
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-36761

KENON HOLDINGS LTD.

(Exact name of registrant as specified in its charter)

(Company Registration No. 201406588W)

Singapore
(State or other jurisdiction of
incorporation or organization)

4911
(Primary Standard Industrial
Classification Code Number)
1 Temasek Avenue #36-01
Millenia Tower
Singapore 039192
+65 6351 1780

Not Applicable
(I.R.S. Employer
Identification No.)

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Copies to:

Scott V. Simpson
James A. McDonald
Skadden, Arps, Slate, Meagher and Flom (UK) LLP
40 Bank Street
London E14 5DS
Telephone: +44 20 7519 7000
Facsimile: +44 20 7519 7070

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Ordinary Shares, no par value	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

53, 826,749 shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such a shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards † provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION AND USE OF CERTAIN TERMS

We have prepared this annual report using a number of conventions, which you should consider when reading the information contained herein. In this annual report, the “Company,” “we,” “us” and “our” shall refer to Kenon Holdings Ltd., or Kenon, and each of our subsidiaries and associated companies, collectively, as the context may require, including:

- I.C. Power Asia Development Ltd. (“ICP”), formerly I.C. Power Ltd., an Israeli company, in which Kenon has a direct 100% interest;
- IC Power Ltd. (“IC Power”), formerly IC Power Pte. Ltd, a Singaporean company, in which Kenon has a direct 100% interest;
- IC Power Distribution Holdings Pte. Ltd. (“ICPDH”), a Singaporean corporation in which Kenon has an indirect 100% interest;
- “Inkia” means Inkia Energy Limited, a Bermudian corporation and a wholly-owned subsidiary of Kenon, which is in the process of being liquidated. In December 2017, Inkia sold the Inkia Business (as defined below);
- OPC Energy Ltd. (“OPC”), an owner, developer and operator of power generation facilities in the Israeli power market, in which Kenon has a 76% interest;
- Qoros Automotive Co., Ltd. (“Qoros”), a Chinese automotive company based in China, in which Kenon, through its 100%-owned subsidiary Quantum (as defined below), has a 24% interest. In January 2019, Kenon announced it had entered into an agreement to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros (as defined below). The sale is subject to obtaining relevant third-party consents and other closing conditions, including approvals by relevant government authorities;
- ZIM Integrated Shipping Services, Ltd. (“ZIM”), an Israeli global container shipping company, in which Kenon has a 32% interest; and
- Primus Green Energy, Inc. (“Primus”), a New Jersey corporation which is a developer of an alternative fuel technology, in which Kenon, through IC Green (as defined below), has a 91% interest.

Additionally, this annual report uses the following conventions:

- “Ansonia” means Ansonia Holdings Singapore B.V., a company organized under the laws of Singapore, which owns approximately 58% of the outstanding shares of Kenon;
- “CDA” means Cerro del Águila S.A., a Peruvian corporation;
- “DEOCSA” means Distribuidora de Electricidad de Occidente, S.A., a Guatemalan corporation, which was owned by Inkia prior to the sale of the Inkia Business in December 2017;
- “DEORSA” means Distribuidora de Electricidad de Oriente, S.A., a Guatemalan corporation, which was owned by Inkia prior to the sale of the Inkia Business in December 2017;
- “Hadera Paper” means Hadera Paper Ltd., an Israeli corporation, which is owned by OPC;
- “HelioFocus” means HelioFocus Ltd., an Israeli corporation, in which Kenon, through IC Green, held a 70% interest, and which was liquidated on July 6, 2017;
- “IC” means Israel Corporation Ltd., an Israeli corporation traded on the Tel Aviv Stock Exchange, or the “TASE,” and Kenon’s former parent company;
- “IC Green” means IC Green Energy Ltd., an Israeli corporation and a wholly-owned subsidiary of Kenon, which holds Kenon’s equity interests in Primus and previously held Kenon’s equity interest in HelioFocus;
- “IEC” means Israel Electric Corporation, a government-owned entity, which generates and supplies the majority of electricity in Israel, transmits and distributes all of the electricity in Israel, acts as the system operator of Israel’s electricity system, determines the dispatch order of generation units, grants interconnection surveys, and sets spot prices, among other roles;

- “Inkia Business” means Inkia’s Latin American and Caribbean power generation and distribution businesses, which were sold in December 2017;
- “Kallpa” means Kallpa Generación SA, a company within the Inkia Business. In August 2017, Kallpa merged with CDA, with the surviving entity renamed Kallpa Generación SA. Kallpa was owned by Inkia until December 2017;
- “Majority Shareholder in Qoros” means the China-based investor related to the Baoneng group that acquired 51% of Qoros from Kenon and Chery Automobile Co. Ltd., or Chery, in 2018. In January 2019, Kenon announced it had entered into an agreement to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros. Following completion of the sale, this investor will hold 63% of Qoros;
- “OPC-Rotem” means O.P.C. Rotem Ltd., an Israeli corporation, in which OPC has an 80% interest;
- “OPC-Hadera” is the trade name of Advanced Integrated Energy Ltd., an Israeli corporation, in which OPC has a 100% interest;
- “OPC Solar” means OPC Solar Limited Partnership, a limited partnership engaged in the initiation of solar projects;
- “our businesses” shall refer to each of our subsidiaries and associated companies, collectively, as the context may require;
- “Petrotec” means Petrotec AG, a German company, which IC Green sold in December 2014;
- “Quantum” means Quantum (2007) LLC, a Delaware limited liability company, is a wholly-owned subsidiary of Kenon and which is the direct owner of our interest in Qoros;
- “Samay I” means Samay I S.A., a Peruvian corporation;
- “spin-off” shall refer to (i) IC’s January 7, 2015 contribution to Kenon of its interests in each of IC Power, Qoros, ZIM, Tower, Primus, HelioFocus and the Renewable Energy Group, as well as other intermediate holding companies related to these entities, and (ii) IC’s January 9, 2015 distribution of Kenon’s issued and outstanding ordinary shares, via a dividend-in-kind, to IC’s shareholders;
- “Tower” means Tower Semiconductor Ltd., an Israeli specialty foundry semiconductor manufacturer, listed on the NASDAQ stock exchange, or “NASDAQ,” and the TASE, in which Kenon used to hold an interest; and
- “Tzomet” means Tzomet Energy Ltd., an Israeli corporation in which OPC has a 95% interest. In January 2019, OPC entered into an agreement to acquire the remaining 5% interest in Tzomet from minority shareholders.

Additionally, this annual report uses the following conventions for OPC:

- “Availability factor” refers to the number of hours that a generation facility is available to produce electricity divided by the total number of hours in a year.
- “COD” means the commercial operation date of a development project;
- “distribution” refers to the transfer of electricity from the transmission lines at grid supply points and its delivery to consumers at lower voltages through a distribution system;
- “Hadera Energy Center” means Hadera Paper’s existing gas consuming facilities;
- “EPC” means engineering, procurement and construction;
- “firm capacity” means the amount of energy available for production that, pursuant to applicable regulations, must be guaranteed to be available at a given time for injection to a certain power grid;
- “Greenfield” means a project constructed on unused land with no need to demolish or remodel existing structures;
- “GWh” means gigawatt hours (one GWh is equal to 1,000 MWh);
- “OPC’s capacity” or “OPC’s installed capacity” means, with respect to each asset, 100% of the capacity of such asset, regardless of OPC’s ownership interest in the entity that owns such asset;

- “installed capacity” means the intended full-load sustained output of energy that a generation unit is designed to produce (also referred to as name-plate capacity);
- “IPP” means independent power producer, excluding co-generators and generators for self-consumption;
- “kWh” means kilowatts per hour;
- “MW” means megawatts (one MW is equal to 1,000 kilowatts or kW);
- “MWh” means megawatt per hour;
- “OEM” means original equipment manufacturer;
- “PPA” means power purchase agreement; and
- “transmission” refers to the bulk transfer of electricity from generating facilities to the distribution system at load center station in which the electricity is stabilized by means of the transmission grid.

SALE OF THE INKIA BUSINESS

On December 31, 2017, our subsidiary Inkia completed the sale of substantially all of its businesses, the Inkia Business, consisting of power generation and distribution businesses in Latin America and the Caribbean. The sale is described in more detail under “*Item 4.B. – Business Overview – Discontinued Operations – Inkia Business – Sale of the Inkia Business.*” As a result of this sale, our power generation business consists of our 76% interest in OPC. The results of the Inkia Business are presented as discontinued operations in our audited financial statements for the two years ended December 31, 2017, and prior periods presented herein have been reclassified for comparative purposes.

FINANCIAL INFORMATION

We produce financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, or IFRS, and all financial information included in this annual report is derived from our IFRS financial statements, except as otherwise indicated. In particular, this annual report contains certain non-IFRS financial measures which are defined under “*Item 3.A Selected Financial Data*” and “*Item 4.B Business Overview—Our Businesses—OPC.*”

Our consolidated financial statements included in this annual report comprise the consolidated statements of profit and loss, other comprehensive income (loss), changes in equity, and cash flows for the years ended December 31, 2018, 2017 and 2016 and the consolidated statements of financial position as of December 31, 2018 and 2017. We present our consolidated financial statements in U.S. Dollars.

Our financial statements as of and for the year ended December 31, 2014 included within selected financial data presented in Item 3.A., are presented as combined carve-out financial statements and have been derived from the consolidated financial statements of IC, our former parent. These combined financial statements reflect the assets, liabilities, revenues and expenses directly attributable to us, as well as allocations deemed reasonable by us, to present our combined financial position, profit and loss and other comprehensive income, changes in equity attributable to the owners of the company and cash flows. These combined carve-out financial statements are not necessarily indicative of our financial position, profit and loss and other comprehensive income, or cash flows had we operated as a separate entity throughout the periods presented. We present our combined carve-out financial statements in U.S. Dollars.

The results of the Inkia Business are presented as discontinued operations in our audited financial statements as of and for the years ended December 31, 2017 and 2016. Our consolidated selected data as of and for the year ended December 31, 2015 and our combined carve-out selected data as of and for the year ended December 31, 2014 have been reclassified for comparative purposes to reflect the Inkia Business as discontinued operations.

In July 2014, ZIM restructured its outstanding indebtedness, which resulted in IC, and consequently, Kenon, owning 32% of the restructured ZIM as compared to IC’s previous interest in ZIM of approximately 99.7%. As a result of the restructuring, ZIM’s results of operations for the six months ended June 30, 2014 are presented as discontinued operations.

All references in this annual report to (i) “U.S. Dollars,” “\$” or “USD” are to the legal currency of the United States of America; (ii) “RMB” are to Yuan, the legal currency of the People’s Republic of China, or China; and (iii) “NIS” or “New Israeli Shekel” are to the legal currency of the State of Israel, or Israel. We have made rounding adjustments to reach some of the figures included in this annual report. Consequently, numerical figures shown as totals in some tables may not be arithmetic aggregations of the figures that precede them.

NON-IFRS FINANCIAL INFORMATION

In this annual report, we disclose non-IFRS financial measures, namely EBITDA and net debt, each as defined under “*Item 3.A Selected Financial Data—Selected Reportable Segment Data*” and “*Item 3.A Selected Financial Data—Selected Reportable Segment Data—OPC*” and “*Item 4.B Business Overview—Our Businesses—OPC—OPC’s Description of Operations*.” Each of these measures are important measures used by us, and our businesses, to assess financial performance. We believe that the disclosure of EBITDA and net debt provides transparent and useful information to investors and financial analysts in their review of our, or our subsidiaries’, operating performance and in the comparison of such operating performance to the operating performance of other companies in the same industry or in other industries that have different capital structures, debt levels and/or income tax rates.

MARKET AND INDUSTRY DATA

Certain information relating to the industries in which each of our subsidiaries and associated companies operate and their position in such industries used or referenced in this annual report were obtained from internal analysis, surveys, market research, publicly available information and industry publications. Unless otherwise indicated, all sources for industry data and statistics are estimates or forecasts contained in or derived from internal or industry sources we believe to be reliable. Market data used throughout this annual report was obtained from independent industry publications and other publicly available information. Such data, as well as internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified. In addition, in certain cases we have made statements in this annual report regarding the industries in which each of our subsidiaries and associated companies operate and their position in such industries based upon the experience of our businesses and their individual investigations of the market conditions affecting their respective operations. We cannot assure you that any of these statements are accurate or correctly reflect the position of subsidiaries and associated companies in such industries, and none of our internal surveys or information has been verified by independent sources.

Market data and statistics are inherently predictive and speculative and are not necessarily reflective of actual market conditions. Such statistics are based upon market research, which itself is based upon sampling and subjective judgments by both the researchers and the respondents. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that (i) the markets are defined differently, (ii) the underlying information was gathered by different methods and (iii) different assumptions were applied in compiling the data. Accordingly, although we believe and operate as though all market and industry information presented in this annual report is accurate, the market statistics included in this annual report should be viewed with caution.

PRESENTATION OF OPC CAPACITY AND PRODUCTION FIGURES

Unless otherwise indicated, statistics provided throughout this annual report with respect to power generation units are expressed in MW, in the case of the capacity of such power generation units, and in GWh, in the case of the electricity production of such power generation units. One GWh is equal to 1,000 MWh, and one MWh is equal to 1,000 kWh. Statistics relating to aggregate annual electricity production are expressed in GWh and are based on a year of 8,760 hours. Unless otherwise indicated, OPC’s capacity figures provided in this annual report reflect 100% of the capacity of all of OPC’s assets, regardless of OPC’s ownership interest in the entity that owns each such asset. For information on OPC’s ownership interest in each of its operating companies, see “*Item 4.B Business Overview—Our Businesses—OPC*.”

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, and reflects our current expectations and views of the quality of our assets, our anticipated financial performance, our future growth prospects, the future growth prospects of our businesses, the liquidity of our ordinary shares, and other future events. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, and are principally contained in the sections entitled “*Item 3. Key Information*,” “*Item 4. Information on the Company*” and “*Item 5. Operating and Financial Review and Prospects*.” These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. Some of these forward-looking statements can be identified by terms and phrases such as “anticipate,” “should,” “likely,” “foresee,” “believe,” “estimate,” “expect,” “intend,” “continue,” “could,” “may,” “plan,” “project,” “predict,” “will,” and similar expressions.

These forward-looking statements relate to:

- our goals and strategies;
- our capital commitments and/or intentions with respect to each of our businesses;
- our capital allocation principles, as set forth in “*Item 4.B Business Overview*”;

- the funding requirements, strategies, and business plans of our businesses;
- the potential listing, offering, distribution or monetization of our businesses;
- expected trends in the industries and markets in which each of our businesses operate;
- our expected tax status and treatment;
- statements relating to litigation and/or regulatory proceedings, including expected settlement amounts;
- statements relating to the sale of the Inkia Business including the pledge of OPC's shares, the deferred payment agreement and Kenon's guarantee and risks related thereto, and statements with respect to claims relating to the Inkia Business sale retained by Kenon;
- the expected effect of new accounting standards on Kenon;
- *with respect to OPC* :
 - the expected cost and timing of commencement and completion of development and construction projects, as well as the anticipated installed capacities and expected performance (e.g. efficiency) of such projects, including:
 - the Tzomet project, including the license and approvals for the development of the project, financing and the expected payment of the remaining consideration, and
 - the OPC-Hadera project, including the expected financing, total cost of construction, expected capacity, COD date, expected level of energy utilization, efficiency, and energy source of the OPC-Hadera power plant;
 - the OPC restructuring, including statements with respect to Kenon's expectation in relation to future tax liability;
 - expected macroeconomic trends in Israel, including the expected growth in energy demand;
 - potential expansions (including new projects or existing projects);
 - its gas supply agreements;
 - its strategy;
 - expected trends in energy consumption;
 - regulatory trends;
 - its anticipated capital expenditures, and the expected sources of funding for capital expenditures;
 - projections and expected trends in the electricity market in Israel; and
 - the price and volume of gas available to OPC and other IPPs in Israel;
- *with respect to Qoros* :
 - Qoros' expectation to renew or refinance its working capital facilities to support its continued operations and development;
 - statements with respect to trends in the Chinese passenger vehicle market, particularly within the C-segment, C-segment SUV and New Energy Vehicle, or NEV, markets;
 - Qoros' expectation of pricing trends in the Chinese passenger vehicle market;
 - Qoros' liquidity position;
 - Qoros' dealer network;
 - environmental regulations and the expected effect of such regulations on Qoros' business;

- Qoros' ability to increase its production capacity;
- the investment by the Majority Shareholder in Qoros into Qoros, including the various elements of the investment and expected timing thereof, including, the commitment by the investor or an affiliate to introduce vehicle purchase orders to Qoros, the requirement that Chery make payments to Kenon in connection with guarantee releases, the put option and investor's right to make further investments under the investment agreement, and the Majority Shareholder in Qoros' commitment to assume its proportionate share of Kenon and Chery's guarantee and pledge obligations;
- the agreement to sell half of Kenon's remaining interest in Qoros; and
- Qoros' expectation of the development of the NEV market in China, including expected trends regarding government subsidies for the purchase of NEVs and the growth of NEV infrastructure;
- *with respect to ZIM* :
 - the assumptions used in Kenon's and ZIM's impairment analysis with respect to Kenon's investment in ZIM, and ZIM's assets, respectively, including with respect to expected fuel price, freight rates, demand trends;
 - ZIM's strategy with respect to its debt obligations;
 - ZIM's expectation of modifications with respect to its and other shipping companies' operating fleet and lines, including the utilization of larger vessels within certain trade zones and modifications made in light of environmental regulations;
 - ZIM's compliance with International Maritime Organization, or IMO, regulations expected to come into effect in 2020 and other regulations, including the expected effects of such regulations;
 - statements regarding the 2M alliance and expected benefits of the alliance; and
 - trends related to the global container shipping industry, including with respect to fluctuations in container supply, industry consolidation, demand, bunker prices and charter/freights rates; and
- *with respect to Primus, its* :
 - strategy;
 - plans to seek equity partners for projects;
 - potential customers;
 - potential project pipeline, including in relation to the non-binding term sheets it has executed; and
 - potential sources of revenue.

The preceding list is not intended to be an exhaustive list of each of our forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us and are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by these forward-looking statements which are set forth in “*Item 3.D Risk Factors* .” Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results.

Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing factors that could cause our actual results to differ materially from those contemplated in any forward-looking statement included in this annual report should not be construed as exhaustive. You should read this annual report, and each of the documents filed as exhibits to the annual report, completely, with this cautionary note in mind, and with the understanding that our actual future results may be materially different from what we expect.

PART I

ITEM 1. Identity of Directors, Senior Management and Advisers

A. Directors and Senior Management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

A. Selected Financial Data

The following tables set forth our selected combined carve-out financial and other data as of and for the year ended December 31, 2014 and selected consolidated financial and other data as of and for the years ended December 31, 2018, 2017, 2016 and 2015. This selected financial data should be read in conjunction with our audited consolidated financial statements, and the related notes thereto, as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, included elsewhere in this annual report, and the information contained in “Item 5. Operating and Financial Review and Prospects” and “Item 3.D Risk Factors.” The historical financial and other data included here and elsewhere in this annual report should not be assumed to be indicative of our future financial condition or results of operations.

Our consolidated financial statements as of and for the year ended December 31, 2017 reflect the Inkia Business as discontinued operations and our consolidated financial statements as of and for the years ended 2016 and our selected consolidated financials as of and for the year ended December 31, 2015 and our selected combined carve-out financials as of and for the year ended December 31, 2014 set forth below have been reclassified for comparative purposes to account for the Inkia Business as discontinued operations. ZIM’s results of operations for the six months ended June 30, 2014 are also presented as discontinued operations for the relevant period.

Our financial statements presented in this annual report have been prepared in accordance with IFRS.

The selected financial data below also includes certain non-IFRS measures used by us to evaluate our economic and financial performance. These measures are not identified as accounting measures under IFRS and therefore should not be considered as an alternative measure to evaluate our performance.

	Year Ended December 31,				
	2018	2017	2016 ¹	2015 ¹	2014 ¹
	<i>(in millions of USD, except share data)</i>				
Statements of Profit and Loss Data ²					
Revenue	\$ 364	\$ 366	\$ 324	\$ 326	\$ 413
Cost of sales and services (excluding depreciation)	(259)	(267)	(251)	(245)	(297)
Depreciation	(30)	(31)	(27)	(25)	(24)
Gross profit	\$ 75	\$ 68	\$ 46	\$ 56	\$ 92
Selling, general and administrative expenses	(34)	(56)	(47)	(50)	(86)
Gain from distribution of dividend in kind	—	—	—	210	—
Gain from disposal of investees	—	—	—	—	157
Impairment of assets and investments	—	29	(72)	(7)	(48)
Dilution gains from reduction in equity interest held in associates	—	—	—	33	—
Other expenses	(1)	—	—	(1)	(6)
Other income	2	1	1	4	(55)
Financing expenses	(30)	(70)	(47)	(36)	(49)
Financing income	28	3	7	11	14
Financing expenses, net	\$ (2)	\$ (67)	\$ (40)	\$ (25)	\$ (35)
Gain on third party investment in Qoros	504	—	—	—	—
Fair value loss on option	(40)	—	—	—	—
Write back / (provision) of financial guarantee	63	—	(130)	—	—
Share in losses of associated companies, net of tax ³	(105)	(111)	(186)	(187)	(185)
Profit / (loss) from continuing operations before income taxes	\$ 462	\$ (136)	\$ (428)	\$ 33	\$ (166)
Income taxes	(11)	(73)	(2)	(9)	(68)
Profit / (loss) for the year from continuing operations	\$ 451	\$ (209)	\$ (430)	\$ 24	\$ (234)
(Loss) / profit and gain from sale of discontinued operations (after taxes) ⁴	(6)	478	36	72	711
Profit / (loss) for the year	\$ 445	\$ 269	\$ (394)	\$ 96	\$ 477
Attributable to:					
Kenon's shareholders	434	237	(412)	73	459
Non-controlling interests	11	32	18	23	18
Basic/diluted profit/(loss) per share attributable to Kenon's shareholders (in Dollars):					
Basic/diluted profit/(loss) per share	8.07	4.40	(7.67)	1.36	8.58
Basic/diluted profit/(loss) per share from continuing operations	8.17	(4.00)	(8.08)	0.24	(4.44)
Basic/diluted (loss)/profit per share from discontinued operations	(0.10)	8.40	0.41	1.12	13.02
Statements of Financial Position Data					
Cash and cash equivalents	\$ 131	\$ 1,417	\$ 327	\$ 384	\$ 610
Short-term investments and deposits	50	7	90	309	227
Trade receivables	36	44	284	123	181
Other current assets, including derivatives	41	36	50	45	59
Income tax receivable	—	—	11	4	3
Inventories	—	—	92	51	56
Assets held for sale	70	—	—	—	—
Total current assets	328	1,504	854	916	1,136
Total non-current assets ⁵	1,127	1,022	4,284	3,567	3,184
Total assets	\$ 1,455	\$ 2,526	\$ 5,138	\$ 4,483	\$ 4,320
Total current liabilities	90	806	1,045	653	497
Total non-current liabilities	\$ 649	\$ 669	\$ 3,199	\$ 2,566	\$ 2,385
Equity attributable to the owners of the Company	649	983	681	1,061	1,230
Share capital	\$ 602	\$ 1,267	\$ 1,267	\$ 1,267	\$ —
Total equity	\$ 716	\$ 1,051	\$ 894	\$ 1,264	\$ 1,438
Total liabilities and equity	\$ 1,455	\$ 2,526	\$ 5,138	\$ 4,483	\$ 4,320
Basic/Diluted weighted average common shares outstanding used in calculating profit/(loss) per share (thousands)	53,826	53,761	53,720	53,649	53,3836
Statements of Cash Flow Data					
Net cash provided by operating activities	\$ 52	\$ 392	\$ 162	\$ 290	\$ 410
Net cash (used in) / provided by investing activities	(113)	585	(400)	(737)	(883)
Net cash (used in) / provided by financing activities	(1,218)	97	175	233	430
(Decrease) / increase in cash and cash equivalents	(1,279)	1,074	(63)	(214)	(43)

- (1) Results during these periods have been reclassified to reflect the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.
- (2) Consists of the consolidated results of OPC and Primus and, from June 30, 2014 until its liquidation in July 2016, the consolidated results of HelioFocus.
- (3) Includes Kenon's share in ZIM's loss for the six months ended December 31, 2014 and the years ended December 31, 2015, 2016, 2017 and 2018. As from July 1, 2014, Kenon accounted for ZIM's results of operations pursuant to the equity method of accounting.
- (4) Consists of (i) ZIM's results of operations for the six months ended June 30, 2014, (ii) Petrotec's results of operations for 2014 and (iii) the results of operations of the Inkia Business for 2014 through 2017.
- (5) Includes Kenon's associated companies: (i) Qoros, (ii) Tower (until June 30, 2015), (iii) ZIM (from July 1, 2014); and (iv) HelioFocus (prior to June 30, 2014).
- (6) Based on 53,383,015 shares which were issued as of January 7, 2015, the date of our spin-off from IC.

Selected Reportable Segment Data

Kenon is a holding company of (i) a 76% interest in OPC, (ii) a 100% interest in Quantum (Kenon owns a 24% interest in Qoros through Quantum and Kenon has agreed to sell half of its interest to the Majority Shareholder in Qoros, subject to closing conditions; upon completion of this sale, Kenon will hold a 12% interest in Qoros), (iii) a 32% interest in ZIM, and (iv) a 91% interest in Primus. Kenon used to also hold interests in (i) the Inkia Business, which was sold effective December 31, 2017, (ii) a 22.5% interest in Tower, which was distributed to Kenon shareholders on July 23, 2015 and (iii) HelioFocus, which was liquidated in July 2017.

The results of the following companies are included in Kenon's statements of profit and loss as share in losses of associated companies, net of tax, for the years set forth below, except as otherwise indicated: (i) Qoros, (ii) ZIM from July 1, 2014 and (iii) Tower until June 30, 2015.

Kenon's segments are OPC, Quantum and Other. Kenon's Other segment includes the results of ZIM, Primus, and from June 30, 2014, the results of HelioFocus and Kenon (Company level).

The following table sets forth selected financial data for Kenon's reportable segments for the periods presented:

	Year Ended December 31, 2018				Consolidated Results
	OPC	Quantum 1	Other 2	Adjustments 3	
	<i>(in millions of USD, unless otherwise indicated)</i>				
Sales	\$ 363	\$ —	\$ 1	\$ —	\$ 364
Depreciation and amortization	(30)	—	—	—	(30)
Financing income	2	10	48	(32)	28
Financing expenses	(27)	(2)	(33)	32	(30)
Gain on third party investment in Qoros	—	504	—	—	504
Fair value loss on option	—	(40)	—	—	(40)
Write back of financial guarantee	—	63	—	—	63
Share in losses of associated companies	—	(78)	(27)	—	(105)
Profit / (Loss) before taxes	\$ 36	\$ 457	\$ (31)	\$ —	\$ 462
Income taxes	(10)	—	(1)	—	(11)
Profit / (Loss) from continuing operations	\$ 26	\$ 457	\$ (32)	\$ —	\$ 451
Segment assets 4	\$ 893	\$ 92	\$ 2395	\$ —	\$ 1,224
Investments in associated companies	—	139	92	—	231
Segment liabilities	700	—	396	—	739
Capital expenditure 7	100	—	—	—	100

(1) Subsidiary of Kenon that owns Kenon's equity holding in Qoros.

(2) Includes the results of Primus, the results of ZIM, as an associated company; as well as Kenon's and IC Green's holding company and general and administrative expenses.

(3) "Adjustments" includes inter segment financing income and expense.

(4) Includes investments in associates.

(5) Includes Kenon's, IC Green's and IC Power holding company assets.

(6) Includes Kenon's, IC Green's and IC Power holding company liabilities.

(7) Includes the additions of Property, Plant and Equipment, or PP&E, and intangibles based on an accrual basis.

Year Ended December 31, 2017 ¹

	OPC	Quantum ²	Other ³	Adjustments ⁴	Consolidated Results
	<i>(in millions of USD, unless otherwise indicated)</i>				
Sales	\$ 365	\$ —	\$ 1	\$ —	\$ 366
Depreciation and amortization	(30)	—	(1)	—	(31)
Impairment of assets and investments	—	—	29	—	29
Financing income	1	—	13	(11)	3
Financing expenses	(34)	(6)	(41)	11	(70)
Share in (losses) income of associated companies	—	(121)	10	—	(111)
Profit / (Loss) before taxes	\$ 23	\$ (127)	\$ (32)	\$ —	\$ (136)
Income taxes	(9)	—	(64)	—	(73)
Profit / (Loss) from continuing operations	\$ 14	\$ (127)	\$ (96)	\$ —	\$ (209)
Segment assets ⁵	\$ 940	\$ 16	\$ 1,448 ⁶	\$ —	\$ 2,404
Investments in associated companies	—	2	120	—	122
Segment liabilities	743	75	657 ⁷	—	1,475
Capital expenditure ⁸	109	—	121	—	230

- (1) Results for this period reflect the results of the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.
- (2) Subsidiary of Kenon that owns Kenon's equity holding in Qoros.
- (3) Includes the results of Primus and HelioFocus (which was liquidated in July 2017); the results of ZIM, as an associated company; as well as Kenon's and IC Green's holding company and general and administrative expenses.
- (4) "Adjustments" includes inter-segment financing income and expenses.
- (5) Excludes investments in associates.
- (6) Includes Kenon's, IC Green's and IC Power holding company assets.
- (7) Includes Kenon's, IC Green's and IC Power holding company liabilities.
- (8) Includes the additions of PP&E, and intangibles based on an accrual basis.

Year Ended December 31, 2016 ¹

	<u>OPC</u>	<u>Quantum ²</u>	<u>Other ³</u>	<u>Adjustments ⁴</u>	<u>Consolidated Results</u>
	<i>(in millions of USD, unless otherwise indicated)</i>				
Sales	\$ 324	\$ —	\$ —	\$ —	\$ 324
Depreciation and amortization	(27)	—	—	—	(27)
Impairment of assets and investments	—	—	(72)	—	(72)
Financing income	3	—	16	(12)	7
Financing expenses	(23)	—	(36)	12	(47)
Share in losses of associated companies	—	(143)	(43)	—	(186)
Provision of financial guarantee	—	—	(130)	—	(130)
Profit/(Loss) before taxes	\$ 20	\$ (143)	\$ (305)	\$ —	\$ (428)
Income taxes	—	—	(2)	—	(2)
Profit/(Loss) from continuing operations	\$ 20	\$ (143)	\$ (307)	\$ —	\$ (430)
Segment assets ⁵	\$ 668	\$ 2	\$ 4,260	\$ —	\$ 4,930
Investments in associated companies	—	118	90	—	208
Segment liabilities	534	—	3,710 ⁷	—	4,244
Capital expenditure ⁸	73	—	245	—	318

- (1) Results for this period have been reclassified to reflect the results of the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.
- (2) Subsidiary of Kenon that owns Kenon's equity holding in Qoros.
- (3) Includes the results of Primus and HelioFocus (which was liquidated in July 2017); the results of ZIM, as an associated company; as well as Kenon's and IC Green's holding company and general and administrative expenses.
- (4) "Adjustments" includes inter-segment financing income and expenses.
- (5) Excludes investments in associates.
- (6) Includes Kenon's, IC Green's and IC Power holding company assets.
- (7) Includes Kenon's, IC Green's and IC Power holding company liabilities.
- (8) Includes the additions of PP&E and intangibles based on an accrual basis.

The following tables set forth other financial and key operating data for OPC for the periods presented:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(\$ millions, except as otherwise indicated)		
Net income for the period	26	14	20
EBITDA ¹	91	86	67
Net Debt ²	401	395	371
Net energy generated (GWh)	3,383	3,655	3,510
Energy sales (GWh)	3,965	3,988	3,996

- (1) OPC defines “EBITDA” for each period as net income for the period before depreciation and amortization, financing expenses, net and income tax expense.

EBITDA is not recognized under IFRS or any other generally accepted accounting principles as a measure of financial performance and should not be considered as a substitute for net income or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. EBITDA is not intended to represent funds available for dividends or other discretionary uses because those funds may be required for debt service, capital expenditures, working capital and other commitments and contingencies. EBITDA presents limitations that impair its use as a measure of OPC’s profitability since it does not take into consideration certain costs and expenses that result from its business that could have a significant effect on OPC’s net income, such as finance expenses, taxes and depreciation.

The following table sets forth a reconciliation of OPC’s net income to its EBITDA for the periods presented. Other companies may calculate EBITDA differently, and therefore this presentation of EBITDA may not be comparable to other similarly titled measures used by other companies:

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(in millions of USD)		
Net income for the period	\$ 26	\$ 14	\$ 20
Depreciation and amortization	30	30	27
Finance expenses, net	25	33	20
Income tax expense	10	9	—
EBITDA	\$ 91	\$ 86	\$ 67

- (2) Net debt is calculated as total debt, minus cash (which includes short term deposits and restricted cash and long-term deposits and restricted cash). Net debt is not a measure recognized under IFRS. The tables below sets forth a reconciliation of OPC’s total debt to net debt.

	<u>Year Ended December 31, 2018</u>			
	<u>OPC-Rotem</u>	<u>OPC-Hadera</u>	<u>Energy & Others</u>	<u>Total OPC</u>
	(in millions of USD)			
Total debt (i)	336	172	79	587
Cash (ii)	72	14	100	186
Net Debt	\$ 264	\$ 158	\$ (21)	\$ 401

- (i) Total debt comprises loans from banks and third parties and debentures, and includes long term and short term debt.

