

# 2020

## INTERIM FINANCIAL STATEMENTS

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MARCH 31, 2020

IDB | U N L O C K I N G  
P O T E N T I A L

# **IDB Development Corporation Ltd.**

## **Financial Statements**

**March 31, 2020**  
**(Unaudited)**

\* The English version of this information as at March 31, 2020 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.

**Part A - Director's Report and its Annexes**

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

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**Board of Directors' Report Regarding the State of the Company's Affairs****Report for the first Quarter of 2020**

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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 March 31, 2020, which includes a review of the Company's position and principal operations for the first quarter of 2020 ("The Reporting Period"). The report has been prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and assumes that the reader is also in possession of the Company's complete periodic report for the year ended December 31, 2019 ("The Periodic Report"), and the financial statements for the year 2019, 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 interest), 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 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 improving their performance and, in the appropriate cases, for their realization.

Within the framework of the Company's response to the provisions of the Law to Promote Competition and Reduce Concentration, 5774-2013 ("The Concentration Law"), in November 2017, the Company sold all of its shares in Discount Investment Corporation Ltd. "DIC" to Dolphin IL Investments Ltd. ("Dolphin IL"), a private company incorporated in Israel, which is wholly owned by Dolphin Netherlands B.V., a corporation that is controlled by the Company's controlling interest ("The Transaction"). 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 monitoring DIC's operations and its value.

**The Company's financial position -**

The Company has an equity deficit attributed to the shareholders, which amounts to NIS 1,102 million as of March 31, 2020, as well as ongoing negative cash flows from continuing operating activities; The Company's net asset value (based on the market prices of its marketable holdings as of a time shortly before the date of the publication date, with the addition of the monetary value of other assets, and less its financial liabilities) is negative, to an extent of NIS 1,008 million. Furthermore, the Company's debentures are traded at particularly high yields, and the absence of uncharged assets will, apparently, make it difficult for the Company, in practical terms, to restructure its financial liabilities by way of the raising of debt. For additional details regarding the Company's financial position, see Note 1.B. to the financial statements.

The novel Corona virus (COVID-19, "The Corona virus") and the continued outbreak thereof, has led to a decline in Israil's volume of orders and flights, which is expected to significantly affect Israil's activity and results, the timing of the sale of the Company's holdings in IDB Tourism, and the consideration, which the Company expects to receive in such a sale. The Corona virus outbreak is also having a significant impact on the capital markets, such that in the first quarter of 2020, a significant decline occurred in the market value of the Company's holdings, primarily the shares in DIC, which form collateral for the debenture from Dolphin IL and its investee companies, and in the shares in Clal Holdings Insurance Enterprises. The aforementioned declines are also affecting both the Company's net asset value (based on market prices), and the Company's ability to realize those holdings for the purpose of repaying its liabilities. For additional details regarding the effect of the Corona virus, see section 1.1 below.



Shortly before the time of the publication of the report, the Company was left without low balances of cash and cash equivalents. The more the impact of the Corona virus outbreak deepens and/or the longer it continues, the more difficult it will be for the Company to meet the settlement of its liabilities on time. On March 12, 2020, the Company's Audit Committee ("The Committee") approached the Chairman of the Company's Board of Directors in writing ("The letter") within the context of which the Committee noted, inter alia, that it had decided to exercise it right and to call in an amount of NIS 40 million out of the current adjusted debt, pursuant to the debenture that Dolphin IL had issued to the Company at the time of the acquisition of the shares in DIC by Dolphin IL from the Company (see Note 3.A.2 to the annual financial statements for details regarding the said transaction and regarding the main terms of the debenture). On March 19, 2020, the Company and the controlling interest therein, with the agreement of the Company's Audit Committee, formulated an outline for action, pursuant to which, inter alia, Dolphin IL will pay the Company an amount of NIS 12 million on account of the said debenture and the Company will act together with the controlling interest in order formulate a plan and an outline for action in connection with the Company's financial position and for the purpose of continuing to service its liabilities. The abovementioned amount was transferred to the Company, out of which an amount of NIS 11 million was actually transferred for the payment of interest to the holders of the debentures (Series N). See Note 3.A.3 to the financial statements for additional details regarding the letter and the regarding the outline that has been formulated.

As of the time of the publication of this report, the outline for action has not yet been formulated, however on May 19, 2019, the Company's Board of Directors approved a letter of commitment vis-à-vis the generality of the holders of the Company's debentures. See Note 4.F to the financial details for details.

In August 2019, Dolphin Netherlands, the controlling interest in the Company, delivered an irrevocable commitment to the Company to perform an injection of equity into the Company in an overall amount of NIS 210 million, in three equal annual tranches, the first of which was executed in September 2019 as a subordinated loan. The balance of the injections will be performed, subject to and in accordance with the abovementioned commitment, in consideration for shares in the Company or a subordinated loan under similar terms to the subordinated loans that have been provided by the controlling interest. See Note 7.C.2 to the annual financial statements for details.

See Note 3.B.3 to the financial statements for details regarding autonomous and unconditional guarantees that have been made available by Dolphin Netherlands to financing bodies, in a cumulative amount of NIS 57 million, and which form part of the charged deposits (for which the Company has committed within the context of the terms of a swap transactions on shares in Clal Insurance Enterprises Holdings). After the closure of the swap transactions in June 2020, after the date of the statement of financial position, as detailed in Note 3.B.7.c to the financial statements, NIS 12 such guarantees were outstanding.

See 1.4.4.4 below for details on the Company's forecasted cash flow statement and the headquarters companies wholly owned by the Company (excluding IDB Tourism).

At a time shortly before the publication of the report, there is a representative for each of the series of debentures (a separate representative for each group) as well as an economic consultant and a legal advisor. See Note 8.E.2 to the annual financial and Appendix B to the Board of Directors' report, which follows.

See Note 4.G to the financial statements for details regarding the Company's notification to the trustee for the debentures (Series I), which was approved by the Company's Board of Directors in June 2020, pursuant to which, in accordance with the provisions of the trust deed for the debentures (Series I), it intends to settle the payment of interest to the holders of the debentures, which is due on June 18, 2020, on June 30, 2020.

On June 29, 2020, the Company announced that pursuant to a decision by its Board of Directors on June 28, 2020, the payments of interest on the debentures (Series I), whose payment had been deferred, as aforesaid, from June 18, 2020 to June 30, 2020; as well as the payments of the interest on the debentures (Series N and O), which pursuant to the trust deeds are supposed to be paid on June 30, 2020, will be deferred and paid on July 7, 2020.

See Note 4.H to the financial statements for details regarding a draft offer that the Company and the trustees for its debentures have received from Dolphin IL for the strengthening of the Company's equity structure, by way of an arrangement between Dolphin IL, the Company and the holders of its debentures.

On June 21, 2020, the trustee for the holders of the debentures (Series N) announced the calling of a meeting, to be held on July 5, 2020, on the agenda of which will be calling for the immediate repayment of the unsettled balance of the Company's debt to the holders of the debentures (Series N).

See Appendix B to the Report of the Board of Directors and Note 4E to the financial statements for details regarding the rating for the Company and for its debentures as of March 31, 2020 and regarding the lowering of the rating in the first quarter of 2020. The terms of the Company's debentures and the rating thereof are detailed in Appendix B below and in Note 8 to the annual financial statements.

The Company's financial statements as of March 31, 2020 include a note and the drawing of attention by the Company's auditors regarding the existence of significant doubts regarding the Company's continuing existence as a going concern.

This is as a result of the Company's financial position, its cash flows and its ability to service its liabilities, including the equity deficit that is attributed to the Company's shareholders, the Company's negative net assets value (based on the current market prices of its marketable holdings with the addition of the carrying values of the other assets and less its financial liabilities), for the purposes of the cash that is required by the Company for the settlement of its liabilities, also in the short-term, which relies on the realization of assets, where the timing of their realization is not under the Company's control and also for the purposes of the cash that is required for the Company to settle its liabilities at the timing required, which is dependent, inter alia, on factors that are not under its control and primarily on the value of the debenture from Dolphin IL and the cash flows that will derive therefrom until the time of the end of the Company's liabilities to its creditors. See Note 1B to the financial statements for additional details.

#### The Company's main investments

As of the date of the financial statements, the Company's main investments are: the debenture from Dolphin IL (which was received in a transaction for the sale of the Company's holdings in DIC in November 2017, as aforesaid), Clal Holdings Insurance Enterprises, IDB Tourism and IDBG.

#### Clal Holdings Insurance Enterprises

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"). Pursuant to the outline, in the years 2017 and 2018, the Company sold, cumulative, shares, which at the time of their sale constituted 25% of the shares in Clal Holdings Insurance Enterprises, 5% each time.

In parallel, the Company made commitments, 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 they may be at the time of the settling of accounts.

In 2019, the Company continues with the realizations of shares in Clal Holdings Insurance Enterprises and it also ended the swap transactions on shares in Clal Holdings Insurance Enterprises, including by means of transactions for the swapping of shares in Clal Holdings Insurance Enterprises with debentures of the Company, such that as of December 31, 2019, the Company held 8.5% of the shares in Clal Holdings Insurance Enterprises and approximately 8.2% by means of the swap transactions.

In January 2020, the Company ended a swap transaction on 0.75 million shares in Clal Holdings Insurance Enterprises, which constituted approximately 1.1% of the shares in Clal Holdings Insurance Enterprises. After the partial closing of the said transaction, in January 2020, as of March 31, 2020 the Company held approximately 8.5% of the shares in Clal Holdings Insurance Enterprises and approximately 7.1% by means of the swap transactions.

In June 2020, after the date of the statement of financial position, the Company terminated swap transactions on 3.375 million shares in Clal Holdings Insurance Enterprises, which constituted approximately 4.99% of the issued share capital of Clal Holdings Insurance Enterprises and it remained with a holding of 8.5% of the shares in Clal Holdings Insurance Enterprises with an additional 2.1% being held through a swap transaction.

Pursuant to the outline, and after the receipt of the approval of the Court for the deferral of the sale of the next tranche, the Company is committed to the sale of an additional 3.2% of the shares in Clal Holdings Insurance Enterprises by September 2020.

### IDBG -

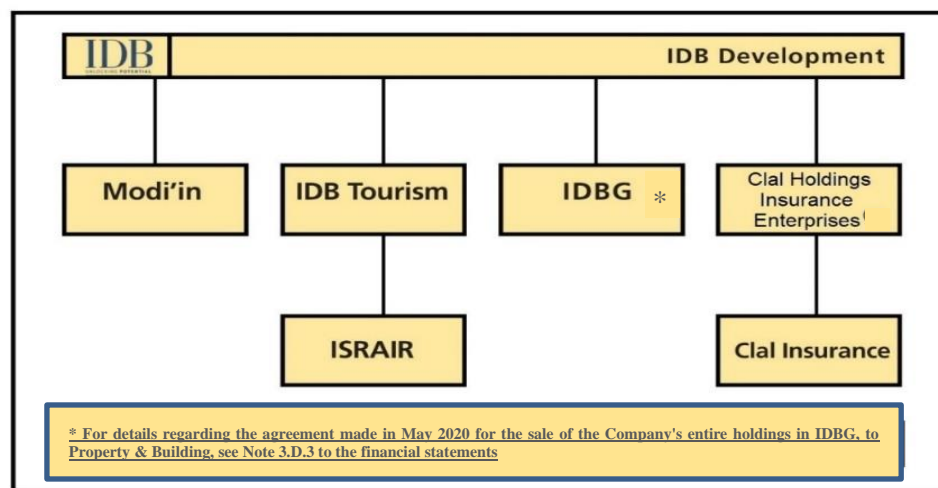
IDBG is engaged, through a real estate corporation, in the construction and operation of a commercial and office project in Las Vegas, Nevada (USA). As of December 31, 2019, the Company and Property & Building held the entire share capital of IDBG, in equal parts. In February 2020, the loans that had been extended by Property & Building to IDBG were converted, in a manner that diluted IDB Development's share in IDBG's share capital and in the right to the repayment of the shareholder's loans to a rate of 25.82% (the remaining 74.18% are held by Property & Building. See Note 3.D.1 to the financial statements for details. In June 2020, the Company and Property & Building signed on an agreement for the sale of the Company's entire rights on IDBG for consideration of 27.8 million Dollars. The approval of the transaction was subject, inter alia, to the approval of Property & Building's general meeting, which was convened on June 23, 2020 and which decided not to approve the commitment. See Note 3.D.5 to the financial statements for details.

### Isirair -

Further to that stated in Note 3.C.1. to the financial statements, regarding the impact of the spread of the Corona virus on Isirair's operations and the actions that it has taken in order to cope with the situation, on May 7, 2020, Isirair was sent a letter from the Ministry of Finance regarding the making available of a guarantee from the state for banking loans for Isirair ("The letter"), pursuant to which the state will consider making a state guarantee available for a loan that would be extended to Isirair by banks in Israel, pursuant to commercial terms to be agreed between Isirair and the accompanying banks ("The loan" and "the lending bank", respectively), which would be at a rate of 75% of the amount of the loan, which would be up to NIS 100 million, all of which subject to additional conditions, as detailed in the letter.

It is further mentioned in the letter that the final structure of the terms of the guarantee will be determined taking the conditions that will exist immediately before the time that the loan is provided and parameters that were set forth in the letter, and that the provision of the loan is subject to the approval of the authorized bodies in the lending bank. In addition, it was mentioned that approval for the provision of the state guarantee for a loan, insofar as it may be provided, is subject to the approval of all of the relevant bodies in the government and the approval for it by the Knesset's Finance Committee. In June 2020, Isirair received confirmation from the Ministry of Finance and the lending bank for the making available of a loan of NIS 93 million with a 75% guarantee from the state. The loan bears interest of Prime +1.5% a year for a period of 7 years, where no principal will be repayable in the first year. The timing of the actual receipt of the loan will be determined in accordance with Isirair's cash requirements.

As of March 31, 2020, the companies that are held by the Company are IDB Tourism (100%), Clal Holdings Insurance Enterprises (a direct holding of 8.5% and an investment through the swap transactions in an additional approximately 7.1%). See also Note 3.B to the financial statements) and IDBG (25.82%), which are presented under discontinued activities and Modi'in Energy (19%), an investee partnership that is treated under the equity method of accounting. The following is a diagram detailing the significant companies, for the purpose of this report, which are held by the Company as of March 31, 2020



In the financial statement, the net income related to the income is attributed to the shareholders in the Company and to the non-controlling interests. The data on income that are presented in the Report of the Board of Directors relates to the income that is attributed to the shareholders in the Company, unless otherwise stated.



## 1. The Board of Directors' explanations regarding the state of the Company's affairs

### 1.1 General

The state of the businesses of the Company's main holdings, their operating results, cash flows, changes in equity, and their value and the value of the debenture from Dolphin IL, affect the state of the Company's business, 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 payments of the debenture.

In addition, 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 Company's business results, and sometimes directly the equity attributed to its shareholders, may fluctuate (in accordance with current accounting principles) considerably 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 Company's financing expenses.

The Company's business results, its cash flows and the value of its net assets are affected, inter alia, by the state of the capital market and the economic situation in the economy and in the international markets. A change in the trend in the capital market in Israel and globally may affect the values of the assets and the prices of the marketable securities that are held by the Company, directly and indirectly, it may, in certain cases, cause write-downs or the recording of a loss, whether in the statement of income and whether in the statement of comprehensive income, and also affect the Company's ability to generate an appropriate consideration and profits on the realization of the Company's holdings. In addition, such a change in the trend could affect the recruitment of funds or the finding of sources of financing or the financing terms where financing is required for the Company's operating activities.

The growing 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 those of DIC, and also on the Company's operations, and in the Company assessment, this has a significant impact on the Company and on its business operations.

**Instability in the markets and economic slow-down-** situations of instability in the global capital markets could occur as a result of a wide range of local and global factors such as, an economic crisis, political uncertainty, pandemics, a state of emergency and conflicts between countries. Such instability may find expression in strong fluctuations in the prices of securities and it may lead to an economic slow-down, financial crises and impairment of the ability to recruit sources of financing.

In addition a worsening of the state of the global economy in general may have a significant adverse impact on the Group companies' revenues and on the results of their operations. The Corona virus (Covid-19) broke out recently in China, from where it has spread to the rest of the world, and has caused significant worry and uncertainty. Following the outbreak of the virus, the share and debenture markets have been trading with a trend of sharp falls and there is concern regarding a contraction of global economic activity.

As of the reporting date, the spread of the Corona virus is having a significant impact on the Company, where in the first quarter of 2020 there has been a significant decrease in the market value of the Company's holdings, primarily in shares in DIC, which form the collateral for the debenture from Dolphin IL and its investee companies and in the shares in Clal Insurance Enterprises Holdings.

Such decreases have an impact on both the Company's net asset value (based on market prices) and also on the Company's ability to realize those assets for the purpose of repaying its liabilities.

In addition, the outbreak of the virus has had a significant negative impact on local and global economic activity, and its continuation over time could, inter alia, affect consumer habits and the extent of consumption in various sectors in the economy and lead to a continuation of the serious damage caused to them (such as the tourism, aviation and real estate sectors).

**1. The Board of Directors' explanations regarding the state of the Company's affairs (Continued)****1.1 General (Continued)**

In addition, as part of the global handling of the Corona virus and the attempts to halt its spread, countries across the world (at the recommendation of health bodies and medical bodies) have adopted a method of locking down people and even certain populations who come within the definitions that have been set and which are varying dynamically. Furthermore, trans-border traffic has been reduced significantly and has led to a significant decrease in the volume of air traffic and to a slow-down in maritime transportation.

These factors might also have a significant impact on the availability of manpower and equipment in the fields of activity of the Group companies and DIC's investee companies, in a shortage in the supply of raw materials and construction materials and could lead to a delay in the timetables for the execution of activity. All of these could have an adverse impact on the Group companies' financial results, which includes, inter alia, it could impact their ability to distribute a dividend to DIC and/or the Company, as the case may be.

Furthermore, such implications could have negative impacts on the Company's liquidity and that of its investee companies, the state of their businesses, their credit rating and their ability to raise financing for their operations, insofar as this may be required, and also even on their financing terms. The potential damage from the Corona virus for global growth and the global economy and the impairment of the ability of manpower and a shortage of equipment in dependent on the level of the speed and the ability to reduce its spread globally and at this stage the Company is unable to assess the length and the strength of the crisis and its full implication for the Company's operations and those of its investee company and on DIC and on their results.

It is clarified that the various assessments and the conjectures that are detailed in the above paragraphs regarding the Corona virus and its possible impacts constitute forward looking information, within the meaning of that term in the Securities Law – 1968, the realization of which is uncertain and is not under the Company's and its investee companies' control. These assessments may not be realized or they manner that is significantly different, inter alia, insofar as changes may occur in the spread of the virus and the directives issued by the relevant authorities in Israel and globally.

See Notes 3.C.1, 3.D.4 and 3.E to the financial statements for details regarding the implications of the outbreak of the Corona virus on the operations of Israil, IDBG and Modi'in, respectively.

The Group's operations are affected by many additional external factors (see sections 7 and 22 in Part A of the Periodic Report and Section 2.1 and Part A of the quarterly report (significant changes and new matters that have occurred in the corporation's business)).

**1.2 Results for the first quarter of 2020**

The Company ended the first quarter of 2020 with a loss of NIS 844 million, as compared with a loss of NIS 328 million in the corresponding period last year. In 2019, the Company lost NIS 424 million.

See section 1.7 below for details regarding primary profit (loss).

## 1. The Board of Directors' explanations 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 March 31 2020	Profit (loss) at the level of the Company			Data at the level of the investee company <sup>1</sup>		
		For the first quarter of		For the year	For the first quarter of		For the year
		2020	2019	2019	2020	2019	2019
IDBG	25.8%	<sup>2</sup> (4)	<sup>2</sup> (18)	<sup>2</sup> (56)	<sup>3</sup> (18)	<sup>3</sup> (21)	<sup>3</sup> (95)
Increase (decrease) in the fair value of the debenture which was issued by Dolphin IL <sup>4</sup>		(549)	(243)	(192)			
IDB Tourism	100%	(3)	(3)	<sup>5</sup> (60)	(3)	(18)	(79)
Clal Holdings Insurance Enterprises <sup>6</sup>	<sup>6</sup> 8.5%	(242)	(108)	(120)			
All other holdings		(2)	-	1			
Total companies		(800)	(372)	(427)			
Decrease in the fair value of convertible subordinated loans which were received from the controlling interest		<sup>7</sup> 1	<sup>7</sup> 96	<sup>7</sup> 101			
Financing, administration and others <sup>8</sup>		(45)	(52)	(98)			
Loss for the period		(844)	(328)	(424)			

### 1.4 Select Data from the Financial Statements

#### 1.4.1 Summary balance sheet data

	As of March 31		As of
	2020	2019	December 31 2019
	NIS millions		
Current assets	1,252	2,027	1,449
Total assets	1,803	4,058	2,589
Current liabilities	1,165	1,777	1,158
Convertible subordinated loans which were received from the controlling interest	-	180	25
Other non-current liabilities	1,733	2,542	1,735
Equity deficit attributed to shareholders in the Company <sup>9</sup>	(1,102)	(444)	(335)
Equity deficit and subordinated loans	(1,102)	(264)	(310)
Equity deficit (including non-controlling interests)	(1,095)	(441)	(329)

<sup>1</sup> The data relates 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.

<sup>2</sup> 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 quarter of 2020, in an amount of NIS 4 million, in the first quarter of 2019 in an amount of NIS 3 million and in the year 2019 in an amount of NIS 25 million respectively.

<sup>3</sup> 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.2. to the annual financial statements (a total of NIS 3 million, NIS 8 million and NIS 25 million in first quarter of 2020, in first quarter of 2019 and in the year 2019, respectively), but not including the effects of the financing in respect of the loans which were provided by the Company and Property & Building, in equal parts.

<sup>4</sup> For details, see Note 3.A. to the financial statements. An economic report in connection with the fair value of the debenture as of September 30, 2020, is attached to the financial statements. The contribution to profit, includes primarily the change in the fair value of the debenture. The contribution to profit is stated after offsetting amounts of NIS 12 million, NIS 32 million and NIS 36 million in respect of interest received on account of the debenture (in the first quarter of 2020, in first quarter of 2019 and in the year 2019, respectively).

<sup>5</sup> IDB Tourism is treated as an asset that is held for sale and is presented, accordingly, at the lower of its carrying value in the accounting records and its fair value less selling expenses. The contribution to profit does not necessarily reflect IDB Tourism and Israil's results as reported by them.

<sup>6</sup> 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.3 to the financial statements, and is presented in the statement of income under discontinued operations. The holding rate as of September 30, 2019, includes 15.3% in direct holdings and 20% in swap transactions.

<sup>7</sup> In accordance with IFRS 9, said amounts include changes in value of subordinate loans which are attributed to market changes. Additional amounts, which are attributed to changes in credit risks of the Company were recognized under other comprehensive income. For details, see section 1.4.7 below, and note 5 A to the financial statements.

<sup>8</sup> See section 1.9 below.

<sup>9</sup> See also section 1.4.6 below.

## 1. The Board of Directors' explanations regarding the state of the Company's affairs (Continued)

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

#### 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 June 25 2020	As of March 31		As of December 31 2019
		2020	2019	
	NIS millions			
Financial liabilities <sup>10</sup>	(2,069)	(2,048)	(2,868)	(2,041)
Liquid asset balances <sup>11</sup>	21	3	57	26
Restricted deposits <sup>12</sup>	67	197	614	195
Debt, net	(1,981)	(1,848)	(2,197)	(1,820)
Average lifetime of liabilities	1.8	1.9	2.5	2.5

<sup>10</sup> Includes debentures and accrued interest. The amounts do not include a subordinate convertible loan of NIS 629 million, received from the controlling interest (see Note 7.C to the annual financial statements) .

<sup>11</sup> Includes cash and cash equivalents, marketable securities ,liquid investments and short term deposits .

<sup>12</sup> Charged deposits which serve as collateral for banking institutions in connection with the swap transactions, as described in Note 3.B.3 to the financial statements, which amounted to NIS 196 million as of March 31, 2020; and a deposit which serves as collateral for the repayment of the debentures (Series O), which amounted NIS 1 million as of March 31, 2020.

# 1. The Board of Directors' explanations regarding the state of the Company's affairs (Continued)

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

1.4.3 The following are the carrying value of investee companies that are held directly by the Company the net asset value<sup>13</sup> and the leverage ratio as of March 31, 2020, and at a date shortly before to the time of the publication of the report:

	Holding rate	As of March 31, 2020	
		Carrying value	Asset value
		NIS millions	
Debenture from Dolphin IL <sup>14</sup>		414	414
Clal Holdings Insurance Enterprises - shares held directly	8.5%	170	149
IDB Tourism	100%	119	119
IDBG <sup>15</sup>	25.8%	69	129
Others		21	21
		793	832
Value of swap transactions in respect of 7.1% of the shares in Clal Holdings Insurance Enterprises			(157)
Less financial debt, net (section 1.4.2 above)			675
Total net asset value [NAV]			(1,848)
Leverage ratio [LTV] - as of March 31, 2020			(1,173)
			274%
Data shortly before the time of the publication of the report <sup>16</sup>			
Total net asset value			(3) (1,008)
Leverage ratio [LTV]			204%

(1) NAV - Net Asset Value. Constitutes the Company's net asset value, i.e., the total value of the Company's assets (in accordance with that stated in footnote 14 below), after deducting its net financial liabilities. NAV is a standard economic indicator for evaluating the economic equity of companies, mostly holding companies such as the Company. The main gaps between the Company's NAV and capital attributable to Company's owners as presented in the statement of financial position were mostly due to the following reasons:

- The measurement of the Company's investments at market value, which is different from measuring them in accordance with generally accepted accounting principles (mostly with reference to the investment in IDBG, as reflected in the above table, whose measurement in the statement of financial position was significantly affected by the initial adoption of IAS 28, as specified in Note 2.M.1. to the financial statements).
- Non-inclusion of the discount and the cost of obtaining collateral for the Company's liabilities from Dolphin IL as part of the Company's financial debt (an overall amount of NIS 133 million), as presented in the statement of financial position, under the Company's assets and liabilities.

The Company uses this indicator, inter alia, to identify warning signs, if any, including for the purpose of providing due disclosure in the financial statements. It is hereby clarified that NAV is not based on generally accepted accounting principles, and does not constitute an alternative to the information which is included in the financial statements.

Negative NAV indicates an excess of liabilities over assets (which were mostly based on market data).

- The leverage rate (LTV - loan to value) is a standard economic indicator used to measure the leverage ratio of companies, and serves as the basis for measuring the ratio (in percent) of net financial debt relative to its asset value. Similarly to negative NAV, negative LTV also indicates an excess of financial liabilities over the Company's assets (which are mostly based on market data), and allows an understanding of the extent of the aforementioned gap in percent. It is hereby clarified that NAV is not based on generally accepted accounting principles, and does not constitute an alternative to the information which is included in the financial statements.
- For the purpose of calculating the Company's net asset at a time shortly before the publication of the report, the value of the debenture from Dolphin IL was calculated according to the net asset value of the DIC shares, shortly at a time shortly before the publication of the report, as published in DIC's financial statements as of March 31, 2020 and which is attributed to shares in DIC, which are charged in support of the debenture (116,416,950 shares, with a net asset value of NIS 618 million), which is higher than the value of the shares as of June 25, 2020, (which amounted to NIS 503 million); with the addition of the market value of the debentures (Series I) which are held by Dolphin IL and which are charged in support of the debenture (with a value of NIS 15 million as of June 25, 2020), all of which less a dire sale discount of 10%. See Note 3.A. to the financial statements for details. See section 1.1 above for details regarding the consequences of the Corona virus outbreak on market prices, including on the Company's holdings.

<sup>13</sup> 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 March 31 2020 (B) In respect of non-marketable holdings - according to their value in the Company's financial statements.

<sup>14</sup> See Note 3 A to the annual financial statements for details of the sale of DIC shares and the terms of the debenture from Dolphin IL. As of March 31, 2020, the net asset value of DIC shares charged against the debentures, on the basis of what is stated in footnote 13 above, was NIS 129 million. The market value of the shares charged against the debentures was, NIS 440 million as of that time.

<sup>15</sup> See Note 2.M.1 to the annual financial statements for details regarding the implications of the initial adoption of the amendment to IAS 28 on the balance of the investment in IDBG. The asset value of IDBG was determined based on the Company's share of IDBG's assets less its liabilities to external parties.

<sup>16</sup> The leverage ratio at a time shortly before the publication of the report, based on market data and the debt as of at a time shortly before the publication of the report. In relation to non-marketable holdings, except for the debenture from Dolphin IL, which is measured as stated in section (3) above, the value of the holdings is in accordance with the carrying value in the Company's accounting records as of March 31, 2020.



# 1. The Board of Directors' explanations regarding the state of the Company's affairs (Continued)

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

### 1.4.3 The following are the carrying value of investee companies that are held directly by the Company the net asset value<sup>13</sup> and the leverage ratio as of March 31, 2020, and at a date shortly before to the time of the publication of the report (Continued)

The following is the impact of changes in the value of shares in Clal Insurance Enterprises Holdings on the net asset value at a time shortly before the publication of the report:

	+50%	+25%	Net asset value	-25%	-50%
			NIS millions		
	(901)	(955)	(1,008)	(1,061)	(1,115)

### 1.4.4 The Company's financing sources

#### 1.4.4.1 The following are the principal monetary movements in the Company's headquarters

	For the first quarter of							
	2020				2019			
	Liquid assets <sup>(1)</sup>	Charged and restricted deposits	Financial debt	Financial debt, net	Liquid assets <sup>(1)</sup>	Charged and restricted deposits	Financial debt	Financial debt, net
	NIS millions							
Balance at the beginning of the period	26	195	(2,041)	(1,820)	52	621	(2,969)	(2,296)
Consideration from the sale of shares in Clal Holdings Insurance Enterprises	-	-	-	-	-	127	-	127
Receipt of a loan from IDB Tourism	-	-	-	-	18	-	(18)	-
Deposit and supplementation (release) of collateral, net <sup>(2)</sup>	(5)	5	-	-	(58)	58	-	-
Deposit (release) of collateral with respect to swap transaction on DIC shares	-	-	-	-	66	(66)	-	-
Interest from Dolphin IL <sup>(3)</sup>	1	11	-	12	5	27	-	32
Investments in investee companies	-	-	-	-	(2)	-	-	(2)
Repayment of financial debt - principal	-	-	-	-	-	(129)	129	-
Repayment of financial debt - interest	-	(14)	14	-	(1)	(24)	25	-
General and administrative expenses less financing income, net	(3)	-	-	(3)	(4)	-	-	(4)
Payments in respect of swap transactions, net	(16)	-	-	(16)	(19)	-	-	(19)
Financing expenses - accrual of interest and linkage differentials on financial debt	-	-	(21)	(21)	-	-	(35)	(35)
Balance at the end of the period	3	197	(2,048)	(1,848)	57	614	(2,868)	(2,197)

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

<sup>(2)</sup> See Note 3.B.3 to the financial statements for details

<sup>(3)</sup> See Note 3.A.3 to the financial statements for details

# 1. The Board of Directors' explanations 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 The following are details regarding the repayment of the Company's liabilities:

	For the year ending March 31, 2021			For the six months ending September 30, 2020		
	Principal	Interest	Total	Principal	Interest	Total
	NIS millions					
Debentures	268	102	370	118	52	170

See also the Company's report regarding its liabilities, by maturity dates (T-126), which was published through public electronic reporting on June 30, 2020 (Document number 2020-01-069423).

