the value of the Company's capital.

(5) For details, see Note 3.B.5. above. The fair value of the options was determined by an external valuer. The fair value of the option that was given to the first buyer was estimated using the Black & Scholes model. The fair value of the option that was given to the additional buyer was estimated through a forward on shares of Clal Holdings Insurance Enterprises as of the projected exercise date of exercising the option, since the exercise notice regarding the option was given, as stated above, on June 16, 2019.

The value presented above also includes a total of approximately NIS 17 million, which constitutes the benefit value that was estimated by an external valuer, which is implicit in the loan which will be received by the additional buyer, as defined in Note 3.B.5. above. The benefit value was calculated as the difference between the loan amount and its value as of the expected provision date, discounted as of June 30, 2019. The value of the loan was estimated as the mean of the loan's interest and principal payments, discounted as of June 30, 2019, according to various scenarios regarding the value of shares of Clal Holdings Insurance Enterprises on various dates throughout the loan term, using the Monte Carlo model. The standard deviation for shares of Clal Holdings Insurance Enterprises was estimated on the basis of the history of trading in the shares of Clal Holdings Insurance Enterprises over historical periods of time of five years over the last decade.

Note 6 - Financial Instruments (Continued)

B. Fair value hierarchy of financial instruments measured at fair value

The various levels were defined in the following manner:

Level 1 – Quoted (non-adjusted) prices in an active market for identical instruments.

Level 2 – Directly or indirectly observable data, which are not included in Level 1 above.

Level 3 – Data which are not based on observable market data.

The fair value of financial assets measured at fair value is determined with reference to their quoted closing bid price as of the date of the statement of financial position, and in the absence of such a quoted price - using other conventionally accepted valuation methods, in consideration of the majority of observable market inputs (such as use of the interest curve).

Financial instruments measured at fair value level 2

	As of June 30, 2019 (Unaudited)	As of June 30, 2018 (Unaudited)	As of December 31, 2018 (Audited)
		NIS millions	
Financial liabilities	* (81)	(2)	(38)

* Includes a total of NIS 72 million with respect to options as detailed in note (5) in section A of this note above.

The Group's remaining financial instruments are measured at fair value level 1, except as detailed in the following tables:

Financial instruments measured at fair value level 3

	For the six months ended June 30, 2019 (Unaudited)			
	Financial assets			Financial liabilities
	Debenture from Dolphin IL and other[(b)]	Loan to IDBG [(c)]	Total Assets	Subordinate loans [(d)]
		NIS millions		
Balance as of January 1, 2019	1,230	-	1,230	(529)
Total income (loss) recognized:				
Initial measurement at fair value following the initial adoption of the amendment to IAS 28 [(c)]	-	190	190	-
Under profit and loss [(a)]	(302)	(14)	(316)	96
Under other comprehensive income	-	[(e)] (9)	(9)	[(f)]210
Balance as of June 30, 2019	928	167	1,095	(223)
(a) Total income (loss) for the period included under the income statement in respect of held assets and liabilities as of June 30, 2019:				
Financing (income) expenses	(302)	-	(302)	96
The Group's share in the loss of investee companies treated at equity	-	(14)	(14)	-

(b) For additional details regarding the debentures, see Note 3.A. above.

(c) For additional details regarding the loan to IDBG, and regarding the amendment to IAS 28, see Notes 3.D.3. and 2.E.1. above.

(d) See also Note 4.A above.

(e) The Group's share in other comprehensive income (loss) in respect of investee companies treated at equity. The comprehensive loss is attributed to capital reserves from translation differences.

(f) Under the item for net changes in the fair value of the subordinated loans, which is attributed to changes in credit risk.