- (ii) Includes short-term deposits and restricted cash of \$50 million; and includes long-term deposits and restricted cash of \$48 million including \$22 million in cash that was deposited into an escrow account in connection with the Tamar gas dispute. For further information, see “*Item 4.B Business Overview—Our Businesses—OPC—Legal Proceedings.*”

	Year Ended December 31, 2017			
	OPC-Rotem	OPC-Hadera	Energy & Others	Total OPC
	(in millions of USD)			
Total debt (i)	383	144	91	618
Cash (ii)	86	31	106	223
Net Debt	\$ 297	\$ 113	\$ (15)	\$ 395

(i) Total debt comprises loans from banks and third parties and debentures, and includes long term and short term debt.

(ii) Includes short-term deposits and restricted cash of \$0 million; and includes long-term deposits and restricted cash of \$76 million including \$22 million in cash that was deposited into an escrow account in connection with the Tamar gas dispute. For further information, see “Item 4.B Business Overview—Our Businesses—OPC—Legal Proceedings.”

	Year Ended December 31, 2016			
	OPC-Rotem	OPC-Hadera	Energy & Others	Total OPC
	(in millions of USD)			
Total debt (i)	365	—	52	417
Cash (ii)	22	1	23	46
Net Debt	\$ 343	\$ (1)	\$ 29	\$ 371

(i) Total debt comprises loans from banks and third parties and debentures, and includes long term and short term debt.

(ii) Includes short-term deposits and restricted cash of \$4 million and long-term deposits and restricted cash of \$19 million.

Set forth below is a summary of certain OPC key historical financial and other operational information, for the periods set forth below.

	Year Ended December 31,		
	2018	2017	2016
	(\$ millions, except as otherwise indicated)		
Sales	363	365	324
Cost of Sales	(258)	(266)	(251)
Operating income	75	69	46
Operating margins	21%	19%	14%
Financing expenses, net	25	33	20
Net income for the period	26	14	20
Net Energy sales (GWh)	3,965	3,988	3,996

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business, financial condition, results of operations and liquidity can suffer materially as a result of any of the risks described below. While we have described all of the risks we consider material, these risks are not the only ones we face. We are also subject to the same risks that affect many other companies, such as technological obsolescence, labor relations, geopolitical events, climate change and risks related to the conducting of international operations. Additional risks not known to us or that we currently consider immaterial may also adversely impact our businesses. Our businesses routinely encounter and address risks, some of which may cause our future results to be different—sometimes materially different—than we presently anticipate.

Risks Related to Our Strategy and Operations

Some of our businesses have significant capital requirements.

The business plans of our businesses contemplate additional debt or equity financing which is expected to be raised from third parties. However, our businesses may be unable to raise the necessary capital from third party financing sources.

In the event that one or more of our businesses require capital, either in accordance with their business plans or in response to new developments or to meet operating expenses, and such businesses are unable to raise such financing, Kenon may provide such financing by (i) issuing equity in the form of shares or convertible instruments (through a pre-emptive offering or otherwise), (ii) from third parties using funds received from the operations or sales of Kenon's other businesses, (iii) selling part, or all, of its interest in any of its businesses, (iv) raising debt financing at the Kenon level or (v) providing guarantees or collateral in support of the debt of its businesses. To the extent that Kenon is able to raise debt financing, any debt financing that Kenon incurs may not be on favorable terms, may impose restrictive covenants that limit how Kenon manages its investments in its businesses, and may also limit dividends or other distributions by Kenon. In addition, any equity financing, whether in the form of a sale of shares or convertible instruments, would dilute existing holders of our ordinary shares and any such equity financing could be at prices that are lower than the current trading prices.

Third party financing sources for Kenon's businesses may require Kenon to guarantee an individual business' indebtedness and/or provide collateral, including collateral via a cross-collateralization of assets across businesses (i.e., pledging shares or assets of one of our businesses to secure debt of another of our businesses). To the extent Kenon guarantees an individual business' indebtedness, it may divert funds received from one business to another business. We may also sell some or all of our interests in any of our businesses to provide funding for another business. Additionally, if we cross-collateralize certain assets in order to provide additional collateral to a lender, we may lose an asset associated with one business in the event that a separate business is unable to meet its debt obligations. Furthermore, if Kenon provides any of its businesses with additional capital, provides any third parties with indemnification rights or a guarantee, and/or provides additional collateral, including via cross-collateralization, this could reduce our liquidity. For further information on the capital resources and requirements of each of our businesses, see "*Item 5.B Liquidity and Capital Resources.*"

Disruptions in the financial markets could adversely affect Kenon or its businesses, which may not be able to obtain additional financing on acceptable terms or at all.

Kenon's businesses may seek to access capital markets for various purposes, which may include raising funding for the repayment of indebtedness, acquisitions, capital expenditures and for general corporate purposes. The ability of Kenon's businesses to access capital markets, and the cost of such capital, could be negatively impacted by disruptions in those markets. Capital markets have demonstrated significant volatility in recent years. These disruptions impacted other areas of the economy and led to a slowdown in general economic activity. Similar disruptions in the credit markets could make it more difficult or expensive for our businesses to access the capital or lending markets if the need arises and may make financing terms for borrowers less attractive or available. Furthermore, a decline in the value of any of our businesses, which are or may be used as collateral in financing agreements, could also impact their ability to access financing.

Kenon may seek to access the capital or lending markets to obtain financing in the future, including to support its businesses. The availability of such financing and the terms thereof will be impacted by many factors, including: (i) our financial performance, (ii) our credit ratings or absence of a credit rating, (iii) the liquidity of the overall capital markets, and (iv) the state of the economy. There can be no assurance that Kenon will be able to access the capital markets on acceptable terms or at all. If Kenon deems it necessary to access financing and is unable to do so on acceptable terms or at all, this could have a material adverse effect on our financial condition or liquidity.

We are subject to fluctuations in the capital markets.

Our strategy may include sales or distributions of our interests in our businesses. For example, in August 2017, OPC completed an initial public offering, or IPO, in Israel, and a listing on the TASE. Our ability to complete an initial public offering, distribution or listing of one or more of our businesses is heavily dependent upon the public equity markets.

To the extent that the securities of our business are publicly traded, we are exposed to risks of downward movement in market prices. In addition, large holdings of securities can often be disposed only over a substantial length of time. Accordingly, under certain conditions, we may be forced to either sell our equity interest in a particular business at lower prices than expected to realize or defer such a sale, potentially for a long period of time.

We have pledged a portion of our shares in OPC to secure obligations to the buyer of the Inkia Business under the indemnification obligations in the share purchase agreement for the sale. To the extent that we are required to make payments under the indemnity obligation in the share purchase agreement, we may be required to sell shares in OPC and we would be subject to market conditions at the time of such sale (and the TASE regulations in relation to such sale) which could mean that we are forced to sell our shares for a lower price than we would otherwise be able to do so, particularly if we need to sell a significant amount of shares. If we do not make required payments in the event we are required to make payments under the share purchase agreement, then, in certain circumstances, the pledge can be enforced to satisfy the indemnity obligations, which would result in a loss of some or all of the pledged OPC shares.

We are a holding company and are dependent upon cash flows from our businesses to meet our existing and future obligations.

We are a holding company of various operating companies, and as a result, do not conduct independent operations or possess significant assets other than investments in and advances to our businesses. As a result, we depend on funds from our businesses or external financing to meet our operating expenses and obligations, including our operating expenses, our guarantee of the indemnification obligations under the share purchase agreement for the sale of the Inkia Business and our guarantee obligations in respect of Qoros debt.

Kenon may also seek to raise financing at the Kenon level to meet its obligations. In the event that funds from its businesses or external financing are not available to meet such obligations on reasonable terms or at all, Kenon may need to sell assets to meet such obligations, and its ability to sell assets may be limited, particularly in light of the various pledges over the shares and assets of some of Kenon's businesses. Any sales of assets may not be at attractive prices, particularly if such sales must be made quickly to meet Kenon's obligations.

Kenon has provided loans and guarantees to support our businesses, such as Qoros, and may provide additional loans to or make other investments in or provide guarantees in support of its businesses. Kenon's liquidity requirements will increase to the extent it makes further loans or other investments in or grants additional guarantees to support its businesses.

In addition, as Kenon's businesses are legally distinct from it and will generally be required to service their debt obligations before making distributions to Kenon, Kenon's ability to access such cash flow from its businesses may be limited in some circumstances and it may not have the ability to cause its subsidiaries and associated companies to make distributions to Kenon, even if they are able to do so. Additionally, the terms of existing and future joint venture, financing, or cooperative operational agreements and/or the laws and jurisdictions under which each of Kenon's businesses are organized may also limit the timing and amount of any dividends, other distributions, loans or loan repayments to Kenon.

Additionally, as dividends are generally taxed and governed by the relevant authority in the jurisdiction in which the company is incorporated, there may be numerous and significant tax or other legal restrictions on the ability of Kenon's businesses to remit funds to us, or to remit such funds without incurring significant tax liabilities or incurring a ratings downgrade.

We do not have the right to manage, and in some cases do not control, some of our businesses, and therefore we may not be able to realize some or all of the benefits that we expect to realize from our businesses.

As we own minority interests in Qoros and ZIM, we are subject to the operating and financial risks of these businesses, the risk that these businesses may make business, operational, financial, legal or regulatory decisions that we do not agree with, and the risk that we may have objectives that differ from those of the applicable business itself or its other shareholders. Our ability to control the development and operation of these investments may be limited, and we may not be able to realize some or all of the benefits that we expect to realize from these investments. For example, we may not be able to cause these businesses to make distributions to us in the amount or at the time that we may need or want such distributions.

In 2018, the Majority Shareholder in Qoros acquired 51% of Qoros from Kenon and Chery. As a result, Kenon and Chery now have 24% and 25% stakes in Qoros, respectively. In addition, Kenon can now appoint two of nine Qoros directors (as opposed to half of the Qoros directors prior to the investment). Although we still actively participate in the management of Qoros through our 24% interest and board representatives, our right to control Qoros decreased with the new investment. Furthermore, in January 2019, Kenon agreed to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros. The sale is subject to obtaining relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros, the Majority Shareholder in Qoros will hold 63% and Chery will own 25%. For further information, see "*Item 4.B Business Overview—Our Businesses—Qoros —Qoros' Investment Agreement*" and "*Item 4.B Business Overview—Our Businesses—Qoros — 2019 Qoros Sale Agreement*."

In addition, we rely on the internal controls and financial reporting controls of our businesses and the failure of our businesses to maintain effective controls or to comply with applicable standards could make it difficult to comply with applicable reporting and audit standards. For example, the preparation of our consolidated financial statements requires the prompt receipt of financial statements from each of our subsidiaries and associated companies, some of whom rely on the prompt receipt of financial statements from each of their subsidiaries and associated companies. Additionally, in certain circumstances, we may be required to file with our annual report on Form 20-F, or a registration statement filed with the SEC, financial information of associated companies which has been audited in conformity with SEC rules and regulations and relevant audit standards. We may not, however, be able to procure such financial statements, or such audited financial statements, as applicable, from our subsidiaries and associated companies and this could render us unable to comply with applicable SEC reporting standards.

Our businesses are leveraged.

Some of our businesses are significantly leveraged and may incur additional debt financing in the future. As of December 31, 2018, OPC had \$587 million of outstanding indebtedness, Qoros had outstanding indebtedness of RMB5.1 billion (approximately \$742 million), and ZIM had outstanding indebtedness of approximately \$1.5 billion.

Highly leveraged assets are inherently more sensitive to declines in earnings, increases in expenses and interest rates, and adverse market conditions. A leveraged company's income and net assets also tend to increase or decrease at a greater rate than would otherwise be the case if money had not been borrowed. Consequently, the risk of loss associated with a leveraged company is generally greater than for companies with comparatively less debt. Additionally, some of our businesses' assets have been pledged to secure indebtedness, and as a result, the amount of collateral that is available for future secured debt or credit support and a business' flexibility in dealing with its secured assets may be limited. Our businesses use a substantial portion of their consolidated cash flows from operations to make debt service payments, thereby reducing its ability to use their cash flows to fund operations, capital expenditures, or future business opportunities. Additionally, ZIM remains highly leveraged and notwithstanding its debt restructuring in 2014, continues to face risks associated with those of a highly leveraged company.

Our businesses will generally have to service their debt obligations before making distributions to us or to any other shareholder. In addition, many of the financing agreements relating to the debt facilities of our operating companies contain covenants and limitations, including the following:

- leverage ratio;
- minimum equity;
- debt service coverage ratio;
- limits on the incurrence of liens or the pledging of certain assets;
- limits on the incurrence of subsidiary debt;
- limits on the ability to enter into transactions with affiliates, including us;
- minimum liquidity and fixed charge cover ratios;
- limits on the ability to pay dividends to shareholders, including us;
- limits on our ability to sell assets; and
- other non-financial covenants and limitations and various reporting obligations.

If any of our businesses are unable to repay or refinance their indebtedness as it becomes due, or if they are unable to comply with their covenants, we may decide to sell assets or to take other actions, including (i) reducing financing in the future for investments, acquisitions or general corporate purposes or (ii) dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on their indebtedness. As a result, the ability of our businesses to withstand competitive pressures and to react to changes in the various industries in which we operate could be impaired. A breach of any of our businesses' debt instruments and/or covenants could result in a default under the relevant debt instrument(s), which could lead to an event of default. Upon the occurrence of such an event of default, the lenders could elect to declare all amounts outstanding thereunder to be immediately due and payable and, in the case of credit facility lenders, terminate all commitments to extend further credit. If the lenders accelerate the repayment of the relevant borrowings, the relevant business may not have sufficient assets to repay any outstanding indebtedness, which could result in a complete loss of that business for us. Furthermore, the acceleration of any obligation under certain debt instrument may permit the holders of other material debt to accelerate their obligations pursuant to "cross default" provisions, which could have a material adverse effect on our business, financial condition and liquidity.

As a result, our businesses' leverage could have a material adverse effect on our business, financial condition, results of operations or liquidity.

In addition, we have back-to-back guarantee obligations to Chery of RMB288 million (approximately \$44 million), with respect to debt in principal of RMB320 million (approximately \$47 million), and have pledged a substantial portion of our interest in Qoros to support certain Qoros debt, as well as Chery's guarantees of Qoros debt.

We face risks in relation to the Majority Shareholder in Qoros' investment in Qoros

In 2018, the Majority Shareholder in Qoros acquired 51% of Qoros from Kenon and Chery. As a result, Kenon and Chery have 24% and 25% stakes in Qoros, respectively. The investment was made pursuant to an investment agreement among the Majority Shareholder in Qoros, Quantum, Wuhu Chery Automobile Investment Co., Ltd., or Wuhu Chery, (a subsidiary of Chery) and Qoros. Under the investment agreement, during the three-year period beginning from the closing of the investment, Kenon has the right to cause the Majority Shareholder in Qoros to purchase up to 50% of its remaining equity interest in Qoros for up to RMB1.56 billion (approximately \$227 million), being the price for 50% of Kenon's remaining 24% interest in Qoros, subject to adjustments for inflation. From the third anniversary of the closing until April 2023, Kenon has the right to cause the Majority Shareholder in Qoros to purchase up to all of its remaining equity interests in Qoros for up to a total of RMB3.12 billion (approximately \$454 million) (for Kenon's full 24% interest in Qoros), subject to adjustment for inflation. If the Majority Shareholder in Qoros (and the other company within the Baoeneng group has effectively guaranteed the Majority Shareholder in Qoros' obligations under the put right by also serving as a grantor of the put) is unable to purchase Kenon's equity interest in Qoros upon exercise of the put option, or if any exercise of the put option does not result in a purchase of Kenon's shares in accordance with the terms thereof for any other reason, this could have a material adverse effect on Kenon.

As part of the investment agreement, the Majority Shareholder in Qoros assumed its pro rata share (based on its 51% equity ownership) of the guarantees and pledges provided by Quantum and Wuhu Chery in respect of Qoros debt, which is subject to further adjustment following any future changes in the equity ownership in Qoros (including as a result of the exercise of the put option or investment right by a shareholder under the investment agreement). The Majority Shareholder in Qoros is still in the process of assuming its proportionate pledge obligations with respect to the RMB1.2 billion loan facility after which Kenon will also be proportionately released from its pledge obligations thereunder, subject to the Qoros bank lender consent. Failure to obtain bank consents could adversely impact Kenon.

In January 2019, Kenon agreed to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros for a purchase price of RMB1,560 million (approximately US\$227 million). The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale Kenon will hold a 12% interest in Qoros, the Majority Shareholder in Qoros will hold 63% and Chery will own 25%. The sale was not made pursuant to the put option described above. Furthermore, following completion of the sale, the Majority Shareholder in Qoros will be required to assume its pro rata share of guarantees and equity pledges of Kenon and Chery based on the change to its equity ownership. Failure to complete the sale of the 12% interest to the Majority Shareholder in Qoros or failure by the Majority Shareholder in Qoros to assume its pro rata share of guarantees and equity pledges could adversely impact Kenon.

In connection with its January 2018 investment in Qoros, the Majority Shareholder in Qoros agreed to introduce a minimum number of vehicle purchase orders to Qoros each year between 2018 and 2020 following the entry into further agreements with respect to these purchases. This minimum number of purchases orders was not met in 2018 and there is no assurance that it will be met in the future.

Our success will be dependent upon the efforts of our directors and executive officers.

Our success will be dependent upon the decision-making of our directors and executive officers as well as the directors and executive officers of our businesses. The loss of any or all of our directors and executive officers could delay the implementation of our strategies or divert our directors and executive officers' attention from our operations which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Foreign exchange rate fluctuations and controls could have a material adverse effect on our earnings and the strength of our balance sheet.

Through our businesses, we have facilities and generate costs and revenues in a number of geographic regions across the globe. As a result, a significant portion of our revenue and certain of our businesses' operating expenses, assets and liabilities, are denominated in currencies other than the U.S. Dollar. The predominance of certain currencies varies from business to business, with many of our businesses generating revenues or incurring indebtedness in more than one currency. For example, most of ZIM's revenues and a significant portion of its expenses are denominated in the U.S. Dollar. However, a material portion of ZIM's expenses are denominated in local currencies.

We have outstanding back-to-back guarantees to Chery of up to RMB288 million (approximately \$44 million), with respect to debt in principal of RMB320 million (approximately \$47 million), plus certain interest and fees, in respect of certain of Qoros' indebtedness. In addition, from time to time, we have held, and may hold, a portion of our available cash in RMB, which may expose us to RMB exchange rate fluctuations.

Furthermore, our businesses may pay distributions or make payments to us in currencies other than the U.S. Dollar, which we must convert to U.S. Dollars prior to making dividends or other distributions to our shareholders if we decide to make any distributions in the future. Foreign exchange controls in countries in which our businesses operate may further limit our ability to repatriate funds from unconsolidated foreign affiliates or otherwise convert local currencies into U.S. Dollars.

Consequently, as with any international business, our liquidity, earnings, expenses, asset book value, and/or amount of equity may be materially affected by short-term or long-term exchange rate movements or controls. Such movements may give rise to one or more of the following risks, any of which could have a material adverse effect on our business, financial condition, results of operations or liquidity:

- *Transaction Risk* —exists where sales or purchases are denominated in overseas currencies and the exchange rate changes after our entry into a purchase or sale commitment but *prior to* the completion of the underlying transaction itself;

- *Translation Risk*—exists where the currency in which the results of a business are reported differs from the underlying currency in which the business’ operations are transacted;
- *Economic Risk*—exists where the manufacturing cost base of a business is denominated in a currency different from the currency of the market into which the business’ products are sold; and
- *Reinvestment Risk*—exists where our ability to reinvest earnings from operations in one country to fund the capital needs of operations in other countries becomes limited.
- *If our businesses are unable to manage their interest rate risks effectively, our cash flows and operating results may suffer.*

Certain of our businesses’ indebtedness bears interest at variable, floating rates. In particular, some of this indebtedness is in the form of Consumer Price Index (or CPI)-linked, NIS-denominated bonds. We, or our businesses, may incur further indebtedness in the future that also bears interest at a variable rate or at a rate that is linked to fluctuations in a currency in the form of other than the U.S. Dollar. Although our businesses attempt to manage their interest rate risk, there can be no assurance that they will hedge such exposure effectively or at all in the future. Accordingly, increases in interest rates or changes in the CPI that are greater than changes anticipated based upon historical trends could have a material adverse effect on our or any of our businesses’ business, financial condition, results of operations or liquidity.

Risks Related to the Industries in Which Our Businesses Operate

Conditions in the global economy, and in the industries in which our businesses operate in particular, could have a material adverse effect on us.

The business and operating results of each of our businesses are affected by worldwide economic conditions, particularly conditions in the energy generation, passenger vehicle, and shipping industries our businesses operate in. The operating results and profitability of our businesses may be adversely affected by slower global economic growth, credit market crises, lower levels of consumer and business confidence, downward pressure on prices, high unemployment levels, reduced levels of capital expenditures, fluctuating commodity prices (particularly prices for electricity, natural gas, bunker, gasoline, and crude oil), bankruptcies, government deficit reduction and austerity measures, heightened volatility, uncertainties with respect to the stability of the emerging markets, increased tariffs and other forms of trade protectionism and other challenges affecting the global economy. Volatility in global financial markets and in prices for oil and other commodities could result in a worsening of global economic conditions. As a result of global economic conditions, some of the customers of our businesses have experienced, and may experience, deterioration of their businesses, cash flow shortages, and/or difficulty in obtaining financing. As a result, existing or potential customers may delay or cancel plans to purchase the products and/or services of our businesses, or may not be able to fulfill their obligations to us in a timely fashion. Furthermore, the vendors, suppliers and/or partners of each of our businesses may experience similar conditions, which may impact their ability to fulfill their obligations.

Additionally, economic downturns may alter the priorities of governments to subsidize and/or incentivize participation in any of the markets in which our businesses operate. For example, economic downturns or political dynamics may impact the availability of financial incentives provided by the Chinese government for Chinese automobile purchases. Slower growth or deterioration in the global economy (as a result of recent volatility in global markets, trade protectionism and commodity prices, or otherwise) could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Our businesses’ operations expose us to risks associated with conditions in those markets.

Through our businesses, we operate and service customers in geographic regions around the world which exposes us to risks, including:

- heightened economic volatility;
- difficulty in enforcing agreements, collecting receivables and protecting assets;
- the possibility of encountering unfavorable circumstances from host country laws or regulations;
- fluctuations in revenues, operating margins and/or other financial measures due to currency exchange rate fluctuations and restrictions on currency and earnings repatriation;
- unfavorable changes in regulated electricity tariffs;
- trade protection measures, import or export restrictions, licensing requirements and local fire and security codes and standards;

- increased costs and risks of developing, staffing and simultaneously managing a number of operations across a number of countries as a result of language and cultural differences;
- issues related to occupational safety, work hazard, and adherence to local labor laws and regulations;
- adverse tax developments;
- changes in the general political, social and/or economic conditions in the countries where we operate; and
- the presence of corruption in certain countries.

If any of our businesses are impacted by any of the aforementioned factors, such an impact could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We require qualified personnel to manage and operate our various businesses.

As a result of our decentralized structure, we require qualified and competent management to independently direct the day-to-day business activities of each of our businesses, execute their respective business plans, and service their respective customers, suppliers and other stakeholders, in each case across numerous geographic locations. We must be able to retain employees and professionals with the skills necessary to understand the continuously developing needs of our customers and to maximize the value of each of our businesses. This includes developing talent and leadership capabilities in the emerging markets in which certain of our businesses operate, where the depth of skilled employees may be limited. Changes in demographics, training requirements and/or the unavailability of qualified personnel could negatively impact the ability of each of our businesses to meet these demands. If any of our businesses fail to train and retain qualified personnel, or if they experience excessive turnover, we may experience declining sales, production/manufacturing delays or other inefficiencies, increased recruiting, training or relocation costs and other difficulties, any of which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Significant raw material shortages, supplier capacity constraints, production disruptions, supplier quality and sourcing issues or price increases could increase our operating costs and adversely impact the competitive positions of the products and/or services of our businesses.

The reliance of certain of our businesses on certain third-party suppliers, contract manufacturers and service providers, or commodity markets to secure raw materials (e.g., natural gas for OPC and bunker and containers for ZIM), parts, components and sub-systems used in their products or services exposes us to volatility in the prices and availability of these materials, parts, components, systems and services. Some of these suppliers or their sub-suppliers are limited- or sole-source suppliers. For more information on the risks relating to supplier concentration in relation to OPC, see “—Risks Related to OPC— Supplier concentration may expose OPC to significant financial credit or performance risk, particularly with respect to those agreements which may expire during the life of its power plants.”

A disruption in deliveries from these and other third-party suppliers, contract manufacturers or service providers, capacity constraints, production disruptions, price increases, or decreased availability of raw materials or commodities, including as a result of catastrophic events, could have an adverse effect on the ability of our businesses to meet their commitments to customers or could increase their operating costs. Our businesses could encounter supply problems and may be unable to replace a supplier that is not able to meet their demand in either the short- or the long-term; these risks are exacerbated in the case of raw materials or component parts that are sourced from a single-source supplier. Furthermore, quality and sourcing issues experienced by third-party providers can also adversely affect the quality and effectiveness of our businesses’ products and/or services and result in liability and reputational harm that could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Some of our businesses must keep pace with technological changes and develop new products and services to remain competitive.

The markets in which some of our businesses operate experience rapid and significant changes as a result of the introduction of both innovative technologies and services. To meet customer needs in these areas, these businesses must continuously design new, and update existing, products and services, as well as invest in, and develop new technologies. Introducing new products and technologies requires a significant commitment to research and development that, in return, requires the expenditure of considerable financial resources that may not always result in success.

Our sales and profitability may suffer if our businesses invest in technologies that do not operate, or may not be integrated, as expected or that are not accepted into the marketplace as anticipated, or if their services, products or systems are not introduced to the market in a timely manner, in particular, compared to its competitors, or become obsolete. Furthermore, in some of these markets, the need to develop and introduce new products rapidly in order to capture available opportunities may lead to quality problems. Our operating results depend on our ability, and the ability of these businesses, to anticipate and adapt to changes in markets and to reduce the costs of producing high-quality, new and existing products and services. If we, or any of these businesses, are unsuccessful in our efforts, such a failure could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Our businesses may be adversely affected by work stoppages, union negotiations, labor disputes and other matters associated with our labor force.

As of December 31, 2018, OPC employed 92 employees, Qoros employed approximately 3,400 employees and ZIM employed approximately 3,700 employees. Our businesses could experience strikes, industrial unrest, or work stoppages. Any disruptions in the operations of any of our businesses as a result of labor stoppages or strikes could materially and adversely affect our or the relevant businesses' reputation and could adversely affect operations. Additionally, a work stoppage at any one of the suppliers of any of our businesses could materially and adversely affect our operations if an alternative source of supply were not readily available.

A disruption in our and each of our business' information technology systems, including incidents related to cyber security, could adversely affect our business operations

Our business operations, and the operations of our businesses, rely upon the accuracy, availability and security of information technology systems for data processing, storage and reporting. As a result, we, and our businesses, maintain information security policies and procedures for managing such information technology systems. However, such security measures may be ineffective and our information technology systems, or those of our businesses, may be subject to cyber-attacks. A number of companies around the world have been the subject of cybersecurity attacks in recent years, including in Israel where we have a large part of our businesses. For example, a large shipping company experienced a major cyberattack on its IT systems in 2017, which impacted that company's operations in transport and logistics businesses and resulted in financial loss. These attacks are increasing and becoming more sophisticated, and may be perpetrated by computer hackers, cyber terrorists or other corporate espionage.

Cyber security attacks could include malicious software (malware), attempts to gain unauthorized access to data, and other electronic security breaches of our and our business' information technology systems as well as the information technology systems of our customers and other service providers that could lead to disruptions in critical systems, unauthorized release, misappropriation, corruption or loss of data or confidential information. In addition, any system failure, accident or security breach could result in business disruption, unauthorized access to, or disclosure of, customer or personnel information, corruption of our data or of our systems, reputational damage or litigation. We or our operating companies may also be required to incur significant costs to protect against or repair the damage caused by these disruptions or security breaches in the future, including, for example, rebuilding internal systems, implementing additional threat protection measures, providing modifications to our services, defending against litigation, responding to regulatory inquiries or actions, paying damages, providing customers with incentives to maintain the business relationship, or taking other remedial steps with respect to third parties. These cyber security threats are constantly evolving. We, therefore, remain potentially vulnerable to additional known or yet unknown threats, as in some instances, we, our businesses and our customers may be unaware of an incident or its magnitude and effects. Should we or any of our operating businesses experience a cyber-attack, this could have a material adverse effect on our, or any of our operating companies', business, financial condition or results of operations.

Risks Related to Legal, Regulatory and Compliance Matters

We, and each of our businesses, are subject to legal proceedings and legal compliance risks.

We are subject to a variety of legal proceedings and legal compliance risks in every part of the world in which our businesses operate. We, our businesses, and the industries in which we operate, are periodically reviewed or investigated by regulators and other governmental authorities, which could lead to enforcement actions, fines and penalties or the assertion of private litigation claims and damages. Changes in laws or regulations could require us, or any of our businesses, to change manners of operation or to utilize resources to maintain compliance with such regulations, which could increase costs or otherwise disrupt operations. Protectionist trade policies and changes in the political and regulatory environment in the markets in which we operate, such as foreign exchange import and export controls, tariffs and other trade barriers and price or exchange controls, could affect our businesses in several national markets, impact our profitability and make the repatriation of profits difficult, and may expose us or any of our businesses to penalties, sanctions and reputational damage. In addition, the uncertainty of the legal environment in some regions could limit our ability to enforce our rights.

The global and diverse nature of our operations means that legal and compliance risks will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, will arise from time to time. No assurances can be made that we will be found to be operating in compliance with, or be able to detect violations of, any existing or future laws or regulations. In addition, as we hold minority interests in ZIM and Qoros, we do not control them and therefore cannot ensure that they will comply with all applicable laws and regulations. A failure to comply with or properly anticipate applicable laws or regulations could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We may be subject to further government regulation, which may adversely affect our strategy.

The U.S. Investment Company Act of 1940 regulates “investment companies,” which includes entities that are, or that hold themselves out as being, primarily engaged in the business of investing, reinvesting and trading in securities or that are engaged, or propose to engage, in the business of investing, reinvesting, owning, holding or trading in securities and own, or propose to acquire, investment securities having a value exceeding 40% of the value of the issuer’s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis (or 45% of the issuer’s net income or assets, excluding interest in primarily controlled companies). Accordingly, we do not believe that we are subject to regulation under the U.S. Investment Company Act of 1940. We are organized as a holding company that conducts its businesses primarily through majority owned and primarily controlled subsidiaries. Maintaining such status may impose limits on our operations and on the assets that we and our subsidiaries may acquire or dispose of. If, at any time, we meet the definition of investment company, we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company under the U.S. Investment Company Act of 1940, either of which could have an adverse effect on us and the market price of our securities. The U.S. Investment Company Act of 1940 generally only allows U.S. entities to register. If we were required to register as an investment company but failed to do so, we could be prohibited from engaging in our business in the United States or offering and selling securities in the United States or to U.S. persons, unable to comply with our reporting obligations in the United States as a foreign private issuer, subject to the delisting of the Kenon shares from the New York Stock Exchange, or the NYSE, and subject to criminal and civil actions that could be brought against us, any of which would have a material adverse effect on the liquidity and value of the Kenon shares and on our business, financial condition, results of operations or liquidity.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws outside of the United States

The U.S. Foreign Corrupt Practices Act, or the FCPA, and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials or other persons for the purpose of obtaining or retaining business. Recent years have seen substantial anti-bribery law enforcement activity, with aggressive investigations and enforcement proceedings by both the U.S. Department of Justice and the SEC, increased enforcement activity by non-U.S. regulators, and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with the FCPA and other applicable anti-bribery laws. We operate, through our businesses, in some parts of the world that are recognized as having governmental and commercial corruption. Additionally, because many of our customers and end users are involved in construction and energy production, they are often subject to increased scrutiny by regulators. Our internal control policies and procedures may not protect us from reckless or criminal acts committed by our employees, the employees of any of our businesses, or third party intermediaries. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA, we would investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in criminal or civil sanctions, inability to do business with existing or future business partners (either as a result of express prohibitions or to avoid the appearance of impropriety), injunctions against future conduct, profit disgorgements, disqualifications from directly or indirectly engaging in certain types of businesses, the loss of business permits, reputational harm or other restrictions which could disrupt our business and have a material adverse effect on our business, financial condition, results of operations or liquidity. We face risks with respect to compliance with the FCPA and similar anti-bribery laws through our acquisition of new companies and the due diligence we perform in connection with an acquisition may not be sufficient to enable us fully to assess an acquired company’s historic compliance with applicable regulations. Furthermore, our post-acquisition integration efforts may not be adequate to ensure our system of internal controls and procedures are fully adopted and adhered to by acquired entities, resulting in increased risks of non-compliance with applicable anti-bribery laws.

We could be adversely affected by international sanctions and trade restrictions.