#### 1.4.4.3 Financial restrictions and ratios -

- 1.4.4.3.1 In connection with the Company's debentures (Series N), the balance of which (principal and interest) amounted to NIS 880 million as of March 31, 2020, the Company has undertaken, pursuant to the trust deed, to comply, with throughout the entire period of the debentures, the grounds for the adjustment of the interest rate, and financial covenants, which will be tested as of the date of DIC's financial statements, as follows::

Grounds for adjustment of interest rate / financial covenant	Calculation results	
	As of March 31, 2020	Shortly before the time of the publication of this report
DIC's long-term issuer rating shall be no lower than the base rating (iLBBB). In case of a fall of two (or more) rating under the base rating, a maximum cumulative addition of up to 0.75% will be added to the annual interest rate the will be borne by the debentures (Series N).	Rating of iLBBB with a negative rating outlook	Rating of iLBBB with a negative rating outlook
The asset value <sup>13</sup> less net financial debt ("Net asset value") shall be less than NIS 1.1 billion. In the event of an exception, an additional 0.25% will be added to the interest borne by the debentures (Series N).	<b>DIC's net asset value - NIS 157 million*</b>	DIC's net asset value - NIS 752 million
The ratio between DIC's net financial debt and its asset value shall exceed 85%. In the event of an exception, an additional 0.5% will be added to the interest that will be borne by the debentures (Series N).	The ratio between DIC's net financial debt and its asset value - 95%.	The ratio between DIC's net financial debt and its asset value - 80%.
A lien on shares in DIC in support of compliance with the undertakings to the debenture holders (Series N).	Approximately 99.3 million DIC shares were charged.	Approximately 99.3 million DIC shares were charged.

- \* Accordingly, as from the time of the publication of the Company's financial statements as of March 31, 2020, i.e. as from June 30, 2020 ("The time of the exceeding"), the debentures (Series N) will bear interest at a rate of 5.75% instead of interest at a rate of 5% as was the case up to the time of the exceeding. See Note 4B to the financial statements for additional details.

<sup>13</sup> The asset value is in accordance with the asset values as follows: (A) In relation to holdings which are marketable securities – in accordance with their average value on the Stock Exchange in the five trading days preceding March 31, 2020 (B) In relation to non-marketable holdings – in accordance with their value in DIC's financial statements.

1. **The Board of Directors' explanations 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 ratios (Continued)

1.4.4.3.2 In connection with the Company's debentures (Series O) in an amount of NIS 237 million (principal), the Company has undertaken, pursuant to the trust deed, to comply throughout the entire life period of the debentures, with financial covenants, pursuant to which the total equity of Clal Holdings Insurance Enterprises will not be less than NIS 3 billion. Restrictions were also set on the distribution of profits and the creation of general and current liens (floating lien) as detailed in the trust deed See Note 8.B.4 to the financial statements for additional details.

According to the most recently published financial statements of Clal Holdings Insurance Enterprises, its total equity stands at NIS 5.3 billion.

1.4.4.3.3 The following are details regarding the liens which were provided towards the Company's debenture holders, in support of the liabilities to those holders:<sup>17</sup>

Charged asset	Charged in support of the holders of debenture series	As of March 31, 2020		Shortly before the publication of this report	
		Amount	Rate of charged holdings	Amount	Rate of charged holdings
		Millions of shares	%	Millions of shares	%
Shares in DIC <sup>(1)</sup>	N	99.26	70.2	99.26	70.2
Shares in Clal Holdings Insurance Enterprises <sup>(2)</sup>	O	3.38	5.0	3.38	5.0
Consideration that will derive from shares in Clal Holdings Insurance Enterprises <sup>(2)</sup>	O	2.38	3.5	2.38	3.5

<sup>(1)</sup> It should be noted that since November 2017, the Company does not hold shares in 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 support of the debenture holders (Series N), through a specific second priority charge in support of the Company, and through a specific third priority charge in support of the Company's debenture holders (Series I and N). In addition, 17.16 million shares in DIC are charged through a specific first ranking lien in support of the Company, and by a specific second ranking lien in support of the Company's debenture holders (Series I and N). Accordingly, in total, 116.42 million shares in DIC, which are owned by Dolphin IL, as collateral for the debenture from Dolphin IL. The market value of such shares was NIS 440 million and 503 million as of March 31, 2020 and at a time shortly before the publication of the report, respectively.

<sup>17</sup> The value of charged shares as of initial issuance was 133% of the debt balance, in accordance with provisions of the Trust Deed.

# 1. The Board of Directors' explanations 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)

##### 1.4.4.3.3 The following are details regarding the liens which were provided towards the Company's debenture holders, in support of the liabilities to those holders (Continued)

###### (1) (Continued)

In addition, as of March 31, 2020 and at a time shortly before the publication of the report, NIS 58 million par value of the Company's debentures (Series I) are also charged, which is deposited in an account of Dolphin IL.

(2) The Company has charged 3.38 million shares in Clal Holdings Insurance Enterprises, which constitute approximately 5.0% of the issued and paid capital of Clal Holdings Insurance Enterprises as of March 31, 2020 as well as the consideration for 2.38 million shares in Clal Holdings Insurance Enterprises ("The base shares"), which constitute approximately 3.5% of the issued and paid capital of Clal Holdings Insurance Enterprises as of March 31, 2020, in support of the holders of the debentures (Series O). See Note 4.D to the financial statements for additional details.

#### 1.4.4.4 Projected statement of cash flows of the Company and its wholly-owned headquarter companies (excluding IDB Tourism)

As of March 31, 2020, the Company has an equity deficit attributed to shareholders and ongoing negative cash flows from continuing operating activities, and the Company's auditors, in their review report, have drawn attention regarding the existence of significant doubts regarding the Company's continued existence as a going concern. See Note 1.B to the financial statements for additional details. In light of the aforesaid, a forecast statement of cash flows, containing details of the liabilities and the sources of financing from which the Company expects to be able to settle the liabilities during the period of two years ending March 31, 2022 is presented here. As a result of uncertainties, the statement of cash flows has been prepared by way of a description of the absorptions of funds whilst striving to find sources that will be sufficient to pay them. The basket of sources is described in comment (4) below:

The data in the forecast statement of cash flows, as aforesaid, do not include adjustments, insofar as may be required, in respect of a draft offer from Dolphin IL ("The draft offer") to the Company and to the trustees for the Company's debentures (Series I, N and O) to strengthen the Company's capital structure, by way of an arrangement between Dolphin, the Company and the debenture holders, which is based on an economic contribution to the Company on the part of Dolphin IL, together with the full or partial repayment (as the case may be) of the generality of the Company's debentures, the substance of which is intended to improve the Company's capital structure, since as of the reporting date there is no certainty in respect of the completion of the arrangement and the timing of its completion, which are dependent on the receipt of various approvals, which have not yet been received at this stage and which are not under the Company's control.

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

# 1. The Board of Directors' explanations 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 Projected statement of cash flows of the Company and its wholly-owned headquarter companies (excluding IDB Tourism) (Continued)

	For the period from		
	April 1, 2020, to December 31, 2020	January 1, 2021, to December 31, 2021	January 1, 2022, to March 31, 2022
	NIS millions		
<b>Sources</b>			
Balance of liquid assets at the beginning of the period <sup>(1)</sup>	200	-	-
Injections from the controlling interest <sup>(2)</sup>	70	70	-
Receipts of debenture interest from Dolphin IL <sup>(3)</sup>	18	17	-
Sale of shares in Clal Holdings Insurance Enterprises	71	-	-
Other sources that are required to finance the uses <sup>(4)</sup>	194	167	17
<b>Total sources</b>	<b>535</b>	<b>254</b>	<b>17</b>
<b>Expected liabilities (projected uses):<sup>(5)</sup></b>			
<b>Cash flow for operating activities</b>			
General and administrative expenses, net	20	10	3
<b>Cash flow from financing activities<sup>(6)</sup></b>			
Repayment of debenture principal <sup>(7)</sup>	268	150	-
Payment of debenture interest <sup>(7)</sup>	88	94	14
Payment to IDB Tourism	19	-	-
Net payments on swap transactions <sup>(8)</sup>	158	-	-
<b>Total uses</b>	<b>553</b>	<b>254</b>	<b>17</b>
<b>Balance of liquid assets at the end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>

- (1) The balance of liquid assets includes cash, cash equivalents, short-term deposits and restricted deposits. The balance of restricted deposits as of April 1, 2020 amounted to NIS 197 million.
- (2) For details, see Note 7.C.2 to the annual financial statements.
- (3) Amounts that will be received by Dolphin IL for principal and interest on debentures (Series I), which it received as a dividend in kind from DIC, as detailed in Note 3.A.5.a to the annual financial statements.
- (4) In the Company's assessment, additional possible sources, which may be available to it in the period covered by the forecast are:
  - (a) The sale of the Company's holdings in IDB Tourism, see Note 3.C to the financial statements;
  - (b) The sale of the balance of the Company's holdings in IDBG, see Note 3.D.2 to the financial statements;
  - (c) The sale of the Company's holdings in Modi'in.
  - (d) Interest on account of the debenture from Dolphin IL, subject to the distribution of a dividend by DIC.
  - (e) Payments on account of the debenture from Dolphin IL under the force of the exercise of the Company's right to accelerate the payment of the debt pursuant to the terms of the debenture, see Note 3.A.2.(h) to the annual financial statements and note 3.A.3 to the financial statements.
  - (f) The sale of additional shares in Clal Holdings Insurance Enterprises subject to the restrictions pursuant to the provisions of the trust deed for Series O, insofar as they may apply. See Note 8.B.4 to the annual financial statements for details.



# 1. The Board of Directors' explanations 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 Projected statement of cash flows of the Company and its wholly-owned headquarter companies (excluding IDB Tourism) (Continued)

##### (4) (Continued)

Furthermore, it should be mentioned that adverse changes that occurred in the first quarter of 2020, primarily as a result of the outbreak of the Corona virus, including the impact thereof on Isair's business, the fall in the prices of the Company's securities and those of its investee companies, and in particular the increase in the yield on the Company's debentures and the sharp fall in the prices of the shares in Clal Holdings Insurance Enterprises, DIC and its investee companies, make it difficult at the present time, and so long as the impact of those changes continues, it will be difficult to implement some of the said alternatives, which are being examined by the Company and/or to realize them at the timings that are required for the settlement of the expected liabilities.

- (5) The Company's forecasted cash flow report does not include possible implications of the early repayment of a loan taken up by IDBG, as stated in Note 3.D.3 to the annual financial statements.
- (6) The forecast statement of cash flows does not include the possible implications in respect of the trustee's notification to the holders of the debentures (Series N) on June 21, 2020 of the calling of a meeting to be held on July 5, 2020, on the agenda of which will be calling for the immediate repayment of the balance of the Company's unsettled debt vis-à-vis the holders of the debentures (Series N)
- (7) The forecast statement of cash flows has been prepared in accordance with the Company's agreed repayment schedules as of the reporting date, including the amounts of interest, which have been calculated in accordance with the interest rates as of the time of the publication of the report. It should be mentioned that various grounds are included in the Company's financing agreements for making the financing repayable immediately, and that some of the Company's creditors have contractual agreements, pursuant to which they have the possibility of making the debt repayable immediately if another creditor makes its debt repayable immediately and in some of the cases if a ground arises for another creditor to have its debt made repayable immediately. See Note 8.B. to the annual financial statements for details.
- (8) The following are details of repayments of loans and debentures (based on the Company's current settlement agreements) including interest differentials and linkage based on the index at the time of the publication of the report:

		2020			2021				2022
		Total Q2	Total Q3	Total Q4	Total Q1	Total Q2	Total Q3	Total Q4	Total Q1
		NIS millions							
Debentures Series I	Principal	-	-	150	-	-	-	150	-
	Interest	22	-	22	-	19	-	19	-
Debentures Series N	Principal	-	-	-	-	-	-	-	-
	Interest	11	13	13	13	13	13	13	13
Debentures Series O	Principal	-	118	-	-	-	-	-	-
	Interest	3	3	1	1	1	1	1	1
<b>Total</b>	<b>Principal</b>	-	<b>118</b>	<b>150</b>	-	-	-	<b>150</b>	-
	<b>Interest</b>	<b>36</b>	<b>16</b>	<b>36</b>	<b>14</b>	<b>33</b>	<b>14</b>	<b>33</b>	<b>14</b>
<b>Total</b>		<b>36</b>	<b>134</b>	<b>186</b>	<b>14</b>	<b>33</b>	<b>14</b>	<b>183</b>	<b>14</b>

## 1. The Board of Directors' explanations 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 Projected statement of cash flows of the Company and its wholly-owned headquarter companies (excluding IDB Tourism) (Continued)

- (9) For details regarding swap transactions on shares in Clal Holdings Insurance Enterprises, see Notes 3.B.3 and 3.B.7.C to the financial statements. It should be noted that in relation to the remaining swap transaction, the Company can terminate the transaction before the end of its 24 months, subject to the payment of an early repayment commission in an immaterial amount, and to the release the restricted deposit.

The data that are included in the projected statements of cash flows, including the other sourced that are required for the period covered by the cash flows forecasts, constitute an estimate of the sources that are required and the underlying estimates and assessments include forward looking information, as defined in the Securities Law, which is based on the Company's estimates regarding:

The probability of the realization of relevant business scenarios from which the Company is projected to receive money, the timetables for the realization of those scenarios; the results of operations; possible alternatives to the obtaining of sources to repay its liabilities when they fall due for payment; the amounts and timings of the repayment of the Company's debentures. These estimates may not be realized, in whole or in part, or they may be realized in a manner that is materially different from what is expected.

The main factors that may impact this are: the impact of the outline for an enforced sale the price at which the shares in Clal Holdings Insurance Enterprises will be realized and the impairment of the maximization of the consideration that will be received for the sale of shares in Clal Holdings Insurance Enterprises; the enforced termination of the swap transaction that has been executed on shares in Clal Holdings Insurance Enterprises; changes in or the non-completion of business plans that are expected to provide the Company with resources, including the sale of Company's holding in IDB Tourism; a worsening of the state of IDB Tourism's business or its financial position;

A depression or deterioration in the capital market and the economy, which will lead to a significant decrease in the value of the Company's holdings; dependence on the yields of the Company's debentures; dependence on the prices of the shares in DIC, which are charged in support of the Company and the holders of its debentures, a deterioration in the business or financial situation of any of DIC's investee companies; dependence on the share price of Clal Holdings Insurance Enterprises; demands by financing bodies for significant changes in the repayment times of existing credit and the taking of steps by the Company's creditors against it; the potential damage from the Corona virus to the market value of the shares in Clal Holdings Insurance Enterprises and the shares in DIC and its investee companies, to Israil's operations and accordingly to the value of IDB Tourism and the timing of its sale, to the global economy and growth and to the impairment of the availability of manpower and a shortage in equipment is dependent on the speed and the ability to constrain its spread across the globe; and the realization of any of the Company's risk factors (which have been described in Section 22 of Part A of the periodic report).

- 1.4.4.5 The outbreak of the Corona virus and the continuation of its negative impact on the economic situation, as stated in Note 1.B to the financial statements, could have a negative impact on the Company's liquidity, the state of its business, its credit rating, its ability to raise financing, as well as the terms of its financing.

# 1. The Board of Directors' explanations 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<sup>18</sup>

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 of DIC, whose shares are charged in support of the Company and its debenture holders, as of March 31, is as follows:

Company	Balance of distributable earnings (negative balances)
	NIS millions
IDB Development Corporation Ltd. <sup>19</sup>	(1,995)
IDB Tourism <sup>19</sup>	(19)
Clal Holdings Insurance Enterprises <sup>20</sup>	3,000
DIC <sup>21</sup>	397

### 1.4.6 The following are the changes in the equity (equity deficit) attributed to shareholders in the Company<sup>21</sup>

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	NIS millions		
Balance at the beginning of the period	(335)	(230)	(230)
Initial implementation of the revision to IAS 28	-	(129)	(129)
<u>Changes during the period</u>			
Loss attributed to shareholders in the Company	(844)	(328)	(424)
Receipt of a subordinate loan from the controlling interest	-	-	64
Capital reserve on a change in the fair value of the subordinated loans, which is attributed to changes in credit risk	24	253	409
Conversion of loans from Property & Building to IDBG*	61	-	-
Reserves on translation differences	10	(10)	(25)
Hedging reserves	(17)	-	(1)
Capital reserves on transactions with non-controlling interests	-	-	(1)
Capital reserves and other movements, net	(1)	-	2
	<u>(1,102)</u>	<u>(444)</u>	<u>(335)</u>

\* See note 3.D.1 to the financial statements.

<sup>18</sup> For information relating to the restrictions on the distribution of dividends, see section 5 of part A of the periodic report (Description of the Corporation's business).

<sup>19</sup> The balance of distributable earnings is calculated on the basis of net income (loss) attributable to shareholders in the eight quarters preceding March 31, 2020, in accordance with the provisions of Section 302 of Companies Law. The accumulated balance of retained earnings is lower.

<sup>20</sup> For details of limitations on the distribution of dividends by insurance companies, see Sections 11.5.3.2 and 11.5.3.3 of Part A of the Periodic Report (Description of the Corporation's Business).

<sup>21</sup> See also section 1.5 below

**1. The Board of Directors' explanations 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 interest**

	For the three months ended March 31		For the year ended 31 December
	2020	2019	2019
	NIS millions		
Balance at start of period	25	529	529
Fair value of a new loan received	-	-	6
Decrease in the fair value of the subordinated loans:			
Through profit or loss	(1)	(96)	(101)
Through other comprehensive income	(24)	(253)	(409)
	(25)	(349)	(510)
Balance at the end of the period	-	180	25

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

# 1. The Board of Directors' explanations 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 Company's assets and liabilities as of March 31, 2020 (including wholly-owned subsidiaries, other than IDB Tourism)

	Index-linked	Linked to the Dollar	Unlinked NIS millions	Non-monetary items	Total
<b>Assets</b>					
Debenture from Dolphin IL	-	-	414	-	414
Cost of obtaining collateral for the Company's liabilities from Dolphin IL	-	-	-	107	107
Investments in investee companies	-	-	-	12	12
Restricted and charged deposits	-	-	197	-	197
Non-current financial assets presented at fair value – investment in Colu				10	10
Right of use asset	-	-	-	6	6
Fixed assets				2	2
Other receivables				1	1
Investments in investee companies held for sale <sup>(1)</sup>	-	-	-	422	422
Cash and cash equivalents	-	-	3	-	3
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>614</b>	<b>560</b>	<b>1,174</b>
<b>Liabilities</b>					
Debentures	878	-	1,113	-	1,991
Liabilities to banking corporation in connection with swap transactions	-	-	173	-	173
Leasing liabilities	6	-	-	-	6
Subordinated loans	25	-	11	-	36
Current provisions	-	-	2	-	2
Swap transaction on shares in Clal Holdings Insurance Enterprises	-	-	-	68	68
<b>Total liabilities</b>	<b>909</b>	<b>-</b>	<b>1,299</b>	<b>68</b>	<b>2,276</b>
<b>Net exposure as of March 31, 2020</b>	<b>(909)</b>	<b>-</b>	<b>(685)</b>	<b>492</b>	<b>(1,102)</b>
<b>Net exposure as of March 31, 2019</b>	<b>(1,299)</b>	<b>(1)</b>	<b>(906)</b>	<b>1,762</b>	<b>(444)</b>
<b>Net exposure as of December 31, 2019</b>	<b>(900)</b>	<b>1</b>	<b>(128)</b>	<b>692</b>	<b>(335)</b>

<sup>(1)</sup> Including the investments in IDB Tourism (net of the loan that the Company received from IDB Tourism) in IDBG and in shares in Clal Holdings Insurance Enterprises (including the value of shares in Clal Holdings Insurance Enterprises in swap transactions).



# 1. The Board of Directors' explanations 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

See Appendix A to the Board of Directors' Report for details regarding sensitivity tests for sensitive financial instruments included in the consolidated financial statements as of March 31, 2020, based on changes in market factors.

See section 1.4.8 above for details regarding the possible effect of changes in the Consumer Prices Index on the Company's operating results.

The following are the summation lines of the sensitivity tables

As of March 31, 2020:

	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	19	48	25	(787)	(26)	(54)	(20)

	Profit (loss) from changes in parameters examined in the sensitivity tests				
	Increase in parameter		Fair value	Decrease in parameter	
	10%	5%		5%	10%
	NIS millions				
Sensitivity to changes in the exchange rate of the US Dollar	(26)	(13)	(269)	13	26
Sensitivity to changes in the prices of marketable securities	31	16	312	(16)	(31)

As of March 31, 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	79	75	38	(2,058)	(40)	(82)	(92)

	Profit (loss) from changes in parameters examined in the sensitivity tests				
	Increase in parameter		Fair value	Decrease in parameter	
	10%	5%		5%	10%
	NIS millions				
Sensitivity to changes in the exchange rate of the US Dollar	(31)	(16)	(317)	16	31
Sensitivity to changes in the prices of marketable securities	150	75	1,495	(75)	(150)

# 1. The Board of Directors' explanations 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)

The following are the summing-up lines of the sensitivity tables (Continued)

As of December 31, 2019:

	<b>Profit (loss) from changes in parameters examined in the sensitivity tests</b>					
	<b>Increase in parameter</b>			<b>Decrease in parameter</b>		
	<b>2% in absolute value</b>	<b>10%</b>	<b>5%</b>	<b>Fair value</b>	<b>5%</b>	<b>10%</b>
				<b>2% in absolute value</b>		
	<b>NIS millions</b>					
Sensitivity to changes in interest rates	58	54	28	(1,419)	(29)	(59)

	<b>Profit (loss) from changes in parameters examined in the sensitivity tests</b>				
	<b>Increase in parameter</b>		<b>Fair value</b>	<b>Decrease in parameter</b>	
	<b>10%</b>	<b>5%</b>		<b>5%</b>	<b>10%</b>
	<b>NIS millions</b>				
Sensitivity to changes in the exchange rate of the US Dollar	(29)	(15)	(292)	15	29
Sensitivity to changes in the prices of marketable securities	59	29	586	(29)	(59)

## 1.5 Changes in capital and quality of profit (loss)

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

The Company's total comprehensive loss in the first quarter of 2020 (including non-controlling interests) amounted to NIS 826 million, as compared with comprehensive income (including non-controlling interests) of NIS 81 million in the corresponding quarter in the previous year. The aforementioned difference is primarily due to the following factors:

- The loss in the first quarter of 2020 (including non-controlling interests) amounted to NIS 842 million, as compared with a loss of NIS 324 million in the corresponding quarter last year.
- In the first quarter of 2020, the Company recorded other comprehensive income in an amount of NIS 24 million, as a result of the updating of to the fair value of the convertible subordinated loans from the controlling interest, which is attributed to a change in the Company's credit risk. In the corresponding quarter in the previous year, the Company recorded other comprehensive income as stated above, in an amount of NIS 253 million.
- In the first quarter of 2020, 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 an amount of NIS 10million (including in respect of investee companies that are treated at equity), as compared with comprehensive loss net of tax in an amount of NIS 10 million in the corresponding quarter in the previous year. The difference was due to a decrease of 3.2% in the exchange rate of the US Dollar in the first quarter of 2020, as compared with a decrease of 3.1% in the corresponding quarter in the previous year.

Comprehensive loss attributed to the shareholders in the Company in the first quarter of 2020 amounted to NIS 828 million, as compared with a comprehensive loss of NIS 85 million in the corresponding quarter in the previous year.

# 1. The Board of Directors' explanations 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 three months ended March 31		For the year ended December 31
	2020	2019	2019
	NIS millions		
Loss attributed to shareholders	(844)	(328)	(424)
Profit attributed to non-controlling interests	2	4	4
Loss attributed to shareholders and to non-controlling interests	(842)	(324)	(420)
Loss from discontinued operations (including non-controlling interests)	(247)	(125)	(232)
Comprehensive Loss attributed to shareholders in the Company	(828)	(85)	(39)

## 1.7 Details regarding main non-recurring events

### 1.7.1 Details regarding main non-recurring profits (losses)

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	NIS millions		
<b>Not involving cash flows - in the statements of income</b>			
Increase in the fair value of Clal Holdings Insurance Enterprises <sup>(1)</sup>	(240)	(99)	(62)
Decrease in the fair value of convertible subordinated loans from the controlling interest	1	96	101
Net decrease in the value of the Tivoli project and inventory of real estate in Las Vegas	(4)	(3)	(25)
Decrease in the value of the debenture from Dolphin IL	(561)	(275)	(228)
<b>Involving cash flows - in the statements of income</b>			
Gain on early redemption of a debenture	-	-	144
Interest received in respect of the debenture from Dolphin IL	12	-	36

<sup>(1)</sup> Presented under discontinued operations. The decrease in fair value includes the shares which are subject to swap transactions.

<sup>(2)</sup> Relates solely to changes that are attributed to changes in the market. See also Section 1.4.7 and Note 5 to the financial statements.

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

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	NIS millions		
<b>Not involving cash flows - under other comprehensive income</b>			
Diluted gain on the Company's holdings in IDBG as the result of a transaction with the controlling interest (see also Note 3.D.1 to the financial statements - reflected directly under equity attributed to the shareholders.	61	-	-
Other comprehensive income in respect of the change in fair value of convertible subordinated loans from the controlling interest, attributed to the change in the Company's credit risk - see Notes 4.1 and 7 to the financial statements.	24	253	409
Initial implementation of the revision to IAS 28 (see Note 2.E.1. to the annual financial statements) - reflected directly under accumulated losses	-	-	(129)
<b>Involving cash flows - directly under capital</b>			
Receipt of a subordinated loan from the controlling interest	-	-	64

## 1. The Board of Directors' explanations 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 <sup>22</sup>

#### 1.8.1 IDB Tourism segment

The Company's share in the results of the IDB Tourism segment in the first quarter of 2020 amounted to a loss of NIS 3 million, as compared with loss of NIS 3 million in the first quarter of 2019.

The Company's share of IDB Tourism's results in the first quarter of 2019 included the cancellation of a provision for a loss, which had been recorded in 2018, in accordance to international accounting principles, pursuant to which an asset that is held for sale is presented at the lower of the carrying value in the accounting records and the fair value less selling costs.

#### Summary of the business results of the IDB Tourism segment:

	<u>First quarter of</u>			<u>Explanation</u>
	<u>2020</u>	<u>2019</u>	<u>Increase</u>	
	<u>NIS millions</u>		<u>%</u>	
Revenues	180	172	4.8%	The increase in revenues in the first quarter of 2020, by comparison with the comparative period in the previous year derived primarily from the consolidation of a company that is engaged in the in-country tourism, as from July 1, 2019 ("The consolidation of additional activity"), an increase that was offset by a decrease in activity in light of the outbreak of the Corona virus, and also from a decrease in in-country activity as a result of the closure of Sde Dov as from July 1, 2019.
Cost of revenues	187	166	12.6%	The increase in cost of revenues in the first quarter of 2020, by comparison with the comparative period in the previous year derived primarily from the consolidation of additional activity, as stated above.
Gross profit (loss)	(7)	6		
Gross profit (loss) as % total revenues	(3.8%)	3.4%		
Operating expenses	(31)	(21)		The increase in expenses in the first quarter of 2020, by comparison with the comparative period in the previous year derived primarily from the consolidation of additional activity, as stated above.
Other operating revenues, net	-	2		
Operating income	(38)	(12)		
EBITDA (including share in the profits of associated companies)	(19)	3		The transition to a negative EBITDA in the first quarter of 2020 derived primarily from the impact of the outbreak of the Corona virus and from a decrease in in-country activity, as detailed above.
EBITDA as a % of total revenues	(10.6%)	1.8%		
Other income, net	45	-		Following the outbreak of the Corona virus, Israel recorded a loss of NIS 77 million from impairment in the value of aircraft and inventory and re-organization expenses of NIS 14 million. On the other hand, IDB Tourism cancelled a provision for impairment in value of NIS 132 million in accordance with Israil's value as detailed below.
Financing expenses, net	(8)	(4)		The increase in financing expenses in the first quarter of 2020, derived primarily from the revaluation of hedging transactions, which Israil executed and from the recording of financing expenses of NIS 3 million in respect of a debt swap transaction in respect of aircraft from dollar denoted to shekel denoted debt.
Taxes on income (tax benefit)	(1)	3		
<b>Loss for the period</b>	<b>(3)</b>	<b>(18)</b>		

<sup>22</sup> In the tables presented above, the rate of change in percentage terms of data relating to the comparative period in the previous year is calculated on the basis of exact data which is not rounded to the closest million.

**1. The Board of Directors' explanations 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)****1.8.1 IDB Tourism segment (Continued)**

Following the outbreak of the Corona virus and the serious damage that it has caused to the tourism and aviation sector, IDB Tourism has examined Israil's fair value as of March 31, 2020, by means of an independent external appraiser. The appraiser assessed Israil's value as being in a range of between 31 million Dollars and 59 million Dollars (including the Company's debt of 5 million Dollars). IDB Tourism's net asset value in the statement of financial position as of March 31, 2020 reflects a value for the company of approximately 34 million Dollars, which is attributed to Israil. This value is approximately 21% lower than the middle of the range of appraised values and approximately 9% higher than the lower value in the range, reflecting the management's assessment of the amount that the Company can receive from the sale of Israil in this challenging period.

For the purpose of the appraisal, Israil's cash flows have been discounted in accordance with a discount interest rate of 12.6%, where the abovementioned range reflects a discount rate of 11.3% to 13.8%.

According to the assumptions that were taken into account in the evaluation, Israil will continue to operate in the current format in which it holds aircraft that it owns up shortly before the time at which Israil will need to invest significant amounts in the existing fleet of aircraft, which is estimated will be in 2024. At that time Israil will transition to a model under which it will lease the entire fleet of aircraft, which will be of a uniform model.