Note 6 - Financial Instruments (Continued)

B. Fair value hierarchy of financial instruments measured at fair value (Continued)

Fair value sensitivity analysis in respect of financial instruments measured at fair value level 3 (Continued)

	For the six months ended June 30, 2018	
	(Unaudited)	
	Financial assets	Financial liabilities
	Debenture from Dolphin IL and other[b]	Subordinated loans[c]
	NIS millions	
Balance as of January 1, 2018	1,556	(521)
Total income (loss) recognized:		
Under profit and loss [a]	(296)	427
Under other comprehensive income	-	[d] (183)
Balance as of June 30, 2018	1,260	(277)
(a) Financing (income) expenses with respect to assets and liabilities held as of June 30, 2018	(296)	427

[b] For additional details regarding the debenture, see Note 3.A. above.

[c] See also Note 4.A. above.

[d] Under the item for net changes in the fair value of the subordinated loans, which is attributed to changes in credit risk.

	For the three months ended June 30, 2019			
	(Unaudited)			
	Financial assets			Financial liabilities
	Debenture from Dolphin IL and other[b]	Loan to IDBG [c]	Total Assets	Subordinate loans [d]
	NIS millions			
Balance as of April 1, 2019	955	174	1,129	(180)
Total income (loss) recognized:				
Under profit and loss [a]	(27)	(4)	(31)	-
Under other comprehensive income	-	[e] (3)	(3)	[f] (43)
Balance as of June 30, 2019	928	167	1,095	(223)
(a) Total loss for the period included under the income statement in respect of assets and liabilities held as of June 30, 2019:				
Financing expenses	(27)	-	(27)	-
The Group's share in the loss of investee companies treated at equity	-	(4)	(4)	-

(b) For additional details regarding the debenture, see Note 3.A. above.
(c) For additional details regarding the loan to IDBG, see Notes 3.D.3. and 2.E.1. above.
(d) See also Note 4.A above.
(e) The Group's share in other comprehensive income (loss) in respect of investee companies treated at equity. The comprehensive loss is attributed to capital reserves from translation differences.
(f) Under the item for net changes in the fair value of the subordinated loans, which is attributed to changes in credit risk.

Note 6 - Financial Instruments (Continued)

B. Fair value hierarchy of financial instruments measured at fair value (Continued)

Fair value sensitivity analysis in respect of financial instruments measured at fair value level 3 (Continued)

	For the three months ended June 30, 2018	
	(Unaudited)	
	Financial assets	Financial liabilities
	Debenture from Dolphin IL and other [(b)]	Subordinated loans [(c)]
	NIS millions	
Balance at start of period	1,342	(501)
Total income (loss) recognized:		
Under profit and loss [(a)]	(82)	427
Under other comprehensive income	-	[(d)] (203)
Balance at end of period	1,260	(277)
(a) Financing (income) expenses with respect to assets and liabilities held as of June 30, 2018	(82)	427

[(b)] For additional details regarding the debenture, see Note 3.A. above.

[(c)] See also Note 4.A. above.

[(d)] Under the item for net changes in the fair value of the subordinated loans, which is attributed to changes in credit risk.

	For the year ended December 31, 2018	
	(Audited)	
	Financial assets	Financial liabilities
	Debenture from Dolphin IL and other [(b)]	Subordinated loans [(c)]
	NIS millions	
Balance as of January 1, 2018	1,556	(521)
Total income (loss) recognized:		
Under profit and loss [(a)]	(326)	530
Under other comprehensive income	-	[(d)] (538)
Balance as of December 31, 2018	1,230	(529)
(a) Financing (income) expenses with respect to assets and liabilities held as of December 31, 2018	(326)	530

[(b)] For additional details regarding the debenture, see Note 3.A. above.

[(c)] See also Note 4.A. above.

[(d)] Under the item for net changes in the fair value of the subordinated loans, which is attributed to changes in credit risk.

Note 6 - Financial Instruments (Continued)

B. Fair value hierarchy of financial instruments measured at fair value (Continued)

Fair value sensitivity analysis in respect of financial instruments measured at fair value level 3 (Continued)

Although the Group believes that the fair value figures which were determined for the purpose of measuring the fair value of financial instruments at which are measured at fair value are adequate, the use of different assumptions or measurement methods may significantly change the fair value figures.