We have geographically diverse businesses, which may expose our business and financial affairs to political and economic risks, including operations in areas subject to international restrictions and sanctions. Legislation and rules governing sanctions and trade restrictions are complex and constantly evolving. Moreover, changes in these laws and regulations can be unpredictable and happen swiftly. Part of our global operations necessitate the importation and exportation of goods and technology across international borders on a regular basis. From time to time, we, or our businesses, obtain or receive information alleging improper activity in connection with such imports or exports. Our policies mandate strict compliance with applicable sanctions laws and trade restrictions. Nonetheless, our policies and procedures may not always protect us from actions that would violate U.S. and/or foreign laws. Such improper actions could subject us to civil or criminal penalties, including material monetary fines, denial of import or export privileges, or other adverse actions. The occurrence of any of the aforementioned factors could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Risks Related to OPC

OPC faces risks in connection with the expansion of its business.

OPC is in the process of the construction and development of power generation facilities and is contemplating further such development. Existing regulation, such as antitrust laws, regulation by virtue of the Israeli Concentration Law, or the EA rules with respect to holdings of control in generation licenses, may restrict the expansion of OPC's activity in Israel.

For example, OPC's subsidiary Tzomet is developing a natural gas-fired open-cycle power station in Israel with capacity of approximately 396 MW. In April 2019, the EA published its decision to grant Tzomet a conditional license for a 66-month term (which can be extended, subject to conditions) for the construction of a 396MW conventional open-cycle power plant. However, such conditional license remains subject to the Israeli Minister of Energy's approval and the issuance of a guarantee by Tzomet. The grant of a permanent generation license to Tzomet, upon expiration of the conditional license, is subject to Tzomet's compliance with the conditions set by law. Development of the Tzomet plant is also subject to a positive interconnection study and to financial closing. If these conditions are not met by January 1, 2020, it could lead to cancellation of the project.

According to the Israeli Concentration Law, when allocating and determining the terms of certain rights, including the right to an electricity generation license, the regulator must take into account the promotion of competition in the relevant industry and the Israeli economy generally. If the right is on the list of rights that may have a material impact on competition, the regulator must consult with the Israel Antitrust Commissioner. Kenon, OPC, and OPC's subsidiaries are considered concentration entities under the Israel Corporation Group, which may affect OPC's or its subsidiaries' ability to receive a generation license if it involves the construction and operation of power plants exceeding 175 MW. The list of concentration entities also includes Mr. Idan Ofer, who is the beneficiary of entities that indirectly hold a majority of the shares in Kenon, and includes a list of other entities which may be affiliated with Mr. Idan Ofer, including ZIM, in which Kenon holds a 32% interest. OPC's expansion activities and future projects could, therefore, be limited by the Israeli Concentration Law.

Pursuant to the Israeli Government's electricity sector reform, as part of the required IEC tender process of five of its sites, entities will not be permitted to hold more than 20% of the total planned installed capacity on the date of sale of all the sites being sold. This reform is, therefore expected to increase competition and would impose limitations on OPC's ability to expand its business.

OPC is leveraged and may be unable to comply with its financial covenants or meet its debt service or other obligations.

As of December 31, 2018, OPC had \$587 million of outstanding indebtedness. The debt instruments to which OPC and its operating companies are party to require compliance with certain covenants and limitations, including

- Minimum liquidity, loan life coverage ratios and debt service coverage ratios covenants; and
- Other non-financial covenants and limitations such as restrictions on dividend distributions, repayments of shareholder loans, asset sales, pledges investments and incurrence of debt, as well as reporting obligations.

Breach of the various covenants could result, among other things, in acceleration of the debt, restrictions in the declaration or payment of dividends or cross-defaults across the debt instruments.

Furthermore, OPC may have a limited ability to receive financing from Israeli banks due to Israeli regulatory restrictions on the amount of loans that Israeli banks are permitted to grant to single borrowers or groups of borrowers, which may result in limitations to the amount of loans that they are permitted to grant to OPC.

OPC's facilities may be affected by disruptions, including planned maintenance, technical failures and natural disasters.

OPC's ongoing activities may be affected by technical disruptions and faults to critical equipment. For instance, various natural disasters, such as earthquakes or fires, may harm OPC's facilities and thereby affecting its operations and supply of electricity. Due to the nature of OPC's activities, which, for example, include the use and storage of flammable materials and working with high temperatures and pressures, OPC's facilities are exposed to the risk of fire hazards. Should natural or disasters damage OPC's facilities, restoration may involve the investment of significant resources and time, which would likely lead to full or partial shutdown of the generation facilities that were damaged. Losses that are not fully covered by OPC's insurance policies may have an adverse effect on OPC.

In addition, OPC's long-term service agreement for the maintenance of OPC-Rotem includes timetables for performance of the maintenance work, and in particular the first "major overhaul" maintenance, which is to be performed every six years. Regular maintenance work is completed approximately every 18 months, with the next regular maintenance work scheduled to occur prior to the summer of 2020. Maintenance work may result in operational shutdowns and impact results. As planned, major overhaul maintenance work was completed between September and November 2018, which halted the OPC-Rotem plant's operations along with the related energy generation activities, which impacted results for this period.

The political and security situation in Israel may affect OPC.

A deterioration of the political and security situation in Israel may adversely affect OPC's activities and harm its assets. Security and political events such as a war or acts of terrorism may harm the facilities serving OPC (including the power station facilities owned by the Company), the construction of the OPC's current construction projects and future projects, computer systems, facilities for transmission of natural gas to the power stations and the electricity transmission grid. In addition, such acts may have an adverse effect on OPC's material suppliers, thereby limiting OPC's ability to supply electricity to its customers reliably. Likewise, a deterioration in the political and security situation in Israel may have a negative effect on OPC's ability to construct new projects, to raise capital for new projects and to initiate new projects in areas exposed to a security risk. Negative developments in the political and security situation in Israel and various security events may cause additional restrictions on OPC, including boycotts by various parties. In addition, in such cases, parties with whom OPC has contracted may claim to terminate their obligations pursuant to the agreements with the OPC due to the occurrence of force majeure events. In addition, some of OPC's employees may be called for reserve military duty and their absence may have an adverse effect on OPC's operations.

Changes in the EA's electricity rates may reduce OPC's profitability.

The price of electricity for OPC's customers is directly affected by the electricity generation tariff, and this is the basis of linking the price of natural gas pursuant to gas purchase agreements. Therefore, changes in the electricity rates published by the EA, including the rate of the electricity generation component, may have a substantial adverse effect on OPC's profits.

If the generation component tariffs published by the EA change as a result of, among other things, fluctuations in currency exchange rates or IEC fuel costs, OPC's revenues from sales to private customers and cost of sales will be affected. According to public reports of the Tamar Group partners, in February 2019 an amendment to the agreement of the Tamar Group with the IEC was approved regarding the price of natural gas under the agreement. If the amendment is executed, the IEC will pay lower prices for the natural gas supplied under the agreement, commencing from January 2019 up to the first price adjustment date (currently set for July 1, 2021). This could impact the tariffs under PPAs and could potentially affect the price that OPC pays for gas. For further information on the effect of EA tariffs on OPC's revenues and margins, see "*Item 5. Operating and Financial Review and Prospects—Material Factors Affecting Results of Operations—OPC—Sales—EA Tariffs.*"

Furthermore, the gas price formula determined in the agreement with the Tamar Group (which includes Noble Energy Mediterranean Ltd., Isramco Negev 2 Limited Partnership, Delek Drilling Limited Partnership, Dor Gas Exploration Limited Partnership, Everest Infrastructure Limited Partnership and Tamar Petroleum Ltd.) is subject to a minimum price. Therefore, when the price of gas is equal to or lower than the minimum price, reductions in the generation tariff will not lead to a reduction in the cost of natural gas consumed by OPC-Rotem, but rather to a reduction in profit margins. For example, in connection with reductions in the EA generation component tariff in 2015, OPC-Rotem paid the minimum price starting in November 2015 as well as during 2016 to 2018 (excluding one month in 2018).

Therefore, declines in the EA generation component tariff may not have a corresponding decline in OPC-Rotem's natural gas expenses, due to the floor price mechanism, and may lead to a decline in OPC-Rotem's margins, which may have a material adverse effect on OPC's business, results of operations and financial condition.

Changes in the Consumer Price Index in Israel or the U.S. Dollar to NIS exchange rate could adversely affect OPC.

If Israel experiences inflation it may affect OPC. A significant portion of the liabilities of OPC and its subsidiaries is linked to the CPI, including a substantial part of the OPC-Rotem and OPC-Hadera loans. Therefore, changes to the CPI could impact OPC's financing expenses and results of operations. In addition, to the extent that OPC is above the floor price in its gas supply agreement, the price it pays for gas is linked in part to the U.S. Dollar to NIS exchange rate, and accordingly variations in such rate can impact OPC's results. The IEC's electricity tariff is also set, in part, in accordance with the IEC's fuel costs that are denominated in U.S. Dollars and is therefore also affected by variations in the U.S. Dollar to NIS exchange rate.

OPC could face barriers to exit in connection with the disposals or transfers of its businesses, development project or other assets.

OPC may face exit barriers, including high exit costs or objections from various parties (whose approval OPC requires), in connection with dispositions of its operating companies, development projects or their assets. For example, pursuant to Israel's Electricity Sector Law 5756-1996, or Electricity Sector Law, the transfer of control over an entity that holds a generation license in Israel must be approved by the Electricity Authority, or the EA. Additionally, there are restrictions on a transfer of control of OPC, OPC-Rotem and OPC-Hadera, pursuant to, among others, OPC-Rotem's PPA with the Israel Electric Corporation, or IEC, the trust deed relating to OPC's bonds, and OPC-Rotem's and OPC-Hadera's credit agreements. Such restrictions may prohibit or make it difficult for OPC to dispose of its interests in its businesses.

OPC is also defined as a "significant real corporation." As a result, OPC is subject to various restrictions, which mainly include restrictions on significant financial entities holding an interest (above a certain percentage) in such companies and restrictions on OPC's holdings (above a certain percentage) of financial entities. Such restrictions may also limit Kenon's ability to transfer its interests in OPC.

OPC requires qualified personnel to manage and operate its various businesses and projects.

OPC requires professional and skilled personnel in order to manage its current activities and the performance of its projects, to service and respond to customers and suppliers. Therefore, OPC must be able to retain employees and professionals with the necessary skills. Furthermore, OPC employs foreign employees. Any unavailability of qualified personnel could negatively impact OPC's activity and results of operations.

In addition, most of OPC-Rotem's and Hadera Energy Center's operations employees are employed through a collective agreement. The OPC-Rotem collective employment agreement expires on April 1, 2019, and upon such expiration OPC is expected to commence negotiations to renew this collective employment agreement on terms to be agreed among the negotiating parties. Collective agreements may reduce managerial flexibility and impose additional costs on OPC. For further information on these collective agreements, see "*Item 4.B Business Overview—Our Businesses—OPC—Employees.*"

The interruption or failure of OPC's information technology, communication and processing systems or external attacks and invasions of these systems could have an adverse effect on OPC.

OPC uses information technology systems, telecommunications and data processing systems to operate its businesses. Damage to such systems may result in service delays or interruptions to OPC's ability to provide electricity to its customers. It may also result in damage to or theft of OPC's or its customer's information.

In recent years, cybersecurity attacks of security systems have increased globally and OPC could be exposed to such attacks, which may harm its business and operations or result in reputational damage. There is no certainty that OPC will be able to prevent a cyber-attack. Furthermore, if a cyber-attack occurs, there is no certainty that OPC will be able to prevent the harm on its information systems and it could have a significant effect on OPC's operations. OPC may be subject to significant costs in order to protect itself against harm caused to its information systems and to repair any damages caused. It may also face litigation, compensation and remediation costs relating to cybersecurity incident, which could have an adverse effect on its reputation, business, financial condition and results of operations.

OPC is exposed to litigation and/or administrative proceedings.

OPC is involved in various litigation proceedings, and may be subject to future litigation proceedings, which could have adverse consequences on its business.

For example, in connection with the indexation of their natural gas price formula for OPC-Rotem's gas supply agreement with the Tamar Group, OPC-Rotem and the Tamar Group disagreed as to which of Israel's Public Utilities Authority (Electricity) July 2013 tariffs applied to OPC-Rotem's supply agreement and have a similar disagreement with respect to the tariffs published in January 2015. In February 2017, OPC-Rotem received a letter from the Tamar Group with respect to the dispute. The Tamar Group requested payment by OPC-Rotem of approximately \$25 million (including accrued interest) in connection with the dispute, or the deposit of such amount in escrow pursuant to the gas supply agreement. In May 2017, OPC-Rotem deposited approximately \$22 million in a trust account in respect of the dispute. In June 2017, the Tamar Group submitted a motion to initiate arbitration proceedings at the London Court of International Arbitration, requesting payment of approximately \$33 million, along with alternative requests based on lower tariffs should its primary request fail. In its response in July 2017, OPC-Rotem disputed the Tamar Group's claims, requesting release of the amount deposited in the trust account. In February 2018, the Tamar Group filed a statement of claim, repeating its initial claims and requesting a different tariff determination. OPC-Rotem filed its defense in June 2018, disputing all of the Tamar Group's claims, and the Tamar Group responded in October 2018. A hearing was held in February 2019 and the arbitrator has yet to issue its ruling, which is expected to be issued during 2019. There is no certainty that OPC-Rotem's claims will be accepted in whole or in part.

Litigation and/or regulatory proceedings are inherently unpredictable, and excessive verdicts may occur. Adverse outcomes in lawsuits and investigations could result in significant monetary damages, including indemnification payments, or injunctive relief that could adversely affect OPC's ability to conduct its business and may have a material adverse effect on OPC's financial condition and results of operations. In addition, such investigations, claims and lawsuits could involve significant expense and diversion of OPC's management's attention and resources from other matters, each of which could also have a material adverse effect on its business, financial condition, results of operations or liquidity.

OPC's insurance policies may not fully cover damage, and OPC may not be able to obtain insurance against certain risks.

OPC and its subsidiaries maintain insurance policies intended to reduce various risks, as is customary in the industry. However, the existing insurance policies maintained by OPC and its subsidiaries may not cover certain types of damages or may not cover the entire scope of damage caused. In addition, OPC may not be able to obtain insurance on comparable terms in the future. OPC and its subsidiaries may be adversely affected if they incur losses that are not fully covered by their insurance policies. For further information on OPC's insurance policies, see "*Item 4.B Business Overview—Our Businesses—OPC—Insurance.*"

OPC's operations are significantly influenced by regulations.

OPC is subject to significant government regulation. It is therefore exposed to changes in these regulations as well as changes to regulations applicable to sectors that are associated with the company's activities. Regulatory changes may have an adverse effect on OPC's activity and results or on its terms of engagement with third parties, such as its customers and suppliers, such as the Tamar Group. In the coming years, OPC expects frequent regulatory changes in the industry, including in relation to the private electricity market in Israel, which is a new and developing market. Regulatory changes may impact the power stations owned by OPC or the power stations that it intends to develop, including the economic feasibility of establishing new power stations.

Furthermore, OPC is subject to environmental laws and regulations, including those that seek to regulate noise pollution and emission of contaminants to treat hazardous materials. If stricter regulatory requirements are imposed on private electricity producers or if OPC does not comply with such requirements, laws and regulations, this could have an adverse effect on OPC's results and activity. Furthermore, stricter regulatory requirements could require material expenditures or investments by OPC.

Additionally, OPC requires certain licenses to produce and sell electricity in Israel, and may need further licenses in the future. For example, in November 2017, for propriety purposes, OPC-Rotem submitted an application to the EA to obtain a supply license which would permit OPC-Rotem to trade electricity with other electricity suppliers in Israel. In February 2018, the EA responded that OPC-Rotem is required to receive a supply license to continue its sale of electricity to consumers, that the license will not change the terms of the agreement between OPC-Rotem and the EA and will not detract from OPC-Rotem's rights according to it. The EA also stated that it will consider OPC-Rotem's supply license once the issue of electricity trade in the Israeli economy has been comprehensively dealt with, but there is no assurance regarding the receipt of the license or the terms of the license should it be issued. If the EA refuses to grant OPC-Rotem a supply license as requested, this may harm OPC-Rotem's ability to trade surplus electricity with other power stations, including related companies.

Furthermore, as discussed under "*— OPC faces risks in connection with the expansion of its business ,*" OPC's conditional license for the construction of the Tzomet plant remains subject to the Israeli Minister of Energy's approval and the issuance of a guarantee by Tzomet. The grant of a permanent generation license to Tzomet, upon expiration of the conditional license, is subject to Tzomet's compliance with the conditions set by law. An inability to obtain approval for the conditional license or the permanent generation license in time or at all may result in the project not being completed in time or at all and, therefore, have a material adverse effect on OPC's business, financial condition and results of operations.

Construction or development projects may not be completed or, if completed, may not be completed on time or perform as expected.

OPC faces risks in connection with its development projects, including future projects and the development of the Hadera Power station, in particular because it owns this project at a development stage. Developing a power station project entails certain risks, such as:

- risks associated with the construction contractor,
- supply of key equipment,
- performance of works at the required specifications and within the required time,
- receipt of services required from the IEC to establish the station and connect it to the grid (which may be affected by sanctions and IEC strikes),

- impact on PPAs of any delays in completing new projects;
- applicable regulation, and
- obtaining the required approvals and permits for the development and operation of the station, including obtaining permits required in connection with the environment, including emission permits, and compliance with their terms.

OPC faces these risks in the development of its OPC-Hadera and Tzomet projects.

OPC-Hadera

OPC-Hadera is party to the Hadera Power station EPC agreement with SerIDOM Servicios Integrados IDOM S.A.U., or IDOM and a maintenance agreement with General Electric International, Inc. and its affiliates, or GE. Breaches by IDOM or General Electric International, Inc. and its affiliates, or GE, including failure to meet certain fixed schedules and supply the primary equipment on time, or in the required quality, are likely to delay or hinder the establishment of the Hadera Power station, and may also hamper the performance of the Hadera Power station once it is built, and as a result cause material harm to OPC. IDOM has agreed to compensate OPC-Hadera in case of a delay or non-compliance with the terms determined in the agreement in connection with the operation of the station. However, the agreed compensation for the underperformance of the Hadera Power station is limited.

Additionally, the establishment of part of the infrastructure to connect the Hadera Power station and the Hadera Paper mill is under Hadera Paper's responsibility. If Hadera Paper, which we do not control, does not meet its obligations to establish the infrastructure by the agreed date, this may lead to delays and obstructions in the development and operation of the Hadera Power station, thus adversely affecting OPC's business and results of operations.

OPC-Hadera has entered into financing agreement to finance the construction of OPC-Hadera's power plant, and funding under this agreement is subject to conditions, see "*Item 5.B Liquidity and Capital Resources—OPC's Liquidity and Capital Resources—OPC's Material Indebtedness—OPC-Hadera Financing.*" If OPC-Hadera is unable to comply with any of the conditions could impact the financing for the construction of the power plant and result in delays or an inability to complete the project.

Pursuant to OPC-Hadera's contingent license, the license is valid until September 2019. Expiration of the conditional license prior to the COD date and the receipt of a permanent license would constitute grounds for an event of default under OPC-Hadera's financing agreement.

Furthermore, in the event of significant delays past the agreed COD date, the majority of customers have the right to cancel PPAs, subject to certain conditions.

Tzomet

As discussed under "*— OPC faces risks in connection with the expansion of its business,*" the conditional license for the construction of the Tzomet plant remains subject to the Israeli Minister of Energy's approval and the issuance of a guarantee by Tzomet. The grant of a permanent generation license to Tzomet, upon expiration of the conditional license, is subject to Tzomet's compliance with the conditions set by law. Development of the Tzomet plant is also subject to a positive interconnection survey and to financial closing.

In September 2018, Tzomet entered into an EPC agreement with PW Power Systems LLC, or PW, for construction of the Tzomet project. For more information on this agreement, see "*Item 4.B Business Overview—OPC—OPC's Description of Operations—Tzomet.*" If OPC is unable to meet its commitments or achieve the milestones under the agreement, including in the case that OPC is unable to obtain relevant approvals, this could result in increased costs for or delays in the project, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, OPC requires financing in connection with the development of the Tzomet project. If OPC is unable to obtain or utilize financing for the Tzomet project, this may hinder OPC's ability to complete the Tzomet project.

If these conditions described above for the Tzomet project are not met by January 1, 2020, Tzomet could lose relevant permits to develop the project.

OPC faces competition from other IPPs.

In recent years, the Israeli government's policy has been to open the electricity market to competition and to encourage the entry of private electricity producers. This policy has increased the number of private electricity producers, increasing the level of competition in the private generation market, which may have an adverse effect on OPC's business. In 2018, 32% of the total electricity generation in Israel was generated by private producers.

Pursuant to the Electricity Sector Law (Amendment No. 16 and Temporary Order) (2018) that was published in July 2018, the IEC will be required to sell five of its power stations through a tender process over the next 8 years, which is expected to reduce the IEC's market share to below 40%. Furthermore, the IEC will be required to build and operate two new gas-powered stations, but will not be authorized to construct any new stations or recombine existing stations. This new law is expected to further increase competition from private producers, which may have an adverse effect on OPC's business. For more information regarding this law, see “— *OPC's Description of Operations—Regulatory, Environmental and Compliance Matters* .”

Increased competition could make it more difficult for OPC to enter into new long-term PPAs, renew the existing PPAs at the time they expire. OPC-Rotem has a PPA with the IEC, the government-owned electricity generation, transmission and distribution company in Israel, or the IEC PPA. The term of the IEC PPA lasts until 20 years after the power station's COD. According to the agreement, OPC-Rotem is entitled to operate in one of the following two ways (or a combination of both with certain restrictions set in the agreement): (1) provide the entire net available capacity of its power station to IEC or (2) carve out energy and capacity for direct sales to private consumers, and OPC-Rotem has accordingly allocated the entire capacity of the plant to private consumers since COD. Under the IEC PPA, OPC-Rotem can also elect to revert back to supplying to IEC instead of private customers, subject to twelve months' advance notice. If OPC is required to rely on the IEC PPA because it is unable to enter into sufficient PPAs as a result of increased competition, it will be faced with lower margins, which may have an adverse effect on its business, financial condition and results of operations.

OPC is dependent on certain significant customers.

OPC has a small number of customers that purchase a significant portion of OPC's output under PPAs that account for a substantial percentage of the anticipated revenue of its generation companies. OPC's top five customers represented approximately 75% of its revenues in 2018; therefore, OPC's revenues from the generation of electricity are highly sensitive to the consumption by significant customers. Therefore, should there be no demand for electricity from OPC's significant customers or should such customers not fulfill their obligations, including by failing to make payments to OPC, OPC's revenues could be significantly affected.

The ORL Group, which is a major OPC customer and is considered a related party, represented approximately 20% of OPC's revenues in 2018. Loss of the ORL Group as a customer could have a material adverse effect on OPC's business and results of operations. In January 2018, a shareholder of the ORL Group filed a claim against, among others, OPC, regarding certain gas purchase transactions. If this suit or related considerations impacts OPC's ability to do business with the ORL Group or other related parties, or if OPC were to otherwise lose this significant customer, this could impact OPC's business and results of operations.

Furthermore, OPC-Hadera is dependent on Hadera Paper's consumption of steam. If such consumption ceases, it could have a material effect on OPC's operations and OPC-Hadera's classification as a cogeneration electricity producer (which entails certain benefits). For further information on the regulations relating to cogeneration electricity producers, see “ *Item 4.B Business Overview—OPC—Regulatory, Environmental and Compliance Matters—Regulatory Framework for Cogeneration IPPs* .”

Supplier concentration may expose OPC to significant financial credit or performance risk.

The Tamar Group is OPC's sole supplier of gas. If the Tamar Group is unable to supply OPC with its gas requirements, it could have a material adverse effect on OPC's profitability. OPC has also entered into an agreement with Energean for the supply of gas in the future, but there is no guarantee that such alternative gas supply will be available by such date or at all. Construction of natural gas reservoirs by Energean has not yet been completed.

OPC-Rotem has a single maintenance agreement with Mitsubishi Heavy Industries Ltd., or Mitsubishi, for the maintenance of its power station. If Mitsubishi is unable to perform its obligations under its contract with OPC-Rotem, this could result in the technical malfunctioning of the power station. This could lead to delays in the supply of electricity, loss of revenues for OPC and a reduction in its profits. It could also have similar adverse effects on other projects once they are completed.

OPC relies on transmission facilities for the transmission of power and gas.

OPC's businesses depend upon transmission facilities owned and operated by the IEC to deliver the wholesale power it sells from its power generation plants. If transmission is disrupted, or if the transmission capacity infrastructure is inadequate, OPC's ability to sell and deliver wholesale power may be adversely impacted. OPC's businesses may also be affected by IEC strikes and sanctions.

Furthermore, there is currently a single company supplying natural gas to OPC and one company providing it with gas transmission services. Failure to comply with the requirements of these companies or limitations in the supply or transmission of gas by such companies could affect OPC's ability to generate electricity using natural gas, which could have a material adverse effect on OPC's business and results of operations. Finally, OPC's plants require water for their operation. A continued disruption in the water supply could disrupt the operation of such plants.

Risks Related to the Sale of the Inkia Business

We have indemnification obligations under the share purchase agreement for the sale of the Inkia Business

In December 2017, our wholly-owned subsidiary Inkia sold its Latin America and Caribbean businesses, or the Inkia Business, to an entity controlled by I Squared Capital, an infrastructure private equity firm. For further information on the sale and share purchase agreement see “*Item 4.B Business Overview—Discontinued Operations—Inkia Business — Sale of the Inkia Business— Share Purchase Agreement.*”

Under the share purchase agreement, our subsidiary Inkia has agreed to indemnify the buyer and its successors, permitted assigns, and affiliates against certain losses arising from a breach of Inkia’s representations and warranties and certain tax matters, subject to certain time and monetary limits depending on the particular indemnity obligation. These indemnification obligations are supported by (a) a three-year pledge of shares of OPC which represent 25% of OPC’s outstanding shares, (b) a deferral of \$175 million of the purchase price in the form of a four-year \$175 million deferred payment agreement, or the Deferred Payment Agreement, accruing interest at 8% per year and payable in-kind, and (c) a three-year corporate guarantee from Kenon for all of the Inkia’s indemnification obligations. All of the foregoing time periods run from December 31, 2017. To the extent that Inkia is required to make indemnification payments under the share purchase agreement (and such payment obligations are agreed between buyer and seller or determined by a court in a non-appealable judgment), the buyer is entitled to seek recourse to the foregoing support arrangements in the following order: first, by exhausting rights under the OPC share pledge, second, by set off against amounts owing by the buyer under the Deferred Payment Agreement and third against the Kenon guarantee.

If Inkia is required to make indemnification payments under the share purchase agreement this could require us to sell OPC shares or result in enforcement of the OPC share pledge, set off against amounts owing to us under the Deferred Payment Agreement and enforcement of the Kenon guarantee, which could impact our liquidity and financial position. Furthermore, any enforcement of the OPC share pledge could result in the buyer acquiring a significant interest in OPC or could result in a sale of a significant amount of OPC shares which could adversely affect the market price of OPC’s shares.

If Kenon is required to make payments under the guarantee it may need to use funds from its businesses, or sell assets, including OPC shares. Furthermore, any sales of assets may not be at attractive prices, particularly if such sales must be made quickly to meet the sellers’ obligations.

We are subject to risk in relations to the Deferred Payment Agreement

As part of the consideration for the sale of the Inkia Business, \$175 million of the purchase price payable to us was deferred in the form of a four-year \$175 million Deferred Payment Agreement, accruing interest at 8% per year and payable in-kind. The obligor under the Deferred Payment Agreement is Nautilus Energy TopCo LLC, or Nautilus Energy, which is the parent company of the buyer of the Inkia Business. The obligations of Nautilus Energy under this agreement are secured by a pledge over its shares by its direct parent company and a pledge over the shares of the direct subsidiary of Nautilus Energy. The obligations of Nautilus Energy are structurally subordinated to all of the debt and other obligations of the buyer of the Inkia Business and the Inkia Business itself. Accordingly, to the extent that the buyer of the Inkia Business or the Inkia Business itself are required to make payments to their creditors, there could be insufficient funds remaining for Nautilus Energy to meet its obligations under the Deferred Payment Agreement. In addition, debt or other agreements may limit amounts which can be distributed or otherwise transferred to Nautilus Energy to make payments on the Deferred Payment Agreement. Finally, Nautilus Energy will depend on cash held or generated by the Inkia Business to be made available to it to meet its obligations under this agreement. ISQ Global Infrastructure Fund II, L.P., an indirect parent of Nautilus Energy, has provided a guarantee of Nautilus Energy’s obligations under the deferred payment agreement. However, this guarantee falls away upon a cross-acceleration of Nautilus Energy’s obligations under the deferred payment agreement. For further information see “*Item 4.B Business Overview—Discontinued Operations—Inkia Business—Nautilus Energy TopCo LLC Deferred Payment Agreement.*”

We are subject to credit risk relating to this loan, as Nautilus Energy may be unable to make principal and interest payments as they become due and there is no guarantee that any collateral securing such loan will be sufficient to protect us in the event of non-payment by Nautilus Energy.

In addition, we face risks under this loan relating to our indemnification obligations under the share purchase agreement for the sale of the Inkia Business, as to the extent that there are indemnification obligations owing to the buyer (and such payment obligations are agreed between buyer and seller or determined by a court in a non-appealable judgment) which are unpaid and after the buyer has exhausted its rights under the OPC share pledge, the buyer can offset amounts owing under this loan against unpaid indemnification obligations.

The transition services to be provided by the buyer may not be sufficient and be difficult for us to replace upon expiration of the agreement

In connection with the sale of the Inkia Business, we entered into a transition services agreement with the buyer. This agreement outlines the provision of transition services by the Inkia Business throughout a transition period. The transition services covered by this agreement include the preparation of financial statements, assistance with reporting requirements and consulting services with respect to the construction of OPC-Rotem. Any failure by the Inkia Business to perform such services during the transition period, or any failure by us to successfully transition such services away from the Inkia Business upon expiration of the transition services agreement and integrate the new services into our business, could have an adverse effect on our business.

Risks Related to Our Interest in Qoros

Qoros depends on funding to further its development and, until it achieves significant sales levels, to meet its operating expenses, financing expenses, and capital expenditures.

Qoros has incurred losses since its inception and is continuing to experience losses and negative operating cash flow and expects that this will continue until it achieves significantly higher levels of sales. Qoros' operating expenses, debt service requirements, capital expenditures and other liquidity requirements are significant. Until Qoros experiences a significant increase in sales, it will continue to require additional financing, including the renewal or refinancing of its working capital facilities, to meet these expenses and requirements, and there is no assurance that Qoros will experience an increase in sales in the near-term, if at all, or obtain additional financing.

Qoros has significant obligations. Qoros has historically relied upon capital contributions, loans, guarantees and pledges from its shareholders, and third-party loans supported by its shareholders, to fund its development and operations. Qoros has long-term, short-term and working capital credit facilities, but amounts available under such facilities are limited. Qoros actively manages its trade payables, accrued expenses and other operating expenses in connection with the management of its liquidity requirements and resources.

The 2018 investment by the Majority Shareholder in Qoros has improved Qoros' liquidity, but Qoros may need to continue to secure additional financing from shareholders or third party financing institutions to meet its operating expenses, including accounts payable, and debt service requirements until it increases its sales levels. To the extent that the Majority Shareholder in Qoros provides additional financing to Qoros in the form of equity, Kenon's interest in Qoros would be diluted.

Qoros' success is dependent upon an increase in sales volumes.

Qoros sales increased in 2018 compared to prior years, but it still needs to increase sales to reach breakeven. In addition, a substantial portion of 2018 sales were made to an entity introduced by the Majority Shareholder in Qoros. Qoros' success will depend upon Qoros increasing its sales volumes, which will depend on, among other things:

- the continued development of the Qoros brand;
- successful development and launch of new vehicle models;
- expansion and enhanced sales performance of its dealer network;
- build-up of its aftersales and services infrastructure;
- managing its procurement, manufacturing and supply processes;
- the volume of vehicles acquired by a new customer introduced by the Majority Shareholder in Qoros;
- establishing effective, and continuing to improve, customer service processes; and
- securing additional financing to support its operating and capital expenses and further its growth and development.

Qoros will need to increase sales to a broad base of customers to establish its brand and create a sustainable customer base.

Qoros sells a majority of its vehicles to a single purchaser

A significant portion of car sales in 2018 were made to a leasing company, which was introduced by the Majority Shareholder in Qoros. If this entity reduces or ceases its purchases from Qoros, it could have a material impact on sales which could have a material adverse effect on Qoros' business, financial condition and results of operations. Additionally, Qoros faces credit risk with respect to its sales to a significant customer.

Qoros is significantly leveraged.

As of December 31, 2018, Qoros had total loans and borrowings of RMB5.1 billion (approximately \$742 million). Qoros will require additional financing for its continued development.

Highly leveraged businesses are inherently more sensitive to declines in revenues, increases in expenses and interest rates, and adverse market conditions. This is particularly true for Qoros, as Qoros has yet to generate positive cash flows from its operations. Qoros uses a portion of its liquidity to make debt service payments, thereby reducing its ability to use its cash flows to fund its operations, capital expenditures, or future business opportunities. Qoros has been required to make amortizing principal payments on its RMB3 billion, RMB1.2 billion and RMB700 million facilities since 2018 and the repayment requirements will increase significantly in 2019 and in future years.