It has further been assumed that in light of the Corona virus, Israil's results will be impacted in the short and intermediate term and that it will only be in 2025 that the revenues will return to their 2019 level. Thereafter, the revenues will grow in accordance with the rate of growth in the population.

Taking note of the losses that are available to be carried forward and Israil's depreciation for tax purposes, it has been assumed Israil will not be making payments of tax in the foreseeable future.

Taking into account the impairments in value that have been recognized in previous years (see also below), and in light of the abovementioned evaluation, the Company has recognized a net loss of NIS 3 million in the financial statements for the first quarter of 2020.

It should be mentioned that in the financial statements for the year 2019, the fair value of the Company's investment in Israil was based on the Company's assessment of the consideration that it could receive for it. The following are details of the manner in which the Company assesses the fair value (the details were not presented in the financial statements for 2019 and are therefore being presented here): The Company based itself on the consideration that was offered to it in respect of the acquisition of Israil by a third party, and which was anchored in a purchase offer (a non-binding letter of intent), on the basis of which the Company conducted negotiations for the sale of Israil as of December 31, 2019 and even after that time. The Company based itself on the lower end of the range of considerations that were included in the said offer (instead of the consideration at the higher end of the range), which was done based on the Company's assessment at that time that it was likely that the payment of the consideration would be in the lower part of the range, which was based on Israil's results for the year 2019. In addition, the said value is stated after deducting selling costs of NIS 2 million, and accordingly the Company recorded a provision for impairment in value in an overall amount of NIS 73 million in respect of its investment in IDB Tourism.

See Note 3.C to the financial statements for details regarding additional changes in the holdings in the IDB Tourism segment in the reporting period.

**1.8.2 Clal Holdings Insurance Enterprises Segment**

The Company's share in the results of the Clal Holdings Insurance Enterprises segment in the first quarter of 2020 amounted to a loss of NIS 242 million, as compared with loss of NIS 108 million in the corresponding quarter in the previous 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 Holdings 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 in Clal Holdings Insurance Enterprises, including by means of a swap transaction that has been executed on shares in Clal Holdings Insurance Enterprises.



# 1. The Board of Directors' explanations 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 Clal Holdings Insurance Enterprises Segment (Continued)

See Note 3.B. to the financial statements for details regarding the market value of the shares in Clal Holdings Insurance Enterprises, which are owned by the Company, as of March 31, 2020, and shortly before the time of the approval of this report and also regarding the swap transactions that have been executed and regarding the closure of some of the swap transactions.

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.

### 1.8.3 IDBG Segment

The Company's share in the results of the IDBG segment in the first quarter of 2020 amounted to a loss of NIS 4 million, as compared with loss of NIS 18 million in the corresponding quarter in the previous year. The losses include a loss in respect of the Company's share in the impairment in the value of the Tivoli project and additional inventories of land in an amounts of NIS 4 million and NIS 3 million in the quarter of 2020 and the corresponding quarter in the previous year, respectively.

Summary of the business results of the IDBG segment:

	<u>First quarter of</u>		<u>Increase (Decrease)</u>	<u>Explanation</u>
	<u>2020</u>	<u>2019</u>		
	<u>NIS millions</u>		<u>%</u>	
Rental revenues	11	10	6.2%	
EBITDA	3	3		
Impairment in the fair value of investment property and assets	(17)	(6)		The changes in the fair value derived from the valuation of the Tivoli project and inventories of land in Las Vegas. See Note 3.D.3 to the financial statements for details.
Financing expenses, net to external parties	(2)	(10)		The decrease in the first quarter of 2020, by comparison with the comparative period in the previous year derived primarily from the impact of the change in the Dollar/ NIS exchange rate on Shekel denoted loans.
Financing expenses for credit from Property & Building (*)	(2)	(7)		The decrease in the first quarter of 2020, by comparison with the comparative period in the previous year derived from the conversion of the balance of the credit into share capital. See Note 3.D.1 to the financial statements for details.
<b>Loss for the period (**)</b>	<b>(18)</b>	<b>(21)</b>	<b>(15.7%)</b>	

(\*) Derives from credit that was received from Property & Building in 2016 (see Note 3.D.5 to the annual financial statements for details).

(\*\*) Loss before the impacts of financing in respect of shareholders' loans that were provided by the Company and Property & Building in equal shares.

See Note 3.D to the financial statements for details regarding the main changes in the holdings in the IDBG segment in the reporting period

# 1. The Board of Directors' explanations regarding the state of the Company's affairs (Continued)

## 1.9 Administrative, financing and other expenses, net

	First quarter of		Explanation
	2020	2019	
	NIS millions		
<b>Administration and other expenses, net:</b>	5	7	The decrease in administrative and general expenses derived primarily from the recording of legal expenses in the comparative quarter in the previous year, primarily in respect of a lawsuit against the Company in connection with the sale of DIC to D.
<b>Financing expenses, net:</b>	40	45	The decrease in financing expenses net, derived primarily from a decrease of NIS 15 million in the financing expenses on the Company's debentures as a result of a decrease in the volume of the debt to the debenture holders.  The abovementioned decrease was offset partially by the recording of a loss in an amount of NIS 9 million in the first quarter of 2020 in respect of a decrease in the value of the investment in Colu
<b>Total</b>	<b>45</b>	<b>52</b>	

## 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, compared to the Company's reports on this subject in the Company's Board of Directors' Report for 2019. Following the resignation of Mr. Eran Saar from his position as the Company's Chief Executive Officer in April 2020, after the date of the statement of financial, Mr. Aaron Kaufman was appointed to be responsible for the management of the Company's market risks.

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 2019.

**3. Disclosure Requirements in Connection with the Corporation's Financial Reporting****3.1 Termination of the employment of the Company's Chief Executive Officer and the appointment of a new Chief Executive Officer**

In April 2020 Mr. Eran Saar ended his period of office as the Company's Chief Executive Officer and Mr. Aaron Kaufman was appointed to the position of the Company's Chief Executive Officer

**3.2 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.

**3.3 Referral by the Company's auditors drawing attention**

The auditors' review report to the Company's shareholders includes a reference drawing attention to what is stated in Note 1.B. to the financial statements regarding the Company's financial position, its cash flows and its ability to service its liabilities, including the equity deficit that is attributed to the Company's shareholders, the Company's negative net assets value (based on the current market prices of its marketable holdings with the addition of the carrying value in the accounting records of other assets and less financial liabilities), the cash that is required by the Company for the settlement of its liabilities, which is also in the short-term, the reliance of the realization of assets, the timing of the realization of which is not under the Company's control as well as the cash requirements, which are needed by the Company in order to settle its liabilities at the required time, which are dependent, inter alia, on factors that are not under its control and primarily on the value of the debenture from Dolphin IL, and on the cash flows that will be generated therefrom until the end of the Company's liabilities towards its creditors. These factors, together with additional factors, which are detailed in Note 1.B to the financial statements, raise significant doubts regarding the Company's continued existence as a going concern.

**3.4 Specific disclosure for the debenture holders**

See Appendix B to the Board of Directors' Report.

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Eduardo Elsztain  
Chairman of the Board

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Aaron Kaufman  
CEO

Tel Aviv, June 29, 2020

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

### Sensitivity tests in respect of market factors

The following 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 March 31, 2020, the Company's assets include an investment in the debenture from Dolphin IL in an amount of NIS 414 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. See Note 6.B to the financial statements for details regarding sensitivity analyses in respect of the debenture's fair value.

#### A. Sensitivity tests as of March 31, 2020 (NIS millions)

Sensitivity test to changes in interest rates							
Instrument	Profit (loss) from the change			Fair value as of March 31, 2020	Profit (loss) from the change		
	Absolute interest rate increase of 2%	Interest rate increase of 10%	Interest rate increase of 5%		Interest rate decrease of 5%	Interest rate decrease of 10%	Absolute interest rate decrease of 2%
Debentures (including maturities)	19	48	25	(787)	(26)	(54)	(20)

Sensitivity test to changes in US Dollar exchange rate					
Instrument	Profit (loss) from the change		Fair value as of March 31, 2020	Profit (loss) from the change	
	Exchange rate increase of 10%	Exchange rate increase of 5%		Exchange rate decrease of 5%	Exchange rate decrease of 10%
Assets classified as held for sale	8	4	75	(4)	(8)
Liabilities classified as held for sale	(34)	(17)	(344)	17	34
<b>Total</b>	<b>(26)</b>	<b>(13)</b>	<b>(269)</b>	<b>13</b>	<b>26</b>

Sensitivity test to changes in the market prices of marketable securities					
Instrument	Profit (loss) from the change		Fair value as of March 31, 2020	Profit (loss) from the change	
	Price increase of 10%	Price increase of 5%		Price decrease of 5%	Price decrease of 10%
Investment in Clal Holdings Insurance Enterprises	31	16	*312	(16)	(31)

\* 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. For details regarding the swap transactions which were executed, and the handling method thereof, see Note 3.B.1 to the financial statements and Note 3.B.3 to the annual 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 March 31, 2019 (NIS millions)

Sensitivity test to changes in interest rates							
Instrument	Profit (loss) from the change			Fair value as of March 31, 2019	Profit (loss) from the change		
	Absolute interest rate increase of 2%	Interest rate increase of 10%	Interest rate increase of 5%		Interest rate decrease of 5%	Interest rate decrease of 10%	Absolute interest rate decrease of 2%
Debentures (including maturities)	79	75	38	(2,058)	(40)	(82)	(92)

Sensitivity test to changes in US Dollar exchange rate					
Instrument	Profit (loss) from the change		Fair value as of March 31, 2019	Profit (loss) from the change	
	Exchange rate increase of 10%	Exchange rate increase of 5%		Exchange rate decrease of 5%	Exchange rate decrease of 10%
Assets classified as held for sale	10	5	100	(5)	(10)
Cash and cash equivalents	2	1	17	(1)	(2)
Liabilities classified as held for sale	(43)	(22)	(434)	22	43
<b>Total</b>	<b>(31)</b>	<b>(16)</b>	<b>(317)</b>	<b>16</b>	<b>31</b>

Sensitivity test to changes in the prices of marketable securities on Israeli and foreign stock exchanges					
Instrument	Profit (loss) from the change		Fair value as of March 31, 2019	Profit (loss) from the change	
	Price increase of 10%	Price increase of 5%		Price decrease of 5%	Price decrease of 10%
Investment in marketable securities	150	75	*1,495	(75)	(150)

\* Including 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 statement under assets held for sale and the value of the shares in respect of which swap transactions have been 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, 2019 (NIS millions)

Sensitivity test to changes in interest rates							
Instrument	Profit (loss) from the change			Fair value as of December 31, 2019	Profit (loss) from the change		
	Absolute interest rate increase of 2%	Interest rate increase of 10%	Interest rate increase of 5%		Interest rate decrease of 5%	Interest rate decrease of 10%	Absolute interest rate decrease of 2%
Debentures (including maturities)	58	54	28	(1,419)	(29)	(59)	(62)

Sensitivity test to changes in US Dollar exchange rate					
Instrument	Profit (loss) from the change		Fair value as of December 31, 2019	Profit (loss) from the change	
	Exchange rate increase of 10%	Exchange rate increase of 5%		Exchange rate decrease of 5%	Exchange rate decrease of 10%
Assets classified as held for sale	11	5	108	(5)	(11)
Cash and cash equivalents	-	-	1	-	-
Liabilities classified as held for sale	(40)	(20)	(401)	20	40
<b>Total</b>	<b>(29)</b>	<b>(15)</b>	<b>(292)</b>	<b>15</b>	<b>29</b>

Sensitivity test to changes in the prices of marketable securities on Israeli and foreign stock exchanges					
Instrument	Profit (loss) from the change		Fair value as of December 31, 2019	Profit (loss) from the change	
	Price increase of 10%	Price increase of 5%		Price decrease of 5%	Price decrease of 10%
Investment in Clal Holdings Insurance Enterprises	59	29	586*	(29)	(59)

\* Including 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 statement under assets held for sale and the value of the shares in respect of which swap transactions have been executed).



## Appendix B - Financial Position and Financing Sources

### Information regarding the Company's debentures

The following is a table detailing the Company's debenture series

Summary of data regarding debentures <sup>(1)</sup>, in NIS millions, as of March 31, 2020

Series	Original issuance date	Par value on the issuance date	Outstandi ng par value balance	Outstandin g linked par value balance	Amount of interest accrued in the books	Carrying value of the debenture balance as of March 31, 2020	Material series <sup>(2)</sup>	Market value	Interest rate (fixed)	Principal payment dates <sup>(3)</sup>		Interest payment dates in each year	Linkage terms	Trust company - Name and address of person in charge and telephone number
										From	to			
I	19/12/2006 24/06/2007* 30/03/2016*	547.5 440.2 138.4												
Total Series I <sup>(4), (6), (7), (10), (11)</sup>		1,126.1	744.8	900.7	12.7	890.0	Yes	201.2	4.95%	18/12/2020	18/12/2025	18/06, 18/12	Index	<b>Hermetic Trust (1975) Ltd.</b> (As from April 11, 2013) Person in charge: Dan Avnon, Adv. Sheshet Hayamim St., Bnei Brak 5120261. Tel: 03-5544553
N	24/7/2017 7/11/2017*													
Total Series N <sup>(4)-(7), (9), (10)</sup>		993.3	879.5	879.5	0.1	878.3	Yes	439.8	<sup>(9)</sup> 5.00%	In a single payment on December 30, 2022		30/3, 30/6, 30/9, 30/12	Unlinked	<b>Reznik Paz Nevo Trustees Ltd.</b> Person in charge: Yossi Reznik, C.P.A., 14 Yad Haroutzim St. Tel Aviv Tel: 03-6393311
O	19/11/2019													
Total Series O <sup>(4), (8), (10)</sup>		236.8	236.8	236.8	-	235.0	Yes	146.4	4.7%	In two equal payments on September 30, 2020 and June 30, 2022		30/3, 30/6, 30/9, 30/12	Unlinked	<b>Reznik Paz Nevo Trustees Ltd.</b> Person in charge: Yossi Reznik, C.P.A., 14 Yad Haroutzim St. Tel Aviv Tel: 03-6393311
Total			1,861.1	2,017.0	12.8	2,003.3								

\* An expansion was made to the abovementioned series on this date. The data in the table refer to the entire series, after all of its expansions.

### Remarks:

- (1) As of March 31, 2020, and during the course of the first quarter of 2020, the Company was and is in compliance with all of the terms and undertakings pursuant to the trust deeds for the debentures, and no ground exist which would give rise to grounds for requiring the immediate repayment of the liability notes. See Note 4.B to the annual financing statement for details regarding financial restrictions and covenants and grounds for demanding the immediate repayment of the debentures. [The Company is in routine contact with the trustees for the series of debentures and passes them relevant information for the purpose of safeguarding the debenture holders' affairs.
- (2) A material series is a series which comprises 5% or more of the Company's total liabilities.

**Appendix B - Financial Position and Financing Sources (Continued)****Information regarding the Company's debentures (Continued)****Summary of debenture data <sup>(1)</sup>, NIS millions, as of March 31, 2020 (Continued)****Remarks (Continued):**

- (3) Annual payments, unless otherwise stated.
- (4) The Company has the right of early redemption in respect of the debentures.
- (5) As of March 31, 2020, and as of the time of the publication of this report, 99,258,708 shares in DIC and 58,066,344 par value of debentures (Series I) issued by the Company are charged under a first ranking lien in support of the debenture holders (Series N), (in addition to which, 17,158,242 shares in DIC and 10,037,571 par value of debentures (Series I) issued by the Company, which are held by Dolphin IL are charged, through lower-ranking charges, in support of the holders of the debentures (Series I and N). 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 reporting system.
- (6) See Notes 3.A.5 and 16.D(1) to the annual financial statements for details regarding the purchase of debentures (Series I) and debentures (Series N), which have been purchased by DIC (a corporation that is controlled by the controlling interest in the Company), and regarding the distribution of most of the purchases of the debenture (Series I) as a payment in kind dividend.
- (7) 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. See Notes 8.E.1 and 8.E.2 to the financial statements.
- See Section 10 of Appendix B to the Report of the Company's Board of Directors for the year 2019 for details regarding the resolutions which were passed in the meetings of the debenture holders (Series I, N and O) on various issues during the course of the year 2019, including the appointment of representatives for each of the series.
- See the Company's immediate reports for details regarding resolutions which were passed in the meetings of the debenture holders (Series I and Series N) in the reporting period and up to a time shortly before the publication of the financial statements and the issues that are detailed below:
- A resolution by a meeting of the holders of the debentures (Series I) not to approve the payment of interest that was set for June 18, 2020 to June 30, 2020 (see also comment 11 below) – the immediate report of June 7, 2020 (Document number: 2020-0110-058140). Accordingly the Ex-day for the payment of interest has been set as June 8, 2020.
  - On June 7, 2020, general meetings of the holders of the Company's debentures (all of the series and each series separately), where a resolution was on the agenda not to convene a general meeting on the agenda of which would be the making of the debentures repayable immediately (all of the series, in a separate resolution, as aforesaid).
- The meetings of the debenture holders (Series I and Series O), each decided to pass the said resolution (see the immediate reports of June 8, 2020, Document numbers 2020-10-058953 and 2020-10-058893).
- The meetings of the debenture holders (Series N), decided not to pass the said resolution (see the immediate report of June 8, 2020, Document number 2020-10-058842).
- On June 11, 2020, a general meeting of the debenture holders (Series O) decided to appoint Attorneys Peretz-Figal as the representatives of the trustee and of the debenture holders (Series O). See the immediate report of June 11, 2020, Document number 2020-10-060789).
  - On June 11, 2020, a general meeting of the debenture holders (Series O) decided to Doron Tourjman CPA as a members of the representatives of the debenture holders (Series O). See the immediate report of June 11, 2020, Document number 2020-10-062889).
  - On June 21, 2020, the trustee made an announcement to debenture holders (Series N) of the calling of a meeting, to be held on July 5, 2020, on the agenda of which will be the calling for the immediate repayment of the unsettled balance of the Company's debt vis-à-vis the debenture holders (Series N). See the Company's immediate report of June 21, 2020, Document number 2020-10-064512).
- (8) See also Clal Holdings Insurance Enterprises' routine reports on the Magna reporting system for details regarding the information that is required in respect of Clal Holdings Insurance Enterprises.
- (9) See Note 4.D to the financial statements and Section 1.4.4.3.1 above for details regarding non-compliance with financial covenants that the Company is committed to opposite the debenture holders (Series N) and regarding the increasing of the interest rate following the non-compliance with the covenants, as aforesaid.
- (10) On May 19, 2020, the Company's Board of Directors approved a letter of commitment opposite the generality of the Company's existing debenture holders. See Note 4.F to the financial statements for details. The full version of the letter of commitment was published in immediate report 2020-01-043978.
- (11) See Note 4.G to the financial statements for details regarding the deferral of the payment of interest to the debenture holders (Series I) from June 18, 2020 to June 30, 2020.
- (12) See the immediate report of June 2, 2020, Document number 2020-10-060576 for details regarding claims that the debenture holders (Series I) may have regarding reimbursements of expenses for the trustee and his agents, which they allege that the Company must bear.
- (13) See Note 4.H to the financial statements for details regarding a draft offer dated June 2, 2020, which the Company and the trustees for its debentures received from Dolphin IL to strengthen the Company's capital structure, by way of an arrangement between Dolphin IL, the Company and its debenture holders.
- On June 8, 2020, a meeting of the debenture holders (Series I) resolved to instruct the Trustee for the debentures (Series I) not to conduct negotiations on the basis of this offer. See the Company's immediate report of June 9, 2020, Document number 2020-10-059214. On June 21, 2020, an updated draft proposal was received (see Note 4.E to the financial statements, including updated to the proposal on June 28, 2020). On June 28, 2020, the trustee for the debentures (Series I) announced the calling of a meeting of the debenture holders (Series I) on July 2, 2020, on the agenda of which would be a resolution to instruct the trustee to accept Dolphin IL's proposal of June 21, 2020.
- (14) On June 29, 2020, the Company announced that pursuant to a decision by its Board of Directors on June 28, 2020, the interest payments on the debentures (Series O), the payments of interest on the debentures (Series I), whose payment had been deferred, as aforesaid, from June 18, 2020 to June 30, 2020; as well as the payments of the interest on the debentures (Series N and O), which pursuant to the trust deeds are supposed to be paid on June 30, 2020, will be deferred and paid on July 7, 2020, Document number 2020-10-067923.

**Appendix B - Financial Position and Financing Sources (Continued)****Details regarding debenture ratings**

Series	Name rating company	Rating as of 31.03.20	Rating as of 29.06.20	Rating set at the time of the issuance of the series	Date of the issuance of the rating as of 29.06.20*	Additional ratings and updates to existing ratings during the period between the original issuance date and the current rating as of 29.06.20	
						Date	Rating
I	Ma'alot	CC	C	AA	17.3.2020	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, 27.6.2019	AA, A+, A- BBB+, BB, B, BBB-, CC, D, CCC BB-

\* On June 27, 2019, Ma'alot announced, due to the increased risk of insolvency, that it was reducing the Company's rating to CCC, negative rating outlook. Ma'alot 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).

On March 17, 2020, Ma'alot announced that as a result of its assessment that there is almost absolute certainty that the Company will reach insolvency in the immediate term, it was lowering the Company's rating to a rating of CC with a negative rating outlook. Ma'alot also lowered the rating for the debentures (Series I), which are unsecured, to C.

The updated rating report was published by the Company in an immediate report on March 17, 2020 (Document number 2020-01-026025).

Appendix C

**Details Regarding Economic Papers and Valuations  
Pursuant to 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 March 31, 2020, 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 interest ("The Purchaser") [Regulation 49(A) the Reporting Regulations]:**

The abovementioned 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.

The following are details regarding the valuation:

- A. Identity of the subject of the valuation - 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 purchaser as of March 31, 2020.
- B. Timing of the valuation – March 31, 2020;
- C. Value of the subject of the valuation in the Company's accounting records at a time shortly before the valuation - the estimated fair value of the debenture as of December 31, 2019 was estimated at NIS 975 million.
- D. Value of the subject of the valuation - the fair value of the debenture as of March 31, 2020, has been estimated at NIS 414 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 support 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, except 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 the shares in DIC, which as of March 31, 2020, were higher than its net asset value, 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 purchaser.

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 purchaser 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 Dolphin IL's assets.
  - 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 March 31, 2020 [Regulation 49(A) the Reporting Regulations]:**

The abovementioned 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.

The following are details regarding the valuation:

- A. Identity of the subject of the valuation – the fair value of the convertible subordinated loans provided to the Company by the controlling interest as of March 31, 2020.
- B. Date of the valuation – March 31, 2020;
- C. Value of the subject of the valuation in the Company's accounting records at a time shortly before the valuation - the estimated fair value of the convertible subordinated loans as of December 31, 2019 was estimated at NIS 25 million.
- D. Value of the subject of the valuation - the estimated fair value of the convertible subordinated loans as of March 31, 2020, was estimated at NIS 0 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 support 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.  
The value of the subordinated loans has been calculated as the average of the value of the convertible shares based on Monte Carlo scenarios, as aforesaid, multiplied by the probability that the Company will not reach insolvency, discounted using a risk free interest rate.
- G. Assumptions used to prepare the paper:
  1. Annual default probability rate - approximately 99%.
  2. Fire sale factor in case of insolvency - 10% - 25%.
  3. Non-marketability factor - 9% - 10%.



**Details on an economic paper as of March 31, 2020, 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 (25.82%) by the Company: [Regulation 49(A) of the Reporting Regulations].**

The abovementioned economic paper is attached to the Company's financial statements by way of reference to the financial statements of Property & Building Corporation Ltd. See also Note 3.D.3 to the financial statements for details.

The following 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, 2020;
- C. Value of the subject of the valuation in the accounting records of Great Wash Park LLC ("GW") as of March 31, 2020 before the valuation was prepared - \$ 237 million;
- D. Value of the subject of the valuation, as determined in the valuation - as of March 31, 2020 - \$233 million its share in the amortization in the amount of NIS 4 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 C 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:

	<u>March 31, 2020</u>
1. NOI, per representative year (third year)	\$ 14.3 million
2. Annual discount rates for the income-producing portion - Triad A and Triad B:	
- For NOI projected for the first 12 years and the expected proceeds from the realization of the asset at the end of the 12th year (Discount Rate)	8.0%
- For NOI projected for the 13 <sup>th</sup> year, pursuant to which the expected proceeds from the realization of the asset at the end of the 12th year (Discount Rate) was determined (Terminal Capitalization Rate)	6.5%
3. Terminal value of total value, as estimated	56.3%

**Details on an economic paper as of March 31, 2020, which the Company received regarding the economic valuation of a Israir Aviation and Tourism Ltd. ("Israir"), a company that is wholly owned by IDB Tourism Ltd., which is held (100%) by the Company: [Regulation 49(A) of the Reporting Regulations].**

See also Note 3.D.2 to the financial statements for details.

The following are the main details of the economic paper:

- A. Identity of the subject under valuation - the value of Israir;
  - B. Date of the valuation - March 31, 2020;
  - C. Value of the subject of the valuation in the Company's accounting records as of March 31, 2020 before the valuation was prepared – NIS 125 million; value of the subject of the valuation in the Company's accounting records as of December 31, 2019 – NIS 135 million\*.
  - D. Value of the subject of the valuation, as determined in the valuation - as of March 31, 2020 in a range of between 31.3 million dollars to 58.8 million dollars (which includes an amount of 5 million dollars of debt due from the Company, as detailed in Note 3.C.3 to the financial statements). As a result of this, the Company has estimate its investment in Israir at an amount of 34.2 million dollars (NIS 122 million\*\*). The updating of the value of the investment, in an amount of NIS 3 million, has been recorded under losses from discontinued operations, after tax in the period.
  - E. Identity and characteristics of the appraiser – Prometheus Economic Consultancy). There is no dependence between the appraiser and the companies who ordered the valuations.
  - F. Primary valuation model used by the appraiser – discounted cash flows (DCF);
  - G. Assumptions used to prepare the valuation:
    1. The discount rate – 12.6%. The value range of the value, as mentioned in section D above derived from the uncertainty in the market, which is taken into account, inter alia, by means of a margin of +/- 10% in the discount rate. The reasonability of this margin is consistent with the fact that the middle of value range is close to the Company's shareholders' equity, which is based on the fair value, the upper end of the value range is similar to the result that is received from the adoption of all of the Company's assumptions, whereas the lower end of the value range is similar in its value to the proposal that was received recently, when starting negotiations for the purchase of the Company.
    2. The transition ownership of aircraft to a leasing structure - it has been assumed that in 2023 the Company's fleet of aircraft will be sold for consideration of 10 million dollars. An amount of 5 million dollars will be invested for the purpose of the transition to a structure that operates on a basis of leased aircraft and as from 2024, Israir will transition to a full leasing model.
    3. Revenues – it has been assumed that in the short and intermediate term, the results will continue to be affected by the Corona crisis and afterwards they will grow such that in 2025 the revenues will return to the 2019 levels.
    4. The long-term growth rate – 1.8%.
    5. Additional assumptions regarding the future cash flows –  
The cash flows take an increase in operating expenses as a result of leasing costs into account, which is offset partially by a decrease in operating expenses and capital investments as a result of the assumptions in respect of the full leasing of aircraft as stated in Section 2 above.
- \* See Section 1.8.1 of the Board of Directors' report for details regarding the manner of the determination of the value as of December 31, 2019.
- \*\* The net debt owed by IDB Tourism (Israir's parent company) in an amount of NIS 3 million has been deducted from this amount, as well as an amount of NIS 18 million in respect of the Company's debt to IDB Tourism, which has been eliminated within the framework of the consolidated financial statements.



IDB Development Corporation Ltd.

**Part B - Financial Statements**

## IDB Development Corporation Ltd.

### Part C - Condensed Consolidated Interim Financial Statements

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## **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 March 31, 2020, as well as the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the period of three months then ended. The Board of Directors and management are responsible for the preparation and presentation of this interim financial information for this period in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and are also responsible for compiling the financial information for this interim period 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 12 million as of March 31, 2020, and the Group's share in the losses of which amounted to approximately NIS 2 million for the period of three months then ended. Neither have we reviewed the condensed interim financial information of a subsidiary which has been recorded in the financial statements as a discontinued operation, the total assets in respect of which amounted to NIS 730 million as of March 31, 2020, and the loss from discontinued operations after tax in respect thereof amounts to NIS 1 million for the period of three months then ended. The interim condensed financial information of those companies has been reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it refers to the financial information in respect of those companies, is based on the review reports of the other auditors.

### **Scope of the Review**

We conducted our review in accordance with Review Standard 2410 of the Institute of Certified Public Accountants in Israel, regarding "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 what is 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 abovementioned 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 draw attention to what is stated in Note 1.B. to the financial information regarding the Company's financial position, its cash flows and its ability to service its liabilities, including the equity deficit that is attributed to the Company's shareholders, the Company's negative net assets value (based on the current market prices of its marketable holdings with the addition of the carrying value in the accounting records of other assets and less financial liabilities), the cash that is required by the Company for the settlement of its liabilities, which is also in the short-term, in reliance of the realization of assets, the timing of the realization of which is not under the Company's control as well as the cash requirement, which are needed by the Company in order to settle its liabilities at the required time, which is dependent, inter alia, on factors that are not under its control and primarily on the value of the debenture from Dolphin IL, and on the cash flows that will be generated therefrom until the end of the Company's liabilities towards its creditors.

These factors, together with additional factors, which are detailed in Note 1.B to the financial information, raise significant doubts regarding the Company's continued existence as a going concern. The management's plan in connection with these matters are detailed in Note 1.B to the financial information. All of the adjustments to the values and classifications of assets and liabilities, which might be needed if the Company is unable to continue to operate as a going concern, have not been recorded in the financial information.

Tel Aviv,  
June 29, 2020

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

## Condensed Consolidated Interim Statements of Financial Position as of

		March 31 2020	March 31 2019	December 31 2019
	Note	NIS millions		
<b>Non-current assets</b>				
Debenture from Dolphin IL	3.A	414	928	975
Cost of obtaining collateral for the Company's liabilities from Dolphin IL		107	157	115
Investments in investee companies treated at equity		12	57	24
Financial asset presented at fair value - Colu	3.E	10	29	19
Charged deposits		-	298	-
Right of use assets		6	-	6
Fixed assets		2	1	1
Assets classified as held for sale:				
Value of shares in Clal Holdings Insurance Enterprises in swap transactions		-	275	-
Investments in shares in Clal Holdings Insurance Enterprises		-	286	-
		551	2,031	1,140
<b>Current assets</b>				
Restricted and charged deposits		197	316	195
Financial assets presented at fair value		-	2	1
Other receivables		1	-	2
Assets classified as held for sale:				
Value of shares in Clal Holdings Insurance Enterprises in swap transactions		82	385	144
Investments in shares in Clal Holdings Insurance Enterprises		170	412	299
Assets of IDB Tourism		730	857	783
Investments in IDBG	3.D	69	-	-
Cash and cash equivalents		3	55	25
		1,252	2,027	1,449
<b>Total assets</b>		1,803	4,058	2,589

The notes that are attached to the condensed consolidated interim financial statements form an integral part hereof.