- In respect of the fair value measurement of the debenture from Dolphin IL, a possible and reasonable change in each of the following non-observable inputs would increase (decrease) profit and loss, and capital, as follows:

	As of June 30, 2019			
	Impact on Total capital		Impact on Profit or loss	
	Increase of	Decrease of	Increase of	Decrease of
	(Unaudited)			
	NIS millions			
Absolute change of 5% in the estimated volatility of DIC as a synthetic asset *	(4)	1	(4)	1
Absolute change of 5% in the fire sale factor in respect of the holdings of Dolphin IL	(49)	49	(49)	49

	As of June 30, 2018			
	Impact on Total capital		Impact on Profit or loss	
	Increase of	Decrease of	Increase of	Decrease of
	(Unaudited)			
	NIS millions			
Absolute change of 5% in the estimated volatility of DIC as a synthetic asset *	(29)	25	(29)	25
Absolute change of 5% in the fire sale factor in respect of the holdings of Dolphin IL	(65)	65	(65)	65
Absolute change of 10% in the limit ratio of assets to liabilities (VTL) at which insolvency proceedings will be initiated against the Company or against Dolphin IL	21	(38)	21	(38)

	As of December 31, 2018			
	Impact on Total capital		Impact on Profit or loss	
	Increase of	Decrease of	Increase of	Decrease of
	(Audited)			
	NIS millions			
Absolute change of 5% in the estimated volatility of DIC as a synthetic asset *	(20)	4	(20)	4
Absolute change of 5% in the fire sale factor in respect of the holdings of Dolphin IL	(64)	64	(64)	64
Absolute change of 10% in the limit ratio of assets to liabilities (VTL) at which insolvency proceedings will be initiated against the Company or against Dolphin IL	7	(23)	7	(23)

* For the purpose of the valuation, a synthetic normative asset (sum of parts) was used, based on the value of DIC's various holdings.

Note 6 - Financial Instruments (Continued)

B. Fair value hierarchy of financial instruments measured at fair value (Continued)

Fair value sensitivity analysis in respect of financial instruments measured at fair value level 3 (Continued)

- In respect of the fair value measurement of the subordinated loans from the controlling shareholder, a possible and reasonable change in each of the following non-observable inputs would have increased (decrease) profit and loss, and capital, as follows:

	As of June 30, 2019			
	Impact on Total capital		Impact on Profit or loss*	
	Increase of	Decrease of	Increase of	Decrease of
	(Unaudited)			
	NIS millions			
Absolute change of 10% in estimated indications of the Company's equity value	(22)	22	(22)	22
Absolute change of 5% in the fire sale factor in respect of assets	55	(55)	55	(55)
Absolute change of 2.5% in the discount rate in respect of block	7	(7)	7	(7)

	As of June 30, 2018			
	Impact on Total capital		Impact on Profit or loss*	
	Increase of	Decrease of	Increase of	Decrease of
	(Unaudited)			
	NIS millions			
Absolute change of 10% in estimated indications of the Company's equity value	(28)	28	(28)	28
Absolute change of 5% in the fire sale factor in respect of assets	62	(62)	62	(62)
Absolute change of 2.5% in the discount rate in respect of block	16	(16)	16	(16)

	As of December 31, 2018			
	Impact on Total capital		Impact on Profit or loss*	
	Increase of	Decrease of	Increase of	Decrease of
	(Audited)			
	NIS millions			
Absolute change of 10% in estimated indications of the Company's equity value	(53)	53	(53)	53
Absolute change of 5% in the fire sale factor in respect of assets	76	(76)	76	(76)
Absolute change of 2.5% in the discount rate in respect of block	13	(13)	13	(13)

* The data presented above are based on the assumption that the changes were due to market changes, and not the Company's credit risk. In accordance with the provisions of IFRS 9, insofar as the changes are due to the Company's credit risk, such changes will not be carried to other comprehensive income.