Qoros' RMB3 billion syndicated credit facility, RMB1.2 billion syndicated credit facility, and RMB700 million syndicated credit facility contain affirmative and negative covenants. Those facilities, as well as its other short-term credit facilities, also contain events of default and mandatory prepayments for breaches, including certain changes of control, and for material mergers and divestments, among other provisions. A significant portion of Qoros' assets secures its RMB3 billion syndicated credit facility and, as a result, the amount of collateral that Qoros has available for future secured debt or credit support and its flexibility in dealing with its secured assets is therefore relatively limited.

Currently, Qoros' debt-to-asset ratio is higher, and its current ratio is lower, than the allowable ratios set forth in the terms of Qoros' RMB3 billion syndicated credit facility. In 2016, the lenders under Qoros' syndicated credit facility waived Qoros' compliance with the financial covenants under this facility through the first half of 2020. Should Qoros' debt-to-asset ratio continue to exceed, or its current ratio continue to be less than, the permitted ratios in any period after the waiver period, and Qoros' syndicated lenders do not waive such non-compliance or revise such covenants, Qoros' lenders could accelerate the repayment of borrowings due under Qoros' RMB3 billion syndicated credit facility. If Qoros does not maintain a good relationship with its lenders this could impact requests for lender consents, including the consents being sought by Majority Shareholder in Qoros, Chery and Kenon as pledgors of Qoros shares under the RMB1.2 billion facility in connection with the investment by the Majority Shareholder in Qoros.

If Qoros is unable meet its debt service obligations or otherwise comply with other covenants in its credit facilities, this would lead to an event of default. Each of Qoros' significant debt facilities above contains a "cross-default" provision which provides for an event of default if any other debt of Qoros in excess of RMB50 million becomes payable prior to maturity, so a default under such other debt facilities would result in a default under the facilities referenced above and a default that leads to acceleration under either facility above will result in an event of default under the other facility.

In the event that any of Qoros' lenders accelerate the payment of Qoros' borrowings, Qoros would not have sufficient liquidity to repay such debt. Additionally, as a substantial portion of Qoros' assets, including its manufacturing facility and significant portion of its intellectual property, secure its syndicated credit facility and other indebtedness, if Qoros were unable to comply with the terms of its debt agreements, this could result in the foreclosure upon and loss of certain of Qoros' assets.

Kenon has outstanding "back-to-back" guarantee obligations to Chery in respect of guarantees that Chery has given in respect of Qoros' bank debt and has pledged a substantial portion of its interests in Qoros to secure Qoros' bank debt, as well as Chery's guarantees of Qoros' debt. Accordingly, if Qoros' debt facilities become payable due to a default under these facilities or otherwise, Kenon may be required to make payments under its guarantees and could lose the shares in Qoros it has pledged. In addition, Kenon may be required to increase the amount of Qoros shares pledged (or Kenon may provide other credit support).

We have a minority interest in Qoros.

Kenon owns 24% of Qoros. Kenon has agreed to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros, the Majority Shareholder in Qoros will hold 63% and Chery will own 25%.

Under the investment agreement, the Majority Shareholder in Qoros also has the right to increase its stake in Qoros to up to 67%, subject to conditions. For further information on this option, see "*Item 4.B Business Overview—Our Businesses—Qoros—Qoros' Investment Agreement—Kenon's Put Option; the Majority Shareholder in Qoros' Right to make Further Investments in Qoros.*" If this right is exercised, Kenon's indirect interest in Qoros will be further diluted, resulting in less control over the Qoros business.

Prior to the Majority Shareholder in Qoros' investments, Kenon had a 50% interest in Qoros, and the right to appoint three of the six directors on the Qoros board, among various other management rights. As a result of this investment, Kenon's interest in Qoros has been diluted, and it is now entitled to only appoint two of the nine Qoros directors.

Accordingly, while Kenon maintains an active role as one of the three joint venture partners in Qoros, it holds a minority interest in Qoros. Qoros' other joint venture partners may have goals, strategies, priorities, or resources that conflict with our goals, strategies, priorities or resources, which may adversely impact our ability to effectively own Qoros, undermine the commitment to Qoros' long-term growth, or adversely impact Qoros' business. In addition, the Joint Venture Agreement contains provisions relating to the transfer and pledge of Qoros' shares, the appointment of executive officers and directors, and the approval of certain matters which may prevent us from causing Qoros to take actions that we deem desirable. For further information on the terms of our Joint Venture Agreement, see "*Item 4.B Business Overview—Our Businesses—Qoros—Qoros' Joint Venture Agreement.*"

Qoros has entered into certain arrangements and agreements with its shareholders.

Qoros sources its engines and certain spare parts from Chery, and has entered into various commercial agreements with respect to the provision of such supplies from Chery.

Qoros has also entered into a platform sharing agreement with Chery, pursuant to which Qoros provided Chery with the right to use Qoros' platform in exchange for a fee. In 2018, Qoros entered into a new platform sharing agreement with Chery, pursuant to which Chery provides Qoros with a modified version of the Qoros platform which was been further developed by Chery in exchange for a fee.

Qoros has total amounts payable to Chery in the amount of RMB652 million (approximately \$95 million) as of December 31, 2018.

Qoros may enter into additional commercial arrangements and agreements with shareholders or their affiliates in the future. Kenon's ability to control the terms of such transactions may be limited. Such transactions could create potential conflicts of interest, which could impact the terms of such transactions.

Qoros faces certain risks relating to its business.

Qoros faces the following risks relating to its business, which could have a material adverse effect on Qoros' business, financial condition and results of operations:

- *Risks relating to the evolution of its vehicle models and brand and the achievement of broad customer acceptance* – as Qoros' brand and business are relatively new Qoros has not achieved significant sales levels and its future business and profitability depend, in large part, on Qoros' ability to sell vehicle models to its targeted customers in its targeted price range;
- *Risks relating to Qoros' dependence upon a network of independent dealers to sell its automobiles* – Qoros' success is dependent, in large part, upon a network of dealers, whose salespersons Qoros does not directly employ and therefore cannot control, and as a result Qoros' dealer network may not achieve the required standards of quality of service producers within Qoros' expected timeframe, if at all. Qoros' development of its dealer network will likely be affected by conditions in the Chinese passenger vehicle market and the Chinese economy (which may impact Qoros, as a relatively new company, more than other established companies), the financial resources available to existing and potential dealers, the decisions dealers make as a result of the current and future sales prospects of Qoros' vehicle models, and the availability and cost of the capital necessary to acquire and hold inventories of Qoros' vehicles for resale. Qoros may have difficulty in expanding its dealer network if existing dealers are not performing well in terms of sales, and if Qoros is unable to expand its dealer network, this could make it difficult for Qoros to significantly increase sales levels;
- *Risks relating to the competitive industry in which Qoros operates* – Qoros competes in the highly competitive Chinese passenger vehicle market with established automobile manufacturers that may be able to devote greater resources to the design, development, manufacturing, distribution, promotion, pricing sale and support of their products, which could impair Qoros' ability to operate within this market or adversely impact Qoros' sales volumes or margins. Furthermore, additional competitors, both international and domestic, may seek to enter the Chinese market. Increased competition may reduce Qoros' margins and may also make it difficult for Qoros to increase sales.
- *Risks relating to recent trends in the Chinese market* . The growth rate in the Chinese vehicle market declined in recent years and sales declined in China in 2018, after many years of growth. This trend has resulted in increased competition in China's automotive market through price reductions, which has resulted in reduced margins.
- *Credit risk*. Qoros has accounts receivable for sales of cars on a wholesale basis of RMB1,521 million (approximately US\$221 million) as of December 31, 2018 and, accordingly, is subject to credit risk.

If Qoros is unable to keep up with advances in the electric vehicle industry, its competitive position may be adversely affected.

Qoros has recently entered into the electric vehicle market, and in December 2018 Qoros introduced an NEV model of the Qoros Sedan, the Qoros 3 EV500. Qoros expects to experience significant competition in the NEV market, as OEMs are required to satisfy certain recently issued regulations, under which the automakers must obtain a certain NEV score by 2019, which score is related to the number of NEVs the automaker produces. There is also no assurance that the NEV models that Qoros plans to offer will be accepted in this market.

Furthermore, if Qoros fails to introduce an NEV model that is accepted by the market, or fails to keep up with advances in electric vehicle technology, this would result in a decline in Qoros' competitive position in the NEV market, which could have a material adverse effect on Qoros' business, financial condition and results of operations.

Following the launch of its NEV models, Qoros will become subject to the laws, licensing requirements, regulations and policies applicable to NEVs in China. In recent years, the Chinese government has offered large subsidies for purchases of electric vehicles. However, these subsidies are expected to be gradually phased out over the next few years, which is expected to increase the costs to consumers and may affect the demand for NEVs in China. This could affect the profitability of the NEV market and have a material adverse effect on Qoros' business, financial condition and results of operations.

Qoros has recently experienced significant growth in its operations, which may place significant demands on its administrative, operational and financial resources.

Qoros has recently experienced significant growth in its operations. In 2018, Qoros sold approximately 62,000 vehicles, as compared to 15,000 vehicles in 2017, and more than doubled its workforce as compared to the previous year. This rapid growth has placed and may continue to place significant demands on Qoros' business infrastructure. Moreover, this growth has required, and will continue to require, Qoros to incur significant additional expenses and to commit additional senior management and operational resources. The increased turnover in senior management that Qoros has faced in recent years, including new senior management announced in early 2019, has also increased the pressure on Qoros' operational resources. These increased demands (and any future increase in such demands) on Qoros' administrative, operational and financial resources could have a material adverse effect on Qoros' business, financial condition and results of operations.

Qoros is subject to Chinese regulation and its business or profitability may be affected by changes in China's regulatory environment.

Local and national Chinese authorities have exercised, and will continue to, exercise substantial control over the Chinese economy through regulation and state ownership, including rules and regulations that regulate or affect the Chinese automobile manufacturing process and concern vehicle safety and environmental matters such as emission levels, fuel economy, noise and pollution. Additionally, China has recently permitted provincial and local economic autonomy and private economic activities, and, as a result, Qoros is dependent upon its relationship with the local governments in the Jiangsu province and Shanghai city, among others. As a result, certain of Qoros' ongoing corporate activities are subject to the approval and regulation of the relevant authorities in China including, among other things, capital increases and investments in Qoros, changes in the structure of Qoros' ownership, increases in the production capacity, construction of Qoros' production facilities, ownership of trademarks, the formation of subsidiaries, and the inclusion of Qoros' products in the national catalogue for purposes of selling them throughout China. Qoros' operations are also sensitive to changes in the Chinese government's policies relating to all aspects of the automobile industry. In addition, Qoros' production facility and products are required to comply with Chinese environmental regulations.

Qoros has incurred, and expects to incur in the future, significant costs in complying with these, and other applicable, regulations and believes that its operations in China are in material compliance with all applicable legal and regulatory requirements. The central or local Chinese governments may continue to impose new, conflicting or stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts by Qoros to ensure its compliance with such regulations or interpretations or maintain its competitiveness and margins. Qoros' ability to operate profitably in China may be harmed by any such changes in the laws and regulations, including those relating to taxation, environmental regulations, land use rights, property, or the aforementioned corporate matters, of China, Jiangsu, Shanghai or any other jurisdiction in which Qoros may do business. Qoros' failure to comply with such laws and regulations may also result in fines, penalties or lawsuits, which could have a material adverse effect on Qoros' business, financial condition, results of operations or liquidity.

China has recently published a set of fuel consumption credit and NEV credit rules to promote the growth of the NEV market and reduce reliance on internal combustion vehicles. Under the regulations, automakers must obtain a certain NEV score by 2019, which score is related to the number of NEVs the automaker produces. If the automaker is unable to obtain the score, it is required to purchase credits from other automakers or will be unable to sell its conventional vehicles. Although Qoros did not purchase a material amount of credits in 2018, the amount could be material in the future. For more information on the risks relating to the NEV industry see "*If Qoros is unable to keep up with advances in the electric vehicle industry, its competitive position may be adversely affected.*"

Qoros requires qualified personnel to manage its operations.

Qoros' senior executives and personnel are important to Qoros' success, the establishment of Qoros' strategic direction, and the design and implementation of Qoros' business plan. Qoros also requires qualified, competent and skilled employees to independently direct its day-to-day business operations, execute its business plans, and service Qoros' customers, dealers, suppliers and other stakeholders. Qoros' products and services are highly technical in nature. Therefore, Qoros must be able to attract, recruit, hire, train and retain skilled employees, including employees with the capacity to operate Qoros' production line as well as employees possessing core competencies in vehicle design and engineering, particularly in light of the recent increase in employee numbers. If Qoros fails to hire, train and retain the required number of qualified personnel to operate its business, or if it experiences excessive turnover, Qoros may experience production/manufacturing delays or other inefficiencies, increased recruiting, training or relocation costs, or other difficulties, any of which could have a material adverse effect on Qoros' business, financial condition, results of operations or liquidity. In recent years, Qoros has made a number of personnel changes at the executive management level and in the senior management structure, including after the investment in Qoros in 2018. In early 2019, Qoros made a number of further changes at the executive management level. Such management changes have affected and any future changes may affect, Qoros' ability to execute its business plan.

Qoros is dependent upon its suppliers.

Qoros sources the component parts necessary for its vehicle models from over 100 suppliers. A number of Qoros' component parts are currently obtained from a single source. Additionally, Qoros sources its engines and certain spare parts from Chery.

Qoros is dependent upon the continued ability of its suppliers to deliver the materials, systems, components and parts needed to conduct its manufacturing operations in sufficient quantities and at such times that will allow Qoros to meet its production schedules. As Qoros' suppliers may also supply a significant portion of the components and parts of Qoros' competitors, such concentration may expose Qoros and its competitors to increased pricing pressure. Qoros may also be unable to procure the components necessary for its vehicle models if the established manufacturers with which it competes have the capacity to influence Qoros' suppliers. In addition, qualifying alternate suppliers or developing replacements for certain highly customized components of its vehicles may be time consuming and costly or may force Qoros to make modifications to its vehicle models' designs or schedules. An unexpected shortage of materials, systems, components or parts, if even for a relatively short period of time, could prevent Qoros from manufacturing its vehicles, cause Qoros to alter its production designs, or prevent Qoros from timely supplying its dealers with the aftersales parts necessary for the servicing of Qoros' vehicles.

Increases in the prices of raw materials that are included within the component parts Qoros purchases from its suppliers, may increase Qoros' costs and could reduce Qoros' profitability if Qoros cannot recoup the increased costs through increased vehicle prices.

If Qoros is unable to pay its suppliers on a timely basis, it may be unable to procure on favorable terms the parts, components and services it requires to continue operating and Qoros has been, and may continue to be, subject to suits or other claims in respect of outstanding payables.

Qoros may experience delays and/or cost overruns with respect to the design, manufacture, launch and financing of new or enhanced models.

Qoros' business plan contemplates the introduction of new vehicle models, including NEV models, as well as enhanced versions of existing vehicle models, over the short- and long-term. In light of technological developments, Qoros will need to continually upgrade and adapt its vehicle models, vehicle platform and manufacturing facility in Changshu, as automobile customers generally expect new or enhanced vehicle models to be introduced frequently. Upgrading and adapting Qoros' vehicle models and manufacturing facility and developing and launching NEVs will require significant investments. Further, there can be no assurance that Qoros will be able to secure the necessary financing to fund the continued introduction and manufacturing of new and enhanced vehicle models, design future vehicle models that will maintain the high quality standards required for Qoros' branding image, meet the expectations of its customers, and become commercially viable. In addition, automobile manufacturers often experience delays and cost overruns in the design, manufacture and commercial release of new and enhanced vehicle models. Qoros has experienced and may in the future experience such delays and cost overruns.

Qoros faces risks relating to its auditor.

Our independent registered public accounting firm currently relies on an independent registered public accounting firm located in the People's Republic of China for assistance in completing the audit work associated with our investment in Qoros. Auditors of companies that are publicly traded in the United States and firms registered with the Public Company Accounting Oversight Board, or PCAOB, are required to undergo regular PCAOB inspections. However, because Qoros has substantial operations within China, a jurisdiction in which the PCAOB is currently unable to conduct inspections without the approval of the Chinese government authorities, the audit work conducted in China with respect to Qoros has not been inspected by the PCAOB. The lack of PCAOB inspections of audit work undertaken in China prevents the PCAOB from regularly evaluating audits and quality control procedures conducted in China. As a result, our shareholders may be deprived of the benefits of PCAOB inspections, and may lose confidence in Kenon's or Qoros' financial statements and the procedures and the quality underlying such financial statements.

Furthermore, in late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the mainland Chinese affiliates of the “Big Four” accounting firms, including the auditor of Qoros. The Rule 102(e) proceedings initiated by the SEC related to the failure of these firms to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002. In February 2015, the Chinese member firms of “Big Four” accounting firms reached a settlement with the SEC, agreeing, among others, to settlement terms that include a censure; undertakings to make a payment to the SEC; procedures and undertakings as to future requests for documents by the SEC; and possible additional proceedings and remedies should those undertakings not be adhered to.

Our independent registered public accounting firm currently relies on a Chinese member firm of the “Big Four” network for assistance in completing the audit work associated with our investment in Qoros. If the settlement terms are not adhered to, the Chinese member firms of “Big Four” accounting firms may be suspended from practicing before the SEC which could in turn delay the timely filing of our financial statements with the SEC in the future. In addition, it could be difficult for Qoros to timely identify and engage another qualified independent auditor.

Any such occurrences may ultimately affect the continued listing of our ordinary shares on the NYSE, or our registration with the SEC, or both. Moreover, any further negative news about the proceedings, any violations of the settlement agreement relating to the proceedings or any future proceedings against these audit firms may adversely affect investor confidence in companies with substantial mainland China based operations listed in, or affiliated with listings in, the U.S., such as Qoros, which could have a material adverse effect on the price of our ordinary shares and substantially reduce or effectively terminate the trading of our ordinary shares in the United States.

Risks Related to Our Other Businesses

Risks Related to Our Interest in ZIM

ZIM is highly leveraged and may be unable to comply with its financial covenants or meet its debt service or other obligations.

As of December 31, 2018, ZIM had approximately \$1.5 billion of outstanding debt to be repaid between 2019 through 2030, of which \$292 million of principal is scheduled to be repaid during 2019. Many of the financing agreements relating to ZIM’s debt facilities contain covenants and limitations, including:

- Minimum liquidity, fixed charge coverage ratio and total leverage covenants; and
- Other non-financial covenants and limitations such as restrictions on dividend distributions, asset sales, investments and incurrence of debt, as well as reporting obligations.

In 2014, ZIM completed a comprehensive restructuring of its outstanding debt, which resulted in a significant reduction in debt and reduced our former parent company’s interest in ZIM from approximately 99% to 32%.

In 2016, ZIM agreed with its creditors a rescheduling of principal payments of \$116 million originally scheduled for payment in by September 30, 2017, as well as to waive and revise certain covenants to which ZIM was subject. The covenants which had been waived for 2017, were further waived in July 2018 until reinstated in March 2020, except for the minimum liquidity requirement, which continues to apply.

If ZIM is unable to meet its obligations or refinance its indebtedness as it becomes due given that ZIM has limited assets available for sale or refinancing, or if ZIM is unable to comply with its covenants, ZIM may have to take disadvantageous actions, such as (i) reducing financing in the future for investments, acquisitions or general corporate purposes or (ii) dedicating a high level of ZIM’s cash flow from operations to the payment of principal and interest on indebtedness. As a result, the ability of ZIM’s business to withstand competitive pressures and to react to changes in the container shipping industry could be impaired. If ZIM is unable to comply with its covenants or meet debt service obligations and is unable to obtain waivers from the relevant creditors, a breach of any of its debt instruments and/or covenants could result in a default under the relevant debt instruments. Upon the occurrence of such an event of default, the lenders could elect to declare all amounts outstanding thereunder to be immediately due and payable and, in the case of credit facility lenders, terminate all commitments to extend further credit. If the lenders accelerate the repayment of the relevant borrowings, ZIM may not have sufficient assets to repay any outstanding indebtedness. Furthermore, a default or the acceleration of any obligation under a particular debt instrument may cause a default under other material debt or permit the holders of such debt to accelerate repayment of their obligations pursuant to “cross default” or “cross acceleration” provisions, which could have a material adverse effect on ZIM’s business, financial condition and liquidity and the value of Kenon’s interest in ZIM. For additional information, see “*Item 5.B Liquidity and Capital Resources—ZIM’s Liquidity and Capital Resources.*”

Furthermore, ZIM may be unable to generate sufficient cash flows to satisfy its debt service and other obligations. ZIM’s ability to generate cash flow from operations to make interest and principal payments on ZIM’s debt obligations depends on its performance, which is affected by a range of economic, competitive and business factors. ZIM cannot control many of these factors, including general economic conditions and the health of the shipping industry. If ZIM’s operations do not generate sufficient cash flow from operations to satisfy its debt service and other obligations, ZIM may need to sell assets, borrow additional funds or undertake alternative financing plans, such as refinancing or restructuring its debt, or reducing or delaying capital investments and other expenses. ZIM’s debt instruments limit the incurrence of debt, so ZIM may not be permitted to incur additional debt. Even if ZIM is permitted to so incur additional debt under its debt agreements, it may be difficult for ZIM to do so on commercially reasonable terms or at all. Substantially all of ZIM’s vessels are leased by ZIM and accordingly, ZIM has limited assets that it owns and is able to pledge to secure financing, which can make it difficult for ZIM to incur additional debt financing.

The container shipping industry is dynamic and volatile.

The container shipping industry is dynamic and volatile and has been marked in recent years by instability as a result of global economic conditions and the many conditions and factors that affect supply and demand in the shipping industry, which include:

- global and regional economic and geopolitical trends, including armed conflicts, terrorist activities, embargoes and strikes;
- the supply of and demand for commodities and industrial products globally and in certain key markets, such as China;
- developments in international trade, including the imposition of tariffs, the modification of trade agreements between states and other trade protectionism (mainly in the U.S. - China trades);
- the relocation of manufacturing capabilities to importers' nearby locations/inland locations;
- currency exchange rates;
- prices of energy resources;
- environmental and other regulatory developments;
- changes in seaborne and other transportation patterns;
- changes in the shipping industry, including mergers and acquisitions, bankruptcies, restructurings and alliances;
- changes in the infrastructure and capabilities of ports and terminals;
- weather conditions; and
- development of digital platforms to manage operations and customer relations, including billing and services.

These factors also significantly affect ZIM's freight rates. Furthermore, rates within the charter market, through which ZIM sources a substantial portion of its capacity, may also fluctuate significantly based upon changes in demand for shipping services. As global trends continue to change, it remains difficult to predict their impact on the container shipping industry and on ZIM's business. If ZIM is unable to adequately respond to market changes, they could have a material adverse effect on its business, financial condition, results of operations and liquidity.

Excess supply of global container ship capacity may limit ZIM's ability to operate vessels profitably, and lead to overload and/or overcapacity and congestion in certain ports.

Global container ship capacity has increased over the years and continues to exceed demand. As of December 31, 2018, global container ship capacity was approximately 22.3 million 20-foot equivalent units, or TEUs, spread across approximately 5,284 vessels. According to Alphaliner, as a result of the large global orders for vessels with carrying capacities of 18,000 TEUs and above, capacity is projected to continue to impact the industry and the capacity growth rate in 2019 is projected to be similar to the growth rate of the demand for shipping services. Additionally, responses to changes in market conditions may be slow as a result of the time required to build new vessels and adapt to market needs. As shipping companies purchase vessels years in advance to address expected demand, vessels may be delivered during times of decreased demand or unavailable during times of increased demand, leading to a supply/demand mismatch. The container shipping industry may continue to face oversupply in the coming years and numerous other factors beyond ZIM's control may also contribute to an increase in capacity, including deliveries of refurbished or converted vessels, port and canal congestion, decreased scrapping of older vessels, any decline in the practice of slow steaming, a reduction in the number of void voyages and a decrease in the number of vessels that are out of service (e.g., vessels that are laid-up, dry-docked, awaiting repairs or are otherwise not available for hire). Excess capacity depresses freight rates and can lead to lower utilization rates, which may adversely affect ZIM's revenues, profitability and asset values. Until such capacity is fully absorbed by the container shipping market and, in particular, the shipping lines on which ZIM's operations are focused, the industry will continue to experience downward pressure on freight rates and such prolonged pressure could have a material adverse effect on ZIM's financial condition, results of operations and liquidity.

Furthermore, in recent years, container ship capacities have increased globally at a faster rate than the rate at which some container ports have increased their capacities, leading to considerable delays in processing container shipments in affected ports. As a result of longer load and unload times, increases in container ship capacities could increase port congestion, which could have a material adverse effect on affected shipping lines. In addition, the continued growth in industry capacity has resulted in difficulty in securing sufficient terminal slots to expand operations due to the limited availability of port facilities.

ZIM's ability to enter into strategic alliances and participate in operational partnerships in the shipping industry remains limited, which may adversely affect ZIM's business, and ZIM faces risks related to its strategic cooperation agreement with the 2M Alliance.

The container shipping industry has experienced a reduction in the number of major carriers, as well as a continuation of the trends of strategic alliances and partnerships among container carriers, which can result in more efficient and better coverage for shipping companies participating in such arrangements. For example, in 2018, OOCL was acquired by COSCO and three large Japanese carriers (ONE) merged. In 2017, the merger of United Arab Shipping Company and Hapag-Lloyd, and the acquisition of Hamburg Sud by Maersk took place. In 2016, COSCO and China Shipping Container Lines merged (into COSCO Shipping), APL Shipping was acquired by CMA CGM Shipping and Hanjin Shipping filed for bankruptcy.

The recent consolidation in the industry has affected the existing strategic alliances between shipping companies. For example, the Ocean Three alliance, which consisted of CMA CGM Shipping, United Arab Shipping Company and China Shipping Container Lines, was terminated and replaced by the Ocean Alliance, consisting of COSCO Shipping, CMA CGM Shipping, Evergreen Marine and Orient Overseas Container Line.

ZIM is not party to any strategic alliances and therefore has not been able to achieve the benefits associated with being a member of such an alliance. If ZIM is unable to enter into strategic alliances in the future, it may be unable to achieve the cost and other synergies that can result from such alliances which can impact ZIM's business and results of operations.

In September 2018, ZIM and the 2M Alliance entered into a strategic operational cooperation agreement in the Asia-USEC trade zone. In January 2019, ZIM entered into a second strategic cooperation agreement with the 2M Alliance to cover the (i) Asia - East Mediterranean and (ii) Asia - American Pacific Northwest trade zones. The second agreement remains subject to regulatory approvals. For additional information on the 2M Alliance, see “*Item 4.B Business Overview—Our Businesses—ZIM—ZIM's Description of Operations.*” ZIM is party to operational partnerships with other carriers in some of the other trade zones in which it operates, and may seek to enter into additional operational partnerships or similar arrangements with other shipping companies or local operators, partners or agents. These strategic cooperation agreements and other arrangements reduce ZIM's flexibility in decision making in the covered trade zones and ZIM is subject to the risk that the expected benefits of the agreements may not materialize. Furthermore, in the rest of the trade zones in which the 2M Alliance operates as well as in other trade zones in which other alliances operate, ZIM is still unable to benefit from the economies of scale that many of its competitors are able to achieve through participation in strategic arrangements. If ZIM is not successful in expanding or entering into additional operational partnerships, this could adversely affect its business. In addition, ZIM's status as an Israeli company has limited, and may continue to limit, its ability to call on certain ports and has therefore limited, and may continue to limit, ZIM's ability to enter into alliances or operational partnerships with certain shipping companies.

Declines in freight rates or other market conditions and other factors, could negatively affect ZIM's business, financial condition, or results of operations and could thereby result in ZIM or Kenon incurring impairment charges.

At each of its reporting periods, ZIM examines whether there have been any events or changes in circumstances, such as a decline in freight rates or other market conditions, which would indicate an impairment. Additionally, when there are indications of an impairment, an examination is made as to whether the carrying amount of the operating assets or cash generating units, or CGUs, exceeds the recoverable amount and, if necessary, an impairment loss is recognized in its financial statements. The projection of future cash flows related to ZIM's CGU, which is one CGU, is complex and requires ZIM to make various estimates including future freight or charter rates, bunker prices, earnings from the vessels and discount rates, all of which have been volatile historically. Should freight rates decline significantly or ZIM or the shipping industry experience adverse conditions, this may have a material adverse effect on ZIM's business, results of operations and financial condition, which may result in ZIM or Kenon recording an impairment charge.

An increase in bunker prices may have an adverse effect on ZIM's results of operations.

Bunker expenses represent a significant portion of ZIM's operating expenses, accounting for 17% and 13% of the income from voyages and related services for the years ended December 31, 2018 and 2017, respectively. Bunker prices move in close interdependence with crude oil prices, which have historically exhibited significant volatility. In the past year bunker prices have risen significantly, which has impacted our results of operations. Crude oil prices are influenced by a host of economic and geopolitical factors that are beyond ZIM's control, particularly economic developments in emerging markets such as China and India, global terrorism, political instability and tensions in North Africa and the Middle East, environmental regulations, fracking, and the long-term increase in global demand for oil.

Increases in bunker prices could have a material adverse effect on ZIM's business, financial condition, results of operations and liquidity. Historically, and in line with industry practice, from time to time ZIM has imposed surcharges over the base freight rate ZIM charges to its customers in part to minimize its exposure to certain market-related risks, including bunker price adjustments. The new regulations introduced by the International Maritime Organization, or IMO, expected to come into effect in 2020 are expected to result in an increase in bunker costs. For more information on such regulations see "*ZIM is subject to the IMO's environmental regulations and failure to comply with such regulations could have a material adverse effect on ZIM's business.*" However, there can be no assurance that ZIM will be successful in passing on future price increases, as a result of the 2020 regulations or otherwise, to customers in a timely manner, either for the full amount or at all.

ZIM's bunker consumption is affected by various factors, including the number of vessels being employed, vessel size and capacity (and therefore bunker consumption increases with vessel size), speed (with consumption increasing dramatically as speed increases), vessel efficiency, the weight of the cargo being transported, port efficiency and sea conditions. ZIM has implemented various optimization strategies designed to reduce bunker consumption, including operating vessels in "super slow steaming" mode and "turbocharger cut-out" mode, trim optimization, hull and propeller polishing and sailing rout optimization. Additionally, ZIM manages part of its exposure to bunker price fluctuations by entering into hedging arrangements. ZIM's optimization strategies and hedging program may not be successful in mitigating higher bunker costs, and any price protection provided by hedging may be limited due to market conditions, such as choice of hedging instruments, and the fact that only a portion of ZIM's exposure is hedged. There can be no assurance that ZIM's hedging arrangements will be cost-effective, will provide sufficient protection, if any, against rises in bunker prices or that the counterparties will be able to perform under ZIM's hedging arrangements.

Greater restrictions on global trade, especially imposed on or by China, could have a material adverse effect on ZIM's business.

ZIM's operations are exposed to the risk of increased trade protectionism, particularly with regards to China as a significant portion of ZIM's business originates from China. China's import and export of goods may be affected by trade protectionism, specifically the ongoing "Trade War" characterized by escalating trade barriers between the U.S. and China as well as trade relations among other countries, including as a result of the current "Brexit" situation. These risks may have a direct impact on the container shipping industry.

The U.S. administration has advocated greater restrictions on trade generally and significant increases on tariffs on certain goods imported into the United States, particularly from China and has taken steps toward restricting trade in certain goods. The U.S. has imposed around \$500 billion worth of tariffs on Chinese imports in 2018.

China and other countries have retaliated in response to new trade policies, treaties and tariffs implemented by the United States. China imposed more than US\$100 billion on U.S. imports in 2018.

Such trade escalations have had, and may continue to have, an adverse effect on manufacturing levels, trade levels and specifically, may cause an increase in the cost of goods exported from Asia Pacific, the length of time required to deliver goods from the region and the risks associated with exporting goods from the region. Such increases may also affect the quantity of goods to be shipped, shipping time schedules, voyage costs and other associated costs. They could also result in an increased number of vessels returning from China with less than their full capacity being met. These restrictions may encourage local production over foreign trade which may, in turn, affect the demand for maritime shipping. Such restrictions, if they continue to be implemented in the same manner, may affect the global demand for ZIM's services and could have a material adverse effect on ZIM's business, financial condition and results of operations. The current "Brexit" situation could also have an impact on trading relationships and therefore the container shipping industry.

A decrease in the level of China's import or export of goods could have a material adverse effect on ZIM's business.

A significant portion of ZIM's business originates from China, and ZIM therefore depends on the level of imports and exports to and from China. As China exports considerably more goods than it imports, any reduction in or hindrance to China-based exports, whether due to decreased demand from the rest of the world, an economic slowdown in China, increased tariffs or other factors, could have a material adverse effect on ZIM's business. For instance, the Chinese government has recently implemented economic policies aimed at increasing domestic consumption of Chinese-made goods. This may have the effect of reducing the supply of goods available for export and may, in turn, result in decreased demand for cargo shipping. In recent years, China has experienced an increasing level of economic autonomy and a gradual shift toward a "market economy" and enterprise reform. However, many of the reforms implemented, particularly some limited price reforms, are unprecedented or experimental and may be subject to revision, change or abolition. The level of imports to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese or other governments. In recent years, China has experienced slower GDP growth rates than in previous years, which affected levels of imports to and exports from China. In response to the recent slowdown in China's economic growth, China may implement additional trade barriers to protect their domestic industries against foreign imports, which may depress the global demand for shipping services.