		March 31 2020	March 31 2019	December 31 2019
		(Unaudited)	(Unaudited)	(Audited)
	Note	NIS millions		
<b>Equity (equity deficit)</b>				
Share premium		3,262	3,262	3,262
Other capital reserves		1,117	836	1,039
Accumulated losses		(5,481)	(4,542)	(4,636)
Equity deficit attributed to shareholders in the Company		(1,102)	(444)	(335)
Non-controlling interests		7	3	6
		(1,095)	(441)	(329)
<b>Non-current liabilities</b>				
Debentures	4	1,727	2,175	1,729
Liabilities to banks in connection with swap transactions <sup>(1)</sup>		-	326	-
Liabilities in respect of leases		6	-	6
Convertible subordinated loans from the controlling interest	5	-	180	25
Swap transaction on shares in Clal Holdings Insurance Enterprises		-	41	-
		1,733	2,722	1,760
<b>Current liabilities</b>				
Current maturities of debentures	4	264	608	264
Liabilities to banks in connection with swap transactions <sup>(1)</sup>		173	454	173
Swap transaction on shares in Clal Holdings Insurance Enterprises		68	-	32
Other payables		36	42	24
Provisions		2	2	2
Liabilities classified as held for sale - IDB Tourism		622	671	663
		1,165	1,777	1,158
<b>Total capital and liabilities</b>		1,803	4,058	2,589

<sup>(1)</sup> Swap transactions which have been executed on shares in Clal Holdings Insurance Enterprises.

Eduardo Elsztein  
Chairman of the Board

Aaron Kaufman  
CEO

Haim Tabouch  
VP Accounting

Approval date of the financial statements: June 29, 2020

## Condensed Consolidated Interim Statements of Income

		For the three months ended March 31		For the year ended December 31
		2020	2019	2019
		(Unaudited)		(Audited)
Note		NIS millions		
<b>Income</b>				
	The Group's share in income of investee companies treated at equity, net	-	-	1
	Financing income	13	128	282
		13	128	283
<b>Expenses</b>				
	The Group's share in the loss of investee companies treated at equity, net	2	(1)	(1)
	General and administrative expenses	5	7	26
	Financing expenses	601	320	445
		608	327	471
	<b>Loss for the period from continuing operations</b>	(595)	(199)	(188)
	Loss for the period from discontinued operations, after tax	(247)	(1)(125)	(1)(232)
	<b>Loss for the period</b>	(842)	(324)	(420)
	Net income (loss) for the period attributed to:			
	Shareholders in the Company	(844)	(328)	(424)
	Non-controlling interests	2	4	4
		(842)	(324)	(420)

<sup>(1)</sup> Restated as a result of the presentation of IDBG under discontinued operations, see Note 3.H below.

The notes that are attached to the condensed consolidated interim financial statements form an integral part hereof.

# Condensed Consolidated Interim Statements of Comprehensive Income

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	(Unaudited)		(Audited)
	NIS millions		
<b>Loss for the period</b>	(842)	(324)	(420)
<b>Other comprehensive income (loss) items, which following their initial recognition under comprehensive income have been transferred or may be transferred to profit and loss, net of tax</b>			
Foreign currency translation differences on foreign operations	7	(8)	(21)
The effective portion of changes in the fair value of cash flow hedging	(17)	-	(1)
The Group's share in other comprehensive income (loss) of investee companies treated at equity	3	(2)	(4)
<b>Total other comprehensive loss, which following initial recognition under comprehensive income has been transferred or will be transferred to profit and loss</b>	(7)	(10)	(26)
<b>Components of other comprehensive income (loss) which may not be transferred to profit and loss, net of tax</b>			
Net change in the fair value of the subordinated loans, attributed to changes in credit risk	24	253	409
Actuarial gains (losses) in a defined benefits plan	(1)	-	2
<b>Total other comprehensive income, which will not be transferred to profit and loss</b>	23	253	411
<b>Total other comprehensive income for the period, net of tax</b>	16	243	385
<b>Total comprehensive loss for the period</b>	(826)	(81)	(35)
<b>Attributed to:</b>			
The shareholders in the Company	(828)	(85)	(39)
Non-controlling interests	2	4	4
<b>Comprehensive loss for the period</b>	(826)	(81)	(35)
<b>Comprehensive income (loss) for the period attributed to shareholders in the Company, deriving from:</b>			
Continuing operations	(571)	<sup>(1)</sup> 55	<sup>(1)</sup> 221
Discontinued operations	(257)	<sup>(1)</sup> (140)	<sup>(1)</sup> (260)
	(828)	(85)	(39)

<sup>(1)</sup> Restated as a result of the presentation of IDBG under discontinued operations, see Note 3.H below.

The notes that are attached to the condensed consolidated interim financial statements form an integral part hereof.

## Condensed Consolidated Interim Statements of Changes in Equity

	Attributed to the shareholders in the Company									Non-controlling interests	Total equity
	Share premium	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 interest reserves	Accumulated loss	Total equity (equity deficit) attributed to shareholders in the Company		
	NIS millions										
<b>For the three months ended March 31, 2020 (Unaudited)</b>											
Balance as of January 1, 2020	3,262	270	(118)	(3)	(2)	(24)	916	(4,636)	(335)	6	(329)
<b>Income (loss) for the period</b>	-	-	-	-	-	-	-	(844)	(844)	2	(842)
<b>Other comprehensive income (loss) for the period</b>	-	-	-	10	(17)	24	-	(1)	16	-	16
<b>Transactions with shareholders reflected directly in equity and distributions</b>											
Gain from dilution of the company holding in IDBG as a result of a transaction with the controlling interest (see Note 3.D.1 below for details)	-	-	-	(10)	-	-	71	-	61	-	61
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance as of March 31, 2020	<u>3,262</u>	<u>270</u>	<u>(118)</u>	<u>(3)</u>	<u>(19)</u>	<u>-</u>	<u>987</u>	<u>(5,481)</u>	<u>(1,102)</u>	<u>7</u>	<u>(1,095)</u>
<b>For the nine months ended March 31, 2019 (Unaudited)</b>											
Balance as of January 1, 2019	3,262	270	(117)	22	(1)	(433)	852	(4,085)	(230)	(1)	(231)
Initial implementation of the revision to IAS 28	-	-	-	-	-	-	-	(129)	(129)	-	(129)
<b>Net income (loss) for the period</b>	-	-	-	-	-	-	-	(328)	(328)	4	(324)
<b>Other comprehensive income (loss) for the period</b>	-	-	-	(10)	-	253	-	-	243	-	243
Balance as of March 31, 2019	<u>3,262</u>	<u>270</u>	<u>(117)</u>	<u>12</u>	<u>(1)</u>	<u>(180)</u>	<u>852</u>	<u>(4,542)</u>	<u>(444)</u>	<u>3</u>	<u>(441)</u>

The notes that are attached to the condensed consolidated interim financial statements form an integral part hereof.

# Condensed Consolidated Statements of Changes in Equity (Continued)

	Attributed to the shareholders in the Company									Non-controlling interests	Total equity
	Share premium	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 interest reserve	Accumulated loss	Total equity (equity deficit) attributed to shareholders in the Company		
	NIS millions										
<b>For the year ended December 31, 2019</b>											
Balance as at January 1, 2019	3,262	270	(117)	22	(1)	(433)	852	(4,085)	(230)	(1)	(231)
Initial implementation of the revision to IAS 28	-	-	-	-	-	-	-	(129)	(129)	-	(129)
<b>Net income (loss) for the year</b>	-	-	-	-	-	-	-	(424)	(424)	4	(420)
<b>Other comprehensive income (loss) for the year</b>	-	-	-	(25)	(1)	409	-	2	385	-	385
<b>Transactions with shareholders reflected directly in equity and distributions</b>											
Receipt of a subordinated loan from the controlling interest	-	-	-	-	-	-	64	-	64	-	64
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(2)	(2)
Non-controlling interests in respect of a business combination	-	-	-	-	-	-	-	-	-	6	6
Acquisition of rights in consolidated company from non-controlling interests	-	-	(1)	-	-	-	-	-	(1)	(1)	(2)
Balance as at December 31, 2019	<u>3,262</u>	<u>270</u>	<u>(118)</u>	<u>(3)</u>	<u>(2)</u>	<u>(24)</u>	<u>916</u>	<u>(4,636)</u>	<u>(335)</u>	<u>6</u>	<u>(329)</u>

The notes that are attached to the condensed consolidated interim financial statements form an integral part hereof.

## Condensed Consolidated Interim Statements of Cash Flows

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	(Unaudited)		(Audited)
	NIS millions		
<b>Cash flows from operating activities</b>			
Net loss for the period	(842)	(324)	(420)
Loss from discontinued operations, after tax	247	<sup>(1)</sup> 125	<sup>(1)</sup> 232
Loss from continuing operations	(595)	(199)	(188)
<b>Adjustments:</b>			
The Group's share in the losses (profits) of investee companies treated at equity, net	2	<sup>(1)</sup> -	<sup>(1)</sup> (1)
Financing costs, net	588	192	163
	590	192	162
	(5)	(7)	(26)
<b>Changes in other balance sheet items</b>			
Change in other receivables	1	4	2
Change in other payables	2	-	-
	3	4	2
Net cash used for continuing operating activities	(2)	(3)	(24)
Net cash generated by discontinued operating activities	8	7	103
Net cash generated by operating activities	6	4	79
<b>Cash flows from investment activities</b>			
Current investments in financial assets presented at fair value	-	-	1
Decrease (increase) in charged and restricted deposits, net	(2)	7	427
Repayment of loan from investee company treated at equity	-	1	1
Investment in investee companies treated at equity - Modi`in	-	<sup>(1)</sup> (1)	<sup>(1)</sup> (1)
Payment in respect of settlement of swap transaction on DIC shares	-	(6)	(6)
Interest received	<sup>(2)</sup> 12	<sup>(2)</sup> 32	<sup>(2)</sup> 36
Net cash generated by continuing investment activities	10	33	458
Net cash generated by discontinued investment activities <sup>(3)</sup>	-	<sup>(1)</sup> 110	<sup>(1)</sup> 336
Net cash generated by investment activities	10	143	794

<sup>(1)</sup> Restated as a result of the restatement of IDBG's operations under discontinued activities, see Note 3.H below.

<sup>(2)</sup> Primarily interest received on the debenture from Dolphin IL.

<sup>(3)</sup> Includes amounts that have been received from the sale of shares in Clal Holdings Insurance Enterprises, as detailed below: in the first quarter of 2019 – an amount of NIS 127 million and an amount of NIS 405 million in the year 2019.

The notes that are attached to the condensed consolidated interim financial statements form an integral part hereof.



# Condensed Consolidated Interim Statements of Cash Flows (Continued)

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	(Unaudited)		(Audited)
	NIS millions		
<b>Cash flows from financing activities</b>			
Receipt of subordinated loan from the controlling interest	-	-	70
Repayment of non-current financial liabilities	-	(129)	(743)
Self-purchase of debenture	-	-	(147)
Interest paid	(14)	(25)	(136)
Net receipts from the recruitment of debentures	-	-	235
Net cash used for continuing financing activities	(14)	(154)	(721)
Net cash used for discontinued financing activities <sup>(1)</sup>	(43)	(13)	(184)
Net cash used for financing activities	(57)	(167)	(905)
Change in cash and cash equivalents from continuing operations	(6)	(124)	(287)
Change in cash and cash equivalents from discontinued operations	(35)	104	255
Change in cash and cash equivalents from continuing and discontinued operations	(41)	(20)	(32)
Balance of cash and cash equivalents at the beginning of the period	25	49	49
Effect of fluctuations in exchange rates on balances of cash and cash equivalents from continuing operations	-	-	(1)
Impact of fluctuations in exchange rates on balances of cash and cash equivalents from discontinued operations	1	(1)	(3)
Impact of fluctuations in exchange rates on balances of cash and cash equivalents	1	(1)	(4)
Change in the balance of cash presented under assets held for sale	18	27	12
Balance of cash and cash equivalents at the end of the period	3	55	25

<sup>(1)</sup> Includes payments in respect of swap transactions on shares in Clal Holdings Insurance Enterprises in an amounts of NIS 16 million, NIS 13 million and NIS 118 million in the first quarter of 2020, in the first quarter of 2019 and in the year 2019, respectively.

The notes that are attached to the condensed consolidated interim financial statements form an integral part hereof.

## Notes to the Condensed Consolidated Interim Financial Statements as of March 31, 2020

Unaudited

### **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 Toha Tower, 114 Yigal Alon Street, 27<sup>th</sup> 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, it should be noted that:

- The Company has a deficit on equity attributed to the shareholders, amounting to NIS 1,102 million as of March 31, 2020;
- The Company has an ongoing negative cash flow from continuing operating activities;
- The Company's net asset value at a time shortly before the publication of the report (based on the current market prices of its marketable holdings with the addition of the monetary value of other assets and less the financial liabilities is a negative amount of NIS 1,008 million;
- At a time shortly before the publication of the financial statements the Company had a very low volume of cash and cash equivalents;
- In March 2020, IDB Tourism informed the Company that it was operating the mechanism that is set in the contract governing the loan that it had extended to the Company, for the repayment of an amount of 3 million Dollars out of the amount of the loan. See Note 3.C.3 below for details.
- The Company's debentures are traded at two-digit yield rates, and in the absence of assets free of liens, the Company will apparently find it difficult, from a practical standpoint, to recycle its financial liabilities by way of raising debt;
- Pursuant to the terms of the swap transaction that the Company has committed itself under, in light of the sharp fall in the value of the shares in Clal Holdings Insurance Enterprises recently and in light of the shortage in free cash balances, the Company has relied on the provision of autonomous guarantees, which have been made available by the controlling interest to the financing bodies, through which the swap transactions have been executed. These deposits were part of the charged deposits to which the Company has committed pursuant to the terms of the swap transactions and they have been released, for the most part, to Dolphin Netherlands, upon the termination of the swap transactions, as stated in Note 3.B.7.c below. See Note 3.B.4 below for additional details regarding the guarantees from the controlling interest.
- Taking note of the decrease in the value of the shares in Clal Holdings Insurance Enterprises on the Stock Exchange, as aforesaid, in March 2020 the Company received approaches from the financing bodies, through which the swap transactions were executed, in which they warned that pursuant to the terms of the swap transactions, the supplementation of the charged deposits by an amount of NIS 32 million is required. See Note 3.B.4 below for details regarding a temporary order that has been issued by the Court to prevent the sale of shares constituting 4% of the shares in Clal Holdings Insurance Enterprises, in respect of which swap transaction have been performed and regarding the agreements that have been achieved between the Company and the bank, which have received the Court's approval;
- The continuation of the spread of the Corona virus (Covid-19, "The Corona virus") and the decrease in the volume of bookings and flights in Israil Airlines and Tourism Ltd. ("Israil") have has a significant impact on Israil's operations and on its results and is expected to affect the timing of the sale of the Company's holdings in IDB Tourism and on the consideration that the Company expects to receive within the framework of such a sale.

**Note 1 – General (Continued)****B.** (Continued)

In addition, the spread of the Corona virus has had a significant impact on the capital markets, where in the reporting period that has been a sharp and significant fall in the market value of the Company's holdings, primarily in the shares in DIC, which form the collateral for the debenture from Dolphin IL and its investee companies and the shares in Clal Holdings Insurance Enterprises.

Since this is an event that is not under the Company's control and because of the nature of the crisis, which is characterized by uncertainty, inter alia, regarding the time at which the pandemic will be halted and as of the time of the approval of the financial statements there is no certainty in relation to the extent of the impact of the outbreak of the Corona virus on the economy, which includes, inter alia, the state of the markets, the economic situation in Israel and globally, the extent of the unemployment rate, the extent of private consumption, concern regarding a local or global recession, or an additional outbreak of the virus. Such across the board impact, if and insofar as they may be realized, in whole or in part, may have an adverse impact on the Group companies' businesses and on their results, which may be significant, and the Company is not able to assess if there will be such an impact and what its extent may be, including in relation to the timing of the realization of the Company's assets and the consideration that may be received for such realization, the aforesaid has an impact both on the Company's net assets value and also on the Company's ability to realize those holdings for the purpose of settling its liabilities. The deeper the impact of the Corona virus and/or the longer it continues, the greater the Company's difficulty on meeting the settlement of its liabilities as they fall due.

See Notes 3.C.1, 3.D.4 and 3.E below for additional details regarding the implications of the outbreak of the Corona virus on Israil's, IDBG's and Modi'in's operations.

- In March 2020, the Company received a letter from its Audit Committee, in which it was mentioned, inter alia, that there is tangible concern that the Company is unable to service its debts in the regular course of business and that it had therefore decided to exercise its right under the debenture, which had been issued by Dolphin IL, to accelerate the partial repayment of the debenture and that it was issuing a call for NIS 40 million out of the current adjusted debt for the debenture and it has updated its demand to approximately NIS 12 million instead of NIS 40 million, as stated below. See Note 3.A.3 below for additional details.
- In March 2020, Ma'alot announced the lowering of the Company's rating to one of CC with a negative outlook and rating for the debentures (Series I) to a rating of C which was done because in Ma'alot's assessment there is almost absolute certainty that the Company will reach insolvency in the immediate term
- See Note 8.E to the annual financial statements for details of meetings of the Company's series of debentures, including the appointment of (separate) representatives in the series of debentures (Series I and Series N) and the appointment of a legal adviser and an economic adviser for each of the said series of debentures, and including letters of commitment that the company has provided to the holders of its debentures.
- On June 21, 2020, the trustee for the debenture holders (Series N) announced the convening of a meeting of the debenture holders (Series N) on July 5, 2020, on the agenda of which will be the calling for the immediate repayment of the Company's unsettled debt vis-à-vis the debenture holders (Series N).
- See Notes 4.G and 4.L below for details regarding the decisions by the Company's Board of Directors to defer the payments of interest to the debenture holders.

On August 31, 2019, the Company's Audit Committee and the Board of Directors approved the acceptance of an irrevocable commitment by Dolphin Netherlands, the controlling interest in the Company, to make capital injections into the Company in an overall amount of NIS 210 million, in three equal annual payments, which will be made in consideration for shares in the Company or as a subordinated loan on similar terms to the subordinated loans that had been provided by the controlling interest. As of the reporting date, the Company has received NIS 70 million as a subordinated loan. See Note 7.C.2 to the annual financial statements and Note 3.B.4 below for details.

As from the third quarter of 2019, DIC has a positive balance of distributable earnings, which, subject to lawful decisions that may be made by DIC, may enable the Company to receive cash flows on account of the debenture from Dolphin IL subject to the terms of the debenture. (See Note 3.A below for details). In the report of the Board of Directors, which accompanies these financial statements, the Company presents a cash flows forecast (which has not been reviewed or audited) for the period of two years ending on March 31, 2022.

**Note 1 – General (Continued)****B. (Continued)**

The balance of the Company's liquid assets is NIS 200 million as of March 31, 2020, which includes NIS 196 million in charged deposits. The balance of the Company's liquid assets at a time shortly before the publication of the report is NIS 88 million, which includes NIS 67 million in charged deposits, primarily in respect of a swap transaction on shares in Clal Holdings Insurance Enterprises, part of which may be released upon its termination or prior to that, subject to the terms for the early closure of the swap transaction and the payment of an early repayment commission in an insignificant amount. See Note 3.B.3 below for details regarding the net value of the swap transaction at a time shortly before the publication of the report. The part of the deposit, which is expected to be released, is the surplus of the deposit over the balance of the negative net value of the transaction that remains.

The cash flows forecast includes the receipts that the Company is expected to receive, inter alia, from the sale of shares in Clal Holdings Insurance Enterprises, from, two injections from Dolphin Netherlands, the controlling interest in the company, in a cumulative amount of NIS 140 million (see Note 7.C.2 to the annual financial statements and Note 3.B.4 below) and additional possible sources, which may be available to the Company in the period covered by the forecast, which include, inter alia, the disposal of the Company's holdings in IDBG (see Note 3.D below); the disposal of the Company's holdings in IDB Tourism (See Note 3.C below); the sale of the Company's holdings in Modi'in; and payments on account of the debenture from Dolphin IL under the force of the exercise of the Company's right to accelerate the repayment of the debt pursuant to the terms of the debenture (see Note 3.A.2 to the annual financial statements and Note 3.A.3 to the financial statements).

In March 2020, the Company and the controlling interest therein, with the agreement of the Company's Audit Committee, formulated an outline pursuant to which, inter alia, the controlling interest in the Company transferred a payment of NIS 12 million on account of the debenture from Dolphin IL (instead of NIS 40 million, which was demanded by the Company's Audit Committee, as mentioned above, and NIS 11 million of which was transferred for the payment of interest to the holders of the debentures (Series N)) and the Company and the controlling interest therein will take action to formula a plan and an outline for action in connection with the Company's financial position and for the purpose of continuing to service its liabilities.

See Note 4.H below for details regarding the draft offer that the Company and the trustees for its debentures have received from Dolphin IL for the strengthening of the Company's capital structure, by way of an arrangement between Dolphin IL, the Company and the holders of its debentures. As of the reporting date, there is no certainty in connection with the completion of the arrangement and the timing of its completion, which are dependent upon the receipt of various approvals, which have not yet been received at this stage and which are not under the Company's control.

As of the time of the publication of the financial statements, uncertainty exists regarding the Company's ability to execute its business plans as usual and/or on time and regarding its continued ability to settle its liabilities as usual and/or on time.

The Company's ability to settle its liabilities in the Company year is dependent, inter alia, on the disposal of assets that are held by the Company, some of which are not listed for trading, and the timing of the completion of the disposal of which is not under the Company's control as well as an injection from the controlling interest, as detailed above. The Company's ability to repay the balance of its debts at the timing that is required is dependent, inter alia, on future factors that are not within its control, primarily the economic value of the debenture from Dolphin IL and the cash flows that will derive from it until the time of the end of the company's liabilities to its creditors.

This array of events and circumstances raise significant doubts regarding the Company's continued existence as a going concern.

The classification or adjustments in respect of the carrying values of the Company's assets and liabilities, which may be required if the Company is unable to continue to operate as a going concern, have not been recorded in these financial statements. The Company is acting and will continue to act in order to cope with the uncertainties that are described above.

See Note 8.B below for details of the provisions that are included in the Company's credit agreements regarding rights to demand immediate repayment.

The aforesaid has an impact both on the Company's net asset value and also on its ability to realize those holdings for the purpose of settling its liabilities. The more the impact of the Corona virus outbreak deepens and/or the longer it continues, the more difficult it will be for the Company to meet the settlement of its liabilities on time.

## Note 1 – General (Continued)

C. These financial statements have been prepared in a condensed framework as of March 31, 2020, and period of three months then ended ("The Interim Financial Statements") in accordance with International Accounting Standard 34, "Interim Financial Reporting", and they do not include all of the information that is required in full annual financial statements. These reports should be reviewed and read in conjunction with the Company's annual financial statements as of December 31, 2019, and for the year then ended, and the accompanying notes thereto, which were approved on March 31, 2020 ("The Annual Financial Statements"). The notes to the interim financial statements in respect of investments, commitments, commitments and contingent liabilities only include the main updates on these matters, which have since the time of the approval of the annual financial statements.

D. Non-inclusion of separate information (Regulation 9C):

The Company has not included separate financial information of the Company ("Separate Reports"), in accordance with Regulation 9C of the Reporting Regulations in the financial statements, since such information would not have added any significant information beyond that which is already included in the consolidated interim financial statements. The condensed consolidated interim financial statements are identical to the condensed interim separate financial statements, except for the following:

1. The presentation of the assets and liabilities of IDB Tourism, which appear separately in the consolidated financial statements, under assets held for sale, in an amount of NIS 730 million (net of a loan in an amount of NIS 18 million, which IDB Tourism extended to the Company, and which has been eliminated in the consolidation of the financial statements), under liabilities in respect of assets held for sale liabilities, in an amount of NIS 622 million, and under non-controlling interests in an amount of NIS 7 million. These figures would have been presented in the separate financial information as a net investment, under current as investments classified as held for sale, in an amount of NIS 119 million, assets. The net amount of the investment is presented in Note 3.G below. On the other hand, a loan from IDB Tourism would have been presented under liabilities in respect of assets held for sale in an amount of NIS 18 million.
2. Profits and losses from discontinued operations in respect of IDB Tourism, which are presented in the interim consolidated statement, would have been presented in a separate interim statement after deducting non-controlling interests (an immaterial amount - see Note 3.H below).
3. The cash flow data in respect of IDB Tourism which are detailed in Note 3.H.2 below would not have been recorded under cash flows from discontinued operations.

E. **Principle definitions:**

In these financial statements (above and below):

IDB Development	- The Company and/or the Company together with its wholly-owned headquarter companies;
The Group	- The Company and/or its investee companies;
IRSA	Inversiones Y Representaciones Sociedad Anonima – IRSA, a company that is controlled by Mr. Eduardo Elsztain;
Dolphin Netherlands	Dolphin Netherlands B.V., a company that is controlled by Mr. Eduardo Elsztain, the controlling interest in the Company;
Dolphin IL	- Dolphin IL Investments Ltd., a company incorporated in Israel and wholly-owned by Dolphin Netherlands;
DIC	- Discount Investment Corporation Ltd., a company that is controlled, indirectly, by the controlling interest in the Company;
Clal Holdings Insurance Enterprises	- Clal Holdings Insurance Enterprises Ltd.;
Clal Insurance	- Clal Insurance Company Ltd.;
The Commissioner	- The Commissioner of the Capital Markets, Insurance and Savings Authority in the Ministry of Finance;
IDBG	- IDB Group USA Investments Inc.;
IDB Tourism	- IDB Tourism (2009) Ltd.;
Property & Building	- Property and Building Corporation Ltd., a company that is controlled by DIC
Modi'in	- Modi'in Energy Limited Partnership;
Subordinated Loans	- Convertible subordinated loans from Dolphin Netherlands, the controlling interest in the Company (see Note 7.C to the annual financial statements);
Reporting regulations	- The Securities Regulations (Periodic and Immediate Reports) - 1970



## Note 2 - Significant Accounting Policies

### A. The format for the preparation of the interim financial statements

The condensed consolidated interim financial statements have been 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 detailed in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

These condensed consolidated interim financial statements were approved for publication by the Company's Board of Directors on June 29, 2020. The significant accounting policies which have been implemented in the preparation of the consolidated interim financial statements are consistent with those that were implemented in the preparation of the annual financial statements.

### B. Use of estimates and judgment

In the 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 assessments, estimates and assumptions, which affect the implementation of the accounting policy and the amounts at which assets, liabilities, revenues and expenses are stated, as well as the equity components that are presented in the abovementioned statements. It should be clarified that the actual results may be different from these estimates.

The exercise of judgment 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 the assumptions, which have been used assessments involving uncertainty, are consistent with those used in the annual financial statements, as stated in Note 1.F(3) to the annual financial statements. It should be mentioned that as a result of the outbreak of the Corona virus, as stated in Note 1B above, the estimates and the judgments, primarily in relation to the assessments that the Company has made use of, are typified by having considerable measurement risks and they have been made in an environment of considerable uncertainty.

### C. Functional currency and presentation currency

These financial statements are presented in New Israeli Shekels (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 principal economic environment in which the Group operates.

### D. Details on the rates of the changes that have occurred in the index and in the exchange rate of the Dollar:

	The Index		Exchange rate of the US Dollar ("The Dollar") NIS
	Known index	Index in lieu	
	Points		
As of			
March 31, 2020	101.3	101.7	3.565
March 31, 2019	101.2	101.7	3.632
December 31, 2019	101.8	101.8	3.456
<u>Rates of change during the period (in percent):</u>			
For the three months ended			
March 31, 2020	(0.5%)	(0.1%)	3.2%
March 31, 2019	(0.3%)	0.5%	(3.1%)
For the year ended			
December 31, 2019	0.3%	0.6%	(7.8%)



## Note 3 - Investments

### A. Investment in the debenture from Dolphin IL

1. As of March 31, 2020, 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 an amount of NIS 414 million, and accordingly, the Company recorded financing expenses of NIS 561 million and in the first quarter of 2020.

See Note 1.B above for details regarding the impact of the outbreak of the Corona virus on the capital market in general and on the Company's holdings in particular. The decrease in the value of the debenture in the first quarter of 2020 derived from the significant decreases in the market value of DIC and of its investee company's.

Pursuant to Regulation 49(a) of the Reporting Regulations, an economic paper regarding the fair value of the debenture which was received by the Company within the framework of the transaction in November 2017, in which the Company's holdings in DIC were sold to a company controlled by the controlling interest, as of March 31, 2020 is attached to these financial statements.

As of March 31, 2020, DIC's market value is higher than its net asset value (NAV) and accordingly the value of the debenture is based on the market value of the shares in DIC and not on its net asset value.

See Note 6 below for additional details regarding the debenture from Dolphin IL

2. The value of collateral - as of March 31, 2020 and at a time shortly before the publication of the financial statements, liens had been made available as collateral for the debenture as detailed below:
  - A specific, first ranking lien on 17,158,242 shares in DIC and on 10,037,571 debentures (Series I) issued by the Company.
  - A specific, second ranking lien on 99,258,708 shares in DIC and on 58,066,344 debentures (Series I) issued by the Company.

The market value of the said collateral as of March 31, 2020 and at a time shortly before the publication of the financial statements, was NIS 458 million and NIS 518 million, respectively.

3. On March 12, 2020 the Company received a letter ("The letter") from its Audit Committee ("the Committee"), which was addressed to the Chairman of the Company's Board of Directors, Mr. Eduardo Elsztein, who also holds office as a Director in Dolphin IL. Within the framework of the letter, the Committee mentioned that since according to data that had been provided to it by its financial advisors, tangible concern exists that the Company is unable to service its debts in the regular course of business, the Committee has decided to exercise its right under the debenture from Dolphin IL ("The acceleration right"). The Committee detailed the main uses and payments that the Company, which is required to make in the coming weeks (at the time of the letter), in its letter, which amount to NIS 40 million. Accordingly, the Committee noted that in order for the Company to have sufficient resources and liquid means that it would be able to use to continue to settle the Company's debts in an orderly manner, the Committee's notification should be seen, at this stage, as the exercise of the acceleration right and the calling for an amount of NIS 40 million out of the current adjusted debt pursuant to the bond.