- In respect of other financial instruments that are classified at level 3 of the fair value hierarchy, the possible effect as a result of a reasonable change in the non-observed data is immaterial.

Note 7 - Financing Income and Expenses

A. Financing income

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)		(Unaudited)		(Audited)
	NIS millions				
Financial assets and financial liabilities at fair value					
Decrease in the fair value of the subordinated loans [(1)]	96	427	-	427	530
Interest income from the Dolphin IL debenture	32	-	-	-	-
Net positive change in the fair value of financial assets measured at fair value through profit or loss	2	2	2	3	3
Other					
Net profit from changes in foreign currency exchange rates	-	2	-	2	6
Financial instruments at amortized cost					
Interest income from deposits in banks	-	-	-	-	1
	130	431	2	432	540

B. Financing expenses

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)		(Unaudited)		(Audited)
	NIS millions				
Financial liabilities measured at amortized cost					
Interest expenses and linkage differentials on financial liabilities measured at amortized cost	97	114	60	67	215
Amortization of cost of obtaining collateral for the Company's liabilities from Dolphin IL	17	15	9	8	32
Financial assets and financial liabilities at fair value					
Decrease in the fair value of the debenture from Dolphin IL [(2)]	302	296	27	82	326
Decrease in fair value of swap transaction on DIC shares	-	2	-	2	8
Other					
Impairment of other assets	-	14	-	14	22
	416	441	96	173	603

(1) See Note 4.A above.
(2) See Note 3.A above.

Note 8 - Operating Segments

The Company considers as segments those companies which constitute a significant economic component for the Company, including as regards the allocation of resources (the "Segment Companies"). The segmental separation basis and the measurement basis used for segmental profit and loss is identical to that presented in Note 18, regarding operating segments, in the annual financial statements.

Presented below are details regarding the operating segments and the correspondence between the segmental data and the consolidated report in accordance with IFRS 8:

A. Segmental results

	IDBG	Debenture from Dolphin IL	Discontinued operations: IDB Tourism	Discontinued operations: Clal Holdings Insurance Enterprises	Others[1]	Adjustments for the consolidation	Consolidated
				NIS millions			
For the six-month period ended June 30, 2019 (Unaudited)							
Sales and services	22	-	384	-	8	(414)	-
Segmental results - attributed to the shareholders in the Company	(22)	(270)	(12)	79	-	(2) (27)	(252)
For the six-month period ended June 30, 2018 (Unaudited)							
Sales and services	21	-	538	-	2	(561)	-
Segmental results - attributed to the shareholders in the Company	(50)	(296)	(26)	(329)	(1)	(2)275	(427)
For the three-month period ended June 30, 2019 (Unaudited)							
Sales and services	12	-	212	-	4	(228)	-
Segmental results - attributed to the shareholders in the Company	(4)	(27)	(9)	187	-	(2) (71)	76
For the three-month period ended June 30, 2018 (Unaudited)							
Sales and services	11	-	299	-	1	(311)	-
Segmental results - attributed to the shareholders in the Company	(45)	(82)	(7)	(375)	(1)	(2)336	(174)
For the year ended December 31, 2018 (audited)							
Sales and services	42	-	1,281	-	10	(1,333)	-
Segmental results - attributed to the shareholders in the Company	(69)	(326)	11	(319)	(2)	(2)240	(465)

(1) Including holdings in the oil and gas segment.
(2) Represents the results of the Company and of headquarter companies - mostly general and administrative expenses, and financing expenses.