Furthermore, China's import and export of goods may also be affected by trade protectionism and local production over foreign trade, which may affect the demand for maritime shipping, particularly between the United States and China. See "*— Greater restrictions on global trade, especially imposed on or by China, could have a material adverse effect on ZIM's business .*"

Changes in laws and regulations, including with regard to tax matters, and their implementation by local authorities could also affect ZIM's vessels calling on Chinese ports and could have a material adverse effect on its business, financial condition and results of operations.

Israel holds a Special State Share in ZIM, which imposes certain restrictions on ZIM's operations and our equity interest in ZIM.

The State of Israel holds a special share in ZIM, or Special State Share, which imposes certain limitations on the activities of ZIM that may negatively affect ZIM's business and results of its operations. The Special State Share, and the permit which accompanies it, also imposes transferability restrictions on our equity interest in ZIM. Furthermore, although there are no contractual restrictions on any sales of our shares by our controlling shareholders, if Idan Ofer's ownership interest in Kenon is less than 36%, or Idan Ofer ceases to be the controlling shareholder, or sole controlling shareholder of Kenon, then Kenon's rights with respect to its shares in ZIM (e.g., Kenon's right to vote and receive dividends in respect of its ZIM shares) will be limited to the rights applicable to an ownership of 24% of ZIM, until or unless the State of Israel provides its consent, or does not object to, this decrease in Idan Ofer's ownership or "control" (as defined in the State of Israel consent received by IC in connection with the spin-off). The State of Israel may also revoke Kenon's permit if there is a material change in the facts upon which the State of Israel's consent was based, upon a breach of the provisions of the Special State Share by Kenon, Mr. Ofer, or ZIM, or if the cancellation of the provisions of the Special State Share with respect to a person holding shares in ZIM contrary to the Special State Share's provisions apply (without limitation). For further information on the Special State Share, see "*Item 4.B Business Overview—Our Businesses—ZIM—ZIM's Special State Share.*"

ZIM faces risks as a result of its status as an Israeli corporation.

ZIM is incorporated and its headquarters is located in Israel, and the majority of its key employees, officers and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel may directly affect ZIM's business and existing relationships with certain foreign corporations, as well as affect the willingness of potential partners to enter into business arrangements with ZIM. Numerous countries, corporations and organizations limit their business activities in Israel and their business ties with Israeli-based companies. ZIM's status as an Israeli company has limited, and may continue to limit, its ability to call on certain ports and therefore has limited, and may continue to limit, its ability to enter into alliances or operational partnerships with certain shipping companies, which has historically adversely affected its operations and its ability to compete effectively within certain trades. In addition, ZIM's status as an Israeli company has limited, and may continue to limit, its ability to enter into alliances that include certain carriers who are not willing to cooperate with Israeli companies.

Since the establishment of the State of Israel, a number of armed conflicts have taken place between Israel and its neighboring countries. In recent years, these have included hostilities between Israel and Hezbollah in Lebanon and Hamas in the Gaza Strip, both of which resulted in rockets being fired into Israel, causing casualties and disrupting economic activities. Recent political uprisings, social unrest and violence in the Middle East and North Africa, including Israel's neighbors Egypt and Syria, are affecting the political stability of those countries. This instability has raised concerns regarding security in the region and the potential for armed conflict. Armed conflicts or hostilities in Israel or neighboring countries could cause disruptions in ZIM's operations, including significant employee absences, failure of its information technology systems and cyber-attacks, which may lead to the shutdown of its headquarters in Israel. ZIM's commercial insurance does not cover losses that may occur as a result of an event associated with the security situation in the Middle East. Although the Israeli government is currently committed to covering the reinstatement value of direct damages caused by terrorist attacks or acts of war, ZIM cannot assure that this government coverage will be maintained, or if maintained, will be sufficient to fully compensate us for damages incurred. Any losses or damages incurred by us could have a material adverse effect on its business. Any armed conflict involving Israel could adversely affect ZIM's business and results and operations.

Although ZIM maintains an emergency plan, wars and military conflicts can have a material adverse effect on its operational activities. Any future deterioration in the security or geopolitical conditions in Israel or the Middle East could adversely impact ZIM's business relationships and thereby have a material adverse effect on its business, financial condition, results of operations or liquidity. As an Israeli company, ZIM has relatively high exposure, compared to many of its competitors, to acts of terror, hostile activities including cyber-attacks, security limitations imposed upon Israeli organizations overseas, possible isolation by various organizations and institutions for political reasons and other limitations (such as restrictions against entering certain ports). If ZIM's facilities, including its headquarters, become temporarily or permanently disabled by an act of terrorism or war, it may be necessary for us to develop alternative infrastructure and ZIM may not be able to avoid service interruptions. Additionally, ZIM's owned and chartered vessels, including those vessels that do not sail under the Israeli flag, may be subject to control by the authorities of the State of Israel in order to protect the security of, or bring essential supplies and services to, the State of Israel. Israeli legislation also allows the State of Israel to use ZIM's vessels in times of emergency. Any of the aforementioned factors may negatively affect ZIM and its results of operations. For further information on the risks related to entry into operational partnerships within the shipping industry, see "*— ZIM's ability to enter into strategic alliances and participate in operational partnerships in the shipping industry remains limited, which may adversely affect ZIM's business, and ZIM faces risks related to its strategic cooperation agreement with the 2M Alliance.*"

ZIM charters substantially all of its fleet and the cost associated with chartering such vessels is unpredictable.

ZIM charters substantially all of the vessels in its fleet. As of December 31, 2018, of the 73 vessels through which ZIM provides transport services globally, 70 are chartered (including 5 vessels accounted under financial leases and 4 vessels accounted under sale and leaseback refinancing agreements), which represents a percentage of chartered vessels that is significantly higher than the industry average. A rise in charter hire rates may adversely affect ZIM's results of operations. ZIM is party to a number of long-term charter agreements. As of December 31, 2018, approximately 81% of ZIM's chartered vessels (in terms of capacity) are chartered under operational leases for terms exceeding one year. As a result, ZIM may be unable to take full advantage of short-term reductions in charter hire rates. In addition, some of ZIM's long-term charter agreements contain rate adjustment mechanisms pursuant to which charter hire rates will increase if the market rate increases, so ZIM may not benefit from such long-term charter agreements in the event of an increase in market charter hire rates. Furthermore, if ZIM is unable in the future to charter vessels of the type and size needed to serve its customers efficiently on terms that are favorable to ZIM, if at all, this may have a material adverse effect of on its business, financial condition, results of operations and liquidity.

Due to ZIM's lack of diversification, adverse developments in the container shipping industry could reduce ZIM's ability to service its debt obligations

ZIM relies mainly on the cash flow generated from its results of operation, and accordingly its financial condition, are significantly dependent on conditions in the container shipping market, which are for the most part beyond ZIM's control. For example, ZIM's results in any given period are substantially impacted by supply and demand in container shipping market, which impacts freight rates, bunker prices, and the prices it pays under the charters for its vessels. ZIM does not own any ports or similar ancillary assets.

Due to ZIM's lack of diversification, an adverse development in the container shipping industry would have a significantly greater impact on its financial condition and results of operations than if we maintained more diverse assets or lines of business. An adverse development could also impair ZIM's ability to service debt.

In addition, ZIM charters substantially all of its vessels, and a significant number of its charters will expire within the next 5 years. ZIM will be subject to market conditions for charter rates prevailing at the time new charters are entered into. If ZIM is unable to enter into new charters for vessels as existing charters expire on favorable terms this will impact its business and results of operations.

The trend towards increasing vessel sizes has and may continue to adversely affect ZIM.

Container shipping companies have been incorporating, and are expected to continue to incorporate, larger, more economical vessels into their operating fleets. The cost per TEU transported on large vessels is less than the cost per TEU for smaller vessels (assuming the vessels are operating at full capacity), as, among other reasons, larger vessels provide increased capacity and fuel efficiency. As a result, cargo shippers are encouraged to deploy large vessels, particularly within the more competitive trades. According to Alphaliner, vessels of 18,000 TEUs and above represented approximately 36% of the current global order book based on TEU capacity as of February 2019. Furthermore, a significant introduction of large vessels, including very large vessels in excess of 18,000 TEUs, into any trade zone will enable the transfer of existing, large vessels to other shipping lines on which smaller vessels typically operate. Such transfers, which are referred to as "fleet cascading," may in turn generate similar effects in the other, smaller trade zones in which ZIM operates. The continued deployment of larger vessels by ZIM's competitors will adversely impact ZIM's competitiveness if ZIM is not able to acquire, charter or obtain financing for large container vessels on attractive terms or at all. This risk can be further exacerbated due to ZIM's inability to participate in certain alliances and thereby access larger vessels for deployment as well as the limitations on vessel size and ability to own vessels imposed on ZIM by the covenants in its debt facilities. Even if ZIM is able to acquire or charter larger vessels, ZIM may be unable to achieve utilization rates necessary to operate such vessels profitably.

As a result of the expansion of the Panama Canal, the canal can accommodate container vessels with capacities of 13,000-14,000 TEUs, which can then access via the Panama Canal the Pacific trade zone, which is one of ZIM's strategic trade zones.

In order to maintain and/or increase their competitiveness ZIM's competitors are gradually updating their fleet to capacities of 13,000-14,000 TEUs in the trans-Pacific trade zone. The introduction of such vessels within this trade zone has required shipping liners seeking to remain competitive, including ZIM, to alter their fleet composition and incorporate larger vessels into their Panama Canal operations. However, ZIM currently does not have any agreements in place to procure or charter-in large container vessels with capacities of 13,000-14,000 TEUs. As a result, a significant portion of ZIM's vessels may become increasingly less efficient to operate via the Panama Canal.

ZIM is subject to the IMO’s “2020” environmental regulations and failure to comply with such regulations could have a material adverse effect on ZIM’s business.

In October 2016, in an attempt to reduce marine pollution and emissions, the IMO announced that it was proceeding with a requirement for 0.5% mass by mass sulfur content in marine fuel (down from current levels of 3.5%) for all marine carriers, currently expected to become effective in January 2020 (known as the “Sulphur Cap” regulation). In April 2018, the IMO’s Marine Environment Protection Committee, or MEPC, further prohibited the carriage of non-compliant fuel after 2020, unless a ship is fitted with an equivalent arrangement to reduce emissions, such as a scrubber. Therefore, it is expected that by 2020 ships will be required to remove sulfur from emissions through the use of emission control equipment, or purchase marine fuel with 0.5% sulfur content, which may see increased demand and higher prices for such bunker due to supply constraints. The regulation could also affect the supply of vessels in the market. Compliance with this regulation by installing pollution control equipment (i.e., scrubbers), using lower sulfur fuel or deploying new types of vessels using liquefied natural gas (LNG) is expected to result in significant costs for carriers and container shipping companies, including ZIM, may seek to implement a surcharge in order to compensate for this cost impact but there is no assurance that any such surcharge will mitigate these increased costs in full or at all.

ZIM is subject to environmental and other regulations and failure to comply with such regulation could have a material adverse effect on ZIM’s business.

ZIM is subject to many legal provisions relating to the protection of the environment, including the emissions of hazardous substances, sulfur oxides, or SO_x, and nitrogen oxides, or NO_x, and the use of low-sulfur fuel or shore power voltage, all of which may be subject to ongoing developments and amendments. For example, ZIM is subject to the International Convention for the Prevention of Pollution from Ships (including designation of Emission Control Areas thereunder), the International Convention for the Control and Management of Ships Ballast Water & Sediments, the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea of 1996, the Oil Pollution Act of 1990, the Comprehensive Environmental Response, Compensation and Liability Act, the Clean Water Act, and National Invasive Species Act, among others. Compliance with such laws, regulations and standards, where applicable, may require the installation of costly equipment or operational changes. ZIM may also incur additional compliance costs, and any such costs could have a material adverse effect on its business. If ZIM fails to comply with any of the environmental regulations applicable, ZIM could be exposed to significant environmental liability damages, criminal charges, and substantial harm to its operations and reputation. Additionally, environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject ZIM to liability without regard to whether ZIM is negligent or at fault.

The IMO has imposed updated guidelines for ballast water management systems specifying the maximum amount of viable organisms allowed to be discharged from a vessel's ballast water. Depending on the date of the IOPP renewal survey, existing vessels must comply with the updated standard on or after September 8, 2019. For most vessels, compliance with the standard will involve installing on-board systems to treat ballast water and eliminate unwanted organisms. Costs of compliance may be substantial and adversely affect ZIM's profitability.

In addition, ZIM may be required to incur significant costs in connection with modifications to environmental regulations applicable to shipping companies. For risks associated with the IMO’s 2020 sulfur emission regulations see “— *ZIM is subject to the IMO 2020 environmental regulation and failure to comply with such regulation could have a material adverse effect on ZIM’s business.*”

Environmental requirements may also require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of or more costly insurance coverage for safety and environmental matters or result in ZIM’s denial of access to certain jurisdictional waters or ports, or its detention in certain ports. Under local, national and foreign laws, as well as international treaties and conventions, ZIM could incur material liabilities, including cleanup obligations, natural resource damages, personal injury and property damage claims in the event there is a release of petroleum or other hazardous materials from its vessels, or otherwise, in connection with its operations. Violations of, or liabilities under, safety and environmental requirements can result in substantial penalties, fines and other sanctions, including in certain instances, seizure or detention of its vessels and events of this nature could have a material adverse effect on ZIM’s business, reputation, financial condition and results of operations.

As a company with global operations, ZIM is also subject to anti-corruption and anti-bribery laws in Israel and other countries. The risks related to this are described in more detail under “— *We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws outside of the United States.*”

Finally, ZIM is subject to the EU’s General Data Protection Regulation (2016/679), or the GDPR, which relates to the collection, use, retention, security, processing and transfer of personally identifiable information about ZIM’s customers and employees in the countries where ZIM operates. The EU data protection regime expands the scope of the EU data protection law to all companies processing data of EEA individuals, imposes a more stringent data protection compliance regime, including the introduction of administrative fines of up to the greater of 4% of worldwide turnover or €20 million (as well as the right to compensation for financial or non-financial damages claimed by any individuals), and includes new data subject rights such as the “portability” of personal data. Any failure, by ZIM to comply with the GDPR where applicable could result in proceedings or actions against ZIM which could subject ZIM to significant fines, penalties, judgments and negative publicity.

The shipping industry is subject to extensive government regulation and standards, international treaties and trade prohibitions and sanctions.

The shipping industry is subject to extensive regulation that changes from time to time and that applies in the jurisdictions in which shipping companies are incorporated, the jurisdictions in which vessels are registered (flag states), the jurisdictions governing the ports at which vessels call, as well as regulations by virtue of international treaties and membership in international associations. As a global container shipping company, ZIM is subject to a wide variety of international, national and local laws, regulations and agreements. As a result, ZIM is subject to extensive government regulation and standards, customs inspections and security checks, international treaties and trade prohibitions and sanctions, including laws and regulations in each of the jurisdictions in which we operate, including those of the State of Israel, the U.S. Federal Maritime Commission, the International Safety Management Code, or the ISM Code, and the European Union. Any violation of such laws, regulations, treaties and/or prohibitions could have a material adverse effect on ZIM's business, financial condition, results of operations and liquidity and may also result in the revocation or non-renewal of its "time-limited" licenses.

Furthermore, the U.S. Department of the Treasury's Office of Foreign Assets Control administers certain laws and regulations that impose restrictions upon U.S. companies and persons and, in some contexts, foreign entities and persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of such sanctions laws and regulations. Similar sanctions are imposed by the European Union and the United Nations. Under economic and trading sanction laws, governments may seek to impose modifications to business practices, and modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions.

Additionally, ZIM is subject to competition and antitrust regulations in each of the countries where ZIM operates. In most of the jurisdictions in which ZIM operates, operational partnerships among shipping companies are exempted from the application of antitrust laws, subject to the fulfillment of certain exemption requirements. Recently, however, there has been a trend within the international community to limit such exemptions and it is difficult to predict whether existing exemptions or their renewal will be affected in the future. ZIM is party to numerous operational partnerships and view these agreements as competitive advantages in response to the market concentration in the industry as a result of mergers and global alliances. An amendment to or a revocation of any of the exemptions for operational partnerships that ZIM rely on could negatively affect ZIM's business and results of operations.

Finally, Commission Regulation (EC) No 906/2009, or the Block Exemption Regulation, exempts certain cooperation agreements (such as operational cooperation agreements VSA (vessel sharing agreements), SCA (slot chartering agreements and slot swap agreements) in the liner shipping sector from the prohibition on anti-competitive agreements contained at Article 101 of the Treaty on the Functioning of the European Union, or TFEU. If the Block Exemption Regulation is not extended or its terms are amended this could have an adverse effect on the shipping industry and limit the ability of ZIM and other shipping companies to enter into cooperation arrangements, therefore adversely affecting ZIM's business, financial condition and results of operations.

There are numerous risks related to the operation of any sailing vessel, as well as the carrying of cargo, and ZIM's inability to successfully respond to such risks could have a material adverse effect on ZIM.

There are numerous risks related to the operation of sailing vessels, including dangers associated with failure or unauthorized access to information systems, port closures, marine disasters, fire, mechanical failures, collisions, lost or damaged cargo, contraband smugglers, poor weather conditions, the content of the load, including hazardous cargo, exceptional load, meeting deadlines, risks of documentation, maintenance and the quality of fuels, piracy, shortages of containers, shortages of qualified sea and shoreside personnel and maritime arrests arising from unsatisfied debts, claims or damages. The occurrence of any of the aforementioned risks could have a material adverse effect on ZIM's business, financial condition, results of operations or liquidity and ZIM may not be adequately insured against any of these risks.

Risks Related to Primus

Primus requires additional financing for its operations.

The implementation of Primus' business plan requires additional capital to enable Primus to continue to develop its commercial operations. Primus expects such funding to be provided by us either through capital contributions or shareholder loans, or to the extent Primus pursues projects, through contributions from strategic partners or debt financing. There is no certainty that additional financing will be provided to Primus. Any lack of, or delay in securing, such financing may delay, or prevent completely, Primus' ability to continue to develop its commercial operations, which may result in Primus' ultimate sale, liquidation or dissolution.

Primus' STG+ process may not become commercially viable.

Demand for and industry acceptance of Primus' technologies is subject to a high level of uncertainty. If potential customers fail to accept Primus' technologies, if acceptance develops slower than anticipated by Primus, or if Primus' technologies prove uneconomical or unattractive, this could have a material adverse effect on Primus' business, financial condition, results of operations or liquidity.

Primus is an early stage company with a limited operating history.

Primus is an early stage company. The risks and uncertainties associated with the operation of an early stage company include a potential inability to:

- retain and recruit key personnel;
- adequately protect its intellectual property;
- secure necessary capital;
- successfully negotiate with government agencies, vendors, customers, feedstock suppliers or other third parties;
- successfully manage its existing, or enter into new, strategic relationships and partnerships;
- commence projects on the current, or any revised, schedule in compliance with the budget;
- effectively manage rapid growth in personnel or operations; and
- develop technology, products or processes that complement existing business strategies or address changing market conditions.

If Primus is unable to adequately address any of these risks, this could have a material adverse effect on Primus' business, financial condition, results of operations or liquidity.

Primus is seeking to enter into agreements with equity partners to fund the development of new projects. If Primus is unable to secure funding from equity partners, it may be unable to fund development of projects which could impact its ability to develop its business. Primus' lack of a track record in developing projects could impact its ability to secure equity funding for projects.

Primus' operations are highly dependent upon commodity prices, particularly natural gas, gasoline and methanol.

Primus' operations depend substantially on the prices of various commodities, including natural gas, gasoline, crude oil, methanol and others, and in particular on the spread between natural gas and certain refined products. The prices of certain of these commodities are volatile, and this volatility may affect Primus' ability to market its technology and processes.

The liquids that Primus produces using its STG+ process (gasoline, methanol and stream miscible with crude) will compete in markets with refined petroleum products. Because natural gas, or syngas derived from natural gas, will be primarily used as the feedstock in Primus' STG+ process, an increase in natural gas prices relative to prices for refined petroleum products, or a decrease in prices for refined petroleum products, could adversely affect demand for Primus' technology. The price and availability of natural gas and refined products may be affected by numerous factors, including the level of consumer product demand, weather conditions, the availability of water for fracking, domestic and foreign government regulation (including regulation of fracking), the actions of the Organization of Petroleum Exporting Countries, political conditions in oil and natural gas producing countries, the supply of domestic and foreign crude oil and natural gas, the location of any plants developed by Primus vis-à-vis natural gas reserves and pipelines, the capacities of such pipelines, fluctuations in seasonal demand, governmental regulations, the price and availability of alternative fuels and overall economic conditions. Primus cannot predict future demand and prices for natural gas or refined products, and a collapse in the price spread between natural gas and certain refined products could have a material adverse effect on its business, financial condition, results of operations or liquidity.

Primus' STG+ process may not generate fuel that satisfies required specifications.

The commercialization of Primus' technology contemplates the production of liquids that satisfy certain specifications. If any of the liquids produced by Primus' STG+ process do not satisfy required specifications, Primus may be unable to market and commercialize its proprietary liquids technology, the STG+ process. Any change in such specifications, could increase Primus' expenses or delay the commercialization or viability of Primus' gas monetization technology, which could have a material adverse effect on Primus' business, financial condition, results of operations or liquidity.

Primus' success depends, in part, upon its ability to protect its intellectual property.

Primus has independently developed, patented and owns numerous processes related to liquids synthesis, gasoline composition, and incremental improvements and customizations. If Primus fails to protect its intellectual property rights adequately, its competitors might gain access to its technology, and its competitive advantage, brand or business may be adversely affected.

Primus relies on trade secret and patent laws, confidentiality procedures and contractual provisions to protect its proprietary methods and processes. Primus currently holds several patents and has pending patent applications in the U.S. Valid patents may not be issued from Primus' pending applications, and the claims allowed on any issued patents may not be sufficiently broad to protect Primus' STG+ process. Any patents currently held by Primus or that may be issued to Primus in the future may be challenged, invalidated or circumvented, and any rights granted under these patents may not actually provide Primus with adequate defensive protection or competitive advantages. Additionally, the process of applying for patent protection is expensive and time-consuming, and Primus may not be able to complete all necessary or desirable patent applications at a reasonable cost or in a timely manner.

Policing unauthorized use of technology may prove difficult for Primus as the laws of some foreign countries may not be as protective of intellectual property rights as those of the United States, and mechanisms for the enforcement of Primus' proprietary rights in such countries may be inadequate. From time to time, Primus may need to initiate legal action to enforce its intellectual property rights, to protect its trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend itself against claims of infringement. Such litigation could result in substantial costs and the diversion of limited resources and could negatively affect Primus' business, reputation or brand. If Primus is unable to protect its proprietary rights, it may lose its expected competitive advantage which could have a material adverse effect on its business, financial condition, results of operations or liquidity.

Risks Related to Our Spin-Off

The potential indemnification of liabilities to IC pursuant to the Separation and Distribution Agreement may require us to divert cash to IC to satisfy our indemnification obligations.

We entered into a Sales, Separation and Distribution Agreement with IC, or the Separation and Distribution Agreement, which provides for, among other things, indemnification obligations designed to make us financially responsible for liabilities incurred in connection with our businesses, and as otherwise allocated to us in the Separation and Distribution Agreement. If we are required to indemnify IC under the circumstances set forth in the Separation and Distribution Agreement, we may be subject to substantial liabilities, which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

There can be no assurance that IC's indemnification of certain of our liabilities will be sufficient to insure us against the full amount of those liabilities, or that IC's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the Separation and Distribution Agreement, IC has agreed to indemnify us for certain liabilities retained by it (which includes certain specified pending legal matters). However, third parties could seek to hold us responsible for any of the liabilities that IC has agreed to retain, and there can be no assurance that the indemnity from IC will be sufficient to protect us against the full amount, or any, of such liabilities, or that IC will be able to satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from IC any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves. Additionally, IC's insurers may deny coverage to us for liabilities associated with occurrences prior to the spin-off. Even if we ultimately succeed in recovering from such insurance providers, we may be required to temporarily bear such loss of coverage. If IC is unable to satisfy its indemnification obligations or if insurers deny coverage, the underlying liabilities could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Risks Related to Our Ordinary Shares

Our ordinary shares are traded on more than one stock exchange and this may result in price variations between the markets.

Our ordinary shares are listed on each of the NYSE and the TASE. Trading in our ordinary shares therefore takes place in different currencies (U.S. Dollars on the NYSE and New Israeli Shekels on the TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). The trading prices of our ordinary shares on these two markets may differ as a result of these, or other, factors. Any decrease in the price of our ordinary shares on either of these markets could also cause a decrease in the trading prices of our ordinary shares on the other market.

A significant portion of our outstanding ordinary shares may be sold into the public market, which could cause the market price of our ordinary shares to drop significantly, even if our business is doing well.

A significant portion of our shares are held by Ansonia, which holds approximately 58% of our shares. If Ansonia sells, or indicates an intention to sell, substantial amounts of our ordinary shares in the public market, the trading price of our ordinary shares could decline. The perception that any such sales may occur, including the entry of any of Ansonia into programmed selling plans, could have a material adverse effect on the trading price of our ordinary shares and/or could impair the ability of any of our businesses to raise capital.

Control by principal shareholders could adversely affect our other shareholders.

Ansonia beneficially owns approximately 58% of our outstanding ordinary shares and voting power. Ansonia therefore has a continuing ability to control, or exert a significant influence over, our board of directors, and will continue to have significant influence over our affairs for the foreseeable future, including with respect to the election of directors, the consummation of significant corporate transactions, such as an amendment of our constitution, a merger or other sale of our company or our assets, and all matters requiring shareholder approval. In certain circumstances, Ansonia's interests as a principal shareholder may conflict with the interests of our other shareholders and Ansonia's ability to exercise control, or exert significant influence, over us may have the effect of causing, delaying, or preventing changes or transactions that our other shareholders may or may not deem to be in their best interests.

We may not have sufficient distributable profits to pay dividends or make other distributions.

Under Singapore law and our constitution, dividends, whether in cash or in specie, must be paid out of our profits available for distribution. The availability of distributable profits is assessed on the basis of Kenon's standalone unconsolidated accounts (which are based upon the Singapore Financial Reporting Standards, or the SFRS). There is no assurance that, on such basis, we will not incur losses, that we will become profitable, or that we will have sufficient distributable income that might be distributed to our shareholders as a dividend or other distribution in the foreseeable future. Therefore, we may be unable to pay dividends to our shareholders unless and until we have generated sufficient distributable reserves. Accordingly, it may not be legally permissible for us to pay dividends to our shareholders. As a result, if we declare dividends with respect to our ordinary shares, a holder of our ordinary shares will only realize income from an investment in our ordinary shares if there is an increase in the market price of our ordinary shares. Such potential increase is uncertain and unpredictable.

Under Singapore law, it is possible to effect either a court-free or court-approved capital reduction exercise to return cash and/or assets to our shareholders. Further, the completion of a court-free capital reduction exercise will depend on whether our directors are comfortable executing a solvency statement attesting to our solvency, as well as whether there are any other creditor objections raised (in the event that we have creditors other than IC). We have completed capital reduction exercises in connection with the distribution of our Tower shares and the cash distribution in March 2018, but there is no assurance that we will be able to complete further capital reductions in the future.

Any dividend payments on our ordinary shares would be declared in U.S. Dollars, and any shareholder whose principal currency is not the U.S. Dollar would be subject to exchange rate fluctuations.

The ordinary shares are, and any cash dividends or other distributions to be declared in respect of them, if any, will be denominated in U.S. Dollars. For example, in 2018, we distributed \$765 million in cash to our shareholders. Although a significant percentage of our shareholders hold their shares through the TASE, the dividend was denominated in U.S. Dollars. Shareholders whose principal currency is not the U.S. Dollar will be exposed to foreign currency exchange rate risk. Any depreciation of the U.S. Dollar in relation to such foreign currency will reduce the value of such shareholders' ordinary shares and any appreciation of the U.S. Dollar will increase the value in foreign currency terms. In addition, we will not offer our shareholders the option to elect to receive dividends, if any, in any other currency. Consequently, our shareholders may be required to arrange their own foreign currency exchange, either through a brokerage house or otherwise, which could incur additional commissions or expenses.

We are a "foreign private issuer" under U.S. securities laws and, as a result, are subject to disclosure obligations that are different from those applicable to U.S. domestic registrants listed on the NYSE.

We are incorporated under the laws of Singapore and, as such, will be considered a "foreign private issuer" under U.S. securities laws. Although we will be subject to the reporting requirements of the Exchange Act, the periodic and event-based disclosure required of foreign private issuers under the Exchange Act is different from the disclosure required of U.S. domestic registrants. Therefore, there may be less publicly available information about us than is regularly published by or about other public companies in the United States. We are also exempt from certain other sections of the Exchange Act that U.S. domestic registrants are otherwise subject to, including the requirement to provide our shareholders with information statements or proxy statements that comply with the Exchange Act. In addition, insiders and large shareholders of ours are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act and are not obligated to file the reports required by Section 16 of the Exchange Act.

As a foreign private issuer, we have followed certain, and may follow, home country corporate governance practices instead of otherwise applicable SEC and NYSE corporate governance requirements, and this may result in less investor protection than that accorded to investors under rules applicable to domestic U.S. issuers.

As a foreign private issuer, we are permitted to follow certain home country corporate governance practices instead of those otherwise required under the NYSE's rules for domestic U.S. issuers, provided that we disclose which requirements we are not following and describe the equivalent home country requirement. For example, foreign private issuers are permitted to follow home country practice with regard to director nomination procedures and the approval of compensation of officers.

In addition, we are not required to maintain a board comprised of a majority of independent directors and a fully independent nominating and corporate governance committee. We generally seek to apply the corporate governance rules of the NYSE that are applicable to U.S. domestic registrants that are not "controlled" companies. However, we do not fully comply such rules; for example, we do not have a fully independent nominating and corporate governance committee. We may, in the future, decide to rely on other foreign private issuer exemptions provided by the NYSE and follow home country corporate governance practices in lieu of complying with some or all of the NYSE's requirements.

Following our home country governance practices, as opposed to complying with the requirements that are applicable to a U.S. domestic registrant, may provide less protection to you than is accorded to investors under the NYSE's corporate governance rules. Therefore, any foreign private exemptions we avail ourselves of in the future may reduce the scope of information and protection to which you are otherwise entitled as an investor.

It may be difficult to enforce a judgment of U.S. courts for civil liabilities under U.S. federal securities laws against us, our directors or officers in Singapore.

We are incorporated under the laws of Singapore and certain of our officers and directors are or will be residents outside of the United States. Moreover, most of our assets are located outside of the United States. Although we are incorporated outside of the U.S., we have agreed to accept service of process in the United States through our agent designated for that specific purpose. Additionally, for so long as we are listed in the U.S. or in Israel, we have undertaken not to claim that we are not subject to any derivative/class action that may be filed against us in the U.S. or Israel, as applicable, solely on the basis that we are a Singapore company. However, since most of the assets owned by us are located outside of the United States, any judgment obtained in the United States against us may not be collectible within the United States.

Furthermore, there is no treaty between the United States and Singapore providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters, such that a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws, would, therefore, not be automatically enforceable in Singapore. Additionally, there is doubt whether a Singapore court may impose civil liability on us or our directors and officers who reside in Singapore in a suit brought in the Singapore courts against us or such persons with respect to a violation solely of the federal securities laws of the United States, unless the facts surrounding such a violation would constitute or give rise to a cause of action under Singapore law. We have undertaken not to oppose the enforcement in Singapore of judgments or decisions rendered in Israel or in the United States in a class action or derivative action to which Kenon is a party. Notwithstanding such undertakings, it may be difficult for investors to enforce against us, our directors or our officers in Singapore, judgments obtained in the United States which are predicated upon the civil liability provisions of the federal securities laws of the United States.

We are incorporated in Singapore and our shareholders may have greater difficulty in protecting their interests than they would as shareholders of a corporation incorporated in the United States.

Our corporate affairs are governed by our constitution and by the laws governing corporations incorporated in Singapore. The rights of our shareholders and the responsibilities of the members of our board of directors under Singapore law are different from those applicable to a corporation incorporated in the United States. Therefore, our public shareholders may have more difficulty in protecting their interest in connection with actions taken by our management or members of our board of directors than they would as shareholders of a corporation incorporated in the United States. For information on the differences between Singapore and Delaware corporation law, see "*Item 10.B Constitution.*"

Singapore corporate law may delay, deter or prevent a takeover of our company by a third-party, and as a result of a waiver from application of the Code, our shareholders may not have the benefit of the application of the Singapore Code on Take-Overs and Mergers, which could adversely affect the value of our ordinary shares.

The Singapore Code on Take-overs and Mergers and Sections 138, 139 and 140 of the Securities and Futures Act, Chapter 289 of Singapore contain certain provisions that may delay, deter or prevent a future takeover or change in control of our company for so long as we remain a public company with more than 50 shareholders and net tangible assets of \$5 million or more. Any person acquiring an interest, whether by a series of transactions over a period of time or not, either on his own or together with parties acting in concert with such person, in 30% or more of our voting shares, or, if such person holds, either on his own or together with parties acting in concert with such person, between 30% and 50% (both inclusive) of our voting shares, and such person (or parties acting in concert with such person) acquires additional voting shares representing more than 1% of our voting shares in any six-month period, must, except with the consent of the Securities Industry Council of Singapore, extend a mandatory takeover offer for the remaining voting shares in accordance with the provisions of the Singapore Code on Take-overs and Mergers.