Taking note of the spread of the Corona virus (Covid-19) in Israel and globally, and taking note also of the extreme circumstances that have arisen and the unprecedented fluctuations in the capital markets, the Company has approached its controlling interest and together with him it has formulated an outline for action, with the Committee's agreement ("The outline"). The following are the main points of the outline, which have been discussed and approved by the authorized bodies in the Company:

- a. The Committee has announced that it is updating its demand pursuant to the letter, such that the amount of the demand for an injection from the controlling interest in the Company, under the force of the acceleration right, will stand at NIS 12 million at the present time, instead of NIS 40 million ("The acceleration amount"). The acceleration amount will be transferred to the Company by Dolphin Netherlands as a payment of interest on the debenture, pursuant to its terms ("The interest payment"). An amount of NIS 11 million out of the interest payment, pursuant to the terms of the debenture and pursuant to the terms of the trust deed for the Company's debentures (Series N) will be transferred as payment of the interest to the holders of the Company's debentures (Series N), which was payable on March 30, 2020.

**Note 3 – Investments (Continued)****A. Investment in the debenture from Dolphin IL (Continued)**

## 3. (Continued)

## a. (Continued)

The balance of the acceleration, together with the Company's existing resources, will be used by the Company's management to execute the routine payments that are required for the Company for the purpose of its operating activities.

b. The Company's management will take action to update its liabilities vis-à-vis the holders of the Company's debentures under the force of the Company's letter of commitment of October 24, 2019 (see Note 8.E.5 to the annual financial statements for details), in cooperation with the representatives of the holders of the debentures, in such manner that such updated commitments would be in effect for a period of 90 days. See also Note 4.F below.

c. During the course of the period, as stated in section b above, the Company will act together with the controlling interest to formulate a plan and an outline for action in connection with the Company's financial position and for the continuing settlement of its commitments.

d. The Company will cooperate with IDB Tourism and with Israil for the purpose of examining a number of solutions or alternatives in connection with Israil's financial position, including in relation to a loan that had been made available to the Company by IDB Tourism (see Note 3.C.3 below for details).

Accordingly, an amount of NIS 12 million has been transferred to the Company and recognized as interest income on account of the debt in the first quarter of 2020. An amount of NIS 11 million out of this amount was transferred for the purpose of the payment of interest to the holders of the debentures (Series N).

Further to what is stated in Note 3.A.2.c to the annual financial statements, it should be clarified that at the time of the operation of the acceleration clause for the payments pursuant to the debenture, as stated in Note 3.A.2.h to the annual financial statements, if the purchaser does not pay the acceleration payment that is required, then the Company is entitled to take action to realize the charged securities where in relation of the shares that are charged for the debentures (Series N), such realization will be subject to the agreement of the holders in a special resolution. The realization of the balance of the shares that are charged for the Company (as detailed in Note 3.A.2.c to the annual financial statements) ("The DIC shares that are charged in support of the Company"), may be done subject to the procedural provisions pursuant to the provisions of the law and the terms of such liens in relation to the exercise processes for the lien, which includes, inter alia, the agreement of the Ministry of Communications (pursuant to the provisions of Cellcom's license). It should be clarified that the exercise of the acceleration of payments section, as aforesaid, is subject to a cumulative restriction to 15% of the amounts due at that time pursuant to the debenture and in any event the acceleration payment may not accede the amount that is required for the Company, where any such payment in respect of the secured debenture is also charged for the debentures (Series N). As of March 31, 2020 and at a time shortly before the publication of the financial statements, the amount of shares in DIC, which are charged in support of the Company, and which are not subject to the terms of the secured debenture, is approximately 7.5 million shares, whose value in accordance with their prices on the Stock Exchange at a time shortly before the publication of the financial statements is approximately NIS 32.5 million. It should be emphasized that pursuant to what is stated in Note 3.A.2.g to the annual financial statements, the Company and/or its creditors (and anyone acting on their behalf) will not have a right of recourse vis-à-vis the purchaser and/or its shareholders, its directors or anyone acting on its behalf.

4. On May 9, 2020, after the date of the statement of financial position, 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, 2020.

### Note 3 - Investments (Continued)

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

- See sections 1-9 of Note 3.B to the annual financial statements 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 Clal Holdings Insurance Enterprises, and regarding the execution of sales of shares in Clal s Insurance Enterprise Holdings in accordance with the sale outline

The following are the movements in the Company's investment in Clal Holdings Insurance Enterprises Clal Holdings Insurance Enterprises' during the reporting period, as well as changes in the swap transactions

Date	Direct Holdings of Shares	Holdings Through SWAP Transactions %	Average selling Price Per Share NIS	Note
31/12/2019	*8.5%	8.2%		
14/01/2019	-	(1.1%)	45.09	3.B.2
31/03/2020	*8.5%	7.1%		
24/06/2020	-	(5.0%)	30	3.B.7.C
29/06/2020	*8.5%	2.1%		

\* 5% of the Company's holdings in shares are charged in support of the holders of the debentures (Series O). The consideration for the balance of the holdings (3.5% of the shares in Clal Holdings Insurance Enterprises) are also charged in support of the holders of the debentures (Series O).

- On January 14, 2020, the Company ended the swap translation dated November 8, 2018 in relation to 751,000 shares in Clal Holdings Insurance Enterprises (approximately 1.1% of its issued capital) at an average price of NIS 45.1 per share. The partial ending of the transaction was done against a payment of NIS 13 million to the financing body.
- The following are the main details regarding the swap transactions, which were executed and are in effect as of March 31, 2020:

Time of the establishment of the transaction <sup>(1)</sup>	Base price NIS	Net value	Balance of the charged deposit <sup>(3)</sup>	Net value	Balance of the charged deposit
		As of March 31, 2020		Shortly before the time of the publication of the report <sup>(6)</sup>	
30/08/2018	62.38	<sup>(2)</sup> (91)	109	-	-
08/11/2018	62.00	(68)	87	(47)	67
Total		(159)	196	(47)	67

- All of the transactions were executed, each at the time of its establishment, in respect of 2,771,309 shares in Clal Holdings Insurance Enterprises and they are for a period of two years from the time of the establishment of each transaction. After the partial closure of the transaction that was established in November 2018, as stated in Note 3.B.2 above, the balance of this transaction as of March 31, 2020 and at a time shortly before the publication of the financial statements relates to 2,020,309 shares.
- The net value as of March 31, 2020, constitutes the value of shares in Clal Holdings Insurance Enterprises as of March 31, 2020, in an amount of NIS 82 million, after deducting the balance of the liability to a banking corporation in connection with the swap transaction, in an amount of NIS 173 million. The value of the aforementioned shares is presented under assets classified as held for sale in the statement of financial position as the value of shares in Clal Holdings Insurance Enterprises in swap transactions. The balances of such assets and liabilities are presented under current assets and liabilities.
- The balance of the charged deposits is presented under current assets as charged deposits in the statement of financial position. Pursuant to 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). See also Note 3.B.4 below:
- See Note 3.B.2 to the annual financial statements for additional details regarding the accounting treatment of the sales which were executed in respect of the abovementioned transaction.
- Relates to an "additional transaction" as defined in Note 3.B.2 to the annual financial statements.
- See Note 3.B.7.c below for details regarding the closure of the August 30, 2018 transaction and the partial closure of the November 8, 2018 transaction

**Note 3 - Investments (Continued)****B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)**

## 3. (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 in 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.

4. Pursuant to the terms of the swap transactions in connection with shares in Clal Holdings Insurance Enterprises, which are detailed in Note 3.B.3 above ("The swap transactions") and in light of the decrease in the value of the shares in Clal Holdings Insurance Enterprises in February and March 2020, after the receipt of the approvals of the Company's Audit Committee and Board of Directors on several decisions, Dolphin Netherlands made autonomous guarantees available to the financing bodies ("The banks"), through which the swap transactions had been executed, in a cumulative amount of NIS 57 million (for both of the banks), which form part of the charged deposits, in respect of which the Company has given a commitment within the context of the terms of the said swap transactions ("Dolphin's commitment"). Pursuant to Dolphin's commitment, the banks will only be entitled to realize the guarantees in a case in which one of the swap transactions has ended (pursuant to its terms and including if it is ended prematurely), and at the time of such a termination there is a shortage in the amounts of the charged deposits that the Company has made available to the banks (pursuant to the terms of the swap transactions, as detailed in Note 3.B.3 above).

**Note 3 - Investments (Continued)****B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)**

4 (cont)

Further to what is stated in Note 5.B below in connection with Dolphin Netherlands's commitment to execute a capital injection into the Company in three tranches of NIS 70 million in each tranche, on September 2 in each of the years 2019 to 2021, it should be mentioned that in the case of the termination of any of the swap transactions, before the last time for the execution of the second payment of Dolphin's commitment to execute capital injections, i.e. on September 2, 2020 ("The second payment"), the unexercised parts of the guarantees will be returned to Dolphin Netherlands, whereas any part that has been exercised out of the guarantees by September 2, 2020, will be deemed to be part of the second payment that Dolphin Netherlands has committed to injecting into the Company, where the balance of the second payment will be transferred to the Company by Dolphin Netherlands pursuant to and subject to the terms of Dolphin's commitment. If the swap transactions (or more than one of them, as the case may be) shall be in effect on September 2, 2020, at that time Dolphin Netherlands will inject the second payment into the Company pursuant to and subject to the terms of the commitment, as aforesaid and the guarantees will be returned to Dolphin Netherlands.

The Company has received the approval of the banks for the receipt of the guarantees from Dolphin Netherlands.

Taking note of the continuing fall in the value of the shares in Clal Holdings Insurance Enterprises on the Stock Exchange, the Company has received approaches from the banks, in which they warned that pursuant to the terms of the swap transactions, even after the making available of the said deposits by Dolphin Netherlands, the supplementation of the charged deposits is required, in a cumulative amount of NIS 32 million.

On March 15, 2020, the District Court in Tel-Aviv ("The Court") acceded to the Company's petition and determined that it would award a temporary restraining order preventing the sale of the shares, which constitute approximately 4% of Clal Holdings Insurance Enterprises' issued share capital, in respect of which a swap transaction has been executed through one of the banks. On March 26, 2020, the Company reached agreements with the bank regarding the issues that were in dispute, which received the Court's approval ("The agreements").

It should be clarified that pursuant to the agreements, the bank will not be entitled to sell the swap shares (or part thereof) and the Company is not required to increase the scope of the charged collateral (for which the Company had made a commitment within the framework of the terms of the swap transactions opposite the bank, as detailed in Note 3.B.3 above), and this at this stage and taking note of the value of the shares in Clal Holdings Insurance Enterprises as of the time of the agreements. Furthermore, within the framework of the agreements, certain circumstances were updated, which may afford the bank the right to close out the swap transaction with the bank and to sell the swap shares.

Shortly before the time of the publication of the financial statements, the swap transaction ended (see Note 3.B.7.c below) without the Company or the controlling interest being required to supplement additional deposits.

After the termination of the swap transactions, as stated in Note 3.B.7.c below, the balance of the charged guarantees, which have been made available by Dolphin Netherlands, stands at NIS 12 million at a time shortly before the publication of the financial statements.



### Note 3 - Investments (Continued)

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

5. The investment in Clal Holdings Insurance Enterprises is presented in the Company's financial statements as of March 31, 2020, 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
<b>Current assets held for sale</b>		
Value of shares in Clal Holdings Insurance Enterprises in swap transactions	4.1%	82
Investment in shares in Clal Insurance Enterprises Holdings	8.5%	170
<b>Current liabilities</b>		
Swap transaction on shares in Clal Holdings Insurance Enterprises	3%	(68)

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 abovementioned presentation is in accordance with the provisions of IFRS 5.

6. The market value of the shares in Clal Holdings Insurance Enterprises which are held by the Company (including the market value of the shares regarding which the Holdings swap transactions were executed, as stated in Note 3.B.3 above) is NIS 312 million as of March 31, 2020. The difference between the abovementioned value of the shares in Clal Holdings Insurance Enterprises as of December 31, 2019, amounted to a negative sum of NIS 240 million, and was reflected under discontinued operations in the statement of income. The abovementioned difference is stated taking the partial closure of the swap transaction, as stated in Note 3.B.2 above into account.

**Note 3 - Investments (Continued)****B. Investment in Clal Holdings Insurance Enterprises (held for sale) (Continued)****7. Developments after the date of the statement of financial position**

- a. On May 4, 2020, the District Court in Tel-Aviv acceded to the Company's petition (which was submitted with the Commissioner's agreement) and instructed the deferral of the sale of 3.2% of the shares in Clal Holdings Insurance Enterprises pursuant to the outline (which is detailed in Note 3.B.1 to the annual financial statements), until September 3, 2020, instead of May 3, 2020, in accordance with the outline.

Accordingly, the Company is committed to selling the last tranche pursuant to the outline, at a rate of 3.5% of the shares in Clal Holdings Insurance Enterprises by September 3, 2020, and after such a sale, the Company will remain holding 5% of the shares in Clal Holdings Insurance Enterprises, which are not subject to the outline.

- b. Shortly before the time of the approval of the financial statements, there was a positive difference of NIS 2 million, between the value of shares in Clal Holdings Insurance Enterprises (including the shares in respect of which the swap transaction was executed) shortly before the time of the approval of the financial statements and the value of the shares as of March 31, 2020.
- c. On June 23, 2020, the Company received an offer from a party that is not related to the Company and/or to the controlling interest therein for the sale of 3,375,000 shares in Clal Holdings Insurance Enterprises at a price of NIS 30 a share in a transaction of the Stock exchange. After a discussion in the Company's board of Directors, it was decided to accept the offer. Accordingly, the Company has directed the financing bodies, with which it is committed in the swap transactions, which are described in Note 3.B.3 above, that they are to take action to terminate the swap transactions in relation to the shares being sold, as aforesaid, and it has also approached the trustee for shares in Clal Holdings Insurance Enterprises in order to receive his approval for the termination of the swap transactions in the abovementioned format.

On June 24, 2020, the transaction, which was executed in August 2018, was closed in its entirety against a payment of NIS 91 million, which was made from deposits that had been charged in support of the transaction. The balance of deposits that were charged in support of the transaction, in an amount of NIS 19 million, have been released in favor of the Company and an amount of NIS 40 million of autonomous deposits, which had been deposited by Dolphin Netherlands, as stated in Note 3.B.4 above, were also released. In addition, the transaction, which was executed in November 2018, was closed partially against a payment of NIS 20 million, which was made from deposits that had been charged in support of the transaction. Autonomous guarantees, which had been deposited by Dolphin Netherlands as stated in Note 3.B.4 above, in an amount of NIS 5 million, were released to Dolphin Netherlands.

It should be clarified that the terms of the swap, which was executed in November 2018, will continue to apply in relation to the balance of the shares in Clal Holdings Insurance Enterprises that are the subject of the swap transaction, the balance of which constitutes approximately 2.1% of Clal Holdings Insurance Enterprises' issued share capital.

**C. Investment in IDB Tourism (held for sale)**

1. IDB Tourism is a company that is wholly owned by the Company, whose principal activity is concentrated in Israil Airlines and Tourism Ltd. ("Israil"), which is wholly owned by IDB Tourism. IDB Tourism's assets and liabilities are presented as held for sale.

In 2017, the Company made a commitment under an agreement for the sale of Israil's entire issued and paid up share capital. The transaction was not executed, however the Company is continuing to assess alternatives in connection with the sale of its holdings in IDB Tourism and/or in Israil, and therefore, the Company is continuing to treat IDB Tourism, in the financial statements as of March 31, 2020, as held for sale and as a discontinued operation, in accordance with the provisions of International Financial Reporting Standard 5 ("IFRS 5").

IFRS 5 determines that an asset that is held for sale is to be presented in accordance with the lower of the carrying value in the accounting records and the fair value less selling expenses and accordingly the Company's and IDB Tourism's results, as expressed in the consolidated financial statements, do not of necessity reflect Israil's results.



**Note 3 - Investments (Continued)****C. Investment in IDB Tourism (held for sale) (Continued)**

## 1. (Continued)

The implications of the outbreak of the Corona virus on Isirair's business operations and those of its investee companies

During the reporting period, the Company's management and the management of the Isirair Group have been continuing to monitor the developments in Israel and globally in connection with the Corona virus, routinely, and they have been examining the implication for the Isirair Group's operations. As a result of a series of directives and recommendations made by the Ministry of Health, there has been a sharp reduction in the volume of bookings, in the occupancy rate on flights and in the average revenues per customer. These trends are relevant for all of the Isirair Group's fields of activity and Isirair has executed a series of actions in their wake, of which the main ones are:

- The cancellation of the timetable for international flights as from the middle of March 2020 and until further notice, except for specific flights that are performed on an ad-hoc basis for a specific purpose.
- The conversion of Isirair aircraft to perform cargo flights (Since March 2020, up to a time shortly before the publication of the financial statements, Isirair has performed 100 cargo flights to China, London and to various destinations)
- The performance of approximately 60 rescue flights to return Israelis from abroad in the abovementioned period.
- The cancellation of the summer programs, including the cancellation of the opening of new holiday destinations that were planned for the summer of 2020.
- The maintenance of the Tel-Aviv to Eilat line flight path with a frequency of two daily flights.
- Approaches to government officials and the regulator in order to receive reliefs and assistance in various fields.
- An approach to the Ministry of Finance in order to receive cash flow support for coping with the crisis.
- The adjustment of Isirair's expenses structure and stringent management of the cash flows, inter alia, by means of placing more than 250 employees on unpaid leave, salary reductions among recipients of high salaries in the Isirair Group, the utilization of accrued vacation leave, the cancellation of wet leases, the freezing of projects and etcetera.
- The receipt of approval from a banking corporation for the suspension of the financial covenant regarding the net financial debt to EBITDA ratio for the period from June 30, 2020 to June 20, 2021 (inclusive), subject to terms that have been agreed with the banking corporation. Furthermore, Isirair has approached the banking corporation with a request to execute the early repayment of part of the bullet component in an amount of approximately 13 million dollars out of the aircraft loan (which is repayable in April 2023) and to reschedule the balance of the bullet component until 2026. On June 29, 2020, the bank gave its agreement, subject to the actual performance of the early repayment, as aforesaid.
- An approach to the Company in order to receive the return of 5 million Dollars of the loan that was extended to it by Isirair, see also Note 3.C.3 below.

See also Note 3.C.4 regarding developments after the date of the statement of financial position.

As of a time shortly before the publication of the financial statements, in light of the decisions that have been made by government officials and health organizations in Israel and across the globe, the possibility of the outbreak of a second wave of the Corona virus and as a result of this, the uncertainty in respect of the time at which the regulatory restrictions that currently exist in the aviation and tourism sector will be eased, and the timing which consumers' vacation patterns will return to normal, as of the time of the signing of the financial statements, Isirair is unable to assess the potential damage to the Isirair Group's operations and nor is it able to make a reliable assessment of the impact on its business results in the long-term. Isirair may deepen the adjustment program, which it has been operating in accordance with from the beginning of February 2020.

In their review reports on IDB Tourism's and of Isirair's financial statements, the external auditors draw attention to the uncertainty that exists as a result of the outbreak of the Corona virus, which has led, as aforesaid, to a crisis in the markets in general and in the aviation and tourism sector in particular and the implications on Isirair's business activities.

**Note 3 - Investments (Continued)****C. Investment in IDB Tourism (held for sale) (Continued)**

## 1. (Continued)

The implications of the outbreak of the Corona virus on Israil's business operations and those of its investee companies (Continued)

However, pursuant to Israil's cash flows forecast for the period of 24 months as from a time close to the publication of the financial statements, which include the receipt of a loan with a guarantee from the state, as stated in Note 3.C.4 below, the return of 5 million Dollars from the Company by the end of the third quarter of 2020, insofar as this may be required, as well as the performance of flights to "green countries" (countries in which the Corona virus morbidity rate is low), which will be possible no later than August 15, 2020, it expects to meet all of its commitments, including the repayments to banking corporations and others.

The outbreak of the virus may also have implications for the timing of the sale of the Company's holdings in IDB Tourism and the consideration that the Company may receive within the framework of such a sale. See also Note 3.C.2 below.

2. In the wake of the aforesaid, IDB Tourism has tested Israil's fair value as of March 31, 2020, by means of an independent external appraiser. The appraiser assessed Israil's value in a range of between 31 million Dollars and 59 million dollars (including a debt of 5 million dollars as stated in Note 3.c.3 below). IDB Tourism's net asset value in the statement of financial position as of March 31, 2020 reflects a company value of approximately 34 million dollars for Israil. This value is approximately 21% lower than the middle of the evaluation range and approximately 9% higher than the lower end of its range and reflects the management's assessment of the amount that the Company can receive from the sale of Israil during this challenging time.

For the purposes of the evaluation, Israil's cash flows have been discounted in accordance with a discount rate of 12.6%, where the abovementioned range of values reflects a discount rate of 11.3% - 13.8%.

In accordance with the assumptions that have been taken into account in the evaluation, Israil will continue to operate in the present format in which it hold aircraft that it ones until shortly before the time at which Israil will need to invest significant amounts in the existing fleet of aircraft, which it is estimates will occur in 2024. At that time Israil will transition to a full leasing model for a uniform type of aircraft.

It has further been assumed that in light of the Corona virus, Israil results will be affected in the short-term and in the intermediate-term, and that it will only be in 2025 that its revenues will return to their 2019 level (it should be mentioned that this working assumption is conservative by comparison with Israil's management's assessment). Thereafter, the revenues will grow in accordance with the pace of population growth.

Taking note of the losses available to be carried forward and Israil's depreciation for tax purposes, it has been assumed that there will be no payment of taxation by Israil in the foreseeable future.

Taking into account the impairments in value that have been recognized in previous years (see also below), and IDB Tourism's results for the first quarter of 2020, and in light of the abovementioned evaluation, the Company has recognized a net comprehensive loss of NIS 13 million in its financial statements for the first quarter of 2020.

3. In October 2019, the Company received a loan of 5 million Dollars from IDB Tourism. The loan is linked to the exchange rate of the Dollar and bears interest at a rate of 5.1% a year. Pursuant to the terms of the loan, its repayment time was set for March 31, 2020.

On March 13, 2020, IDB Tourism informed the Company that it was operating the mechanism that is set in the said loan contract, and was calling for the repayment of an amount of 3 million Dollars out of the amount of the loan, within a time frame of up to 7 days. The Company referred to IDB Tourism and without entering into any claims whatsoever, which it has and taking note of the Corona crisis, which is prevalent in the markets and the implications thereof for the whole economy and for the Company, it suggested to it that it give consideration to withdrawing the said demand, and that instead of this it should continue to discuss the situation and possible alternative solutions with the Company.

IDB Tourism responded that in the event that it does not return the loan, it will refer the matter to legal proceedings. In parallel, and in light of the non-repayment of the loan by IDB Tourism, on March 19, 2020, Bank Leumi confiscated a charged deposit in an amount of approximately 3 million dollars against the loan that it had provided. The Company and IDB Tourism are continuing to negotiate in connection with the return of the loan.

**Note 3 - Investments (Continued)**

**C. Investment in IDB Tourism (held for sale) (Continued)**

**4. Developments after the date of the statement of financial position**

Further to what is stated in Note 3.C.1 above regarding the impact of the outbreak of the Corona virus on Isirair's operations and the actions that have been taken by it in order to cope with the situation, on May 7, 2020 a letter was sent to Isirair from the Ministry of Finance regarding the state's position regarding the making available of a guarantee by the state for banking loans for Isirair ("The letter"), according to which the State will consider making a state guarantee available in support of loans that would be provided to Isirair by banks in Israel, in accordance with the commercial terms that may be agreed between Isirair and the lending banks ("The loan" and "The lending bank", respectively), which would be at a rate of up to 75% of the amount of the loan, which would be up to NIS 100 million, all of which is subject to additional terms as detailed in the letter.

It is further mentioned in the letter that the final structure of the terms of the guarantee will be determined taking the conditions that may exist immediately before the loan is made available into account as well as parameters that were detailed in the letter, and that the making available of the loan is subject to the approval of the authorized bodies in the lending bank. In addition, it was mentioned that approval for the making available of the state's guarantee for the loan, insofar as it may be given, is subject to the approval of all of the bodies in the government, and the approval of the Knesset's Finance Committee.

In June 2020, Isirair received approval from the Ministry of Finance and the lending bank for the making available of a loan in an amount of INS 93 million with a 75% guarantee from the state. The loan bears interest at a rate of prime +1.5% a year for a period of 7 years, where no principal is repayable in the first year of the loan. On June 29, 2020, Isirair made an approach to the Ministry of Finance in order to request an increase in the amount of the loan in light of the continuation of the Corona crisis. The actual timing of the receipt of the loan will be determined in accordance with Isirair's cash requirements.

**D. Investment in IDBG (held for sale)**

1. Further to what is stated in Note 3.D.1 to the annual financial statements regarding a loan in an amount of 50 million Dollars (principal), which Property & Buildings has made available to IDBG and regarding the conversion mechanism that is set therein, on February 17, 2020, the said conversion mechanism was operated. The ratio in accordance with which the conversion was executed was determined in accordance with the average of three evaluations that had been performed by three independent external appraisers, pursuant to which it was determined that after the operation of the conversion mechanism, Property & Building's rights in IDBG's share capital would stand at 74.18%, and the Company's rights in IDBG's share capital would stand at 25.82% and that Property & Building and the Company's rights to the repayment of the shareholders' loans that had been extended to IDBG (the balance of the loans in accordance with the said facility agreement with the addition of the loans that are described in Note 3.D.5 to the annual financial statements) shall be in accordance with the updated ratio of their holdings in the share capital. Following the conversion, as aforesaid, the Company recorded an increase of NIS 61 million in the investment in IDBG against equity attributed to shareholders (capital reserve on transactions with controlling interests).
2. In November 28, 2019, after a discussion had been held on the subject in the Company's Board of Directors, the Company approached Property & Building, with a proposal to open negotiations for the sale of the Company's entire holdings in IDBG. It should be mentioned that within the framework of the proposal, the Company did not offer any terms whatsoever for a transaction. On February 26, 2020, after the implementation of the conversion mechanism, as detailed in paragraph 1 above, Property & Building's Board of Directors empowered its Audit Committee to serve as a special committee, which is to make an independent examination of the possibility of acquiring the Company's holdings in IDBG. Property & Building's Audit Committee to conduct negotiations with representatives of the Company to progress such a transaction.

**Note 3 - Investments (Continued)****D. Investment in IDBG (held for sale) (Continued)**

## 2. (Continued)

On March 15, 2020, the Company received a letter from Property & Building's Audit Committee, in which it informed the Company that Property & Building would be prepared to acquire the balance of the Company's holdings in IDBG at a price reflecting a discount of 25% on the average value of the three appraisals that had been performed by the independent external appraisers, in connection with the conversion mechanism, and subject to a number of aspects, which the Committee mentioned in its letter. See also Note 3.D.5 below.

## 3. The valuation of the Tivoli project in Las Vegas was updated in the first quarter of 2020 to an amount of USD 233 million. As a result, the Company recorded its share in the net write down in an amount of NIS 4 million, which was recorded under discontinued operations.

The write down derived primarily from a decrease in the expectations regarding net rental income. The valuation report of the Tivoli Project is attached to the financial statements by way of referral to Property and Building's financial statements as of March 31, 2020, which have been submitted to the Securities Authority and which were published on June 25, 2020 (Document number 2020-01-067065).

4. The impact of the outbreak of the Corona virus on IDBG

Following the outbreak of the Corona virus, on March 24, 2020, the center in the Tivoli project was closed, pursuant to the directives issued by the Governor of the State of Nevada.

During the course of the period in which the center was closed, a number of restaurants worked in a format of deliveries and take away. Furthermore, vital activities, such as banks and clinics were allowed to operate. The center management activity was reduced to the minimum necessary for business that operated in the center in that period and some of the activities were discontinued completely (such as parking, cleaning and gardening services and etcetera). This reduction has led to a saving of approximately 36% in the center's operating expenses in the relevant period.

Pursuant to the directives issued by the authorities in May 9, 2020, and after the adjustments and preparations, the center was reopened on May 15, 2020, subject to restrictions that were set by the authorities.

The occupancy rate in the project stood at approximately 73% before the outbreak of the Corona virus. During the course of the period of the closure, a number of tenants encountered difficulties and gave notice of the cessation of their activity in the project. Furthermore, a number of tenants announced that they would not be extending their rental agreements in the project, which are about to expire. At this time and in light of the aforesaid, IDBG's management is of the opinion that the occupancy rate in the project will decrease by approximately 9% (net of new contracts that have been signed recently). The rental fees for March 2020 were collected without any significant change as compared with previous months. In April and May 2020 approximately 75% of the rental fees for offices and approximately 25% of the rental fees for commercial areas and restaurants have been collected up to now.

As of this time, the project's management has not set a uniform policy in connection with the granting of reliefs for tenants and a specific discussion is held opposite each tenant.

As of this time, agreements have been reached with 7 tenants (out of 63 tenants) that they will be exempt from the payment of rental fees for a period of 60 to 90 days in consideration for the extension of the rental period by a similar period. The management is continuing to hold negotiations for the rental of additional areas in the project

It should be mentioned that the bank that is accompanying the project has been cooperating with IDBG's management during this period and it has approved the financing of the payments of interest in the period from May to July 2020 for IDBG out of the reserve that exists in the project's account in the bank and not out of the current cash flows, as is required pursuant to the loan agreement. Furthermore, conversations are being held with the bank in respect of the updating or the waiving of a financial covenant in relation to the debt cover ratio at the end of 2020.

At the present time it is not possible to assess the full impact of the outbreak of the Corona virus on the project's results in 2020. However, at this stage, in IDBG's assessment, despite the expected decrease in NOI, the current cash flows from the project, together with the efficiency steps that have been taken, will enable the project to maintain positive cash balances.



**Note 3 - Investments (Continued)****D. Investment in IDBG (held for sale) (Continued)**

5. In May 2020, after the date of the statement of financial position, the Company signed on an agreement for the sale of the Company's rights in IDBG to Property & Building. The agreement was signed after a number of discussions that were held between the parties and after a number of meetings on the subject. The Company's Audit Committee has approved the main points of the terms of the transaction and after the receipt of the approvals of Property & Building's Audit Committee and Board of Directors, the Company signed on the agreement. The consideration in the transaction amounted to 27.8 million dollars in consideration for the Company's entire holdings in IDBG as is. The approval of the transaction was subject, inter alia, to the approval of a general meeting of Property & Building's shareholders, which was convened on June 23, 2020 and which decided not to approve the commitment.