Note 8 - Operating Segments (Continued)

A. Segmental results (Continued)

Composition of the adjustments to the sales and services item in the consolidated report:

	For the six months ended June 30 2019	For the six months ended June 30 2018	For the three months ended June 30 2019	For the three months ended June 30 2018	For the year ended December 31 2018
	(Unaudited)		(Unaudited)		(Audited)
	NIS millions				
Cancellation of amounts in respect of segments classified as associate companies	(30)	(23)	(16)	(12)	(52)
Segments classified as discontinued operations	(384)	(538)	(212)	(299)	(1,281)
	(414)	(561)	(228)	(311)	(1,333)

B. Segmental assets

	IDBG	Debenture from Dolphin IL (3)	Assets held for sale: IDB Tourism (1)	Assets held for sale: Clal Holdings Insurance Enterprises (1)	Others(2)	Adjustments for the consolidation	Consolidated
	NIS millions						
As of June 30, 2019 (Unaudited)	996	901	879	1,327	59	(268)	3,894
As of June 30, 2018 (Unaudited)	1,014	1,233	721	1,553	45	378	4,944
As of December 31, 2018 (Audited)	1,061	1,203	664	1,603	64	(50)	4,545

(1) Discontinued segment. See Note 3.G. above.

(2) Including oil and gas assets.

(3) In addition to the value of the debenture, as detailed above, the Chief Operating Decision Maker regularly receives information regarding the principal balance of the debenture and the accrued interest, and also regarding the value of the balance of DIC shares which are charged against the debenture. The Chief Operating Decision Maker is also given information regarding the asset value of investments which are directly held by DIC, and regarding its net debt. The asset value is calculated based on the value of DIC's investments, as follows: (A) In respect of non-marketable holdings - according to their value in DIC's financial statements; (B) In respect of marketable holdings - according to their average market value in the five trading days preceding the relevant date.

The following are the aforementioned figures:

	As of June 30 2019	As of June 30 2018	As of December 31 2018
	(Unaudited)		(Audited)
	NIS millions		
Principal balance and accrued interest	1,934	1,843	1,904
Market value of the balance of DIC shares which are charged against the debenture	735	1,169	1,072
Additional assets which are charged against the debentures **	47	-	-
Asset value of investments directly held by DIC *	3,866	4,389	4,138
Net financial debt of DIC *	(2,659)	(2,501)	(2,368)
Rate of DIC shares which are charged in favor of the debenture (in percent)	82.3%	76.6%	76.8%

* Refers to 100% of DIC.

** For details regarding a dividend distribution in cash and in kind by DIC, where Dolphin IL's share therein is charged to secure the debenture, see Note 3.A.2. above.

Note 8 - Operating Segments (Continued)

B. Segmental assets (Continued)

Composition of the adjustments to the segments item in the consolidated report:

	As of June 30		As of December 31
	2019	2018	2018
	(Unaudited)		(Audited)
	NIS millions		
Cancellation of amounts in respect of segments classified in the financial statements as investee companies treated at equity	(1,055)	(1,059)	(1,125)
Inclusion of the total amount of investments in investee companies treated at equity, as included in the financial statements	50	212	204
Inclusion of assets of the Company and of headquarter companies *	737	1,225	871
	(268)	378	(50)

* Assets of the Company and wholly-owned companies (excluding IDB Tourism).

C. Segmental liabilities

	IDBG (3)	IDB Tourism (1)	Clal Holdings Insurance Enterprises (1)	Other segments (2)	Adjustments for the consolidation	Consolidated
	NIS millions					
As of June 30, 2019 (unaudited)	663	691	699	3	2,254	4,310
As of June 30, 2018 (unaudited)	606	539	640	6	2,991	4,782
As of December 31, 2018 (Audited)	680	452	843	6	2,795	4,776

(1) Discontinued segment. See Note 3.G. above.
(2) Includes gas and oil liabilities.
(3) Including a total of NIS 238 million, NIS 219 million and NIS 237 million as of June 30, 2019, June 30, 2018, and December 31, 2018, respectively, in respect of an undertaking towards Property & Building. For details, see Note 3.D.4. to the annual financial statements.