In October 2014, the Securities Industry Council of Singapore waived the application of the Singapore Code on Take-overs and Mergers to the Company, subject to certain conditions. Pursuant to the waiver, for as long as Kenon is not listed on a securities exchange in Singapore, and except in the case of a tender offer (within the meaning of U.S. securities laws) where the offeror relies on a Tier 1 exemption to avoid full compliance with U.S. tender offer regulations, the Singapore Code on Take-overs and Mergers shall not apply to Kenon.

Accordingly, Kenon's shareholders will not have the protection or otherwise benefit from the provisions of the Singapore Code on Take-overs and Mergers and the Securities and Futures Act to the extent that this waiver is available.

Our directors have general authority to allot and issue new shares on terms and conditions and with any preferences, rights or restrictions as may be determined by our board of directors in its sole discretion, which may dilute our existing shareholders. We may also issue securities that have rights and privileges that are more favorable than the rights and privileges accorded to our existing shareholders.

Under Singapore law, we may only allot and issue new shares with the prior approval of our shareholders in a general meeting. Other than with respect to the issuance of shares pursuant to awards made under our Share Incentive Plan 2014 or Share Option Plan 2014, and subject to the general authority to allot and issue new shares provided by our shareholders annually, the provisions of the Singapore Companies Act and our constitution, our board of directors may allot and issue new shares on terms and conditions and with the rights (including preferential voting rights) and restrictions as they may think fit to impose. Any such offering may be on a pre-emptive or non-pre-emptive basis. Subject to the prior approval of our shareholders for (i) the creation of new classes of shares and the (ii) granting to our directors of the authority to issue new shares with different or similar rights, additional shares may be issued carrying such preferred rights to share in our profits, losses and dividends or other distributions, any rights to receive assets upon our dissolution or liquidation and any redemption, conversion and exchange rights. At the annual general meeting of shareholders held in 2018, or the 2018 AGM, our shareholders granted the board of directors authority (effective until the conclusion of the annual general meeting of shareholders to be held in 2019, or the 2019 AGM, or the expiration of the period by which the 2019 AGM is required to be held) to allot and issue ordinary shares and/or instruments that might or could require ordinary shares to be allotted and issued as authorized by our shareholders at the 2018 AGM and shareholders will be asked to renew this authority at the 2019 AGM. Ansonia, our significant shareholder, may use its ability to control to approve a grant of such authority to our board of directors, or exert influence over, our board of directors to cause us to issue additional ordinary shares, which would dilute existing holders of our ordinary shares, or to issue securities with rights and privileges that are more favorable than those of our ordinary shareholders. There are no statutory pre-emptive rights for new share issuances conferred upon our shareholders under the Companies Act, Chapter 50 of Singapore, or the Singapore Companies Act. Furthermore, any additional issuances of new shares by our directors could adversely impact the market price of our ordinary shares.

Risks Related to Taxation

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders of our ordinary shares.

Based upon, among other things, the valuation of our assets and the composition of our income and assets, we do not believe we were a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our previous taxable year ended December 31, 2018. However, the application of the PFIC rules is subject to uncertainty in several respects and a separate determination must be made after the close of each taxable year as to whether we were a PFIC for that year. Accordingly, we cannot assure you that we will not be a PFIC for our current, or any future, taxable year. A non-U.S. corporation will be a PFIC for any taxable year if either (i) 75% or more of its gross income for such year is passive income or (ii) 50% or more of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income. For this purpose, we will be treated as owning our proportionate share of the businesses and earning our proportionate share of the income of any other business in which we own, directly or indirectly, 25% or more (by value) of the stock. Because the value of our assets for purposes of the PFIC test will generally be determined in part by reference to the market price of our ordinary shares, fluctuations in the market price of the ordinary shares may cause us to become a PFIC. In addition, changes in the composition of our income or assets may cause us to become a PFIC. As a result, dispositions of operating companies could increase the risk that we become a PFIC. For instance, the sale of the Inkia Business and the investment in Qoros by the Majority Shareholder in Qoros in 2018 (which reduced our equity interest in Qoros to 24%) each may increase the value of our assets that produce, or are held for the production of, passive income and/or our passive income and result in us becoming a PFIC for our current, and any future, taxable year. Furthermore, if the sale of half of our remaining interest in Qoros to the Majority Shareholder in Qoros is completed (which would reduce our equity interest in Qoros to 12%), it may increase the value of our assets that produce, or are held for the production of, passive income and/or our passive income and result in us becoming a PFIC for our current, and any future, taxable year. If we are a PFIC for any taxable year during which a U.S. Holder (as defined below) holds an ordinary share, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. For further information on such U.S. tax implications, see “*Item 10.E Taxation—U.S. Federal Income Tax Considerations—Passive Foreign Investment Company.*”

Tax regulations and examinations may have a material effect on us and we may be subject to challenges by tax authorities.

We operate in a number of countries and are therefore regularly examined by and remain subject to numerous tax regulations. Changes in our global mix of earnings could affect our effective tax rate. Furthermore, changes in tax laws could result in higher tax-related expenses and payments. Legislative changes in any of the countries in which our businesses operate could materially impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities. Additionally, the uncertain tax environment in some regions in which our businesses operate could limit our ability to enforce our rights. As a holding company with globally operating businesses, we have established businesses in countries subject to complex tax rules, which may be interpreted in a variety of ways and could affect our effective tax rate. Future interpretations or developments of tax regimes or a higher than anticipated effective tax rate could have a material adverse effect on our tax liability, return on investments and business operations.

In addition, we and our businesses operate in, are incorporated in and are tax residents of various jurisdictions. The tax authorities in the various jurisdictions in which we and our businesses operate, or are incorporated, may disagree with and challenge our assessments of our transactions (including any sales or distributions), tax position, deductions, exemptions, where we or our businesses are tax resident, or other matters. If we, or our businesses, are unsuccessful in responding to any such challenge from a tax authority, we, or our businesses, may be unable to proceed with certain transactions, be required to pay additional taxes, interest, fines or penalties, and we, or our businesses, may be subject to taxes for the same business in more than one jurisdiction or may also be subject to higher tax rates, withholding or other taxes. Even if we, or our businesses, are successful, responding to such challenges may be expensive, consume time and other resources, or divert management's time and focus from our operations or businesses or from the operations of our businesses. Therefore, a challenge as to our, or our businesses', tax position or status or transactions, even if unsuccessful, may have a material adverse effect on our business, financial condition, results of operations or liquidity or the business, financial condition, results of operations or liquidity of our businesses.

Our shareholders may be subject to non-U.S. taxes and return filing requirements as a result of owning our ordinary shares.

Based upon our expected method of operation and the ownership of our businesses following the spin-off, we do not expect any shareholder, solely as a result of owning our ordinary shares, to be subject to any additional taxes or additional tax return filing requirements in any jurisdiction in which we, or any of our businesses, conduct activities or own property. However, there can be no assurance that our shareholders, solely as a result of owning our ordinary shares, will not be subject to certain taxes, including non-U.S. taxes, imposed by the various jurisdictions in which we and our businesses do business or own property now or in the future, even if our shareholders do not reside in any of these jurisdictions. Consequently, our shareholders may also be required to file non-U.S. tax returns in some or all of these jurisdictions. Further, our shareholders may also be subject to penalties for failure to comply with these requirements. It is the responsibility of each shareholder to file each of the U.S. federal, state and local, as well as non-U.S., tax returns that may be required of such shareholder.

ITEM 4. Information on the Company

A. History and Development of the Company

We were formed in 2014 to be the holding company of certain companies that were owned (in whole, or in part) by IC in connection with our spin-off from IC in January 2015. We currently own the following subsidiaries and associated companies:

- a 76% interest in **OPC**, an owner, developer and operator of power generation facilities in the Israeli power market;
- a 24% interest in **Qoros**, a China-based automotive company (Kenon has agreed to sell half of its interest to the Majority Shareholder in Qoros, subject to closing conditions; upon completion of this sale, Kenon will hold a 12% interest in Qoros);
- a 32% interest in **ZIM**, a large provider of global container shipping services; and
- a 91% interest in **Primus**, an innovative developer and owner of a proprietary natural gas-to-liquids technology process.

In connection with our spin-off from IC, we also held a 29% interest in Tower, a NASDAQ- and TASE-listed specialty foundry semiconductor manufacturer. In July 2015, we completed a pro-rata distribution in specie of substantially all of our interest in Tower. In 2016, we sold our remaining interest in Tower.

In December 2017, our wholly-owned subsidiary Inkia sold its power generation and distribution businesses in Latin America and the Caribbean, or the Inkia Business, to an entity controlled by I Squared Capital, an infrastructure private equity firm. For further information on the sale, see “*Item 4.B Business Overview—Discontinued Operations—Inkia Business — Sale of the Inkia Business.*” As a result of this sale, our remaining power generation business consists of its 76% interest in OPC.

We were incorporated in March 2014 under the Singapore Companies Act. The legal and commercial name of the Company is Kenon Holdings Ltd. Our principal place of business is located at 1 Temasek Avenue #36-01, Millenia Tower, Singapore 039192. Our telephone number at our principal place of business is + 65 6351 1780. Our internet address is www.kenon-holdings.com. We have appointed Gornitzky & Co., Advocates and Notaries, as our agent for service of process in connection with certain claims which may be made in Israel.

Our ordinary shares are listed on each of the NYSE and the TASE under the symbol “KEN.” We plan to examine the various considerations in respect of our dual listing and, in particular, the advisability of maintaining or terminating such dual listing. We may, as a result of such examination, delist our ordinary shares from trading on the TASE pursuant to the Securities Law of Israel, 5728—1968. In the event we do decide to delist our ordinary shares from trading on the TASE, we have undertaken to publish an Immediate Report with the TASE pursuant to Israeli Securities regulations no less than 9 months prior to the delisting.

The SEC also maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

B. Business Overview

We are a holding company that operates dynamic, primarily growth-oriented, businesses. The companies we own, in whole or in part, are at various stages of development, ranging from established, cash generating businesses to early stage companies.

We were established in connection with a spin-off of our businesses from IC to promote the growth and development of our primary businesses, and we are primarily engaged in the operation of OPC and Qoros.

Our strategy is to realize the value of our businesses for our shareholders. In connection with this strategy, we will support the development of our business and we may provide our shareholders with direct access to our businesses, which may include spin-offs, listings, offerings, distributions or monetization of our businesses. To the extent we monetize our businesses (i.e., through offerings or sales), we may distribute the proceeds derived from such transactions to our shareholders. We made two cash distributions to shareholders in 2018, distributing a total of \$765 million following the sale of the Inkia Business at the end of 2017 and the sale of a part of our interest in Qoros and related transactions in 2018.

We have implemented a number of steps in furtherance of our strategy in 2017, 2018 and 2019 for our primary businesses as described below:

- **OPC :**
 - In 2017, we completed an IPO and listing of our OPC business in Israel, resulting in net proceeds to OPC of approximately \$100 million and Kenon retaining a 76% stake.
- **Qoros :**
 - In 2018 we entered into agreements to facilitate a new investment in Qoros, whereby the Majority Shareholder in Qoros acquired a 51% stake in Qoros, with Kenon and Chery retaining a 24% and 25% stake in Qoros, respectively. The agreement also provided Kenon a put option to sell some or all of its remaining interest in Qoros to the Majority Shareholder in Qoros for consideration of up to RMB3.12 billion (approximately \$454 million) (subject to adjustments). The investment resulted in significant equity investment in Qoros and required the Majority Shareholder in Qoros to assume its pro rata share of guarantee and pledge obligations in respect of Qoros bank debt. This investment ultimately led to net cash proceeds to Kenon's subsidiary Quantum of RMB1.2 billion (approximately \$175 million).
 - In January 2019, we entered into an agreement to sell half of our remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros for a purchase price of RMB1,560 million (approximately US\$227 million), which is based on the same post-investment valuation as the initial investment by the Majority Shareholder in Qoros. The sale is subject to obtaining relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros, the Majority Shareholder in Qoros will hold 63% and Chery will own 25%. The Majority Shareholder in Qoros will be required to assume its pro rata share of guarantees and equity pledges of Kenon and Chery based on its equity ownership in Qoros (including this change in its ownership).
- **IC Power :** At the end of 2017, we sold IC Power's power distribution and generation businesses in Latin America and the Caribbean for consideration of \$1,322 million (including final closing adjustments), of which \$175 million was deferred. The proceeds were used to repay debt and pay taxes and other expenses, and to fund a distribution to Kenon shareholders of \$665 million.
- **Distributions to Shareholders:** Kenon distributed a total of \$765 million to shareholders via a return of capital and a dividend in 2018 which Kenon was able to do as a result of the transactions described above.

We also hold interests in:

- **ZIM**, a large provider of global container shipping services, which, as of December 31, 2018 operated 73 (owned and chartered) vessels with a total container capacity of 348,053 TEUs, and in which we have a 32% equity interest; and
- **Primus**, an innovative developer and owner of a proprietary natural gas-to-liquid technology process, in which we have a 91% equity interest.

We continue to assess our options with respect to ZIM and Primus. We do not intend to make further investments in ZIM. Nevertheless, if a strategic opportunity arises that would require an investment to facilitate a transaction that will benefit Kenon shareholders, we may consider such a transaction.

As we execute our strategy, we intend to operate under disciplined capital allocation principles designed to ensure the prudent use of our capital. We intend to refrain from acquiring interests in new companies outside our existing businesses. We do not intend to materially “cross-allocate” proceeds received in connection with distributions or sales of our interests in any of our businesses, among our other businesses.

Our strategy set forth above is designed to promote the growth and development of our primary businesses, maximize value for our shareholders and ensure the prudent use of our capital. However, we will be required to make determinations over time that will be based on the facts and circumstances prevailing at such time, as well as continually evolving market conditions and outlook. As a result, we will be required to exercise significant judgment while seeking to adhere to these capital allocation principles in order to maximize value for our shareholders and further the development of our businesses.

Our Businesses

Set forth below is a description of our businesses.

OPC

OPC, which accounted for approximately 100% of our revenues in the year ended December 31, 2018, is an owner, developer and operator of power generation facilities located in Israel. OPC’s facilities and primary development projects are set forth below.

- **OPC-Rotem**, in which OPC has an 80% equity interest, operates a conventional combined cycle power plant in Mishor Rotem, Israel, with an installed capacity of 466 MW (based on OPC-Rotem’s generation license). The power plant utilizes natural gas, with diesel oil and crude oil as backups.
- **OPC-Hadera**, a wholly-owned subsidiary of OPC, operates steam boilers and turbines with an installed capacity of up to 18 MW in Hadera. In June 2016, OPC-Hadera commenced construction of the OPC-Hadera plant, a cogeneration power station in Israel, which is expected to have a capacity of up to 148 MW, and is expected to reach its COD by the third quarter of 2019. OPC expects that the total cost of completing the OPC-Hadera plant (including the consideration for the original acquisition of OPC-Hadera) will be approximately NIS 1 billion (approximately \$267 million). As of December 31, 2018, OPC-Hadera had substantially completed construction of the power plant’s generation units; however, construction still requires the completion of additional tests and further preliminary requirements to reach commercial operation. As of December 31, 2018, OPC-Hadera had invested approximately NIS 822 million (approximately \$219 million) in the project.
- **Tzomet**, in which OPC has a 95% equity interest, is developing a natural gas-fired open-cycle power station in Israel with capacity of approximately 396 MW. In January 2019, OPC entered into an agreement for the acquisition of the remaining 5% of the shares of Tzomet. A conditional license for the construction of the Tzomet plant remains subject to conditions. In addition, the Tzomet project is subject to a positive interconnection survey and to financial closing. In September 2018, Tzomet entered into an EPC contract in an amount equivalent to approximately \$300 million with PW for the design, engineering, procurement and construction of the Tzomet power plant. The aggregate consideration is payable based on the achievement of milestones. For more information, see “*Item 4.B Business Overview—OPC—OPC’s Description of Operations—Tzomet.*”

For risks related to OPC’s expansion, see “*Item 3.D Risk Factors—Risks Related to OPC—OPC faces risks in connection with the expansion of its business.*”

In August 2017, OPC completed an initial public offering in Israel, and a listing on the TASE, resulting in net proceeds to OPC of approximately \$100 million and Kenon retaining 76% stake.

The following table sets forth summary operational information regarding each of OPC's operating companies as of December 31, 2018:

Country	Entity	Ownership Percentage (Rounded)	Fuel	Installed Capacity (MW)	Type of Asset
Israel	OPC-Rotem	80%	Natural Gas and Diesel	466	Greenfield
Israel	OPC-Hadera	100%	Natural Gas and Diesel	18	Acquired
Total Operating Capacity				484	

The weighted average remaining life of OPC's PPAs based on firm capacity, as of December 31, 2018, is approximately 6 years for OPC-Rotem and 14 years for OPC-Hadera. For OPC-Rotem, this reflects the weighted average remaining life of its PPAs with end users based on OPC's firm capacity. The IEC PPA (as defined below), which extends for a 20-year term from COD, provides OPC-Rotem with the option to allocate and sell the generated electricity of the power station directly to end users. OPC-Rotem has exercised this option and sells all of its energy and capacity directly to 23 end users (i.e. customers other than the IEC), as of the date of this report. For further information on the IEC PPA, see "*—Regulatory, Environmental and Compliance Matters.*"

Industry Overview

Overview of Israeli Electricity Generation Industry

According to the Israel Central Bureau of Statistics, Israel had a population of approximately 8.9 million as of December 31, 2018.

Israel's power generation units primarily utilize fossil fuels. Most of the activity of power generation in Israel is carried out by the state-owned IEC. However, in recent years the market share of private producers has been increasing in light of the Israeli government policy to allow competition in the electricity market.

The following tables feature data on the share of private electricity producers and the IEC in the electricity market in 2017 and 2016, as published by the EA. To the best of OPC's knowledge, as at the publication date of the report, data in respect of 2018 had not yet been published.

	December 31, 2017		December 31, 2016	
	Installed Capacity (MW)	% of Total Installed Capacity in the Market	Installed Capacity (MW)	% of Total Installed Capacity in the Market
IEC	13,355	76%	13,617	77%
Private electricity producers (including renewable energy)	4,254	24%	4,012	23%
Private electricity producers (without renewable energy)	3,217	18%	3,077	17%
Renewable energy (private electricity producers)	1,037	6%	935	6%
Total in the market	17,609	100%	17,629	100%

	December 31, 2017		December 31, 2016	
	Energy generated (thousands of MWh)	% of total generated in the market	Energy generated (thousands of MWh)	% of total generated in the market
IEC	48,833	72%	48,722	72%
Private electricity producers (including renewable energy)	19,338	28%	18,554	28%
Private electricity producers (without renewable energy)	17,748	26%	17,015	26%
Renewable energy (private electricity producers)	1,590	2%	1,539	2%
Total in the market	68,171	100%	67,276	100%

(1) Based on the Report on the Condition of the Electricity Market for 2017 and the database for the annual update to the electrical tariff for 2019, as published by the EA.

Sales of IPPs are generally made on the basis of PPAs for the sale of energy to customers, with prices predominantly linked to the tariff issued by the EA and denominated in NIS. The EA operates a “Time of Use” tariff, which provides different energy rates for different seasons (e.g., summer and winter) and different periods of time during the day. Within Israel, the price of energy varies by season and demand period, with tariffs varying based upon the season—summer (July, August), winter (January, February, December) and transition (March-June, September-November)—and demand (peak, shoulder and off-peak).

In December 2018, the EA published the electricity tariffs for 2019, which included an increase of the EA’s generation component tariff by approximately 3.3%. This tariff is based, among other things, on the IEC’s fuel costs, of which a substantial part are the IEC’s coals and gas costs. According to public reports of the Tamar Group partners, in February 2019 an amendment to the agreement of the Tamar Group with the IEC was approved regarding the price of natural gas under the agreement. If the amendment is executed, the IEC will pay lower prices for the natural gas supplied under the agreement, commencing from January 2019 up to the first price adjustment date (currently set for July 1, 2021). This could impact the tariffs under PPAs and could potentially affect the price that OPC pays for gas. The generation component tariff may also be affected by IEC’s other expenses and revenues, which in turn maybe affected by the results of the legal proceedings to which the IEC is a party. For information on the risks associated with the indexation of OPC’s revenues and cost of sales to the EA’s generation component tariff and its potential impact on OPC’s business, financial condition and results of operations, see “*Item 3.D Risk Factors—Risks Related to OPC—Changes in the EA’s electricity rates may reduce OPC’s profitability.*”

As of December 31, 2017, the total installed capacity of the Israeli market (IEC and IPPs) was approximately 16,500 MW excluding renewable energy, and approximately 17,500 MW, including renewable energy. According to Bank of Israel’s and IEC projections, the demand for electricity in Israel is expected to grow at an annual rate of 2.7% from 2018 to 2030. These projections for the growth in the electricity market are based on the following assumptions published by the EA:

Component	Megawatt
Installed capacity (without renewable energy) as at December 31, 2017	16,525
Disposal of power plants of IEC up to 2030, whether by virtue of a Government decision or due to the age of the plants (Orot Rabin units 1–4 (1,440 MW), Reading (428 MW), Eshkol (912 MW), Ramat Hovav (335 MW) and additional units (621 MW)	3,736
Additional capacity through facilities under construction and quotas published by the EA	2,838
Expected installed capacity in 2030 without additional quotas	15,527
Forecasted peak demand in 2030 plus required reserve of 3,700 MW	23,400
Contribution of renewable energy and integration of accumulation in the renewable energy facilities for savings on the conventional capacity required	1,200
Additional installed capacity required (not including renewable energy)	6,573
Additional installed capacity required (including renewable energy)	7,500

The IEC has been classified by the Electricity Sector Law as an “essential service provider” and, as such, is subject to basic obligations concerning the proper management of the Israeli power utility market. These obligations include the filing of development plans, management of Israel’s power system, management of Israel’s power transmission and distribution systems, provision of backup and infrastructure services to IPPs and consumers, and the purchase of power from IPPs. IEC also transmits all of the electricity in Israel.

Pursuant to the Israeli Government's electricity sector reform, among other things, (i) the IEC will be required to sell five power plants through a tender process over the next 8 years, which is expected to reduce its market share to below 40%, (ii) the IEC will cease acting as the System Administrator and (iii) certain limitations will be imposed on entities participating in the tender process as well as in overall capacity held by a single entity in the market. Furthermore, the IEC will be permitted to build and operate two new gas-powered stations (through a subsidiary), but will not be authorized to construct any new stations or recombine existing stations, see "*OPC's Description of Operations—Regulatory, Environmental and Compliance Matters.*" This reform is expected to increase IPPs' presence in the market and lead to further industry competition.

In January 2019, in a letter to OPC, the IEC stated that from February to December 2019, OPC-Rotem and OPC-Hadera are expected to run on diesel oil operated for part of the period, and are expected to generate energy through use of diesel oil for approximately 13,000 MWh and 4,000 MWh, respectively. This is not expected to impact OPC's results as OPC is entitled to reimbursement from the IEC for incremental costs resulting from the use of diesel.

For further information on Israel's regulatory environment, see "*OPC's Description of Operations—Regulatory, Environmental and Compliance Matters.*" For information on the risks related to changes in Israel's regulatory environment, see "*Item 3.D Risk Factors—Risks Related to OPC—Changes in the EA's electricity rates may reduce OPC's profitability*" and "*Item 3.D Risk Factors—Risks Related to OPC—OPC's operations are significantly influenced by regulations.*"

The following tables set forth the consumption blocks for each of the seasons set forth below, as of January 1, 2019:

	Hours per Consumption Block ¹		
	Winter	Transition (Hours)	Summer
Peak	420	1,932	308
Shoulder	204	936	308
Off-Peak	1,536	2,244	872

(1) The hours per consumption block may vary due to changes in the dates of weekdays, weekends and public holidays.

OPC's Description of Operations

OPC's portfolio includes power generation plants that operate on natural gas and diesel. As of December 31, 2018, OPC's installed capacity was up to 484 MW.

OPC's first power plant, OPC-Rotem, a combined cycle power plant with an installed capacity of 466 MW (based on OPC-Rotem's generation license), commenced commercial operations in Mishor Rotem, Israel in July 2013. The power plant utilizes natural gas, with diesel oil and crude oil as backups. OPC has an 80% equity interest in OPC-Rotem.

OPC's second power plant, OPC-Hadera operates steam boilers and a turbine with an installed capacity of 18 MW in Hadera. In June 2016, OPC-Hadera commenced construction of a cogeneration power station in Israel, which is expected to have a capacity of up to 148 MW, and, following delays in the plant's construction and operation, is currently expected to reach its COD in the third quarter of 2019. OPC expects that the total cost of completing the OPC-Hadera plant (including the consideration for the original acquisition of OPC-Hadera) will be approximately NIS 1 billion (approximately \$267 million) (including the consideration for the original acquisition of OPC-Hadera). As of December 31, 2018, OPC-Hadera had substantially completed construction of the power plant's generation units; however, construction still requires the completion of additional tests and further preliminary requirements to reach commercial operation. As of December 31, 2018, OPC-Hadera had invested approximately NIS 822 million (approximately \$219 million) in the project. OPC-Hadera is a wholly-owned subsidiary of OPC.

OPC owns 95% of Tzomet, which is developing a natural gas-fired open-cycle power station in Israel with capacity of approximately 396 MW. In January 2019, OPC entered into an agreement to acquire the remaining 5% interest in Tzomet. In April 2019, the EA published its decision to grant Tzomet a conditional license for a 66-month term (which can be extended, subject to conditions) for the construction of a 396MW conventional open-cycle power plant, subject to the Israeli Minister of Energy's approval and the issuance of a guarantee by Tzomet. For more information on the Tzomet acquisition and the EA's decision regarding the license see "*Tzomet*" and for risks related to OPC's expansion, see "*Item 3.D Risk Factors—Risks Related to OPC—OPC faces risks in connection with the expansion of its business.*" The Tzomet plant is a "peaking" facility and all capacity would be sold to the IEC.

OPC is considering participating in the IEC tenders of five of its power stations, see "*Regulatory, Environmental and Compliance Matters.*" OPC submitted a request for early classification in the Alon Tabor site tender process in January 2019 and was admitted to the preliminary classification stage in February 2019. Parties interested in participating in the tender are required to submit their bids by May 2019. There is no certainty that OPC will be participating in the tender sale of this site.

In 2017, OPC began initiating projects in the field of power generation using photovoltaic technology, through OPC Solar, a wholly-owned subsidiary of OPC. However, in March 2019, OPC Solar entered into a binding memorandum of understanding for the sale of all of its shares in Greenday Renewable Energy Ltd., the entity that handles OPC’s power generation initiative activities using photovoltaic technology. Completion of the sale is subject to conditions.

The following table sets forth summary financial information for OPC for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(\$ millions)		
Sales	363	365	324
Cost of Sales	258	266	251
Net Income	26	14	20
EBITDA ¹	91	86	67
Outstanding Debt ²	587	618	417
Net Debt ³	401	395	371

- (1) “EBITDA” is a non-IFRS measure. For a reconciliation of OPC’s net income (loss) to its EBITDA, see footnote 1 to the first table in “*Item 3.A Selected Financial Data—Selected Reportable Segment Data—OPC*” setting forth the selected financial data for the year ended December 31, 2018.
- (2) Includes short-term and long-term debt and excludes loans and notes owed to a parent company.
- (3) “Net debt” is a non-IFRS measure. For a reconciliation of total debt to net debt for OPC and its businesses as of December 31, 2018 see footnote 2 to the first table in “*Item 3.A Selected Financial Data—OPC*” setting forth the selected financial data for the year ended December 31, 2018.

The following table sets forth summary operational information for OPC’s operating plants as of and for the year ended December 31, 2018:

Entity	Installed Capacity (MW) ¹	Net energy generated (GWh)	Availability factor (%)
OPC-Rotem	466	3,299	87%
OPC-Hadera	18	84	94%
OPC Total	484	3,383	

The following table sets forth summary operational information for OPC as of and for the year ended December 31, 2017:

Entity	Installed Capacity (MW) ¹	Net energy generated (GWh)	Availability factor (%)
OPC-Rotem	466	3,576	94%
OPC-Hadera	18	79	89%
OPC Total	484	3,655	

The following table sets forth summary operational information for OPC as of and for the year ended December 31, 2016:

Entity	Installed Capacity (MW) ¹	Net energy generated (GWh)	Availability factor (%)
OPC-Rotem	466	3,422	91%
OPC-Hadera	18	88	95%
OPC Total	484	3,510	

The following summaries provide a description of OPC's businesses.

OPC-Rotem

OPC has an 80% stake in OPC-Rotem. The remaining 20% is held by Veridis, which is indirectly controlled by Delek Automotive Systems Ltd. OPC-Rotem commenced operations in July 2013 in Mishor Rotem industrial zone in the south of Israel. The OPC-Rotem plant was constructed for an aggregate cost of approximately \$508 million. OPC-Rotem's plant has a capacity of 466 MW (based on OPC-Rotem's generation license), representing, together with the Hadera Energy Center, approximately 2.6% of the total installed capacity and approximately 11% of the total installed capacity provided by IPPs in Israel as of December 31, 2017 (including renewables). In 2018, OPC-Rotem's plant generated approximately 4.7% of the total energy generated in Israel and approximately 14% of the energy generated by IPPs in Israel (including renewables).

OPC-Rotem purchases natural gas from the Tamar Group, pursuant to a natural gas supply agreement that expires upon the earlier of June 2029 or the date on which OPC-Rotem consumes the entire contractual capacity. The EA's generation component tariff is the base for the natural gas price linkage formula in the agreement between OPC-Rotem and the Tamar Group. According to the agreement with the Tamar Group, OPC-Rotem has the option to decrease the daily contractual gas amount to a specific amount set forth in the agreement between 2020 and 2022, such that the minimum consumption from the Tamar Group constitutes 50% of the average gas consumption in the three years preceding the notice of the option exercise.

In December 2017, OPC-Rotem signed an agreement for the purchase of natural gas with Energean Israel Ltd., or Energean. Pursuant to this agreement, OPC-Rotem has agreed to purchase from Energean 5.3 billion m³ of natural gas over a period of fifteen years (subject to adjustments based on their actual consumption of natural gas) or until the date of consumption of the full contractual quantity, commencing at the commercial operation date of the Energean natural gas reservoir. Construction of natural gas reservoirs by Energean has not yet been completed. According to disclosure made by Energean, the supply of gas is currently expected to commence in 2021, but there is no guarantee that the gas supply will be available by such date or at all. For further information on OPC-Rotem's gas supply agreements, see "*— OPC's Raw Materials and Suppliers.*"

OPC-Rotem has a PPA with IEC, the government-owned electricity generation, transmission and distribution company in Israel, or the IEC PPA. The term of the IEC PPA lasts until 20 years after the power station's COD (which was in 2013). According to the agreement, OPC-Rotem is entitled to operate in one of the following two ways (or a combination of both, subject to certain restrictions set in the agreement): (1) provide the entire net available capacity of its power station to IEC or (2) carve out energy and capacity for direct sales to private consumers, and OPC-Rotem has accordingly allocated the entire capacity of the plant to private consumers since COD. As a result, as of the date of this report, OPC-Rotem supplies energy to 23 end users according to long-term PPAs. In addition, OPC-Rotem from time to time enters short-term PPAs that give OPC flexibility in the sale of electricity to these customers (i.e. OPC may suspend from time to time the sale of electricity under these agreements). Under the IEC PPA, OPC-Rotem can also elect to revert back to supplying to IEC instead of private customers, subject to twelve months' advance notice.

Mitsubishi provides the long-term servicing of the power station, for a term of 100,000 hours of operation, or until the date on which 8 planned gas turbine treatments are completed (OPC estimates that this is a period of 12 years). OPC's long-term service agreement with Mitsubishi includes timetables for performance of the maintenance work, including "major overhaul" maintenance, which is to be performed every six years. Regular maintenance work is scheduled to be completed approximately every 18 months, with the next regular maintenance work scheduled to occur prior to the summer of 2020. As planned, major overhaul maintenance work was completed between September and November 2018, which halted the OPC-Rotem plant's operations along with the related energy generation activities. During the maintenance, supply of electricity to OPC-Rotem's private customers continued as usual using energy purchased by OPC, in accordance with the standards published by the EA and OPC-Rotem's PPA agreement with the IEC.

OPC has entered into a shareholders' agreement which grants minority rights to OPC's minority shareholder. For further information on OPC's shareholders' agreements, see "*— Shareholders' Agreements.*"

OPC-Hadera

In August 2015, OPC acquired 100% of the shares of OPC-Hadera from Hadera Paper, a large paper and paper product manufacturer in Israel. The consideration for the transaction was NIS 60 million (approximately \$16 million). OPC-Hadera, which currently operates an 18 MW plant, holds a conditional license for the construction of a cogeneration power station in Israel. OPC-Hadera commenced construction of the plant in June 2016. OPC expects that the total cost of completing the OPC-Hadera plant (including the consideration for the acquisition of OPC-Hadera) will be approximately NIS 1 billion (approximately \$267 million), based upon a plant with up to 148 MW of capacity.