**E. Investment in Modi'in – an investee partnership that is treated at equity**The implications of the Corona virus for Modi'in

During the course of the reporting period and thereafter, there has been a significant decrease in oil prices in light of the expansion of the global crisis, which has been caused following the outbreak of the Corona virus and following the struggle between Russia and Saudi Arabia in connection with the output of the oil, which they produce. The partners in the project in which Modi'in is a partner in the United States have decided to freeze the continuation of the performance of production tests in the Stenderup 66Z-28 well in the Mountain View project and the continuation if the performance of production tests in the Shideler-1 well in the Shideler project.

Furthermore, it has been decided to defer the works for the renewal of the production from the Cattani-Rennie 47X-15 well in the Mountain View project. The partners intend to renew such production tests and the works for the renewal of the production from the Cattani-Rennie 47X-15 when the markets stabilize and there is a recovery in the oil prices. These actions, which have been taken do not have a significant impact on the results of Modi'in's operations in the reporting period. As of the reporting date, the production from the production wells in projects in which Modi'in is a partners is profitable and it does not require external sources of financing for the purpose of continuing the production.

The prices at which the oil that is produced from the projects in which Modi'in is a partner in California in the United States are significantly higher than the cost of the production of the oil. If and insofar as there may be a significant decrease in the price of oil, as aforesaid, Modi'in and its partners in the project will need to examine their steps taking into account, inter alia, the economic feasibility of continuing production as opposed to suspension and the costs of storing the oil.

Modi'in's operations involved large monetary expenses and a high level of financial risk and uncertainty. A continuation and/or a worsening of the situation in the markets and in the oil price may have a significant impact on Modi'in's business and on its operating results.

Furthermore, it should be mentioned that even if a significant decrease in Modi'in's revenues were to be caused, the management of Modi'in's general partner is of the opinion that Modi'in will meet all of its existing and expected commitments in the foreseeable future.

**F. Investment in Colu Technologies (GB) Limited ("Colu")**

In March 2020, most of the Token holders (CLN) including the Company converted the Token into shares in Colu. In addition, the Company has converted its investment in the convertible equity investment into shares in Colu. Shortly before the time of the publication of the report, the Company holds approximately 14% of the shares in Colu (at full dilution).

In the first quarter of 2020, the Company recorded impairment in value of NIS 9 million in respect of impairment in the value of its investment in shares in Colu. The impairment in value derived primarily from delays in the execution of Colu's work plan and from an expected decrease in its revenues in the coming two years, which have been caused, inter alia, as a result of the impact of the outbreak of the Corona virus.

### Note 3 - Investments (Continued)

#### G. Summary of the main companies that are held directly by the Company, and additional details regarding those companies <sup>(1)</sup>

	Holding rate in share capital and in voting rights	Extent of the investment in the investee company	Reserves <sup>(2)</sup>	Total	Country of incorporation
	%	NIS millions			
<b>Consolidated company</b>					
IDB Tourism <sup>(3),(5)</sup>	100	119	27	146	Israel
<b>Investee companies treated at equity</b>					
IDBG <sup>(4),(5)</sup>	25.8	69	(3)	66	United States
Modi'in Energy Limited Partnership <sup>(6)</sup>	20.2	11	(2)	9	Israel
Noya Oil and Gas Explorations	47.5	1	-	1	Israel
Total		200			

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

<sup>(2)</sup> 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 reflected in profit and loss or in retained earnings.

<sup>(3)</sup> IDB Tourism's assets and liabilities are presented under assets classified as held for sale and liabilities, which are classified as held for sale, respectively.

<sup>(4)</sup> The holding in capital is held through a wholly-owned subsidiary company. The investment is presented under assets classified as held for sale and include the balance of the debt of a wholly owned company belonging to IDBG vis-à-vis the Company in an amount of 2.1 million Dollars. The Company's share of IDBG's net asset value as of March 31, 2020 stands at NIS 136 million.

<sup>(5)</sup> The extent of the investment includes the investment in loans and/or capital notes.

<sup>(6)</sup> Modi'in's participation units are traded on the Tel Aviv Stock Exchange. The market value of the Company's holdings in Modi'in was NIS 11 million and NIS 9 million as of March 31, 2020 and June 25, 2020, respectively.

### Note 3 - Investments (Continued)

#### H. Discontinued operations

- Further to what is stated in Note 3.B above, and in accordance with international accounting standards, the resultant effect of the Company's holdings in Clal Holdings Insurance Enterprises (primarily changes in the fair value of the investment, including through swap transactions) are presented under discontinued operations;
  - Further to what is stated in Note 3.C above, the Company is evaluating alternatives in connection with the sale of shares in IDB Tourism, and therefore, is continuing to treat IDB Tourism as a discontinued operation.
  - In light of the Company's activity to sell its holdings in IDBG, as stated in Note 3.D.2 above (see also the transaction for the sale of the Company's holdings as stated in Note 3.D.5 above), the Company's investment in IDBG is presented as held for sale and IDB's operations are presented as discontinued operations, with the comparative figures in respect of IDBG's operations for the first quarter of 2019 and for the year 2019 having been restated in order to present IDBG as discontinued operations separately from continuing operations.
1. The following is a summary of the results of discontinued operations:

	For the three months ended March 31		For the year ended December 31 2019
	2020	2019	
	(Unaudited)		(Audited)
	NIS millions		
Clal Holdings Insurance Enterprises	(242)	(108)	(120)
IDB Tourism	(1)	1	(56)
IDBG	(4)	(18)	(56)
Loss for the period from discontinued operations	<u>(247)</u>	<u>(125)</u>	<u>(232)</u>
Loss for the period from discontinued operations attributed to:			
Shareholders in the Company	(249)	(129)	(236)
Non-controlling interests	<u>2</u>	<u>4</u>	<u>4</u>
	<u>(247)</u>	<u>(125)</u>	<u>(232)</u>
Other comprehensive loss for the period from discontinued operations attributed to:			
Shareholders in the Company	(8)	(11)	(23)
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(8)</u>	<u>(11)</u>	<u>(23)</u>
Comprehensive income (loss) for the period from discontinued operations attributed to:			
Shareholders in the Company	(257)	(140)	(259)
Non-controlling interests	<u>2</u>	<u>4</u>	<u>4</u>
	<u>(255)</u>	<u>(136)</u>	<u>(255)</u>



### Note 3 - Investments (Continued)

#### H. Discontinued operations (Continued)

2. The following are data on the net cash flows that are attributed to discontinued operations:

	For the three months ended March 31 <sup>(4)</sup>		For the year ended December 31 <sup>(4)</sup>
	2020	2019	2019
	(Unaudited)		(Audited)
	NIS millions		
Net cash generated by operating activities	8	7	103
Net cash generated by investment activities <sup>(1)</sup>	-	<sup>(2)</sup> 110	<sup>(2)</sup> 336
Net cash absorbed by financing activities <sup>(3)</sup>	(43)	(13)	(184)
Change in cash and cash equivalents from discontinued operations	(35)	104	255

<sup>(1)</sup> Includes amounts that have been received from sales of shares in Clal Holdings Insurance Enterprises in the amounts of NIS 127 million and NIS 405 million in the first quarter of 2019 and in the year 2019, respectively.

<sup>(2)</sup> Restated as a result of the restatement of IDBG's operations under discontinued operations.

<sup>(3)</sup> Includes payments in respect of swap transactions on shares in Clal Holdings Insurance Enterprises in the amounts of NIS 16 million, NIS 13 million and NIS 118 million in the first quarter of 2020, in the first quarter of 2019 and in the year 2019, respectively.

<sup>(4)</sup> The above figures include cash flows that are attributed to IDB Tourism as detailed below:

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	(Unaudited)		(Audited)
	NIS millions		
Net cash generated by operating activities	8	7	103
Net cash absorbed by investment activities	-	*(33)	*(73)
Net cash generated (absorbed) by financing activities	(27)	-	(39)
Impact of fluctuations in the exchange rate on IDB Tourism's cash balances	1	(1)	(3)
Change in cash balances within the context of assets held for sale	18	*27	*12
Change in cash balances in the consolidated statement of financial position	-	-	-

<sup>(\*)</sup> Includes an amount of NIS 18 million, which was provided to the Company as a loan and eliminated within the framework of the consolidation of the financial statements.

## Note 3 - Investments (Continued)

### I. 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 March 31, 2020, 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 March 31		As of
	2020	2019	December 31
	(Unaudited)		(Audited)
	NIS millions		
<b>IDB Group USA Investments Inc.</b> <sup>(a),(b)</sup>			
Cash and cash equivalents	7	15	12
Total current assets	69	20	72
Total non-current assets	857	996	848
Current financial liabilities (excluding trade payables, other payables and provisions) *	(153)	(237)	(153)
Total current liabilities *	(178)	(261)	(180)
Non-current financial liabilities (excluding trade payables, other payables and provisions)**	(748)	(755)	(740)
Total non-current liabilities **	(748)	(755)	(740)

\* Includes shareholder's loans which were provided by Property & Building (for details, see Note 3.D.2 to the annual financial statements) in the amounts of NIS 237 million and NIS 242 million as of March 31, 2019 and December 31, 2019, respectively.

\*\* Includes primarily shareholder's loans which have been provided to the joint venture, in equal parts, by the Company and by Property & Building.

(a) IDBG's field of activity is holding rights in commercial and office space (which is built in stages), its country of incorporation is the United States, its business operations are in the United States, and the Group's holding rate in its capital and voting rights is 50%. The Group's holding rate in IDBG's equity was 50% as of March 31, 2019 and as of December 31, 2019. As of March 31, 2020, it is 25.8%. The balance of the equity and voting rights are held by Property & Building.

(b) Assets and liabilities have been translated in accordance with the representative exchange rate as of the date of the relevant statement of financial position.

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	(Unaudited)		(Audited)
	NIS millions		
<b>IDB Group USA Investments Inc.</b> <sup>(a)</sup>			
Rental income	11	10	45
Financing income in respect of shareholders' loans <sup>(b)</sup>	17	15	89
Financing expenses in respect of shareholders' loans <sup>(c)</sup>	(2)	(17)	(35)
Other financing expenses	(2)	(10)	(37)
Loss from continued operations	-	(16)	(16)
The joint venture's loss - attributed to the owners	-	(16)	(16)
The Group's share of the joint venture's loss	-	(8)	(8)
The Company's financing income for its share in the shareholders' loans	-	5	5
The Company's financing expenses for its share in the shareholders' loans <sup>(b)</sup>	(4)	(15)	(53)
Foreign currency translation differences for the joint venture	3	(2)	(4)
The Group's share of the joint venture's comprehensive loss	(1)	(20)	(d) (60)

(a) Income and profit or loss have translated in accordance with average exchange rates during the relevant period.

(b) Revenues in IDBG's accounting records (the expenses in the Company's accounting records) derive from the revaluation of the balance of the loans to fair value. See Note 3.D.5 to the annual financial statements for details regarding the designation of the shareholders loans to fair value through profit and loss as from February 1, 2019.

(c) The amounts include amounts of NIS 2 million, NIS 7 million and NIS 25 million in the first quarter of 2020, the first quarter of 2019 and the year 2019, respectively, in respect of loans from Property & Building in respect of the facility agreement that is detailed in Note 3.D.2 to the annual financial statements.

(d) Presented under the Group's share of losses of investee companies treated at equity, net.

**Note 4 – The Company's liabilities**

- A. See Note 8.B to the annual financial statements for details regarding restrictions, financial covenants and grounds for calling for the immediate repayment of the Company's debentures.
- B. In connection with the financial covenants in respect of the debentures (Series N), the following are details of the results of the calculation of the financial covenants as of March 31, 2020:

<b>Ground for the adjustment of the interest rate/ financial covenant</b>	<b>As of March 31, 2020</b>
DIC's long-term issuer rating may not be lower than the base rating (ilBBB). In the event of a decrease of two or more rating levels, there will be a maximum cumulative addition of up to 0.75% to the annual interest rate that the debentures (Series N) will bear.	A rating of ilBBB with a negative rating outlook
The value of DIC's assets less its net financial debt ("The net asset value") is to be less than NIS 1.1 billion. In the event of an exception an addition of 0.25% will be added to the interest rate that the debentures (Series N) will bear.	<b>DIC's net asset value – NIS 157 million *</b>
The ratio between DIC's net financial debt and its asset value is to exceed 85%. In the event of an exception, an addition of 0.5% will be added to the interest rate that the debentures (Series N) will bear.	<b>The ratio between DIC's net financial debt and its asset value – 95%*</b>
A lien on shares in DIC in support of compliance with the commitments to the holders of the debentures (Series N).	<b>Approximately 99.3 million shares in DIC have been charged.</b>

\* Accordingly, as from the time of the publication of the Company's financial statements for the first quarter of 2020, i.e. June 30, 2020 ("The time of the exceeding"), the debentures (Series N) will bear interest at a rate of 5.75% instead of 5% as was the case up to the time of the exceeding. The abovementioned interest will be in effect until the full settlement of the balance of the principal of the debentures (Series N) or until the time of the publication of financial statements by DIC pursuant to which it is in compliance with whichever of the financial covenants that is relevant, as detailed in the above table.

- C. See Note 3.A.3 above for details regarding the payment of interest on the debentures (Series N) out of the monies that were injected into the Company on account of interest on the debenture from Dolphin IL.
- D. The composition of the liens in support of the holders of the debentures (Series O) – in January 2020 the Company transferred 617,172 shares in Clal Holdings Insurance Enterprises from the trustee (Mr. Moshe Teri) to the trustee for the debentures (Series O). Accordingly, as of March 31, 2020, 3,382,243 shares are charged under a first ranking lien in support of the holders of the debentures (Series O), as is the consideration that will derive from 2,376,527 shares in Clal Holdings Insurance Enterprises, which are held by Mr. Teri.
- E. On March 17, 2020, Ma'alot announced that as a result of its assessment that there exists almost absolute certainty that the Company will reach insolvency in the immediate term, it was lowering the Company's rating to a rating of CC with a negative rating outlook. Ma'alot also lowered the rating for the debentures (Series I), which are not collateralized, to a rating of C.

**Events after the date of the statement of financial position.**

- F. On May 19, 2020, after the date of the statement of financial position, the Company's Board of Directors approved a letter of commitment ("The letter of commitment") vis-à-vis all of the series of the Company's existing series of debentures. The following are the main points of the Company's commitments:

**The giving of notification of the execution of transactions in advance:**

1. As of the time of the Board of Directors' approval and up to the end of the period of the commitment, as detailed below ("The interim period"), insofar as the Company may execute the following transactions, it is to issue an immediate report 14 business days prior to their execution (or shorter notice if stated otherwise explicitly in the relevant section):
  - a. The execution of a disposition (as defined below) or the allocation of securities by the Company and also by any of the corporations under its control, directly or indirectly, except for Modi'in Energy Management (1992) Ltd., Modi'in and corporations under their control ("The Group" or "Group corporations").

Disposition – an action that relates to an asset or a right, including any transfer, sale, charging, granting of a right, a commitment to transfer, to sell or to charge any right, the waiver of a right, as well as any commitment to execute one of those acts and/or the granting of an option for each of those acts.

**Note 4 – The Company's liabilities (Continued)**

## F. (Continued)

## 1. (Continued)

## a. (Continued)

The following transactions will not be deemed to be a disposition, if they are executed opposite a third party, who is not a relative of the controlling interest in the Company, an interested party therein or their relatives ("The relevant interested parties") or in which the relevant interested parties have a personal interest.

1. A sale of the Company's holdings, in whole or in part, in Clal Holdings Insurance Enterprises Ltd., which is executed at any price whatsoever – (a) a sale pursuant to the outline for the sale that was determined by the Commissioner of the Capital Market, and/or (b) a sale of shares in Clal Holdings Insurance Enterprises Ltd., which are charged in support of the debentures (Series O), in accordance with the restrictions that are set in the trust deed for the debentures (Series O), and/or (c) within the framework of the closing of the swap transactions that the Company has executed on shares in Clal Holdings Insurance Enterprises ("The swap transactions"). If there is anything in the execution of such transactions that releases collateral or deposits or monies that have been made available by the controlling interest as collateral for the swap transactions, the Company is to inform the trustees for the series of debentures ("The trustees"), shortly after the time of the making of the decision in the Company's authorized bodies as soon as possible after the decision is made.
2. A disposition that is made by IDBG and/or Israil Airlines and Tourism Ltd. and/or companies that are held by them, and solely that such disposition is not a transaction with any of the relevant interested parties and is not a transaction in which any of the relevant interested parties has a personal interest.

Despite the aforesaid, a sale of IDBG's indirect holdings in the Tivoli project will be the subject of such a duty of notification.

In addition, it should be clarified that such duty to give notification will apply in relation to the allocation of shares or securities that are convertible into shares in IDBG and/or Israil and/or their investee companies.

- b. The execution of a transaction by any of the corporations in the Group (including the taking up of a liability), or a transaction or a commitment, with any of the relevant interested parties, or one in which any of the relevant interested parties has a personal interest. The aforesaid includes any amendment to charge in agreements between the Company and the relevant interested parties, and also a waiver on any right that is available to it vis-à-vis the relevant interested parties.

What is stated above in this section will not apply in relation to the transactions that are detailed below, in respect of which the Company is to report in an immediate report as the same time as their execution: (a) the extension if a rental agreement for the Group's offices (and ancillary services thereto) under identical terms to those that exist today as reported by the Company, or a change in the terms of a rental agreement in a manner that reduced the cost that the Company is to bear; (b) the renewal of existing transactions from time to time under identical terms to the terms of the existing transactions, except for insignificant changes, or a change in existing transactions in a manner that reduces the cost that the Company will bear and which does not impose any additional liability on the Group; (c) the receipt of financial services from Epsilon Underwriting and Issues Ltd. in the regular course of the Company's business, and solely that such services are provided at market terms.

- c. The execution of any payments or considerations or benefits whatsoever, of any sort or type, in money or in money's worth, in cash or in payments, to any of the relevant interested parties (where for the purposes of this section, the relevant interested parties will not include DIC or companies under its control or which are held by it), which includes that the Company undertakes not to execute any distribution (within the definition of that term in the Companies Law.

## **Note 4 – The Company's liabilities (Continued)**

### F. (Continued)

#### 1. (Continued)

##### c. (Continued)

What is stated above in this section will not apply in relation to payments and benefits in accordance with existing commitments or transactions, the nature and extent of which were detailed in Note 16 to the annual financial statements ("Existing transactions"), and solely that they are executed in accordance with the terms of the existing transactions as detailed in the same report without any change therein.

And also in relation to the renewal of existing transactions, as defined above, from time to time, under similar conditions to the existing transactions except for a change in the agreement governing the premium that is paid for the purchase of an officers' liability insurance policy and except for insignificant changes.

#### d. The execution of the following transactions by the Company and any corporation under its control, except of IDBG and Isair:

1. The making available or the taking up of a loan or credit. It is clarified that what is stated in this section shall not apply to the extension of an existing loan that has been received from IDB Tourism as stated in Note 3.C.3 above, and this under identical or very similar terms to the terms of the existing loan (except of the period of the loan or credit or immaterial changes).
2. The execution of any payments whatsoever to any of the financial creditors (including the holders of the debentures and the banks) other than pursuant to their existing repayment schedules at the time of the signing of the letter of commitment, and they will not give agreement to any change whatsoever in the terms of the Company's existing agreements with any of their financial creditors (including debenture holders and banks).
3. The acquisition of any asset or any right or the execution of an investment in existing fields of activity and/or in new fields of activity, including other than by way of the provision of a loan or credit. What is stated in this section will not apply to the following transactions: (a) a cumulative investment in existing assets in a cumulative amount for each interim period of up to NIS 2 million (whether for monetary consideration and whether in money's worth, whether for cash consideration and whether in consideration for payments; (b) the provision of a loan or credit in a cumulative amount for each interim period of up to NIS 2 million; (c) the purchase of the Company's debentures, as will be detailed below.
4. The taking up of a monetary or other commitment, except for the giving of a commitment to indemnify officers in the Group and except for the taking up of a commitment in respect of administrative and general expenses, which are taken up in the regular course of business and where there is no duty to avoid it or the giving of notification in accordance with any other provision of this letter of commitment.

#### e. An initiative by the Company, by itself or in through any corporation under its control (directly or indirectly), other than Modi'in Energy Management (1992) Ltd., Modi'in and corporations under its control, to institute any proceedings whatsoever vis-à-vis the Company pursuant to Section 350 of the Companies Law and/or the Insolvency and Economic Rehabilitation Law – 2018. Nor is the Company to give its explicit or implicit agreement to any such process.

It should be mentioned that the commitments to give notification in advance, which are detailed above, will not apply to the supplementation of collateral, which the Company may execute in connection with the swap transactions and/or in connection with any swap transaction, extending the swap transactions and/or on the full or partial closure of the swap transactions, however the Company undertakes that: (a) if the Company has received a demand in writing or orally for the such a supplementation of collateral, then it will notify the trustees of this by means of an e-mail as soon as possible after the receipt of such notification; (b) one or more extensions of any of the swap transactions for a period or periods that exceed a cumulative period of 14 business days requires the giving of notification to the holders of the debentures, 14 business days in advance.



**Note 4 – The Company's liabilities (Continued)**

F. (Continued)

2. The self-purchase of debentures by the Company

Further to what is stated in Note 8.E.4 to the annual financial statements, regarding the Company's commitment vis-à-vis the holders of the debentures ("The previous commitment"), which existed at that time, on May 27, 2020, the Company's Board of Directors approved the extension of the previous commitment until August 31, 2020, instead of May 30, 2020. Pursuant to the letter of commitment, the provisions of the previous commitment will apply in the interim period, for what is stated regarding the execution of self-purchases of the Company's debentures, and the Company will issue an immediate report 10 days prior to the execution of a self-purchase of its debentures.

The main substance of the previous commitment relates to that insofar as an actual purchase of debentures is executed by the Company from any of the Company's series ("The series being settled"), and insofar as the debt vis-à-vis that series, in whole or in part, is an unsecured debt ("The purchase transaction"), then the Company is to act within 60 days of the execution of the purchase transaction ("The balancing period"), in order to purchase bonds of each of the other series of debentures, which are unsecured debts, in an extent (pari-passu) from the relevant series ("The extent of the balancing debentures") that will be equal to the liability value (pari-passu), which is purchases of the series being settled divided by the unsecured debt of the series being settled prior to the purchase transaction, multiplied by the unsecured debt of the relevant series ("The balancing transaction"), which is to be calculated at the time of the execution of the purchase transaction.

3. The Company is to discuss with representatives of the holders of the debentures (Series I and N) whether balancing payments are to be made, in any amount whatsoever, for the second series if payment has been made of principal for the other series by the end of June 2020. As of the time of the publication of the financial statements, the Company has not yet formulated such a position.

The termination of the commitment pursuant to this letter of commitment:

- a. The Company's commitments, as detailed above, will be cancelled vis-à-vis series of the Company's debentures (in whole or in part, as may be decided by the Company pursuant to its exclusive judgment) at the end of 14 business days from the delivery of the Company's notification to the trustee for the relevant series (or to all of the trustees, as the case may be), in writing, regarding the end of the letter of this commitment vis-à-vis that trustee.
- b. In addition, and without detracting from the provisions of Section 3.A above, the Company's commitment as detailed in this document, will be cancelled vis-à-vis series of the Company's debentures (in whole or in part), as the Company may decide in accordance with its exclusive judgment) which will be the case if and insofar as one or more of the series of the Company's debentures may institute one or more of the actions that are detailed below, where the cancellation will be effective immediately upon the delivery of the Company's notification to the trustee of the relevant series (or to all of the trustees, as the case may be) of the cancellation of the Company's commitment pursuant to this document as a result of an action that has been instituted as aforesaid:
  1. The passing of a resolution in a meeting of the holders of the Company's debentures (in whole or in part) regarding the institution of legal proceedings against the Company of any sort whatsoever, including making the debt to the holders of the Company's debentures (in whole or in part) repayable immediately, the exercise of collateral or any other issue with a similar substance for the said creditors.
  2. The institution of legal proceedings of any sort whatsoever by the trustee or the representatives of the holders of the debentures (in whole or in part) against the Company, including making including making the debentures (in whole or in part) repayable immediately or the exercise of collateral

In order to remove any doubt, it is clarified hereby that the cancellation of the Company's commitment pursuant to what is stated above in this section 3 shall not constitute and nor shall it in and of itself be deemed to be any breach whatsoever by the Company of this letter of commitment and/or of the terms of the Company's trust deeds. However, a breach of any of the commitments that are detailed in this letter of commitment will be deemed to be a breach of the commitment under the trust deeds for the Company's debentures.

A breach of any of the commitments that are detailed in the letter of commitment, as aforesaid, will be considered to be a breach of a commitment in the trust deeds for the Company's debentures.

**Note 4 – The Company's liabilities (Continued)**

- G. On June 1, 2020, the Company informed the trustee for the Company's debentures (Series I) (hereinafter in this section: "The debentures" and "The trustee"), that pursuant to the provisions of Section 13(A) (1) of the trust deed for the debentures, the debentures holders are entitled to make the debentures repayable immediately if and insofar as the Company does not settle any amount whatsoever that may be due from it in connection with the debentures within 14 business days after the time at which it is due for payment. Pursuant to the Company's notification of the deferral of the timing of the payment of the interest, which was set for June 18, 2020 to June 30, 2020. The said deferral was approved by the Company's Board of Directors, however on June 7, 2020, a general meeting of the debenture holders decided not to approve the deferral. Therefore, the ex-date for the payment of the interest was set for June 8, 2020.

The trustee for the debentures has informed the Company that the debenture holders are retaining all of their rights against the Company, the Board of Directors and the controlling interests therein for themselves and that the said approval of the meeting of the debenture holders does not constitute any waiver of any right or demands vis-à-vis any of them.

- H. Further to what is stated in Note 3.A.3 above regarding an approach by the Company to the controlling interest in the Company and the formulation of an outline, pursuant to which, inter alia, the Company will act together with the controlling interest to formulate an outline for action in connection with the Company's financial position and for the purpose of the continuation of the servicing of its commitments, on June 2, 2020, the Company received a draft proposal from Dolphin IL for the Company and for the trustees for the Company's debentures (Series I, N and O) for the strengthening of the Company's capital structure, by way of an arrangement ("The arrangement") between Dolphin, the Company and the debenture holders, based on an economic contribution to the Company on Dolphin IL's part, together with a full or partial (as the case may be) redemption of the generality of the Company's debentures. On June 21, 2020, the Company received an update proposal in relation to the abovementioned proposal and on June 28, 2020, Dolphin IL approached each of the trustees for the debentures with a request to put the said proposal, with slight amendments, on the agenda of meetings of the debenture holders. Dolphin's proposal, after the said amendments, will hereinafter be called "The draft proposal", and its main points will be detailed below.

In the draft proposal, Dolphin IL clarified that its substance was intended to improve the Company's capital structure alone and that Dolphin IL intends to cooperate with the relevant parties in order to progress a real arrangement, which will be agreeable to the holders of the debentures of the series that will agree to progress the arrangement that is proposed, the main points of which will be detailed below. Upon the completion of the arrangement pursuant to the draft offer:

- (1) The debentures (Series O) – the amount of the principal that is repayable in the course of the year 2020 ("The 2020 principal") will be settled from the resourced that will be created for the Company as the result of the sale of shares in Clal Holdings Insurance Enterprises, which are held by the trustee (approximately 3.5%), the consideration from which is charged in support of the holders of the debentures (Series O) and also from any surplus that may exist on the swap transactions. Surplus – the amount of the surplus of the deposits that are owned by the Company, which are charged in support of the swap transactions, which may remain after the payments that have been paid and that may be paid in respect of the swap transactions) ("The sources for the payment of the 2020 principal"). See Note 3.B.7.c above for details regarding the swap transactions that have been closed and the actual surplus in an amount of NIS 19 million. See Note 3.B.3 above for details regarding the balance of the swap transaction that remains and the surplus at a time shortly before the publication of the financial statements.

For this purpose, the Company will act until the time of the completion of the arrangement and at its discretion in order to realize shares in Clal Holdings Insurance Enterprises that are held by the trustee and also to realize the remaining swap transaction. Dolphin IL clarified in the draft proposal that if the resources for the payment of the 2020 principal will be higher than the 2020 principal (NIS 118 million) then it will use the balance of the resourced for the payment of the 2020 principal, which are in excess of the 2020 principal, for the early repayment of an additional part of the debentures (Series O) (in order to remove any doubt – without an early repayment fine or commission of any sort whatsoever), which will be done up to the level of such a balance.

The repayment schedule for the balance of the debentures (Series O), and in the event that the amounts that are received from the resources for the payment of the 2020 principal will be less than the amounts that are required for the payment of the 2020 principal, then the part of the 2020 principal that it will not be possible to pay from the resources for the payment of the 2020 principal ("The balance of the debt") will be updated as follows:



**Note 4 – The Company's liabilities (Continued)**

H. (Continued)

(1) (Continued)

10% of the amount of the balance of the debt will be settled on December 31, 2023, 10% % of the amount of the balance of the debt will be settled on December 31, 2024 and 80% % of the amount of the balance of the debt will be settled on December 31, 2025. The debentures (Series O) will bear interest at a fixed rate of 3.5% in respect of the period starting at the time of the completion of the arrangement and until December 31, 2020 and interest at a fixed rate of 5% in respect of the period from January 1, 2023 and until the time of their final repayment. Dolphin IL will be a guarantor for the payments of the denoted interest on the debentures, which in accordance with the updated repayment schedule are payable in 2021 – 2022.

Against all of the abovementioned considerations, the holders of the debentures (Series O) will give a final and absolute waiver of all of their claims vis-à-vis the Company, Dolphin IL or any of their shareholders or their officers, the grounds for which are events that occurred up to the time of the arrangement.

- (2) The debentures (Series N) – at the time of the completion of the arrangement, the Company will pay an amount NIS 300 million as a partial early repayment to the holders of the debentures (Series N). The partial early repayment will be without an early repayment fine or commission of any sort whatsoever. Close to the time of the completion of the arrangement, the trust deed for the debentures (Series N) will be amended in relation to the repayment schedule and in relation to the interest rate that they will bear, such that the repayment schedule of the debentures (Series N) and the interest rate that they will bear will be as detailed in Section B above in relation to the updated repayment schedule for the debentures (Series O) and the updated interest rate that they will bear.

Against all of the abovementioned considerations, the holders of the debentures (Series N) will make a final and absolute waiver of all of their claims against the Company, Dolphin IL or any of their shareholders or their officers, the grounds for which are events that have occurred up to the time of the arrangement.