Composition of adjustments to segmental liabilities in the consolidated report:

	As of June 30		As of December 31
	2019	2018	2018
	(Unaudited)		(Audited)
	NIS millions		
Cancellation of amounts in respect of segments classified in the financial statements as investee companies treated at equity	(666)	(612)	(686)
Inclusion of the liabilities of the Company and the headquarter companies *	2,920	3,603	3,481
	2,254	2,991	2,795

* Liabilities of the Company and wholly-owned companies (excluding IDB Tourism).

Note 9 - Events Subsequent to the Date of the Statement of Financial Position

A. For details regarding developments in connection with the Company's debentures, including the appointment of (separate) representations for the debenture series (Series I and Series N), and the appointment of a legal advisor and economic consultant for each of the aforementioned debenture series, see Note 4.B.5 above.

B. For details regarding the withdrawal of the request for a permit for the control of Clal Holdings Insurance Enterprises and of Clal Insurance in July 2019, by the Company's controlling shareholder, see Note 3.B.2. above.

C. For details regarding developments in connection with the Company's investment in Clal Holdings Insurance Enterprises subsequent to the date of the statement of financial position, see Note 3.B.9. above.

D. For details regarding an agreement for the sale of land in Las Vegas, in consideration of USD 18 million, see Note 3.D.4. above. At this stage, there is no certainty that the transaction will be completed.

E. On August 27, 2019, the Company received a binding offer to make a transaction for the sale of shares of Clal Holdings Insurance Enterprises in return for the company's (series I or series N) bonds or in return for cash or a combination of the aforesaid, at the Company's discretion. On August 28, 2019, the Company received approval from the Commissioner, subject to certain conditions, to make the transaction. For details of the offer and of the Commissioner's approval and the conditions that he stipulated, see Note 3.B.9.C above.

F. On August 31, 2019, the Board of Directors of the company (after it received the approval of the Audit Committee) gave its approval to accept an undertaking of Dolphin Netherlands to make an injection of capital into the Company ("the Undertaking"), the main points of which are as follows:

Dolphin Netherlands irrevocably undertook to make capital injections into the company in a total amount of NIS 210 million in three equal annual payments (NIS 70 million each) on September 2, in each of the years 2019-2021 ("the Payments" and "the Payment Dates," respectively). The Payments as aforesaid will be made in return for shares of the company or as a deferred loan on similar terms to the subordinated loans that were advanced in the past by Dolphin Netherlands to the Company.

As stated in note 4.A. above, should the company not have the cash flow resources required for the purpose of and with respect to the financing of the Seller's Loan, as stated in note 3.B.5 above, the Company shall have the right to demand an advance of a sum of up to NIS 40 million on account of the second payment, subject to the approval of the Audit Committee and the Board of Directors of the company that such finance is required.

IRSA Inversiones Y Representaciones Sociedad Anónima ("IRSA," which holds two corporations that are the holders of the participation shares in Dolphin Fund, which holds Dolphin Netherlands) unilaterally and irrevocably undertook to Dolphin Netherlands that it would transfer to Dolphin Netherlands, upon its request, the amounts that it needs in order to comply with the Undertaking ("IRSA's Undertaking"). If Dolphin Netherlands does not make the capital injections in accordance with the Undertaking, then the rights of Dolphin Netherlands pursuant to IRSA's Undertaking will be assigned to the Company automatically, and the Company will have a right to act to realize the IRSA Undertaking.

The Undertaking will expire automatically in each of the following cases: (a) insolvency proceedings will be filed against the Company (whether voluntarily or involuntarily) and they will be valid on any of the Payment Dates, in which case the relevant Payment Date will be postponed for a period of 90 days and the relevant Payment will be transferred to the Company only if the proceedings are canceled during the aforesaid period of 90 days. Of the proceedings are not cancelled within 90 days as aforesaid, the whole undertaking will expire; (b) an insolvency order will be given as stated in section 3 of the Insolvency and Economic Recovery Law, 5778-2018; and (c) a receiver, trustee, special manager or any functionary of this kind (temporary or permanent) will be appointed for the Company, or a similar order is made (with respect to insolvency of the company) by the court.