In January 2016, OPC-Hadera entered into an EPC contract with IDOM, for the design, engineering, procurement and construction of the cogeneration power plant (as well as amendments to the agreement that were subsequently signed). The total consideration, following amendment made to the agreement in 2018, is estimated at NIS636 million (approximately \$177 million), payable upon achievement of certain milestones. The agreement contains a mechanism for the compensation of OPC-Hadera in the event that IDOM fails to meet its contractual obligations under the agreement. Furthermore, IDOM has provided bank guarantees and a corporate guarantee by its parent company to secure its obligations, and OPC has provided IDOM a guarantee to secure part of OPC-Hadera's liabilities.

Pursuant to OPC-Hadera's contingent license, the license is valid until September 2019. Expiration of the conditional license prior to the COD date and the receipt of a permanent license would constitute grounds for an event of default under OPC-Hadera's financing agreement. Furthermore, in the event of 9-month delays to the agreed COD date, certain customers have the right to cancel PPAs, subject to certain conditions. OPC-Hadera is permitted to cancel PPAs, among others, in the event of a significant delay in the COD date.

Following delays in the plant's construction and operation, the OPC-Hadera plant is currently expected to reach its COD in the third quarter of 2019. As of December 31, 2018, OPC-Hadera had substantially completed construction of the power plant's generation units; however, construction still requires the completion of additional tests and further preliminary requirements to reach commercial operation. In July 2016, OPC-Hadera entered into a NIS 1 billion loan agreement to finance the construction of the OPC-Hadera plant. Approximately 80% of the financing consists of long-term facility intended to cover the cost of construction and the remaining 20% consists of additional facilities. As of December 31, 2018, following financial closing, OPC has made drawings under the loan agreement, in a total amount of NIS 616 million (approximately \$164 million), of which two thirds of the amount is CPI-linked. For further information on the OPC-Hadera financing, see "*Item 5.B Liquidity and Capital Resources—OPC's Liquidity and Capital Resources—OPC's Material Indebtedness—OPC-Hadera Financing.*"

OPC-Hadera's power plant is expected to supply the electricity and steam needs of Hadera Paper's facility as well as to provide electricity to private customers in Israel. The power plant will operate using natural gas as its energy source, and diesel oil and crude oil as backups. As a cogeneration plant which supplies electricity and steam in a single production process, based on the construction contractor's estimates OPC-Hadera's power plant is expected to have a relatively high level of energy utilization. The efficiency of the Hadera station is expected to be approximately 74.5% when steam is supplied to Hadera Paper, and 54.5% when steam is not produced.

In 2015, OPC-Hadera entered into an agreement with Hadera Paper for OPC-Hadera's supply of electricity and steam from the OPC-Hadera power plant under construction to Hadera Paper's facility for a period of 18 years from the date the power plant reaches its COD. In January 2019, the agreement was amended and its term was extended to 25 years from the date of the amendment. Pursuant to this agreement, Hadera Paper has agreed to acquire all of its electricity and steam needs from OPC-Hadera. The agreement provides minimum quantity of steam to be purchased by Hadera Paper ("take-or-pay" level), which will be subject to adjustment. Until OPC-Hadera reaches its COD, OPC-Hadera will supply steam and electricity to Hadera Paper using the Hadera Energy Center purchased from Hadera Paper and OPC-Rotem will supply the residual energy.

In 2012, Hadera Paper entered into an agreement with the Tamar Group for the supply of natural gas, which has been assigned to OPC-Hadera. The gas supply agreement expires upon the earlier of April 2028 or the date on which OPC-Hadera consumes the entire contractual capacity. Both contracting parties have the option to extend the agreement, under certain conditions. The price of gas is linked to the weighted average of the generation component tariff published by the EA, and it is also subject to a price floor. According to the agreement, the gas shall be supplied on a firm basis, and includes a take-or-pay obligation, by OPC-Hadera. In addition, according to the agreement, OPC-Hadera has the option to effectively reduce the purchased gas quantities by approximately 50%, subject to certain conditions.

In September 2016, OPC-Hadera entered into another gas supply agreement with the Tamar Group. The gas supply agreement will expire at the earlier of fifteen years following the OPC-Hadera plant's COD date or on the date on which OPC-Hadera consumes the entire contractual capacity. Both contracting parties have the option to extend the agreement, under certain conditions. OPC-Hadera also has the right to terminate this agreement, which it may elect to do in connection with the Energean agreement described below. The price of gas is linked to the weighted average of the generation component tariff published by the EA, and it is also subject to a price floor. According to the agreement, the gas will be supplied on an interruptible basis, and the Tamar Group shall not be responsible for failures in the requested gas supply levels. The Tamar Group may decide to switch the supply to a firm basis. In the event of such a decision and from the date of the change in supply mechanism, OPC-Hadera will be subject to a take-or-pay obligation. OPC-Hadera also has the option to sell gas surpluses to other customers, including related parties, subject to limitations. Furthermore, OPC-Hadera has the option to terminate the agreement at its sole discretion, within three years starting December 2016.

In December 2017, OPC-Hadera signed an agreement for the purchase of natural gas with Energean. Pursuant to this agreement, OPC-Hadera has agreed to purchase from Energean 3.7 billion m³ of natural gas for a period of fifteen years (subject to adjustments based on their actual consumption of natural gas) or until the date of consumption of the full contractual quantity, commencing at the commercial operation date of the Energean natural gas reservoir. Construction of natural gas reservoirs by Energean has not yet been completed. The agreement is subject to consent of the lenders under the OPC-Hadera financing agreement. There is no guarantee that the gas supply will be available by such date or at all. For further information on OPC-Hadera's gas supply agreements, see "*OPC's Raw Materials and Suppliers.*"

In connection with the acquisition of OPC-Hadera by OPC, Hadera Paper sold its Hadera Energy Center, consisting of certain equipment that it uses to produce steam, and up to 18 MW of additional capacity (and 7 MW that are not active), within its manufacturing plant to OPC-Hadera. OPC-Hadera will also lease from Hadera Paper the land on which the power generation plant is located for a period of 20 years from the OPC-Hadera plant's COD. OPC-Hadera is also expected to sell its residual electricity to other end users.

In June 2017, OPC-Hadera entered into a long-term maintenance agreement with General Electric International Ltd., or GEI, and GE Global Parts & Products GmbH, or GEGPP for \$42 million (which consideration is payable over the term of the service agreement based on the formula prescribed therein) pursuant to which these two companies will provide maintenance treatments for the two gas turbines of GEI, generators and auxiliary facilities of the OPC-Hadera plant for a period commencing on the date of commercial operation until the earlier of: (a) the date on which all of the covered units (as defined in the service agreement) have reached the end-date of their performance and (b) 25 years from the date of signing the service agreement. The service agreement contains a guarantee of reliability and other obligations concerning the performance of the OPC-Hadera plant and indemnification to OPC-Hadera in the event of failure to meet the performance obligations. OPC-Hadera has undertaken to pay bonuses in the event of improvement in the performance of the plant as a result of the maintenance work, up to a cumulative ceiling for every inspection period.

Tzomet

In March 2018, OPC acquired 95% of the shares of Tzomet, which is developing a natural gas-fired open-cycle power station in Israel with capacity of approximately 396 MW. The total consideration for the acquisition of the 95% interest in Tzomet is estimated at approximately \$23 million, subject to certain adjustments, of which \$7.3 million has been paid and the remaining consideration will be paid at financial closing of the Tzomet project. In January 2019 OPC entered into an agreement for the acquisition of the remaining 5% of the shares of Tzomet, for consideration of approximately NIS 27 million (approximately \$7 million), which is expected to be completed in increments subject to the fulfillment of certain milestones. A conditional license for the construction of the Tzomet plant remains subject to conditions. In addition, the Tzomet project remains subject to a positive interconnection survey and to financial closing.

In August 2017, the Israeli Concentration Committee stated that it believed, for reasons of broad economic concentration, OPC should not be granted a license. In January 2019, OPC announced the establishment of a regulatory outline plan which would allow the Israeli Concentration Committee in Israel to modify its opinion regarding the Tzomet license. This outline plan included conditions, including the sale of the Idan Ofer Group's holdings in Reshet Media Ltd which has been completed.

In April 2019, the EA published its decision to grant Tzomet a conditional license for a 66-month term for the construction of a 396MW conventional open-cycle power plant. Pursuant to this decision, the license will become valid following the Israeli Minister of Energy's approval and the issuance of a guarantee by Tzomet. The term of the conditional license can be extended by the EA, subject to the Israeli Minister of Energy's approval, and subject to the regulation. In its decision, the EA also mentioned that the Israeli Concentration Committee did not object to the grant of the conditional license. The grant of a permanent generation license to Tzomet, upon expiration of the conditional license, is subject to Tzomet's compliance with the conditions set by law. For a discussion of risks associated with the development of the Tzomet plant, see "*Item 3.D Risk Factors—Risks Related to OPC—OPC faces risks in connection with the expansion of its business.*"

As opposed to generation facilities with an integrated cycle that operate during most of the hours in the year, the Tzomet plant will be an open-cycle power plant (Peaker plant). Peaker plants are generally planned to operate for a short number of hours during the day, where there is a gap in the demand and supply of electricity, e.g., at peak demand times. They act as backup plants whose purpose is to provide availability in times of peak demand, such as when other generation facilities break down, or as supplements when solar energy is unavailable. As opposed to OPC-Rotem and OPC-Hadera, which enter into PPAs to sell power to private customers, Tzomet will sell all of its capacity to the IEC, acting as a Peaker plant.

In September 2018, Tzomet entered into an EPC agreement with PW for construction of the Tzomet project. Pursuant to this agreement, PW committed to provide certain maintenance services in connection with the power station's main equipment for a period of 20 years commencing from the start date of the commercial operation and undertook to complete the construction work of the Tzomet project. The aggregate consideration payable over the term of the agreement is approximately \$300 million, and is payable based on the achievement of milestones. The agreement contains a mechanism for the compensation of Tzomet in the event that PW fails to meet its contractual obligations under the agreement.

Potential Expansions

In March 2014, OPC, through one of its subsidiaries, was awarded a tender published by the Israel Land Authority to lease a 5.5 hectare plot of land adjacent to the OPC-Rotem site. Entry into the lease agreement is subject to receipt of the required approvals, including the approval of the Israel Land Council, which has not yet been received. In April 2017, OPC was authorized by the Israeli Government to seek zoning permissions for a gas fired power station with a capacity of up to 530MW located on the land adjacent to OPC-Rotem.

In April 2017, OPC was authorized by the Israeli Government to seek authority for zoning of the land for a gas-fired power station of up to 800 MW of installed capacity on land owned by Hadera Paper near the Hadera power station. OPC-Hadera has entered into an option agreement with Hadera Paper to lease the relevant land.

These plots of lands, if zoning permission is granted, would provide OPC with land that can be used with tenders but OPC would still require licenses to proceed with any projects on this land. See “*Item 3.D Risk Factors—Risks Related to OPC—OPC faces risks in connection with the expansion of its business.*”

OPC’s Raw Materials and Suppliers

OPC’s power facilities utilize natural gas as primary fuel, and diesel oil and crude oil as backups.

OPC-Rotem and OPC-Hadera have entered into gas supply agreements with the Tamar Group, composed of Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Isramco Negev 2 Limited Partnership, Dor Gas Exploration Limited Partnership, Everest Infrastructures Limited Partnership and Tamar Petroleum Limited Partnership, or collectively, for the purchase of natural gas. For further information on these agreements see “*—OPC’s Description of Operations—OPC-Rotem*” and “*OPC’s Description of Operations—OPC-Hadera*.”

The price that OPC-Rotem pays to the Tamar Group for the natural gas supplied is based upon a base price in NIS set on the date of the agreement, indexed to changes in the EA’s generation component tariff, and partially indexed (30%) the U.S. Dollar representative exchange rate. The price that OPC-Hadera pays to the Tamar Group is based upon a base price in US\$, fully indexed to changes in the EA’s generation component tariff. As a result, increases or decreases in the EA’s generation tariff have a related effect on OPC-Rotem’s and OPC-Hadera’s cost of sales and margins. In addition, the natural gas price formulas in OPC-Rotem’s and OPC-Hadera’s supply agreements are subject to a floor price mechanism, which is denominated in US\$ for both OPC-Rotem and OPC-Hadera.

As a result of previous declines in the EA’s generation component tariff, OPC-Rotem paid the minimum price starting in November 2015 as well as during 2016 to 2018 (excluding one month in 2018). Therefore, declines in the EA generation component tariff may not have a corresponding decline in OPC-Rotem’s natural gas expenses, due to the floor price mechanism, and may lead to a decline in OPC-Rotem’s margins, which may have a material adverse effect on OPC’s business, results of operations and financial condition. For information on the risks associated with the impact of the EA’s generation tariff on OPC’s supply agreements with the Tamar Group, see “*Item 3.D Risk Factors—Risks Related to OPC—Changes in the EA’s electricity rates may reduce OPC’s profitability.*”

In December 2018, the EA published the electricity tariffs for 2019, which included an increase of the EA’s generation component tariff by approximately 3.3%. As a result, OPC-Rotem’s gas prices may rise above the minimum price. OPC-Hadera’s gas prices exceeded the minimum price in 2018 and are expected to be above the minimum price in 2019.

In December 2017, OPC-Rotem and OPC-Hadera signed agreements for the purchase of natural gas with Energean. These agreements are described above.

OPC’s Competition

Within Israel, OPC’s major competitors are IEC and private power generators, such as Dorad Energy Ltd. and Dalia, who, as a result of government initiatives encouraging investments in the Israeli power generation market, have constructed, and are constructing, power stations with significant capacity. The more important private producers are presented in the table below.

Name	Power Station Technology	Approximate Capacity (MW)	Commercial Operating Date
Dorad	Conventional	860	May 2014
Mashav	Conventional	120	April 2014
Dalia – Unit 1 ¹	Conventional	450	July 2015
Dalia – Unit 2 ¹	Conventional	450	September 2015
Ashdod Energy ²	Cogeneration	60	October 2015
Ramat Negev Energy ²	Cogeneration	120	January 2016
Sugat ²	Cogeneration	70	Under construction
Alon Tabor ²	Cogeneration	70	Under construction
Ramat Gabriel ²	Cogeneration	70	Under construction
Paz Ashdod ²	Cogeneration	100	July 2013
Delek Sorek ²	Conventional	140	August 2017
Dead Sea Works (DSW) ²	Cogeneration	230	Under construction
IPM Beer Tuvia ²	Conventional	450	Under construction
OPD Delek Ashkelon ²	Cogeneration	87	February 2019

(1) To OPC’s knowledge, part of Dalia’s total installed output (Unit 1 and Unit 2) is allocated to the IEC, and part of it is allocated to private customers.

(2) To OPC’s knowledge, part of the capacity generated by these entities is designated to a yard consumer or to independent consumption.

OPC is seeking to extend its activities into the area of “Peaker” power stations, whose purpose is to provide availability to the IEC, in order to diversify its customer mix and decrease its dependence on private customers. OPC is also considering participating in the IEC tenders of five of its power stations, see “—*Regulatory, Environmental and Compliance Matters*.”

OPC’s Seasonality

Revenues from the sale of electricity are seasonal and impacted by the “Time of Use” tariffs published by the EA. The seasons are divided into three, as follows: (a) summer – July and August; (b) winter – December, January and February; (c) transitional seasons – March to June and September to November.

The following table provides a schedule of the weighted EA’s Generation Component rates for 2019 based on seasons and demand hours, published by the EA.

Season	Demand Hours	Weighted production rate (AGOROT per Kwh)
Winter	Off-peak	21.47
	Shoulder	41.65
	Peak	72.71
Transition	Off-peak	18.34
	Shoulder	23.44
	Peak	30.19
Summer	Off-peak	18.12
	Shoulder	29.40
	Peak	76.25
Weighted Average Rate		2909

In general, tariffs in the summer and winter are higher than during transitional seasons. The cost of acquiring gas, which is the primary cost of OPC, is not influenced by the tariff seasonality. Therefore, the profitability of power producers, including OPC-Rotem and OPC-Hadera, is generally higher in the summer and winter months compared to the remainder of the year.

For further information on the seasonality of tariffs in Israel, see “—*Industry Overview— Overview of Israeli Electricity Generation Industry*.”

The following table provides a summary of OPC’s revenues from the sale of electricity, by season (in \$ millions) for 2017 and 2018. These figures have not been audited or reviewed.

	2017	2018
Summer (2 months)	70	67
Winter (3 months)	99	98
Transitional Seasons (7 months)	181	182
Total for the year	350	347

Tzomet’s revenues, to the extent the project is completed, will be divided into payment for availability and payment for energy. The availability tariff includes reimbursement for capital costs required for the construction of the plant. However, available capacity in peak demand seasons (i.e. winter and summer) receives higher compensation compared to capacity during transition seasons. The energy tariff includes reimbursement for electricity generation expenses and, therefore, does not change significantly between seasons.

OPC's Property, Plants and Equipment

The following table provides certain information regarding OPC's power plants, as of December 31, 2018:

Company/Plant	Location	Installed Capacity (MW)	Fuel Type
Operating Companies			
OPC-Rotem	Mishor Rotem, Israel	466	Natural gas and diesel (combined cycle)
OPC-Hadera ¹	Hadera, Israel	18 ²	Natural gas and diesel

- (1) OPC-Hadera also holds a conditional license for the construction of a cogeneration power station in Israel, based upon a plant with up to 148 MW of capacity. Construction commenced in June 2016 and, following delays in the plant's construction and operation, COD is currently expected in the third quarter of 2019.
- (2) OPC-Hadera's generation license refers to an installed capacity of 25 MW, representing an 18 MW and 7 MW unit. The 7 MW steam turbine reflected in OPC-Hadera's license is not active, and therefore OPC-Hadera's installed capacity is only 18 MW.

OPC leases its principal executive offices in Israel. OPC owns all of its power generation facilities. OPC has also been awarded a tender published by the Israel Land Authority to lease a 5.5 hectare plot of land adjacent to the OPC-Rotem site and OPC-Hadera has entered into an option agreement with Hadera Paper to lease land owned by Hadera Paper near the Hadera power station.

As of December 31, 2018, the consolidated net book value of OPC's property, plant and equipment was \$635 million.

Insurance

OPC and its subsidiaries hold various insurance policies in order to reduce the damage for various risks, including "all-risks" insurance. The existing insurance policies maintained by OPC and its subsidiaries may not cover certain types of damages or may not cover the entire scope of damage caused. In addition, OPC may not be able to obtain insurance on comparable terms in the future. OPC and its subsidiaries may be adversely affected if they incur losses that are not fully covered by their insurance policies.

Employees

As of December 31, 2018, OPC had a total of 92 employees, of which 55 employees are in the operations division, and 37 are at OPC's headquarters. Substantially all of OPC's employees are employed on a full-time basis.

The table below sets forth breakdown of employees by main category of activity as of the dates indicated:

	As of December 31,		
	2018	2017	2016
Number of employees by category of activity:			
Plant operation and maintenance	55	51	51
Corporate management, finance, commercial and other	37	37	28
OPC Total	92	88	79

Most of the OPC-Rotem power plant's operations employees are employed under a collective employment agreement entered into in November 2015, which is scheduled to remain in force through March 2019. Upon expiration of the agreement on April 1, 2019, OPC is expected to commence negotiations to renew this collective employment agreement on terms to be agreed among the negotiating parties. The agreement establishes and regulates which employees are subject to the agreement, as well as the career path that the employees will follow within the organization, from their initial hiring through the end of their employment. The agreement establishes the process of hiring employees, trial periods, starting compensation and salary, rates for wage increases and annual bonuses, as well as entitlement to vacation, sick days and convalescence pay, welfare benefits, disciplinary regulations, and the process for ending employment and the mechanism for resolving disputes between management and the employees' representation. In addition, the agreement stipulates that OPC's employees that are subject to the agreement will receive salary increase and annual bonus for each calendar year in the agreement period.

In March 2018, a collective employment agreement was signed with the Hadera Energy Center. This agreement was in line with the existing collective agreement of OPC-Rotem power plant's operations employees. The agreement will apply to the Hadera Energy Center employees and to the employees that will be hired at the Hadera Power station.

For further information on the risks relating to these collective employment agreements, see *Item 3.D Risk Factors—Risks Related to OPC—OPC requires qualified personnel to manage and operate its various businesses and projects.*

Shareholders' Agreements

OPC holds a 80% stake in OPC-Rotem. OPC has entered into a shareholders' agreement with Veridis, the minority shareholder of OPC-Rotem. The shareholders' agreement grants Veridis veto rights in connection with certain material decisions relating to OPC-Rotem, including: (a) a change in the incorporation documents; (b) winding up of OPC-Rotem; (c) change in rights attached to shares prejudicing a shareholder; (d) transactions with affiliated parties; (e) change in the OPC-Rotem's activity; (f) reorganization, merger, sale of material assets and such like; (g) pursuit of new projects; (h) changes in share capital, issue of bonds or allotment of various securities, subject to the exceptions determined in the agreement; (i) change of accountants; and (j) appointment and

dismissal of directors on behalf of Veridis.

The agreements grant the shareholders additional rights in the event of any of them selling OPC-Rotem shares, such as a right of first refusal and tag-along rights. The agreement also permits OPC to terminate the shareholder agreement in the event that Veridis sells its shares in OPC-Rotem.

Legal Proceedings

For a discussion of significant legal proceedings to which OPC's businesses are party, see Note 19 to our financial statements included in this annual report.

Regulatory, Environmental and Compliance Matters

IEC generates and supplies most of the electricity in Israel in accordance with licenses granted it by virtue of the Israeli Electrical Market Law, and distributes and supplies all of the electricity in Israel. In addition, IEC serves as the "System Administrator" for the Israeli electricity system by virtue of the general license granted it (but, pursuant to the Israeli Government's recent electricity sector reform, it is expected to cease acting as System Administrator in the upcoming years, see "*IEC Reform*"). The System Administrator is intended to maintain balance in levels of supply and demand in the electricity market, manage the transmission of energy from power stations to substations at the reliability and quality required (by passing through the power grids), timing and performing maintenance works in production units and in transmission systems, managing commerce in Israel under competitive, equal and optimal terms, including performing agreements to purchase available capacity and energy from private electricity producers and for planning and developing the transmission and distribution systems. Within this framework, IEC, as System Administrator, sets the dispatch order of operation for production units, prepares connection surveys and more. IEC's activity as the System Administrator is subject to the Standards published by the EA.

Pursuant to the Electricity Sector Law, IEC was defined as an "essential service provider" and as such is subject to the obligations pertaining to the proper management of the Israeli electrical services market. These obligations include, inter alia, submitting development plans, managing and operating the electrical system in Israel including the transmission and distribution systems, providing backup and infrastructure services to private power producers and to consumers as well as purchasing electricity from private power producers. In addition, IEC was declared a monopoly by the Israeli Antitrust Authority in the electricity sector, in the field of power supply – electricity production and sale, transmission and distribution of electricity and providing backup services to electricity consumers and producers.

IEC Reform

Pursuant to the Israeli Government's electricity sector reform, the IEC will be required to sell five of its power plants through a tender process over the next 8 years, which is expected to reduce its market share to below 40%. The IEC will be permitted to build and operate two new gas-powered stations (through a subsidiary), but will not be authorized to construct any new stations or recombine existing stations. The IEC will also cease acting as the System Administrator. Furthermore, according to a paper published by the competition authority, the following limitations will be imposed:

- An entity may not acquire more than two of the sites sold in the tender process;
- An entity that holds the right to an electricity generation plant with more than 30MW in capacity using conventional or cogeneration technology, may not acquire more than one of the sites sold in the tender process;
- An entity may not hold more than 20% of the total planned installed capacity on the date of sale of all the sites being sold; and
- An entity holding a right to a fuel venture may not acquire any of the sites being sold.

Separate regulations are to be issued for the tender process for each power plant. Regulations for the tender of the Alon Tabor plant were issued in December 2018. Parties interested in participating in the tender of this site are required to submit their bids by May 2019. OPC submitted a request for early classification in the Alon Tabor site tender process in January 2019 and was admitted to the preliminary classification stage in February 2019. There is no certainty that OPC will be participating in the tender sale of this site.

Ministry of Energy

The Israeli Ministry of Energy regulates the energy and natural resources markets of the State of Israel: electricity, fuel, cooking gas, natural gas, energy conservation, water, sewerage, oil exploration, minerals, scientific research of the land and water, etc. The Ministry of Energy regulates public and private entities involved in these fields, and operates to ensure the markets' adequate supply under changing energy and infrastructure needs, while regulating the markets, protecting consumers and preserving the environment.

According to publications of the Ministry of Energy, the Ministry of Energy's multi-year goals include diversified energy resources and ensuring reliability of supply during peacetime and emergency, developing effective and significant natural gas, and determining long-terms policies and appropriate regulations of the market's electricity.

The Ministry of Energy's main objectives in the electricity field are securing a reliable supply of electricity to the Israeli market, formulating development procedures to the electricity production sections, energy transmission and distribution, promoting policies to integrate renewable energies in electricity production in accordance with governmental decisions, formulating policies changing the market's electricity structure, performing control and supervision of the implementation of the IEC's and private producers' development plans, performing control, supervision and enforcement of implementing safety regulations according to the Electricity Law, 5714-1954, and handling legislature in the electricity market fields, rules of performing electricity works and security in electricity. The main objectives of the Ministry of Energy in its workplan for 2019 included achieving an efficient and competitive electricity sector by focusing on the reform of the sector through the initiation of tenders for the sale of IEC power plants and the transfer of system management activities from the IEC to the new System Administrator. In October 2018, the Ministry of Energy published (for public consultation) the 2019 objectives for the energy sector, with the main two objectives being (a) the end of coal usage and the transition to natural gas and renewable energies and (b) 10% penetration of renewable energies in electrical manufacturing by 2020 and 17% by 2030.

EA

The Electricity Authority, or the EA, which is subordinated to the Ministry of Energy and operates in accordance with its policy, was established in January 2016, and replaced the Public Utility Authority, or PUA, which operated until that time by virtue of the Electricity Sector Law. The EA has the authority to grant licenses in accordance with the Electricity Sector Law (licenses for facilities with a generation capacity higher than 100 MW also require the approval of the Minister of Energy), to supervise license holders, to set electricity tariffs and criteria for them, including the level and quality of services required from an "essential service provider" license holder, supply license holder, a transmission and distribution license holder, an electricity producer and a private electricity producer. Thus, the EA supervises both the IEC and private producers.

The Minister of Energy can dispute EA rulings and request a renewed discussion on specific rulings, except in the matter of the electricity tariffs, which the EA has full authority to set. In addition, the Minister of Energy has the authority to propose the appointment of some of the members of the EA board, as well as the authority to rule on electricity market policy on the subjects defined in the Electricity Sector Law.

According to the Electricity Authority Law, the EA may set the power rates in the market, based, among others, on IEC costs that the EA elects to recognize, and yield on capital. The EA sets different rates for different electricity sectors. According to the Electricity Sector Law, the IEC shall charge customers in accordance with rates set by the EA and shall pay another license holder or a customer in accordance with the relevant rates. In addition, the EA sets the tariffs paid by private electricity producers to the IEC for various services provided by the IEC, including measurement and meter services, system services, and infrastructure services.

The workplan of the EA for 2018 included, among other things, the publication of a long-term plan for the electricity sector, the promotion of renewable energies and decentralized generation, the formulation of a program for the development of a transmission and distribution system that will provide a response to the increase in demand and utilization of different production technologies, the replacement of the IEC as System Administrator and the advancement of the sale of the IEC's five sites.

For further information on related EA tariffs, see "*—Industry Overview— Overview of Israeli Electricity Generation Industry .*" For further information on the effect of EA tariffs on OPC's revenues and margins, see "*Item 5. Operating and Financial Review and Prospects—Material Factors Affecting Results of Operations—OPC— Sales—EA Tariffs.*"

Independent Power Producers

In recent years, a substantial number of independent power producers have begun entering the Israeli electricity generation market, in view of, among others, increasing competition in the field of electricity generation and encouraging the construction and operation of private generation facilities. This entry has led to a significant decrease in the IEC's market share in the sale of electricity to large electricity consumers (high and medium voltage consumers) such that in 2016, according to public IEC reports, its market share dropped to under 50% of electricity sales to large consumers.

Activity by independent power producers, including the construction of private power stations and the sale of electricity produced therein, is regulated by IPP Regulations and the Cogeneration Regulations, as well as the rules, decisions, and standards established by the EA. OPC-Rotem has a unique regulation by virtue of a tender, as detailed below.

According to the Electricity Sector Law, none of the actions set in the Electricity Sector Law shall be carried out by anyone other than a license holder. The Licenses Regulations include provisions and conditions in the matter of issuing licenses, rules for operating under such licenses and the obligations borne by license holders.

In order to obtain a production license, a private electricity producer must file a request in accordance with the relevant regulations, and meet the threshold conditions. Among others, the manufacturer bears the burden to prove that the corporation requesting the license has a link to the land relevant to the facility. According to EA rulings, subject to meeting the terms (and with the approval of the Minister of Energy for licenses exceeding 100 MW), the developer is granted a conditional license. The conditional license holder must meet certain milestones for constructing its facility as detailed in the conditional license, and must also prove financial closing. Only after meeting these milestones and the commercial operation of the facility, the developer is granted a generation license (or Permanent License) determined by the EA for the period determined in such license (for licenses exceeding 100 MW, the license must be approved by the Minister of Energy).

This model, which is based on receiving a conditional license followed by a permanent license (subject to meeting the regulatory and statutory milestones), is applicable to both the production of electricity using conventional technology and cogeneration technology, with the exception of facilities with an installed capacity under 5 MW, for which no license is required for their operation, and photovoltaic facilities with an installed capacity over 5 MW, which require only a fixed license.

According to the 2017 Electricity Market Report, as of 2017, IPPs (including OPC-Rotem and including renewable energy) are active in the market with an aggregate capacity of approximately 4,254 MW, constituting 24% of the Israeli electricity market's total installed capacity. The EA estimates that by the end of the IEC reform period, IEC's market share is expected to be approximately 45% of the installed conventional capacity in the market, approximately 33% of the installed capacity (including renewable energy) and approximately 32% of the installed capacity for gas. OPC's market share is expected to drop below 40% of the generation in the market.

The regulatory arrangements applicable to IPPs were determined while distinguishing between the different generation technologies they use and the various levels of voltage they will be connected to (according to installed capacity). The following are the key electricity production technologies used by private producers in Israel:

- *Conventional technology* – electricity generation using fossil fuel (natural gas or diesel oil). Exercise of the quota of IPPs using this technology amounts to approximately 2,540 MW out of a total quota of 3,470 MW assigned to generation using this technology.
- *Cogeneration technology* – electricity generation using facilities that simultaneously generate both electrical energy and useful thermal energy (steam) from a single source of energy. Exercise of the quota of generators using this technology amounts to approximately 998 MW out of a total quota of 1,000 MW assigned under the current regulation. Licenses issued beyond that shall be subject to different regulation.
- *Renewable energy* – generation of electric power the source of energy of which includes, inter alia, sun, wind, water or waste. The installed capacity of renewable energy generation facilities amounts to approximately 1,916 MW as well as another 105 MW in various stages of construction, constituting 2,021 MW out of a quota of 3,746 MW assigned to generation using renewable energy.
- *Pumped storage energy* – generation of electricity using an electrical pump connected to the power grid in order to pump water from a lower water reservoir to an upper water reservoir, while taking advantage of the height differences between them in order to power an electric turbine. The installed capacity of production facilities using this technology amounts to 644 MW out of a total quota of 800 MW assigned to generation.

According to the Electricity Sector Law, the IEC, as an essential service provider, is committed to purchasing electricity from IPPs at the rates and under the conditions set in the Electricity Sector Law and the regulations and standards promulgated thereunder (and, in relation to OPC-Rotem, by virtue of the tender and OPC-Rotem's PPA with IEC). In addition, the IEC is committed to connecting the IPPs facilities to the distribution and transmission grid and providing them with infrastructure services in order to allow IPPs to provide power to private customers and system administration service.

Regulatory Framework for Conventional IPPs

The regulatory framework for current and under construction conventional IPPs was set by the PUAE in 2008. An IPP may choose to allocate its generation capacity, as "permanently available capacity," or PAC, or as "variable available capacity," or VAC. PAC refers to capacity that is allocated to IEC and is dispatched according to IEC's instructions. PAC receives a capacity payment for the capacity allocated to IEC, as well as energy payment to cover the energy costs, in the event that the unit is dispatched. VAC refers to capacity that is allocated to private consumers, and sold according to an agreement between the IPP and a third party. Under VAC terms, IPP shall be entitled to receive availability payments for excess energy not sold to private customers. In addition, the IEC can purchase electricity allocated to it at variable availability, on a price quote basis. Within this regulatory framework, a private electricity producer can choose to allocate between 70% and 90% of their production capacity at high availability, and the rest at variable availability.

Upon the development of the electricity market and the utilization of Regulation 241 quotas in December 2014, the EA published a follow-up arrangement for conventional producers, and implemented dispatch of IPPs according to the economic dispatch order. According to this regulation, the production units shall be dispatched in accordance with an economic dispatch principle and independent of PPAs between producers and customers, and shall apply to producers with an installed capacity higher than 16 MW and up to a total output of 1,224 MW. This regulation is referred to as Regulation 914.