- (3) The debentures (Series I) – the following assets will be used for the purpose of the payment and the final settlement of the debentures (Series I) ("The Series I assets"): (a) all of the Company's holdings in Modi'in, which will be distributed to the holders of the debentures (Series I) by way of a distribution in kind; (b) all of the Company's holdings in IDB Tourism, which holds 100% of Israil; (c) shares in DIC, which are held by Dolphin IL, which are not charged under a first ranking lien in support of the holders of the debentures (Series N), which constitute approximately 12% of DIC's share capital, in a state in which they are clean and free of a lien; (d) in addition, the Company's debentures (Series I), which are held by Dolphin IL, will be released from a lien at the time of the completion of the arrangement (insofar as they are charged), and will be transferred by Dolphin IL to the Company as an additional contribution by a shareholder, and will be delisted from trading and will be cancelled by the Company;

In addition to the aforesaid, against a waiver of the right to receive payments of interest up to the time of the completion of the arrangement and the final repayment of the debentures (Series I), the holders of the debentures (Series I) will be entitled to received 50% of the shares that are held by the Company in IDBG, or regrettably, insofar as the Company may sell the shares in IDBG that it holds by the time of the completion of the arrangement, the holders of the debentures will be entitled to receive 50% of the consideration that may be received actually by the Company for the sale of IDBG;

Shortly after the time of the approval of the arrangement, the Company will make a distribution in kind of the Series I assets that are listed for traded on the Stock Exchange ("The marketable assets") and solely that insofar as it will not possible to execute the distribution of the marketable securities in kind, the Company will realize the marketable assets and will transfer the (net) consideration to the holders of the debentures (Series I). The marketable assets, which will be distributed in kind and/or the net consideration from their realization will be transferred to the holders of the debentures (Series I).

The Company will take action to realize the Debenture I assets that are not marketable assets, or in accordance with the exercise of its judgment, to list them for trading for the purpose of their distribution in kind to the holders of the debentures (Series I).

**Note 4 – The Company's liabilities (Continued)**

H. (Continued)

(3) (Continued)

In the event that there may remain Series I assets that have not been realized and which are not marketable ("The remaining assets"), the remaining assets will be transferred to a trustee who will be appointed on behalf of the holders of the debentures (Series I) for the purpose of their sale.

The Series I assets and they alone will serve for the purpose of the full and final settlement of the Company's liabilities towards the holders of the debentures (Series I). The balance of the Company's debt opposite the holders of the debentures (Series I) (insofar as any may remain) will be cancelled. Upon the completion of the arrangement, the debentures (Series I) will be delisted from trading, and upon the completion of the realization or the distribution in kind of the Series I assets or the transfer of the remaining assets into the trustee's name, the existing trust deeds in respect of the existing debentures and all of the Company's commitments thereunder and/or in connection therewith will be cancelled immediately and automatically.

The Series I assets will also be used for the purpose of the settlement of the Company's liability vis-à-vis other unsecured creditors (other than under the force of the holdings of the Company's debentures) and who are not creditors in respect of the Company's routine operating activities (such as suppliers and providers of services ("The operational creditors"), insofar as there may be any at the determining time for the completion of the proposal, pro-rata to the level of the Company's liability vis-à-vis the holders of the debentures (Series I).

Pursuant to what is stated in the proposal and in accordance with its terms, Dolphin IL's contribution to the execution of the arrangement will include:

- (1) Dolphin IL will act, whether by way of the injection of capital into the Company and/or by making collateral available in support of the recruitment of debt by the Company and/or in any other way in accordance with the exercise of its judgment and as may be agreed with the holders of the Company's debentures and this will be detailed within the framework of the final arrangement documents, in a manner that will ensure that the Company will be able to settle an amount of NIS 300 million out of the Company's denoted debt to the holders of the debentures (Series N) as a [partial] early repayment ("Dolphin IL's contribution") as detailed above;
- (2) Dolphin IL will inject an additional amount of NIS 10 million into the Company for the purpose of the settlement of the Company's existing debts to DIC in respect of services that DIC provides to the Company, as detailed in Note 16.B.2 to the annual financial statements.
- (3) Dolphin IL will guarantee the payments of the denoted interest for the holders of the debentures of the new series, which will be issued to the holders of the debentures (Series N and Series O) and whose payment time in accordance with the repayment schedules is in the years 2021 – 2022;
- (4) The making available of a banking guarantee – Dolphin IL will make a banking guarantee in an amount of NIS 70 million available in support of the trustees for the Company's debentures (the share of each series of debentures in the banking guarantee will be calculated in accordance with the market value of each series of the debentures at the time of the notification of the forfeiture of the guarantee, proportionately in accordance with the market value of each of the series of debentures on the day on which the banking guarantee is issued, within 7 days from the day on which an indicative approval (as defined above in this note) is given by each of the series of debentures for the purpose of collateralizing Dolphin IL's contribution ("The banking guarantee"). So long as the banking guarantees that Dolphin IL has made available as collateral for the swap transactions, as detailed in Note 3.B.4 above, are extant, those guarantees will be considered to be part of the banking guarantee as aforesaid. The banking guarantee will be forfeitable after a decision is made to forfeit the guarantee by the holders of all of the Company's series of debentures, and solely and exclusively in respect of a breach of Dolphin IL's commitments pursuant to this proposal and the arrangement documents and it will constitute the sole collateral for the performance of the proposal by Dolphin IL and beyond the banking guarantee, the holders of the debentures and/or anyone acting on their behalf shall not have any complaint or claim in relation to the non-compliance with Dolphin IL's commitments up to the time of the completion of the arrangement. The banking guarantee will expire immediately and without Dolphin IL being required to do any act in connection with this when the proposal expires, as detailed in section (7) below of this note;

**Note 4 – The Company's liabilities (Continued)**

## H. (Continued)

Pursuant to what is stated in the proposal and in accordance with its terms, Dolphin IL's contribution to the execution of the arrangement will include:

## (4) (Continued)

Dolphin IL will be entitled to use the bank guarantee monies for the purpose of the payments of interest for the series of debentures and whose payment time pursuant to the repayment schedule will occur in the course of the period beginning on June 21, 2020 and ending upon the completion of the arrangement ("The interim period"). The use of the bank guarantee monies for the said purpose, will not bind Dolphin IL to supplement or to add an additional amount to the banking guarantee;

## (5) Dolphin IL's contribution replaces and cancels fully and finally the balance of Dolphin Netherland's commitments of August 31, 2019 to execute an injection of equity into the Company "Dolphin's commitment". See Note 5.B below for details;

## (6) So long as the proposal has not expired, for any reason whatsoever, but it has not yet been completed, Dolphin's commitment will remain in effect, pursuant to its terms, but the banking guarantees that have been made available as aforesaid will be viewed as the fulfillment of Dolphin Netherlands' commitment pursuant to Dolphin's commitment, for the making available of an amount of NIS 70 million on September 2, 2020, and there will be nothing in the aforesaid that detracts from any of Dolphin IL's other commitments;

## (7) In order to remove any doubt, apart from the banking guarantee, as aforesaid, the proposal is non-recourse and none of the series of debentures will be entitled to raise any complaint and/or demand and/or claim against the Company and/or the proposer and/or the controlling interests and/or anyone acting on behalf of any of these in connection with the proposal, except as detailed in the proposal.

Pursuant to the draft proposal, the following provisions will apply within the course of the interim period, as defined in section 4 above:

## (1) The Company will settle the interest payments for the series of debentures whose settlement time will occur in the interim period, properly and on time, and except for the interest payments for the debentures (Series I);

## (2) The Company will be entitled to complete the transaction for the sale of its holdings in IDBG to Property &amp; Building (see Note 3.D.f above for details regarding the non-compliance with the crucial condition for such a transaction) to take action to realize the shares in Clal Holdings Insurance Enterprises, which are held by the trustee, to realize the swap transactions and also to execute any other transactions that is required for the purpose of performing the arrangement.

## (3) If the Company does not settle the payments of the principal for the series of debentures whose settlement time occurs in the interim period, the series of debentures will not have any complaint or claim vis-à-vis the Company, Dolphin IL and/or the controlling interest in Dolphin IL and/or anyone acting on their behalf, including a complaint that the non-payment constitutes a breach of the terms of the trust deed and/or any assumption or evidence whatsoever of the Company's insolvency and/or any claim or demand for the payment of arrears interest in respect of the non-payment of the principal, as aforesaid.

## (4) Dolphin IL will be given exclusivity in relation to the proposal. The holders and/or the representatives and/or the trustees for the series of debentures will conduct negotiations with Dolphin IL in respect of the proposal and they will not initiate and will not negotiate with any other party in the interim period regarding the proposal, including in connection with an alternative debt arrangement opposite the Company or in connection with the realization and/or sale of the charged shares in DIC. In the event that despite the aforesaid, in the course of the interim period the holders of the Company's debentures and/or the holders of any series whatsoever receive a proposal from a third party other than Dolphin IL and/or any agreement whatsoever instead of the arrangement that is the subject of this proposal or part thereof ("An alternative arrangement"), then they are to reject any such arrangement in advance, and it is not to be presented for voting in a meeting of the holders of the debentures.

## (5) No petition will be submitted for calling for immediate repayment or a petition for the exercise of collateral or a petition for the opening of insolvency proceedings against the Company or a petition for the institution of legal proceedings of any sort whatsoever (including a petition pursuant to the Insolvency and Economic Rehabilitation Law) against the Company and/or officers therein and/or the controlling interest and/or anyone acting on their behalf;

**Note 4 – The Company's liabilities (Continued)****H. (Continued)**

Pursuant to the draft proposal, the following provisions will apply within the course of the interim period, as defined in section 4 above (Continued)

- (6) The Company's commitments vis-à-vis the holders of the debentures, dated August 15, 2019, August 31, 2019, November 16, 2019, May 18, 2020 and May 31, 2020, will remain in effect during the interim period. (See Note 4.1 above and Note 8.E.4 to the annual financial for details). In order to remove any doubt, there is nothing in these commitments that prevents the Company from taking action to complete the sale of its holdings in IDBG or to list IDBG's shares or Israil's shares for trading and/or executing any action that is required for the performance and the completion of the arrangement;
- (7) The Company's series of debentures will continue to be traded in the interim period, at least until the approval of the arrangement;
- (8) The Company will continue to conduct its operations and its business routinely, which includes that it will settle its debts to the operational creditors on time.
- (9) Taking note of the value of the Company's assets and its holdings, and as necessary, the Company is entitled to inject monies into its subsidiary companies (this is without detracting from the Company's commitments as detailed in section (6) above). The amounts that may be injected into the subsidiary companies will be taken into account, and if necessary will be offset from the amounts that will be paid to the series of debentures, as aforesaid, such that a balance will be maintained between the series of the debentures pursuant to this proposal.

Pursuant to what is detailed in the draft proposal, by July 6 2020, the trustees for the holders or each of the series of debentures are to present the proposal for a vote by the debenture holders, for the making of an indicative decision for the approval of the proposal in its entirety and without any qualifications and to conduct negotiations with Dolphin IL and with the Company for the purpose of the formulation of an agreed, detailed and final proposal ("The indicative approval"). By August 5, 2020 ("The time of the second approval") meetings of each of the series of debentures are to give an additional indicative approval to an agreed, detail and final proposal, which is based on this outline proposal and which will ensure the implementation of the principles that are detailed in this outline proposal after its final approval ("The second approval").

Within 5 days from the time of the second approval, Dolphin IL, together with the Company, and with the agreement of the trustees of all of the series of the debentures, will submit an agreed petition to the Court for the approval of the proposal pursuant to the provisions of Part J of the Insolvency and Economic Rehabilitation Law ("The timing of the submission of the petition"). In parallel to the submission of the petition, the trustee will submit a petition for the appointment of an expert to examine the debt arrangement. Within 30 days of the submission of the petition, a peremptory and final approval, which cannot be appealed, for the execution of the proposal is to be received from the Court ("The final approval").

The approval of the proposal will be considered to be on the day on which the absolute and final approval, which cannot be appealed, for the execution of the proposal is given by the Court ("The approval of the proposal"). Upon the approval of the proposal, the Company and the trustees for the debentures will take action in order to complete the execution of the proposal and the execution of all of the actions that are required, as will be detailed in the final arrangement and as stated in this outline. It is clarified that this proposal constitutes a single arrangement and the execution of each of its parts is conditional upon the execution of all of the other parts of the proposal.

At the time of the completion, an exemption for the Company, for Dolphin IL and for the controlling interests therein, for everyone acting on their behalf and for the directors and management of the Company, Dolphin IL and the controlling interests therein, from claims in relation to any indebtedness, liability, complaint, demand or claim that preceded the time of the completion of the execution of the proposal will enter force.

The proposal and every commitment under the force of it will expire immediately, on the occurrence of each of the following cases and this will be in accordance with the exercise of Dolphin IL's exclusive judgment:

- (a) If by June 29, 2020, an indicative approval by each of the meetings of the series of debentures is not received;
- (b) If the second approval by each of the meetings of the holders of the debentures is not received by the time of the second approval;



**Note 4 – The Company's liabilities (Continued)**

**H. (Continued)**

- (c) If within 5 days from the final approval Dolphin IL together with the Company and with the agreement of the trustees of all of the series of debentures, have not submitted an agreed petition to the Court for the approval of the proposal pursuant to the provisions of Part J of the Insolvency and Economic Rehabilitation Law;
- (d) If the final approval is not received within 30 days from the time of the submission of the petition.
- (e) If a decision has been made by the holders of any series of debentures whatsoever, or if a petition has been submitted in the interim period for making the Company's debts repayable immediately or a petition for the opening of insolvency proceedings or a petition for the institution of legal proceedings of any sort whatsoever in relation to the Company (including a petition pursuant to Part J of the Insolvency and Economic Rehabilitation Law (against the Company and/or the controlling interest and/or anyone acting on their behalf);
- (f) If any of the meetings of the series of the series of debentures or any of the representatives of one of the series of debentures or one of the trustees of any of the series of debentures or anyone acting on their behalf opens negotiations during the course of the interim period, with any third party whatsoever on any matter that relates to this proposal, including in connection with an alternative arrangement, or in connection with the realization and/or sale of any of the Company's assets whatsoever, including the shares in DIC that are charged;
- (g) If an insolvency order is awarded against the Company, as stated in Section C of the Insolvency and Economic Rehabilitation Law, 5778 – 2018;
- (h) If a receiver, trustee, special administrator or any officer of that type has been appointed for the Company (whether temporary or permanent) or if a similar order has been awarded for the Company's insolvency by the Court.

Upon the expiry of the proposal, the guarantee for the purpose of collateralizing Dolphin IL's contribution will expire immediately, and all this without the holders of the debentures having any complaint, demand or claim against Dolphin IL or the Company in relation to the proposal or the expiry thereof and/or in relation to the guarantee for the purpose of collateralizing Dolphin IL's contribution.

As mentioned in the proposal, the outline proposal is intended to present the main conditions for the execution of the proposal and it does not bind Dolphin IL and/or the Company, except for the commitment for a guarantee, which will enter force pursuant to what is stated above. It is clarified that the proposal is conditional upon the signing of a binding agreement between the parties and the receipt of all of the approvals that are required pursuant to the law for the purpose of its execution, including the approval of the authorized bodies in the Company.

On June 28, 2020, the trustee for the debenture holders (Series I) announced the calling of a meeting of the debenture holders (Series I) on July 2, 2020, on the agenda of which would be a decision instructing the trustee to accept Dolphin IL's proposal of June 21, 2020.

- I. On June 21, 2020, the trustee for the debenture holders (Series N) announced the calling of a meeting of the debenture holders (Series N) on July 5, 2020, on the agenda of which would be calling for the immediate repayment of the Company's unsettled debt vis-à-vis the holders of the debenture holders (Series N).
- J. Further to what is stated in Note 16.B.(1) and (2) to the annual financial statements, regarding an agreement for the division of the uses and office expenses and an agreement for the distribution of costs (services agreement), the balance of the Company's current debt to DIC in respect of services that it has provided to the Company stood at NIS 7 million and NIS 10 million as at March 30, 2020 and at a time shortly before the time of the publication of the financial statements, respectively.
- K. Further to what is stated in Note 16.B.2.b to the annual financial statements, regarding a cost allocation agreement (service agreement), on June 25 and 29, 2020, the Company's Audit Committee and Board of Directors, respectively, approved an update to the Company's commitment with DIC under regarding a cost allocation agreement (service agreement), for a period of 3 years, effective as from July 1, 2020 and until June 30, 2023 ("The updated services agreement")

**Note 4 – The Company's liabilities (Continued)****K. (Continued)**

Within the framework of the updated services agreement, inter alia, it was determined that instead of a cost allocation ratio for the common services (as defined in the said note), which is determined in the agreement, pursuant to which DIC bears 60% of the cost of the remuneration for the service providers (as defined in that note), and the Company bears 40% of that cost, and the mechanism that was set therein for an annual testing of the allocation ratio, DIC will make the common services available to IDB Development to an extent not exceeding 20% of a full time position (weighted annual and in relation to all of the service providers) and in relation to Mr. Kaufman, who serves as the Company's Chief Executive Officer ("The Company's CEO"), since April 21, 2020 and as VP and Internal Legal Counsel in DIC, the extent of his position will be divided equally between the parties (50% - 50%) ("The new services allocation ratio").

In consideration for the performance of the common works and the new services allocation ratio pursuant to the updated services agreement, the Company will pay DIC a fixed annual payment of NIS 3.3 million in respect of the first year (i.e. from July 1, 2020 to June 30, 2021) and an amount of NIS 2.5 million as from the end of the first year, as aforesaid (with the addition of VAT).

In addition, within the framework of the updated services agreement, it has been clarified that the Company will have exclusive discretion regarding Mr. Kaufman's role in IDB Development Corporation and in the determination of his remuneration in his role as IDB Development Corporation's CEO, and solely that there be nothing in the said roles that impairs his ability to continue to serve in his position in DIC at the extent of at least 50% of a full time position, and for the sake of caution, such remuneration may not exceed DIC's remuneration policy.

It is further clarified that in the event that the Company may decide to reduce the cost of the remuneration in respect of his role as the Company's CEO (in relation to 50% of the cost of his employment, as it may be at that time ("The determining cost"), no change whatsoever will apply to the extent of the consideration and insofar as the Company may decide to update the cost of his remuneration upwards, the Company will bear the full difference compared to the determining cost. Furthermore, further to the mechanism that is set in the agreement for the division of the uses and office expenses, as described in Note 16.B.(2) to the annual financial statements, the ratio of the allocation of the costs between the Company and DIC has been updated such that for the costs that are arranged within the framework of the said agreement, the Company will bear an annual cost of NIS 700 thousand (with the addition of VAT) for the first year (from July 1, 2020) and NIS 500 thousand (with the addition of VAT) as from the second year and thereafter.

The commitment pursuant to the updated services agreement and the updating of the allocation of uses and office expenses agreement have been approved by the Company's Board of Directors (following the approval of the Company's Audit Committee and General Meeting).

The commitment pursuant to the updated services agreement is subject to the approval of DIC's general meeting (with a majority from among the public).

- L. On June 29, 2020, the Company announced that pursuant to a decision by its Board of Directors on June 28, 2020, the payments of the interest on the debentures (Series O), the payment of which had been deferred from June 18, 2020 to June 30, 2020, as stated in Note 4.G above and also the payments of the interest on the debentures (Series N and O), which pursuant to the abovementioned trust deeds were supposed to be paid on June 30, 2020, will be deferred and will be paid on July 7, 2020.

**Note 5 - Subordinated convertible loans from the controlling interest**

- A. The following are the amounts of the subordinated loans that have been provided by the controlling interest

<b>Year</b>	<b>Amount in NIS Millions</b>	<b>Additional Details</b>
2015	210	Note 7.C.1 to the annual financial statements
2016	348	Note 7.C.1 to the annual financial statements
2019	70	Note 7.C.2 to the annual financial statements

**Note 5 - Subordinated convertible loans from the controlling interest (Continued)**

- B. See Note 7.C.2 to the annual financial statements for details regarding Dolphin Netherlands' commitment to execute an injection of equity into the Company in an overall amount of NIS 210 million in three equal annual tranches of NIS 70 million each, on September 2 in each of the years 2019 to 2021. The first injection was executed on September 3, 2019.

Dolphin Netherlands has made autonomous guarantees in an amount of NIS 57 million available to the banks, opposite which the swap transactions on shares in Clal Holdings Insurance Enterprises were executed. Every par that has been exercised (i.e. actually used for the settlement of a swap transaction) out of the guarantees up to September 2, 2020, will be considered to be part of the coming injection on September 2, 2020. See Note 3.B.4 above for details.

See also Note 4.H above regarding Dolphin IL's proposal to the Company and to the trustees for its debentures, which in the cases that are detailed therein will lead to the cancellation of Dolphin IL's commitment. Shortly before the time of the publication of the financial statements, the balance of the autonomous guarantees stands at NIS 12 million.

- C. The indication of the Company's equity value as of March 31, 2020, which is based on the market value of the Company's assets and liabilities, is negative. Accordingly, as of March 31, 2020, the total value of the subordinated loans, which are described in Note 7.C to the annual financial statements, has been assessed by an independent external appraiser at an amount of NIS 0 million.

Then following are the changes in the fair value:

	Financing income (expense)*	Other comprehensive income (loss) **	
Period	NIS millions		Explanation
Three months ended March 31, 2020	1	24	The financing income derived from the decrease in the value of the subordinated loans, which resulted from market changes, by comparison with the calculation that was made as of December 31, 2019, with parameters that reflect the same credit risk for the Company. 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.
Three months ended March 31, 2019	96	253	The financing expense derived from a decrease in the value of the subordinated loans, which was resulted from market changes, primarily as a result in the value of the holdings in Clal Holdings Insurance Enterprises, and from a decrease in the value of the debenture from Dolphin IL. The other comprehensive loss derived primarily from an increase in the value of the subordinated loans, which was attributed to an increase in the Company's credit risk, as reflected in the decrease in the fair value of the Company's liabilities to its debenture holders.
The year 2019	101	409	The financing income was derived from the decrease in the value of the subordinated loans, which resulted from market changes, by comparison with the calculation that was made as of December 31, 2018, with parameters that reflect the Company's credit risk ("The calculation"). In relation to the injection in September 2019 (see Note 6.C.2 to the annual financial statements, the calculation was prepared with parameters that reflect the Company's credit risk at the time of the injection. The decrease derives primarily from a decrease in the value of the holdings in Clal Holdings Insurance Enterprises and in the value of the debenture from Dolphin IL. The balance of the decrease in the value of the subordinated loans, in excess of the decrease pursuant to the calculation, is attributed to changes in the Company's credit risk and it is presented under other comprehensive income.

\* 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.

See Note 6.B. below for additional details.

Pursuant to Regulation 49(a) of the Reports Regulations, an economic paper regarding the fair value of the subordinated loans as of March 31, 2020, is attached to these financial statements.



## 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, other receivables, deposits, other investments, derivatives, 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 March 31, 2020 (Unaudited)		As of March 31, 2019 (Unaudited)		As of December 31, 2019 (Audited)	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	NIS millions					
<b>Financial assets</b>						
Debenture from Dolphin IL <sup>(1)</sup>	414	414	928	928	975	975
Loan to IDBG	129	129	174	174	129	129
Investment in Colu <sup>(2)</sup>	10	10	27	27	19	19
	<u>553</u>	<u>553</u>	<u>1,129</u>	<u>1,129</u>	<u>1,123</u>	<u>1,123</u>
<b>Financial liabilities</b>						
Debentures <sup>(3),(4)</sup>	(2,003)	(787)	(2,803)	(2,058)	(1,995)	(1,419)
Subordinated loans <sup>(5)</sup>	-	-	(180)	(180)	(25)	(25)
Value of swap transaction on shares in Clal Holdings Insurance Enterprises	(68)	(68)	(41)	(41)	(32)	(32)
	<u>(2,071)</u>	<u>(855)</u>	<u>(3,024)</u>	<u>(2,279)</u>	<u>(2,052)</u>	<u>(1,476)</u>

<sup>(1)</sup> 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 (as of March 31, 2020 – the value of shares in DIC), 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. See Note 3.A. to the annual financial statements for additional details regarding the debenture and the terms thereof.

<sup>(2)</sup> See Note 3.F above and Note 3.F to the annual financial statements for details.

<sup>(3)</sup> Carrying value including current maturities and accrued interest.

<sup>(4)</sup> 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.

<sup>(5)</sup> 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 equity.

<sup>(6)</sup> Relates to a swap transaction on shares in Clal Holdings Insurance Enterprises, which were sold by Bank Hapoalim in November 2018. See Note 3.B.2 to the annual financial statements and Note 3.B.2 above for details.

## 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 March 31, 2020 (Unaudited)	As of March 31, 2019 (Unaudited)	As of December 31, 2019 (Audited)
	NIS millions		
Financial liabilities	(68)	(41)	(32)

#### Financial instruments measured at fair value level 3

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

	For the three months ended March 31, 2020 (Unaudited)			
	Financial assets			Financial liabilities
	Debt instrument from Dolphin IL and other <sup>(b)</sup>	Loan to IDBG <sup>(c)</sup>	Total Assets	Subordinated loans <sup>(d)</sup>
	NIS millions			
Balance as of January 1, 2020	994	129	1,123	(25)
Total income (loss) recognized:				
In profit and loss <sup>(a)</sup>	(570)	(4)	(574)	1
In other comprehensive income	-	<sup>(e)</sup> 4	4	<sup>(f)</sup> 24
Balance as of March 31, 2020	424	129	553	-
<sup>(a)</sup> Total income (loss) for the period recorded in profit and loss in respect of assets and liabilities held as of March 31, 2020:				
Financing (income) expenses	(570)	-	(570)	1
Discontinued operations	-	(4)	(4)	-

<sup>(b)</sup> See Note 3.A above for additional details regarding the debt instruments. In addition to the loss that is stated in the above table, the Company has recognized interest income received in an amount of NIS 12 million.

<sup>(c)</sup> See Note 3.D.1 above and Notes 2.M.1 and 3.D.5 to the annual financial statements for details regarding the loan to IDBG.

<sup>(d)</sup> See also Note 5 above and Note 6.C to the annual financial statements.

<sup>(e)</sup> The Group's share in other comprehensive income (loss) in respect of investee companies that are treated at equity. The comprehensive loss is attributed to capital reserves on translation differences.

<sup>(f)</sup> Under 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)

### Financial instruments measured at fair value level 3 (Continued)

	For the three months ended March 31, 2019			
	(Unaudited)			
	Financial assets			Financial liabilities
	Debenture from Dolphin IL and other <sup>(b)</sup>	Loan to IDBG <sup>(c)</sup>	Total Assets	Subordinated loans <sup>(d)</sup>
	NIS millions			
Balance as of January 1, 2019	1,230	-	1,230	(529)
Initial measurement at fair value following the initial implementation of the revision to IAS 28	-	190	190	-
Total income (loss) recognized:				
In profit and loss <sup>(a)</sup>	(275)	(10)	(285)	96
In other comprehensive income	-	<sup>(e)</sup> (6)	(6)	<sup>(f)</sup> 253
Balance as of March 31, 2019	955	174	1,129	(180)
<sup>(a)</sup> Total loss for the period recorded in profit and loss in respect of assets and liabilities held as of March 31, 2019:				
Financing income (expenses)	(275)	-	(275)	96
Discontinued operations	-	(10)	(10)	-

<sup>(b)</sup> See Note 3.A above for additional details regarding the debentures. In addition to the loss that is stated in the above table, the Company recognized interest income received in an amount of NIS 27 million.

<sup>(c)</sup> See Notes 2.M.1 and 3.D.5 to the annual financial statements for details regarding the loan to IDBG,

<sup>(d)</sup> See also Note 5 above and Note 6.C to the annual financial statements.

<sup>(e)</sup> The Group's share in other comprehensive income (loss) in respect of investee companies that are treated at equity. The comprehensive loss is attributed to capital reserves on translation differences.

<sup>(f)</sup> Under net changes in the fair value of the subordinated loans, which is attributed to changes in credit risk.

	For the year ended December 31, 2019			
	(Unaudited)			
	Financial assets			Financial liabilities
	Debenture from Dolphin IL and other <sup>(b)</sup>	Loan to IDBG <sup>(c)</sup>	Total Assets	Subordinated loans <sup>(d)</sup>
	NIS millions			
Balance as of January 1, 2019	1,230	-	1,230	(529)
Initial measurement at fair value following the initial implementation of the revision to IAS 28 <sup>(c)</sup>	-	190	190	-
Fair value of subordinated loan received <sup>(d)</sup>	-	-	-	(6)
Total income (loss) recognized:				
In profit and loss <sup>(a)</sup>	<sup>(b)</sup> (236)	(48)	(284)	101
In other comprehensive income	-	<sup>(e)</sup> (13)	(13)	<sup>(f)</sup> 409
Balance as of December 31, 2019	994	129	1,123	(25)
<sup>(a)</sup> Total loss for the period recorded in profit and loss in respect of assets and liabilities held as of December 31, 2019:				
Financing income (expenses)	(236)	-	(236)	101
Discontinued operations	-	(48)	(48)	-

<sup>(b)</sup> See Note 3.A to the annual financial statements for additional details regarding the debentures. In addition to the loss that is stated in the above table, the Company recognized interest income received in an amount of NIS 36 million.

<sup>(c)</sup> See Notes 2.M.1 and 3.D.5 to the annual financial statements for details regarding the loan to IDBG and regarding the revision to IAS 28,

<sup>(d)</sup> See also Note 6.C to the annual financial statements.

<sup>(e)</sup> The Group's share in other comprehensive income (loss) in respect of investee companies that are treated at equity. The comprehensive loss is attributed to capital reserves on translation differences.

<sup>(f)</sup> Under 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)

#### 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 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 March 31, 2020			
	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 fluctuations in shares in DIC	(2)	2	(2)	2
Absolute change of 5% in the discount factor in respect of a fire sale disposal of Dolphin IL's holdings	(15)	16	(15)	16

	As of March 31, 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 fluctuations in shares in DIC	(4)	1	(4)	1
Absolute change of 5% in the discount factor in respect of a fire sale disposal of Dolphin IL's holdings	(46)	46	(46)	46

	As of December 31, 2019			
	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 fluctuations in shares in DIC*	(4)	2	(4)	2
Absolute change of 5% in the discount factor in respect of a fire sale disposal of Dolphin IL's holdings	(54)	54	(54)	54

\* For the purpose of the valuation, a synthetic normative asset (sum of pars) was used at these times, 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 interest, 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 March 31, 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	(18)	18	(18)	18
Absolute change of 5% in the fire sale factor in respect of assets	60	(60)	60	(60)
Absolute change of 2.5% in the discount rate in respect of block	11	(11)	11	(11)

	As of December 31, 2019			
	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	(3)	3	(3)	3
Absolute change of 5% in the fire sale factor in respect of assets	25	(41)	25	(41)
Absolute change of 2.5% in the discount rate in respect of block	5	(5)	5	(5)

\* The above data are based on the assumption that the changes derived from market changes, and not from changes in the Company's credit risk. Pursuant to the provisions of IFRS 9, if the changes were to derive from changes in the Company's credit risk, such changes would be reflected under other comprehensive income.

The fair value of the convertible subordinated loans, based on indications of the equity value of the Company's shares, is negative in a significant amount and therefore changes as detailed in the above tables would not alter the value of the subordinated loans as of March 31, 2020 by an amount of NIS 0 million.

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

## Note 7 - Financing Income and Expenses

### A. Financing income

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	(Unaudited)		(Audited)
	NIS millions		
<b>Financial assets and financial liabilities at fair value</b>			
Decrease in the fair value of subordinated loans <sup>(1)</sup>	1	96	101
<b>Financial assets and financial liabilities at fair value</b>			
Interest income from deposits in banks	-	-	1
<b>Other</b>			
Interest income of the debenture from Dolphin IL	12	32	36
Gain on the early redemption of debentures	-	-	144
	<u>13</u>	<u>128</u>	<u>282</u>

### B. Financing expenses

	For the three months ended March 31		For the year ended December 31
	2020	2019	2019
	(Unaudited)		(Audited)
	NIS millions		
<b>Financial liabilities measured at amortized cost</b>			
Interest expenses and linkage differentials on financial liabilities measured at amortized cost	22	37	156
Amortization of cost of obtaining collateral for the Company's liabilities from Dolphin IL	8	8	50
<b>Financial assets and financial liabilities at fair value</b>			
Decrease in the fair value of the debenture from Dolphin IL <sup>(2)</sup>	561	275	228
Decrease in the fair value of the investment in Colu	9	-	8
Negative change, net, in fair value of financial assets measured at fair value through profit and loss	1	-	-
<b>Other</b>			
Decrease in the value of a Token (CLN)	-	-	2
Loss, net from changes in exchange rates of foreign currency	-	-	1
	<u>601</u>	<u>320</u>	<u>445</u>

<sup>(1)</sup> See Note 5 above.

<sup>(2)</sup> See Note 3.A above.



## Note 8 - Operating Segments

The Company views those companies, which constitute a significant economic component for the Company, including for the purpose of the allocation of resources as segments ("The segment companies"). The basis for allocation to segments and the basis for the measurement of the segmental separation segmental profit and loss is identical to that which is presented in Note 17 to the annual financial statements regarding operating segments. The following are details in respect of the operating segments and a reconciliation between the segmental data and the consolidated report in accordance with IFRS 8:

### A. Segmental results

		Discontinued operations					
	Debtore from Dolphin IL	IDBG	IDB Tourism	Clal Holdings Insurance Enterprises NIS millions	Others <sup>(1)</sup>	Consolidation adjustments	Consolidated
<b>For the period of three months ended March 31, 2020 (Unaudited)</b>							
Sales and services	-	11	178	-	3	(192)	-
Segmental results - attributed to shareholders in the Company	(549)	(4)	(3)	(242)	(2)	(44)	(844)
<b>For the period of three months ended March 31, 2019 (Unaudited)</b>							
Sales and services	-	10	172	-	4	(186)	-
Segmental results - attributed to shareholders in the Company	(243)	(18)	(3)	(108)	-	<sup>(2)</sup> 44	(328)
<b>For the year ended December 31, 2019 (Audited)</b>							
Sales and services	-	45	1,128	-	15	(1,188)	-
Segmental results - attributed to shareholders in the Company	(192)	(56)	(60)	(120)	1	3	(424)

(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.

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

	For the three months ended March 31		For the year ended
	2020	2019	December 31
	(Unaudited)		(Audited)
	NIS millions		
Elimination of amounts in respect of segments classified as associated companies	(3)	(14)	(60)
Segments classified as discontinued operations	(189)	(172)	(1,128)
	(192)	(186)	(1,188)

## Note 8 - Operating Segments (Continued)

### B. Segmental assets

	Debtenture from Dolphin IL (3)	Assets held for sale				Consolidation adjustments	Consolidated
		IDBG (1)	IDB Tourism (1)	Clal Holdings Insurance Enterprises (1)	Others(2)		
				NIS millions			
As of March 31, 2020 (Unaudited)	414	926	730	252	61	(580)	1,803
As of March 31, 2019 (Unaudited)	928	1,016	857	1,358	59	(160)	4,058
As of December 31, 2019 (Audited)	975	920	783	443	58	(590)	2,589

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

(2) Including oil and gas assets.

(3) In addition to the value of the debtenture, as detailed above, the Chief Operating Decision Maker regularly receives information regarding the principal balance of the debtenture and the accrued interest, and also regarding the value of the balance of DIC shares which are charged against the debtenture. 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 abovementioned data:

	As of March 31		As of December 31
	2020	2019	2019
	(Unaudited)		(Audited)
			NIS millions
Principal balance and accrued interest	2,016	1,903	1,994
Market value of the balance of shares in DIC, which are charged against the debtenture	440	974	689
Additional assets, which are charged against the debtentures **	18	48	47
Asset value of investments held directly by DIC *	3,161	3,844	4,112
DIC's net financial debt **	(3,004)	(2,637)	(2,876)
Percentage of the shares in DIC, which are charged in support of the debtenture	82.3%	82.3%	82.3%

\* See Note 3.A.5.a to the annual financial statements in relation to the value of the debtentures (Series (I), which were received by Dolphin IL within the framework of a dividend in kind, which was distributed by DIC.

\*\* Relates to 100% of DIC.

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

	As of March 31		As of December 31
	2020	2019	2019
	(Unaudited)		(Audited)
			NIS millions
Elimination of amounts in respect of segments, which are classified as investee companies treated at equity in the financial statements	(61)	(1,075)	(978)
Elimination of amounts in respect of a segment that is classified as held for sale in the financial statements - IDBG *	(926)	-	-
Inclusion of the amount of the investments in investee companies that are treated at equity as recorded in the financial statements	12	57	24
Inclusion of the amount of an investment that is held for sale and treated at equity -IDBG	69	-	-
Inclusion of the Company's and headquarter companies' assets *	326	858	364
	(580)	(160)	(590)

\* Assets of the Company and wholly-owned companies (except for IDB Tourism).

## Note 8 - Operating Segments (Continued)

### C. Segmental liabilities

	IDBG <sup>(3)</sup>	IDB Tourism <sup>(1)</sup>	Clal Holdings Insurance Enterprises <sup>(1)</sup>	Other segments <sup>(2)</sup>	Consolidation adjustments	Consolidated
	NIS millions					
As of March 31, 2020 (Unaudited)	426	622	241	2	1,607	2,898
As of March 31, 2019 (Unaudited)	668	671	822	4	2,334	4,499
As of December 31, 2019 (Audited)	663	663	205	2	1,385	2,918

<sup>(1)</sup> Discontinued segment. See Note 3.H. above.

<sup>(2)</sup> Includes gas and oil liabilities.

<sup>(3)</sup> Including amounts of NIS 237 million and NIS 242 million as of March 31, 2019 and as of December 31, 2019, respectively, in respect of a commitment to Property & Building. See Note 3.D.1 to the financial statements and Note 3.D.2 to the annual financial statements for details.

Composition of adjustments to segmental liabilities in the consolidated report:

	As of March 31		As of
	2020	2019	December 31
	(Unaudited)		(Audited)
	NIS millions		
Elimination of amounts in respect of segments, which are classified as investee companies treated at equity in the financial statements	(2)	(672)	(665)
Elimination of amounts in respect of a segment that is classified as an investment held for sale, which is treated at equity in the financial statements –	(426)	-	-
Inclusion of the liabilities of the Company and the headquarter companies *	2,035	3,006	2,050
	1,607	2,334	1,385

\* Liabilities of the Company and wholly-owned companies (except for IDB Tourism).

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

- A. On May 19, 2020, the Company's Board of Directors approved a letter of commitment to the generality of the existing holders of the Company's existing debentures and on May 27, 2020, the Company's Board of Directors approved the extension of the letter of commitment from August 31, 2019, which is detailed in Note 8.B.4 to the annual financial statements until August 31, 2020 instead of until May 30, 2020. See Note 4.F above for details
- B. See Note 3.B.7 above for details of developments regarding the Company's investment in Clal Holdings Insurance Enterprises Holdings
- C. On May 9, 2020, pursuant the terms of the debenture, Dolphin IL notified the Company of the deferral of the interest payment date, which was due on May 22, 2020.
- D. See Note 3.D.5 above for details regarding an agreement for the sale of the Company's holdings in IDBG to Property & Building for consideration of 27.8 million Dollars and the non-compliance with the crucial condition for its execution.
- E. On April 12, 2020, Mr. Eran Saar announced his resignation from his position as the Company's Chief Executive, effective from the time of the announcement.
- F. On April 21, 2020, Mr. Aaron Kaufman was appointed to serve as the Company's Chief Executive Officer.
- G. In May 2020, Modi'in raised an amount of approximately NIS 4 million within the framework of the issuance of shares and options ("The initial public offering"). The Company did not participate in the initial public offering and accordingly the Company's holding rate in Modi'in decreased to 19.05%.  
After the execution of the initial public offering, Modi'in issued options (Series 16 and 17) to the holders of its participation units and the holding of its existing options (Series 16 and 17), by way of rights. Within the framework of the rights issue, the Company received approximately 175 thousand options of each of the series without consideration.  
Each of the options are exercisable into one participation unit in Modi'in. A series 16 option is exercisable until December 20, 2020, for consideration of NIS 5 per option. A series 17 option is exercisable until May 1, 2020, for consideration of NIS 10 per option.

**Note 9 - Events Subsequent to the Date of the Statement of Financial Position (Continued)**

## G. (Continued)

The additional payment on the exercise of the two series of options is linked to the rate of the Dollar, in accordance with a base rate of NIS 3.527 to the Dollar.

The Company and Do-Tsach Ltd. (a company that is controlled by Mr. Tsach Soltan), are the joint controlling interests in the general partner in Modi'in, and pursuant to agreements with Do-Tsach, up to July 31, 2020, the Company will have the right available to it to acquire up to half of the participation units and options that Do-Tsach acquired in the initial offering (including half of the options that were received within the framework of the rights issue in respect of the participation units and options that Do-Tsach acquired in the initial offering). The said right relates to the execution of a purchase of approximately 100 thousand participation units, approximately 107 thousand options (Series 16) and approximately 107 thousand options (Series 17) at a cost of approximately NIS 570 thousand, which constitutes the cost of the acquisition of Do-Tsach within the framework of the issue.

- H. See Note 3.C.4 above for details regarding approval from the Ministry of Finance pursuant to which the State is will provide a guarantee for banking loans for Israil.
- I. See Note 4.H above for details regarding a draft proposal that the Company and the trustees for the debentures have received from Dolphin IL for strengthening the Company's capital structure, by way of an arrangement between Dolphin IL, the Company and the holders of its debentures.
- J. See Note 4.J above for details regarding updates to the cost allocation agreement (services agreement) between the Company and DIC, which is described in Note 16.B.2.(b) to the annual financial statements.
- K. See Note 4.I above for details regarding the calling of a meeting of the debenture holders (Series N), on the agenda of which there is calling for the immediate repayment of the Company's debt vis-à-vis the debenture holders.
- L. See Notes 4.G and 4.L above for details regarding the Company's Board of Directors' decision to defer the payments of interests for the debenture holders from June 18 and 30, 2020 to July 7, 2020.



IDB Development Corporation Ltd.

**Financial statements  
of a material associated company**

**IDB GROUP USA INVESTMENTS INC.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2020**

**UNAUDITED**

**IN U.S DOLLARS**

**I N D E X**

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## **Auditor's review report to the shareholders of IDB GROUP USA INVESTMENT, INC.**

### **Introduction**

We have reviewed the accompanying financial information of IDB Group USA Investment, Inc. (hereinafter - the "Company"), which comprises the condensed consolidated statement of financial position as of March 31, 2020 and the condensed consolidated statements of comprehensive loss, changes in equity and cash flows for the three-month period then ended. The Company's board of directors and management are responsible for the preparation and presentation of this interim financial information for this interim period in accordance with IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of review**

We conducted our review in accordance with (Israel) Review Standard No. 2410, issued by the Israeli Institute of Certified Public Accountants regards "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing principles generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements do not present fairly, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

Haifa, Israel  
June 25, 2020

Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
A member firm of PricewaterhouseCoopers International Limited

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****U.S. dollars in thousands**

	<b>March 31</b>		<b>December 31</b>
	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>Unaudited</b>		<b>Audited</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	<b>1,847</b>	4,140	3,567
Restricted cash	<b>1,200</b>	-	-
Receivables and prepayments	<b>1,324</b>	1,474	1,638
Land held for sale	<b>15,000</b>	-	15,600
Total current assets	<b>19,371</b>	5,614	20,805
<b>NON-CURRENT ASSETS:</b>			
Restricted cash	<b>8,082</b>	10,315	9,274
Investment property	<b>218,200</b>	248,000	221,599
Land inventory	<b>12,000</b>	14,000	12,500
Other assets	<b>2,120</b>	1,854	2,133
Total non-current assets	<b>240,402</b>	274,169	245,506
Total assets	<b>259,773</b>	279,783	266,311
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Loan from a financial institution	<b>42,908</b>	-	44,235
Loans from shareholder	-	65,192	-
Related parties	<b>4,200</b>	-	4,200
Accounts payable and accrued liabilities	<b>2,763</b>	6,612	3,680
Total current liabilities	<b>49,871</b>	71,804	52,115
<b>NON-CURRENT LIABILITIES:</b>			
Loans from shareholders	<b>140,299</b>	95,781	144,649
Loans from related parties	-	800	-
Loans from bank and financial institution	<b>69,603</b>	111,398	69,547
Total non-current liabilities	<b>209,902</b>	207,979	214,196
Total liabilities	<b>259,773</b>	279,783	266,311
<b>Equity attributable to equity owners of the Company</b>			
Paid-in capital	<b>88,000</b>	88,000	88,000
Capital reserve from transaction with controlling shareholders	<b>1,837,311</b>	1,837,311	1,837,311
Capital reserve from transaction with non-controlling interest	<b>(190)</b>	(190)	(190)
Accumulated deficit	<b>(1,925,121)</b>	(1,925,121)	(1,925,121)
Total equity	-	-	-
Total liabilities and equity	<b>259,773</b>	279,783	266,311

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

June 25, 2020

Date of approval of the  
financial statementsELI ELEFANT  
DirectorAARON KAUFMAN  
Director

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

U.S. dollars in thousands

	<b>Three months ended March 31</b>		<b>Year ended December 31</b>
	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>Unaudited</b>		<b>Audited</b>
<b>REVENUES</b>			
Rental revenue	<b>3,092</b>	2,801	12,568
<b>EXPENSES</b>			
Rental property expenses	<b>1,301</b>	1,488	6,016
General and administrative expenses	<b>958</b>	512	1,894
Valuation loss on investment property and land inventory	<b>4,613</b>	1,782	14,260
Financing income	<b>(8)</b>	(28)	(86)
Financing expenses on shareholders loans	<b>569</b>	5,060	9,914
Revaluation of shareholders loans measured in fair value	<b>(4,919)</b>	(4,392)	(25,683)
Financing expenses to others	<b>578</b>	2,702	10,576
Total expenses	<b>3,092</b>	7,124	16,891
Loss and total comprehensive loss for the period attributable to equity owners of the Company	<b>-</b>	<b>(4,323)</b>	<b>(4,323)</b>

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

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****U.S. dollars in thousands**

	Attributable to equity owners of the Company				Total
	Paid-in capital	Capital reserve from transactions with controlling shareholders	Capital reserve from transactions with non-controlling interest	Accumulated deficit	
Balance as of January 1, 2020 (audited)	88,000	1,837,311	(190)	(1,925,121)	-
Total comprehensive loss for the period (unaudited)	-	-	-	-	-
Balance as of March 31, 2020 (unaudited)	88,000	1,837,311	(190)	(1,925,121)	-

	Attributable to equity owners of the Company				Total
	Paid-in capital	Capital reserve from transactions with controlling shareholders	Capital reserve from transactions with non-controlling interest	Accumulated deficit	
Balance as of January 1, 2019 (audited)	88,000	1,764,086	(190)	(1,920,798)	(68,902)
Capital reserve from transactions with controlling shareholders (unaudited)	-	73,225	-	-	73,225
Total comprehensive loss for the period (unaudited)	-	-	-	(4,323)	(4,323)
Balance as of March 31, 2019 (unaudited)	88,000	1,837,311	(190)	(1,925,121)	-

	Attributable to equity owners of the Company				Total
	Paid-in Capital	Capital reserve from transactions with controlling shareholders	Capital reserve from transactions with non-controlling interest	Accumulated deficit	
			Audited		
Balance as of January 1, 2019 (audited)	88,000	1,764,086	(190)	(1,920,798)	(68,902)
Capital reserve from transactions with controlling shareholders (audited)	-	73,225	-	-	73,225
Total comprehensive loss for the year (audited)	-	-	-	(4,323)	(4,323)
Balance as of December 31, 2019 (audited)	88,000	1,837,311	(190)	(1,925,121)	-

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	<b>Three months ended March 31</b>		<b>Year ended December 31</b>
	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>Unaudited</b>		<b>Audited</b>
<b><u>Cash flows from operating activities:</u></b>			
Loss	-	(4,323)	(4,323)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	25	22	91
Provision for doubtful accounts and bad debt expense	676	34	568
Valuation losses	4,613	1,782	14,260
Financing expense (income), net	(3,780)	3,342	(5,279)
Changes in operating assets and liabilities:			
Change in deferred rent receivable	208	175	2
Tenant receivables	(432)	115	(597)
Accounts payable and accrued liabilities	(860)	(1,016)	(4,454)
Other assets	70	(230)	(183)
<b>Net cash provided by (used in) operating activities</b>	<b>520</b>	<b>(99)</b>	<b>85</b>
<b><u>Cash flows from investing activities</u></b>			
Investment in real estate and other assets	(342)	(308)	(542)
<b><u>Cash flows from financing activities</u></b>			
Payment of interest	(1,890)	(1,791)	(7,068)
Decrease (increase) in restricted cash	(8)	886	2,127
Loans from related parties	-	800	4,313
<b>Net cash used in financing activities</b>	<b>(1,898)</b>	<b>(105)</b>	<b>(628)</b>
<b>Net change in cash and cash equivalents</b>	<b>(1,720)</b>	<b>(512)</b>	<b>(1,085)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>3,567</b>	<b>4,652</b>	<b>4,652</b>
<b>Cash and cash equivalents, end of period</b>	<b>1,847</b>	<b>4,140</b>	<b>3,567</b>
<b><u>Supplemental noncash disclosures</u></b>			
Capital reserve from transactions with shareholders	-	73,225	73,225

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

IDB Group USA Investments Inc. ("the Company" or "IDBG") is a company domiciled in the United States. The Company was incorporated in 2005 and is held by Property & Building Corporation Ltd. ("PBC") and IDB Development Corporation Ltd. ("IDBD"), for the purpose of investing in real estate projects in the USA. As to the change in the Company's shareholding, also see note 6(b) on credit facility granted by PBC.

These financial statements have been prepared in a condensed format as of March 31, 2020 and for the three months period then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2019 and for the year then ended and the accompanying notes ("annual financial statements").

**COVID-19**

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus, or COVID-19, a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 pandemic continues to adversely impact economic activity in retail real estate. The impact of the pandemic has been rapidly evolving and, as cases of the virus have continued to be identified, governments and other authorities, have imposed measures intended to control its spread, including restrictions on freedom of movement, group gatherings and business operations such as travel bans, border closings, business closures, quarantines, stay-at-home, shelter-in-place orders, density limitations and social distancing measures.

On March 24, 2020, the center was closed subject to the orders of the Governor of the State of Nevada.

During the period in which the center was closed, several restaurants operated on a limited basis allowing delivery and takeout. Vital services such as banks and clinics were permitted to operate. Center Operations were reduced to a minimum allowing for essential businesses to operate. Operational efficiencies were realized (valet parking services, cleaning, landscaping, etc.). This reduction led to a saving of 36% in the current operating expenses of the center during the applicable period.

In accordance with the instructions of the authorities, from May 9, 2020, and following adjustments and arrangements the mall reopened on May 15, 2020, subject to constraints set by the authorities.

The occupancy rate in the project prior to the outbreak of COVID-19 was 73%. During the closure period several tenants experienced difficulties and some announced the closure and subsequent liquidations of their businesses in the project. Also, a number of tenants announced that they would not be extending their lease agreements in the project and exercised their termination rights. Management estimates that the occupancy rate at the project will decline by 9% (net of new contracts recently signed). Lease payments for March 2020 were collected without any material difference compared with previous months. In April and May 2020, 75% of lease payments have so far been collected for the office tenants and 25% of lease payments for the retail and restaurant tenants. To date management has not established a policy for rent relief and all discussions are being handled on a case-by-case basis. To date 7 tenants (of 63) have been granted concessions of 60 to 90 days in return for an extension of the lease period by a similar period.



**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL (cont'd)**

Management continues to negotiate leases for additional space in the project. The assets lender, Bank of Nevada, continues to cooperate with management during this period and has approved the Company to finance the payments of interest due in May-July 2020 from its existing restricted TI and LC reserve and not from cash flow. Similarly, the company is in discussion with the bank with respect to updating or waiving the debt ratio covenant test at the end of 2020.

At this time, the Company can't reasonably estimate the adverse impact of the COVID-19 pandemic will have on its operating results in 2020; That said, at this stage the company estimates that despite the expected decline in NOI, the project's current cash flow, together with streamlining steps taken, will allow the project to remain cash flow positive this year.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. The interim consolidated financial statements for the three months ended March 31, 2020 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The significant accounting policies and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements.
- b. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the principal assumptions used in the estimation of uncertainty were the same as those that applied to the annual financial statements

**NOTE 3:- INVESTMENT PROPERTY**

The Company, through its subsidiary Great Wash Park LLC ("GW"), owns the Tivoli project comprising of rights for approximately 868,000 square feet of commercial real estate and 8.9 acres of adjacent land parcel for 300 residential units (the "Project").

Approximately 670,000 square feet were developed and are comprised of approximately 337,000 square feet of office space, and approximately 333,000 square feet of retail and restaurant (the "center"). Occupancy rate as of the end of March 31, 2020 is 73%. The rest of the Project remains under planning for development with no construction date specified at this date.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 3:- INVESTMENT PROPERTY (cont'd)**

The Company obtained an independent third party appraisal of its investment property as of March 31, 2020. The valuation was performed mainly by discounting the future cash flows anticipated to be derived from the project. The discount rate used by the independent appraisers was 8%, and was selected based on the type of property and its intended use, its location and the quality of the lessees. The capitalization rate used was 6.5%. The valuation concluded that the fair value of the property as of March 31, 2020 to be \$233 million. (September 30, 2019 - \$237 million), including \$15.0 million in respect of a parcel of land adjacent to the Project which was classified as held for sale.

Due to the change in fair value, the Company incurred a loss of approximately \$4 million for the three months ended March 31, 2020 (March 31, 2019 – \$2 million).

Investment property is under level 3 fair value hierarchy.

Movement:

	<b>U.S. dollars in thousands</b>
Balance as of January 1, 2020	237,199
Investments	114
Fair value adjustments (unrealized loss)	<u>(4,113)</u>
Balance as of March 31, 2020	<u><u>233,200</u></u>

**NOTE 4:- LAND INVENTORY**

The Company owns a vacant land in Las Vegas. The land is fully entitled for a total of 166 residential condominium units, which can be constructed in a 22-story high rise tower and one story office building.

The Company incurred a loss from reduction in net realizable value of \$0.5 million for the three months ended March 31, 2020. The loss is included in "the valuation loss on investment property and land inventory" item.

**NOTE 5:- LOANS FROM BANK AND FINANCIAL INSTITUTION****a. Loan from bank**

GW has a loan from a local bank in the USA ("Lender"), whose balance as of the reporting date is USD 70 million. The loan agreement was signed in December 2018 for a period of three years ending On January 1, 2022, at fixed rate per annum of 5.75%, in parallel with a contract with the Company in addition to the loan agreement detailed below. The project is fully pledged in favour of the Lender with a first lien. Upon the closing, lender funded proceeds in the amount of \$10 million into a block accounted maintained by the Company to be used for TI needs. The TI balance as of March 31, 2020 is in the amount of \$8.1 million.

In May 2020 the Lender approved the company to fund the interest payment for the months May, June and July from the TI reserve account.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**NOTE 5:- LOANS FROM BANK AND FINANCIAL INSTITUTION(cont'd)****a. Loan from bank (cont'd)**

In connection with the loan, the Company has undertaken to comply with a covenant of LTV (as defined) of no more than 40%, based on an appraisal acceptable to the Lender in Lender's sole and absolute discretion. The calculated LTV as of March 31, 2020, based on the Company's appraisal, is 30%. In addition, starting December 31, 2020, the company shall maintain a minimum DSCR of 1.3 to 1.00 as defined in the loan agreement.

The loan agreement includes a limited guarantee that was provided by the Company, as indicated in the loan agreement.

**b. Loan from Israeli financial institution**

IDBG obtained a loan from an Israeli financing institution ("the Lender") ("Loan Agreement"), as detailed below.

**The Loan Agreement**

1. The loan fund, which will be repaid in a single bullet payment at the end of 24 months (January 2021), stands at NIS 153 million, with fixed interest rate of 5.93% ("Loan Interest") or at a fixed interest rate of 7.93% as long as a default event occurs as set out later in this section, which will be paid every three months; the loan will be used to finance the Tivoli Project and to finance any action and/or related purpose to the construction and leasing of the Project.
2. Collateral provided to the Lender is as follows: a single first degree lien on all the rights of the Company in GW; a first mortgage on the Company's 8 acres land in Las Vegas, USA, intended to be used for residential purposes; a single, floating first lien on all the assets, monies, property and rights of any sort that the Company currently has and that it will have in the future; a lien on the rights of the Company to the Company bank account; joint and several guarantees to be posted by PBC and IDBD on the full secured amounts ("the Collateral"), accompanied by commitments by PBC and IDBD not transfer their holdings in the Company to third parties in a manner not in accordance with the provisions of the Loan Agreement. In case of default, the Lender is entitled to realize any of the Collateral in the order it determines.
3. The Loan Agreement includes standard representations sections, causes for immediate repayment, provisions for early repayment and indemnification sections in favor of the Lender, as is usual in transactions of this type.
4. The Company's commitment to the Lender takes precedence over its undertakings of repayment of shareholder loans, made available to it by PBC and IDBD.

**The Guarantors**

1. Each of the guarantors, jointly and severally, will provide the Lender a continuous guarantee to assure payment of all amounts to which the Lender is and/or will be entitled from the Company in respect of the Loan Agreement, and which shall remain valid until payment of all the loan amounts or until confirmation by the Lender of the letter of guarantee.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**NOTE 5:- LOANS FROM BANK AND OTHERS (cont'd)**b. Loan from Israeli financial institution (cont'd)

2. The Lender will be entitled to make a demand for payment of the Collateral in each of the following cases: (1) if the Company does not make full and exact payment of any of the payments under the Loan Agreement on due date; and/or (2) in the event that the loan must be repaid immediately in accordance with the causes and terms prescribed within the Loan Agreement (see below).

Indemnification agreement

1. PBC and IDBD have entered into an automatic indemnification agreement that provides that in the event that Collateral will be realized unequally (namely, the Lender will collect from one of the parties an amount greater than its proportional share in the Company), the party that paid more than its proportional share in realization of the Collateral will be entitled to recourse to the other party and preference in receiving the balance from IDBG receipts, so that it will be compensated for any aforementioned overpayment, such that the Collateral liability of each of IDBD and PBC according to the guarantees shall be limited to the share of each in the Company ("the Indemnification Agreement").
2. In the event that one of the parties will in practice pay a greater proportion to the Lender than its share in the said Collateral ("the Surplus Amount"), the party that paid the amount that is lower than its share will indemnify the first party in the Surplus Amount, within seven (7) days from the date of first demand by the first party, and for any damages or expense that will be caused through payment of the Surplus Amount. From the date of creation of the Surplus Amount until its full payment, the Surplus Amount will bear annual interest at the interest rate of the Loan plus 3%.
3. In addition, in the event of a distribution or repayment of shareholders' loans (or any other debt) that the Company will make to its shareholders, the party that bore the Surplus Amount will have preferential benefit, such that the payments to the party that did not pay its share will be less than the payments to the party that did pay its share, up to the amount of the share of the party that had not paid it.

In connection with the loan, the Company has undertaken to comply with a covenant of LTV (as defined) of no more than 50%. The calculated LTV as of March 31, 2020 is 48%.

On June 27, 2019, Maalot downgraded the debentures (series I) of IDBD, which is a guarantor, jointly and severally together with PBC, from a BB rating to a CC rating. In accordance with the loan agreement, the said downgrading enabled the lender to call for immediate repayment of the loan and also led to an increase in the interest rate to 7.93%. According to the position of the Company's legal counsel, as at the report date, IDBG has good defense arguments against calling for immediate repayment of the loan, if such measures are taken.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 6:- LOANS FROM SHAREHOLDERS

- a. PBC and IDBD provided loans to the Company for the purpose of financing projects.

In January 2019, PBC and IDBD decided to reduce the accrued interest and part of the principal of the loans, excluding a loan principal balance of approximately \$100 million (“the adjusted principal”).

The difference between the book value of the loan and the adjusted principal was recognized as a capital reserve from transactions with controlling shareholders in the balance of approximately \$73 million.

Subsequently, the Company has decided to designate the said loans as a liability measured through profit and loss.

The loan matures on December 31, 2034, and are presented within the non-current liabilities. The loans bear interest of 6.14%.

- b. Credit Facility Granted by PBC:

Further to what is stated in note 8(b) to the annual financial statements, with respect to the loan maturity date, On September 20, 2019, the conversion mechanism prescribed in the agreement was implemented, according to which the loan was converted into shares of the Company and to right to repay loans from shareholders (in terms as described in section a above) according to the rates of equity holdings. During the period up until actually carrying out the conversion, the loan continued to accumulate interest in accordance with the provisions of the credit facility. On February 17, 2020 the conversion took place. The ratio by which the conversion took place was set according to the average of three valuations carried out by external, independent appraisers, whereby it was determined that following the conversion, PBC’s rights in the share capital of the Company would stand at 74.18% and the rights of IDBD in the share capital of the Company would stand at 25.82%. The rights of PBC and of IDBD for the return of shareholders’ loans to the Company would be based on the up to date proportion of holdings in the said share capital, and will have the same terms as detailed in section a above, including designation as a liability measured through profit and loss.

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