In May 2017, the EA amended Regulation 914. Under the amendment, a higher tariff was adopted for production facilities that comply with certain flexible requirements. The amendment also offers open-cycle producers several alternatives, including receiving surplus gas from the gas agreements of other producers. The total quota for new facilities under this arrangement was limited to 1,100 MW distributed across various plants (at least 450 MW and up to 700 MW for combined cycle facilities, at least 400 MW and up to 650 MW for flexible open cycle facilities). Furthermore, under the amendment the EA prohibits entry into bilateral transactions by open-cycle facilities and demands that combined-cycle facilities sell at least 15% of their capacity to private consumers. Finally, in order to grant IPPs sufficient time to reach financial closing, Regulation 914 was extended to apply to producers who will receive licenses no later than January 1, 2020.

In November 2018, the EA published a decision regarding the activity arrangement of natural gas generation facilities connected to the distribution network. Upon adoption of this decision, generators under 16MW will be encouraged to construct power plants within customers' facilities. These power plants will only be permitted to sell electricity to customers within the facility (and not other private customers) and the System Administrator.

In March 2019, the EA published a decision regarding the establishment of generators connected to the high-voltage network without a tender process. This decision would permit the establishment of generation facilities that are connected to the transmission grid or integrated in the connection of a consumer connected to the transmission grid (excluding renewable energy) for a maximum capacity of 500 MW and provided they receive tariff approval by the end of 2023. These generation facilities will only be permitted to sell electricity to customers within the facility (and not other private customers) and to provide the rest of their available capacity to the System Administrator, that will upload the capacity to the grid according to central upload system.

OPC-Rotem's Regulatory Framework

OPC-Rotem operates according to a tender issued by the state of Israel in 2001 and, in accordance therewith, OPC-Rotem and the IEC executed the IEC PPA in 2009, which stipulates OPC's regulatory framework. OPC-Rotem's framework differs from the general regulatory framework for IPPs, as set by the PUAE and described above.

According to the IEC PPA, OPC-Rotem may sell electricity in one or more of the following ways:

1. *Capacity and Energy to IEC* : according to the IEC PPA, OPC-Rotem is obligated to allocate its full capacity to IEC. In return, IEC shall pay OPC-Rotem a monthly payment for each available MW, net, that was available to IEC.

In addition, when IEC requests to dispatch OPC-Rotem, the IEC shall pay a variable payment based on the cost of fuel and the efficiency of the station. This payment will cover the variable cost deriving from the operation of the OPC-Rotem Power station and the generation of electricity.

2. *Sale of energy to end users* : OPC-Rotem is allowed to inform IEC, subject to the provision of advanced notice, that it is releasing itself in whole or in part from the allocation of capacity to IEC, and extract (in whole or in part) the capacity allocated to IEC, in order to sell electricity to private customers pursuant to the Electricity Sector Law. OPC-Rotem may, subject to 12-months' advanced notice, re-include the excluded capacity (in whole or in part) as capacity sold to IEC.

OPC-Rotem informed IEC, as required by the IEC PPA, of the exclusion of the entire capacity of its power plant, in order to sell such capacity to private customers. Since July 2013, the entire capacity of OPC-Rotem has been allocated to private customers.

The IEC PPA includes a transmission and backup appendix, which requires IEC to provide transmission and backup services to OPC-Rotem and its customers, for private transactions between OPC-Rotem and its customers, and the tariffs payable by OPC-Rotem to IEC for these services. Moreover, upon entering a PPA between OPC-Rotem and an individual consumer, OPC-Rotem becomes the sole electricity provider for this customer, and IEC is required to supply power to this customer when OPC-Rotem is unable to do so, in exchange for a payment by OPC-Rotem according to the tariffs set by the EA for this purpose. For further information on the risks associated with the indexation of the EA's generation tariff and its potential impact on OPC-Rotem's business, financial condition and results of operations, see "*Item 3.D Risk Factors—Risks Related to OPC— Changes in the EA's electricity rates may reduce OPC's profitability.*"

Regulatory Framework for Cogeneration IPPs

The regulatory framework for current and under construction cogeneration IPPs was established by the PUAE in its 2008 and 2016 decisions. A cogeneration IPP can sell electricity in the following ways:

1. At peak and shoulder times, one of the following shall apply:
 - a. each year, the IPP may sell up to 70% of the total electrical energy, calculated annually, produced in its facility to IEC—for up to 12 years from the date of the grant of the license; or
 - b. each year, the IPP may sell up to 50% of the total electrical energy, calculated annually, produced in its facility to IEC—for up to 18 years from the date of the grant of the license.
2. At low demand times, IPPs with units with an installed capacity of up to 175 MW, may sell electrical energy produced by it with a capacity of up to 35 MW, calculated annually or up to 20% of the produced power, inasmuch as the installed output of the unit is higher than 175 MW, all calculated on an annual basis.

According to the regulations, if a cogeneration facility no longer qualifies as a “Cogeneration Production Unit,” other rate arrangements are applied to it, which are inferior to the rate arrangements applicable to cogeneration producers.

In December 2018, the EA published a proposed decision for hearing regarding arrangements for high voltage generators that are established without a tender process. This would also enable the establishment of cogeneration facilities.

OPC-Hadera’s Regulatory Framework

OPC-Hadera holds a conditional license, granted on October 19, 2012 (as amended on August 29, 2016), for the construction of a cogeneration power station in Israel. On September 18, 2016, OPC-Hadera provided the EA a notice that it had reached “financial closing” with respect to financing for the project.

Moreover, as set forth above, OPC-Hadera must meet certain conditions before it will be subject to the regulatory framework for cogeneration IPPs and be considered a “Cogeneration Production Unit.” For example, OPC-Hadera will have to obtain a certain efficiency rate which will depend, in large part, upon the steam consumption of OPC-Hadera’s consumers. In circumstances where OPC-Hadera no longer satisfies such conditions and therefore no longer qualifies as a “Cogeneration Production Unit,” other rate arrangements, are applied to it, which are inferior to the rate arrangements applicable to cogeneration producers.

Tzomet’s Regulatory Framework

The Tzomet power plant is expected to be constructed pursuant to Regulation 914 and will be subject to the conditions and limitations thereunder, see “—*Regulatory Framework for Conventional IPPs.*”

In August 2017, the IEC provided the results of its feasibility study regarding the connection of the Tzomet plant to the national power grid. According to the results, the IEC estimated that it would take longer for the Tzomet power plant (currently under construction) to be connected to the national power grid than estimated by Tzomet. Tzomet has appealed the results of the feasibility study, but did not receive a positive feasibility study during 2018 that would permit connection to the national power grid within the timeframe required by Regulation 914.

Qoros

Kenon holds a 24% interest in Qoros, a China-based automotive company, and has entered into an agreement to reduce its interest to 12% of Qoros. Kenon used to hold a 50% stake in Qoros prior to the Majority Shareholder in Qoros’ investment, and was one of the founding members of the company. Kenon continues to remain actively involved in the business with its current stake and right to appoint two of the nine directors on Qoros’ board.

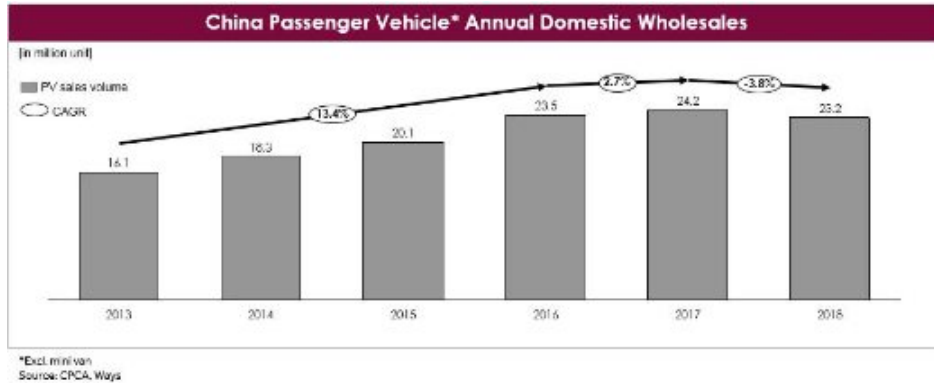
In 2018, the Majority Shareholder in Qoros acquired 51% of Qoros from Kenon and Chery for RMB3.315 billion, as part of a total investment of approximately RMB6.63 billion by the Majority Shareholder in Qoros, of which RMB6.5 billion was ultimately invested in Qoros’ equity. As a result, Kenon and Chery have 24% and 25% stakes in Qoros, respectively. Qoros updated its business license to reflect the change in its ownership in December 2017. In January 2019, Kenon agreed to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros for a purchase price of RMB1,560 million (approximately US\$227 million), which is based on the same post-investment valuation as the initial investment by the Majority Shareholder in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros, the Majority Shareholder will hold 63% and Chery will own 25%. For further information, see “*Item 4.B Business Overview—Our Businesses—Qoros —Qoros’ Investment Agreement*” and “*Item 4.B Business Overview—Our Businesses—Qoros — 2019 Qoros Sale Agreement.*”

Kenon has outstanding back-to-back guarantees to Chery in respect of Qoros' debt of up to RMB288 million (approximately \$44 million), with respect to debt in principal of RMB320 million (approximately \$47 million), and has pledged a substantial portion of its interest in Qoros to support certain Qoros debt, as well as Chery's guarantees of Qoros debt.

Qoros' manufacturing facility in Changshu, China has a technical capacity of 150 thousand units per annum, which can be increased to approximately 220 thousand units per annum through the utilization of different shift models. Qoros sold approximately 62,000 vehicles in 2018, as compared to approximately 15,000 vehicles in 2017. A substantial number of such sales in 2018 reflect purchases from an entity introduced by the Majority Shareholder in Qoros. Qoros vehicles are currently C-segment vehicles.

Chinese Passenger Vehicle Market Developments

Qoros is focused on the Chinese passenger vehicle market, which experienced rapid growth driven by significant expansion of the economy prior to 2017. In 2018, the market contracted for the first time in 28 years, primarily due to the economy's slowdown and the end of automobile tax incentives in China. The table below sets forth domestic sales volumes of passenger vehicle models in China between 2013 and 2018.



New Energy Vehicle Market in China

The Chinese central government has stated that the NEV market is critical for the development of the Chinese automobile industry and China's economic growth, and has implemented a number of policies to promote the growth of the market. Sales of NEV cars (which includes plug-in and battery electric vehicles) increased from approximately 290,000 units in 2016 to approximately 1 million units in 2018.

Chinese national and regional governments have implemented various policies to promote the growth of the NEV market, including through purchase subsidies from central and local governments and purchase tax incentives. However, according to public reports, a number of these subsidies are expected to be reduced by 50% on average in 2019, which may affect the demand for NEVs in China.

Pricing Trends in the Chinese Passenger Vehicle Market

As a result of the phase-out in 2018 of the purchase tax incentives for conventional vehicles, and the resulting impact on vehicle sales in China, dealers and OEMs offered incentives for vehicle purchases, especially in the form of price reductions. This led to greater price discounts in 2018 as compared to 2017. In line with many of its competitors, Qoros offered various incentives for vehicle purchases, including price reductions. Qoros expects the downward pressure on vehicle prices to continue for the next few years.

Qoros' Description of Operations

Qoros designs, engineers and manufactures automobiles manufactured in China, designed to deliver international standards of quality and safety, as well as innovative features. In 2018, Qoros sold approximately 62,000 cars, as compared to approximately 15,000 cars in 2017 with a substantial number of such sales in 2018 reflecting purchase orders introduced by the Majority Shareholder in Qoros.

Models

Qoros currently sells C-segment models, including:

- *Qoros 3 Sedan* –launched in 2013;

- *Qoros 3 Hatch* – launched in 2014;
- *Qoros 3 City SUV* – launched in 2014;
- *Qoros 5 SUV* – launched in 2016; and
- *Qoros 3GT* – launched in 2016.

Qoros' platform has been designed to enable the efficient introduction of new models in the C- and D-segments. Qoros developed its vehicles in accordance with international standards of quality and safety, working in conjunction with global entities from both automotive and non-automotive industries.

A significant portion of Qoros' sales are SUV vehicles.

Qoros' strategy includes the development of NEV models. Qoros has recently introduced an NEV model of the Qoros Sedan, the Qoros 3 EV500. Qoros is planning to introduce additional NEV models.

Qoros' Manufacturing: Property, Plants and Equipment

Qoros conducts its vehicle manufacturing and assembly operations at its 150 thousand unit per annum, 790,000 square meter factory by land size in Changshu, China, for which it has a land use right until 2062. This technical capacity of the manufacturing facility can be increased to approximately 220 thousand units per annum through the utilization of different shift models.

Qoros' Sourcing and Suppliers

Qoros sources the component parts necessary for its vehicle models from over 100 global suppliers. Qoros also collaborates and sub-contracts with several engineering firms for its product development activities.

Qoros' Commercial Agreements with Shareholders

Qoros sources its engines and certain spare parts from Chery in the ordinary course of Qoros' business and there are platform sharing arrangements between Qoros and Chery, and Qoros has entered into various commercial agreements with respect to the provision of such supplies from Chery. Qoros may enter into additional commercial arrangements and agreements with shareholders or their affiliates in the future. Qoros has total amounts payable to Chery in the amount of RMB652 million (approximately \$95 million) as of December 31, 2018.

Qoros' Dealers

Qoros markets its vehicles in China primarily through a network of independent authorized retail dealers, with whom Qoros enters into non-exclusive relationships. As of December 31, 2018:

- Qoros' dealerships included 160 points of sales, 29 additional points of sales under construction and Memorandums of Understanding;
- Qoros had 96 full-service dealerships, providing Qoros' customers with authorized salesmen, showrooms, and services and parts, under one roof; the remaining portion of Qoros' dealership network comprises only showrooms; and
- Qoros operated 2 self-owned dealerships.

For information on the risks related to Qoros' dealers, see "*Item 3.D Risk Factors—Risks Related to Our Interest in Qoros—Qoros faces certain risks relating to its business.*"

Auto Financing Program

Customer financing is available and financing packages are also offered by Chery Huiyin Motor Finance Service, Co. Ltd., or Huiyin, a Wuhu Chery affiliate. Qoros has provided a guarantee to Huiyin for wholesale financing arrangements between Huiyin and selected Qoros dealers. To date, Qoros has not been required to make any payments under this guarantee.

Qoros' Competition

The passenger vehicle market in China is highly competitive, with competition from many of the largest global manufacturers (acting through joint ventures), including European, U.S., Korean and Japanese automakers, and domestic manufacturers. Additional competitors may seek to enter the Chinese automotive market.

As part of its strategy, Qoros has stated that it intends to develop NEV vehicles. For example, in December 2018, Qoros introduced its new NEV model, the Qoros 3 EV500. Qoros expects to experience significant competition in the NEV market, as OEMs are required to satisfy certain recently issued regulations, under which the automakers must obtain a certain NEV score by 2019, which score is related to the number of NEVs the automaker produces.

Qoros' Investment Agreement

In January 2018, the Majority Shareholder in Qoros acquired 51% of Qoros from Kenon and Chery for RMB3.315 billion (approximately \$482 million), which was part of an investment structure to invest a total of approximately RMB6.63 billion (approximately \$964 million) by the Majority Shareholder in Qoros. As a result, Kenon's and Chery's interest in Qoros was reduced to 24% and 25%, respectively. For purposes of this section, references to Kenon include Quantum (Kenon's wholly-owned subsidiary which owns Kenon's interest in Qoros) and references to Chery include Wuhu Chery (the direct owner of Chery's interest in Qoros).

The investment was made pursuant to an investment agreement among the Majority Shareholder in Qoros, Quantum, Wuhu Chery and Qoros. A description of the key terms of the investment agreement and the investment is set forth below. The investment also involved an amendment of the Qoros joint venture agreement which is described below.

In connection with this investment, Kenon received initial cash proceeds of RMB1.69 billion (approximately \$246 million) and Chery received cash proceeds of RMB1.625 billion (approximately \$236 million). The investment was based on an RMB6.5 billion pre-investment valuation of Qoros, excluding RMB1.9 billion (approximately \$276 million) principal amount of shareholder loans.

Pursuant to the investment agreement, following the sale of equity interests, Qoros' shareholders (including the Majority Shareholder in Qoros) were required to invest a total of RMB6.5 billion in Qoros' equity in proportion to their post-investment equity ownership.

For Kenon and Chery, this effectively required reinvestment of the proceeds received from the sale of their interests in Qoros, so the transaction did not involve any new money investment from Kenon or Chery.

The Majority Shareholder in Qoros advanced its proportionate share totaling RMB3.315 billion directly to Qoros.

At the time of this investment in Qoros, Kenon and Chery had outstanding loans to Qoros of RMB944 million. The investment agreement provided for repayment of a portion of these loans. The parties agreed that instead of Kenon and Chery reinvesting the full RMB1.65 billion each was originally required to contribute to Qoros (from the proceeds of the sale of their interest in Qoros), Kenon and Chery would use proceeds they received from the sale of their Qoros interests to partially fund their respective portions of the investment in Qoros. Kenon and Chery retained a portion of such proceeds and agreed to equitize their shareholder loans, i.e., Kenon and Chery effectively retained the amounts they would have received in repayment of shareholder loans. As a result, Kenon invested RMB616 million (approximately \$90 million) of the RMB1.69 million of proceeds it received for its sale of a part of its interest in Qoros, and retained the remainder equal to a total of \$156 million of cash proceeds from the investment (including RMB130 million (approximately \$18 million) from the sale of its 1% holding in Qoros which was not to be reinvested into Qoros).

Kenon does not have any further obligations to invest in Qoros. Kenon used a portion of these funds to repay the outstanding loan of \$77 million owed to Ansonia, Kenon's major shareholder, which had previously been loaned directly to Quantum to support its financing of Qoros.

In addition, Qoros is required to pay to Kenon net interest payments on past shareholder loans as well as compensation for foreign exchange fluctuations in the total net amount of approximately \$11 million, of which \$8 million has been received to date.

Guarantee Obligations and Equity Pledges

Chery has guaranteed a portion of Qoros' obligations under its RMB3 billion and RMB700 million credit facilities, and Kenon has provided back-to-back guarantees to Chery in respect of a portion of Chery's obligations. Kenon's back-to-back guarantee obligations are approximately RMB288 million (approximately \$44 million) relating to Qoros loans in principal amount of RMB320 million (approximately \$47 million). In addition, Kenon and Chery have also pledged a significant portion of their equity interests in Qoros to secure Qoros' obligations under its RMB1.2 billion credit facility.

In connection with previous reductions in Kenon's back-to-back guarantee obligations, Kenon provided cash collateral to Chery that was used to fund shareholder loans on behalf of Chery for a total amount of RMB244 million and pledged a portion of Kenon's equity interests in Qoros to Chery. The agreements for this guarantee and pledge provide that in the event that Chery's obligations under its guarantees are reduced, including through guarantee releases, Kenon is entitled to the proportionate return from Chery of the RMB244 million funding provided on Chery's behalf and/or a release of the equity pledged to Chery.

As part of the investment, the Majority Shareholder in Qoros was required to assume its pro rata share of the guarantees and equity pledges based on post-investment equity ownership in Qoros, which is subject to further adjustment following any future changes in the equity ownership in Qoros (including as a result of the exercise of the put option or investment right by a shareholder under the investment agreement or other acquisition of additional equity in Qoros).

The Majority Shareholder in Qoros has assumed its proportionate obligations with respect to the RMB3 billion and RMB700 million loan facilities, and as a result, in January 2018, Chery repaid Kenon RMB120 million out of the total RMB244 million previously advanced, and a significant portion of the Qoros equity pledged by Kenon to Chery was released.

The Majority Shareholder in Qoros is still in the process of assuming its proportionate pledge obligations with respect to the RMB1.2 billion loan facility after which Kenon is required to be proportionately released from its pledge obligations thereunder, subject to the Qoros bank lender consent. Substantially all of Kenon's equity in Qoros is currently pledged.

Repayment of Loans to Ansonia

Kenon was party to loan agreements with Kenon's major shareholder Ansonia, which loan agreements were entered into in 2016 to provide loans to Kenon to fund Qoros. In 2018, Kenon fully repaid \$77 million in shareholder loans to Ansonia.

Kenon's Put Option; the Majority Shareholder in Qoros' Right to make Further Investments in Qoros

The investment agreement provided Kenon with a put option over its remaining equity interest in Qoros, as follows:

- During the three-year period beginning from the closing of the investment, Kenon has the right to cause the Majority Shareholder in Qoros to purchase up to 50% of its remaining equity interest in Qoros for up to RMB1.56 billion, subject to adjustments for inflation; and
- From the third anniversary of the closing until April 2023, Kenon has the right to cause the Majority Shareholder in Qoros to purchase up to all of its remaining equity interests in Qoros for up to a total of RMB3.12 billion (for Kenon's full 24% interest in Qoros), subject to adjustment for inflation. Another company within the Baoneng group effectively guarantees this put option by also serving as a grantor of the option. The put option requires six months' notice for exercise.

During the two-year period from the closing of the investment, the Majority Shareholder in Qoros has the right to increase its stake in Qoros to up to 67%, at the same price as the capital increase in the investment plus interest of 10% per annum from the closing of the investment.

The investment agreement provides that any changes in the equity holdings of Qoros by Kenon, Chery or the Majority Shareholder in Qoros, including as a result of the put option and investment right described above, will result in adjustments to the respective parties' pro rata obligations of the Qoros bank guarantees and pledges described above according to their equity ownership in Qoros.

Commitment to Introduce Vehicle Purchase Orders

Pursuant to the investment agreement, the Majority Shareholder in Qoros has agreed to introduce approximately 100,000 vehicle purchase orders to Qoros each year between 2018 and 2020 following the entry into further agreements with respect to these purchase orders. This minimum number of purchases orders was not met in 2018.

Governance of Qoros

Qoros' joint venture agreement and articles of association have been amended to reflect the Majority Shareholder in Qoros' 51% interest in Qoros. For further information on the terms of the joint venture agreement, see "*—Qoros' Joint Venture Agreement.*"

Kenon's Agreement to Sell Half of its Remaining Interest in Qoros to the New Qoros Investor

In January 2019, Kenon agreed to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros for a purchase price of RMB1,560 million (approximately US\$227 million), which is based on the same post-investment valuation as the initial 2018 investment by the Majority Shareholder in Qoros. The sale is not being made pursuant to the put option described above, and Kenon retains its rights under the put option over its remaining 12% stake in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros, the Majority Shareholder in Qoros will hold 63% and Chery will own 25%. Furthermore, the Majority Shareholder in Qoros will be required to assume its pro rata share of guarantees and equity pledges of Kenon and Chery based on this change in its equity ownership in Qoros.

Kenon retains its rights under the put option over its remaining 12% interest in Qoros. Kenon will evaluate its options with respect to its remaining stake in Qoros, including whether or not to exercise its rights under the put option, in accordance with its strategy and other relevant factors relating to its interest in Qoros. In addition, Kenon may in the future sell further portions or all of its remaining stake in Qoros to the Majority Shareholder in Qoros or otherwise.

Qoros' Joint Venture Agreement

We are party to a joint venture agreement, or the Joint Venture Agreement, entered into on February 16, 2007, which was amended to reflect the Majority Shareholder in Qoros' 51% interest in Qoros as well as certain terms agreed pursuant to the investment agreement. Following completion of the sale described above under “— 2019 Qoros Sale Agreement,” the Joint Venture Agreement shall be further amended to reflect the Majority Shareholder in Qoros' 63% interest in Qoros. The Joint Venture Agreement sets forth certain rights and obligations of each of Quantum, the wholly-owned subsidiary through which we own our equity interest in Qoros, Wuhu Chery and the Majority Shareholder in Qoros with respect to Qoros.

The Joint Venture Agreement is governed by Chinese law. Under the Joint Venture Agreement, certain matters require the unanimous approval of Qoros' board of directors, while other matters require a two-thirds or a simple majority board approval. Matters requiring unanimous approval of the Qoros board include amendments to Qoros' articles of association, changes to Qoros' share capital, the merger, division, termination or dissolution of Qoros, the sale or otherwise disposal of all or a material part of Qoros' fixed assets for an amount equal or greater than RMB200 million (approximately \$29 million) and the issuance of debentures or the creation of third party security interests over any of Qoros' material fixed assets (other than those provided in connection with legitimate Qoros loans). Matters requiring approval by two-thirds of the board include the acquisition of majority equity interests in another entity for an amount exceeding 5% of Qoros' net asset value, termination of any material partnership or joint venture contract, profit distribution plans, the sale or otherwise disposal of all or a material part of Qoros' fixed assets for an amount equal or greater than RMB60 million (approximately \$9 million) but less than RMB200 million, and capital expenditures and investments which are equal to or greater than the higher of \$4 million or 10% of the approved annual budget.

Pursuant to the terms of our Joint Venture Agreement, we have the right to appoint two of Qoros' nine directors, Wuhu Chery has the right to appoint two of Qoros' directors and the Majority Shareholder in Qoros has the right to appoint the remaining five of Qoros' directors. If the Majority Shareholder in Qoros' stake in Qoros increases to 67% through a new investment in Qoros, the board of directors of Qoros will be further adjusted such that Qoros will have a six-member board of directors, of which the Majority Shareholder in Qoros will have the right to appoint four directors, while Kenon and Wuhu Chery will each have the right to appoint one director. The Majority Shareholder in Qoros has the right to nominate Qoros' Chief Executive Officer and Chief Financial Officer. The nomination of Qoros' Chief Executive Officer and Chief Financial Officer are each subject to the approval of Qoros' board of directors by a simple majority vote. Quantum and Wuhu Chery each have the right to nominate one of Qoros' deputy Chief Financial Officers. Such nominations by Quantum and Wuhu Chery are subject to the approval of Qoros' board of directors by a simple majority vote.

The Joint Venture Agreement restricts transfers of interests in Qoros by the shareholders (other than transfers to affiliates). Quantum has the right to transfer up to 50% of its interest in Qoros to a third-party at any time (subject to the Majority Shareholder in Qoros' right of first refusal described below). Quantum may not assign the remaining 50% of its interest in Qoros to a third-party during the three-year period following the change in shareholding in Qoros pursuant to the investment agreement with the Majority Shareholder in Qoros without the consent of the other joint venture partners. After the three-year lock-up period, Quantum may transfer all of its interest in Qoros to any third-party, subject to the rights of first refusal discussed below. During the five-year period following the closing of the investment, Wuhu Chery and the Majority Shareholder in Qoros may not transfer any or all their interests in Qoros to any third-party without consent of the other joint venture partners (except for assignments in relation to an initial public offering of Wuhu Chery's interest in Qoros).

Subject to the lock-up restrictions set forth above, if any of the joint venture partners elects to sell any of its equity interest in Qoros to a third party (i.e., other than an affiliate), the other joint venture partners have the right to purchase all, but not less than all, of the equity interests to be transferred, subject to certain conditions relating to the minimum price for such sale. In the event that more than one joint venture partner elects to exercise its right of first refusal, the shareholders shall purchase the equity interest to be transferred in proportion to their respective interests in Qoros at such time.

The Joint Venture Agreement also reflects Kenon's put option and the Majority Shareholder in Qoros' right to make further investments in Qoros.

The Joint Venture Agreement expires in 2042. The Joint Venture Agreement terminates prior to this date only (i) if the joint venture partners unanimously agree to dissolve Qoros (ii) in the event of any other reasons for dissolution specified in the Joint Venture Agreement and Articles of Association of Qoros or (iii) upon occurrence of any other termination event, as specified in PRC laws and regulations.

Changes to Qoros' Management

In recent years, Qoros has made a number of changes at the executive management level, including the appointment of a new chief executive officer, chief financial officer, chief technology officer and chief operating officer in early 2019.

Qoros' Legal Proceedings

During 2018, Qoros was subject to various claims brought by certain of its suppliers and service providers claiming unpaid amounts. As of December 31, 2018, the total amounts claimed are approximately RMB125 million (approximately \$18 million).

During 2018, Qoros settled various outstanding claims previously brought by its suppliers and service providers, in an amount of approximately RMB26 million.

Qoros' Regulatory, Environmental and Compliance Matters

Qoros is subject to regulation, including environmental regulations, in China and the Jiangsu Province. Such regulations focus upon the reduction of emissions, the mitigation of remediation expenses related to environmental liabilities, the improvement of fuel efficiency, and the monitoring and enhancement of the safety features of Chinese vehicles. For example, in July 2020, the Chinese regulation on emissions (Stage 6 Limits and Measurement Methods for Emissions from Light Duty Vehicles) will take effect, which will require that new models meet certain emission standards. Qoros' facility, activities and operations are also subject to continued monitoring and inspection by the relevant Chinese authorities. Qoros believes that it is in compliance with applicable Chinese government regulations.

Qoros' strategy contemplates the development of NEVs and in December 2018 Qoros introduced its new NEV model, the Qoros 3 EV500. As such, Qoros will be subject to the laws, licensing requirements, regulations and policies applicable to NEVs in China. For instance, China has published a set of fuel consumption credit and NEV credit rules to promote the growth of the NEV market and reduce reliance on internal combustion vehicles. Under the regulations, automakers must obtain a certain NEV score by 2019, which score is related to the number of NEVs the automaker produces. If the automaker is unable to obtain the score, it is required to purchase credits from other automakers or will be unable to sell its conventional vehicles. Although Qoros did not purchase a material amount of credits in 2018, the amount of credits it purchases could be material in the future.

ZIM

We have a 32% stake in ZIM, an international shipping company that operates in select markets. ZIM was founded in Israel in 1945, and has over 70 years of experience in the shipping industry providing customers with seaborne transportation and logistics services and solutions. As of December 31, 2018, ZIM operated 73 vessels, of which 3 were owned and 70 were chartered (including 5 vessels accounted under financial leases and 4 vessels accounted under sale and leaseback refinancing agreements), with a total shipping capacity of 348,053 TEUs. As of December 31, 2018, ZIM chartered 96% of its capacity, and approximately 62% of its charter leases by capacity have durations of less than one year.

As of December 31, 2018, ZIM operated a global network (including lines operated pursuant to cooperation arrangements) of over 60 weekly lines, calling at approximately 230 port of calls in approximately 70 countries. ZIM's network includes strategically located hubs and regional feeder lines to increase geographical coverage. ZIM has cooperation agreements with other leading container liner companies and 2M Alliance (as described below), allowing ZIM to increase its fleet utilization by sharing capacity, expand its service offering and benefit from cost savings. ZIM's vessels have capacities ranging from less than 1,000 TEUs to approximately 11,000 TEUs. Within ZIM's global network, ZIM offers a variety of services, including land transportation and logistical services, as well as specialized shipping solutions, such as the transportation of out-of-gauge cargo, refrigerated cargo and hazardous cargo.

Pursuant to ZIM's articles of association, Kenon currently has the right to appoint up to 2 directors to ZIM's board of directors (even if our interest in ZIM's share capital otherwise entitles us to appoint more than 2 directors to ZIM's board of directors). This right will expire if ZIM's board of directors is comprised of more than nine directors, in which case Kenon will be entitled (alone or together with others) to appoint a number of directors that corresponds to its equity interest in ZIM.

ZIM's Industry Update

In recent years, conditions in the shipping industry have been challenging due to a large supply-demand gap and an increase in vessel capacity. During 2017, in light of the Hanjin dissolution, carriers started implementing responsible capacity management, and increased scrapping and slippage activities. As a result, the gap between supply and demand narrowed, resulting in improved market conditions. In addition, during 2017, the demand for containerized goods increased as a result of global GDP growth which resulted in increased private consumption. These factors resulted in improved profitability for the shipping industry in 2017. However, in 2018, demand growth has been moderate, mainly driven by geopolitical instability and recession concerns, following many years of robust growth. A large number of new large-scale vessels were delivered in 2018 as capacity grew on a net basis by 5.7% compared to 2017. The ongoing overcapacity problem together with substantial increases in operational costs, mainly bunker prices and charter rates, have negatively impacted the industry's profitability.

The increase in tariffs and trade tensions between the U.S. and China and other countries have impacted the global trade environment. In order to avoid the impact of additional tariffs, certain customers have elected to transport some of their cargo in Q4 2018 and earlier in 2019, which may result in less demand for ZIM's services later in 2019.

Bunker prices have increased substantially since reaching historical low levels in January 2016 (excluding a decrease which began in November 2018), while freight rates have decreased since the end of 2017. By the end of 2018, freight rates started to recover in most trades, while bunker prices started increasing again (following the November 2018 decline). Further increases in bunker prices may affect ZIM's margins.

In addition, the container shipping market has experienced significant consolidation as carriers look for operational savings that will improve efficiency and margins. In recent years, the shipping industry has experienced M&A activity (including, for example, the 2018 acquisition of OOCL by COSCO and 2018 merger of three Japanese carriers into an entity named "ONE") and extensive industry consolidation, resulting in rising market concentration.

In line with the trend towards consolidation, a number of large strategic alliances and cooperations have been reorganized or formed, including the Ocean Alliance (consisting of COSCO Shipping, CMA CGM Shipping, Evergreen Marine and Orient Overseas Container Line) and the Alliance (consisting of Hapag Lloyd, Yang Ming MOL, NYK Line and K Line Shipping).

ZIM's Description of Operations

ZIM operates in the liner shipping sector and provides container space/allocation in connection with its operation of regular routes between fixed destinations, within and between trade zones, according to set schedules and anchoring at ports in accordance with a predetermined schedule and according to either pre-determined or spot rates. ZIM operates globally, although its key operational activities are conducted in the Trans-Pacific trade zone, the Asia (including Indian Sub-Continent)-Black Sea/ East Mediterranean Sea trade zones and the Intra-Asia trade zone. In 2018, these trade zones accounted for approximately 70% of ZIM's total carried volume (measured in TEUs).

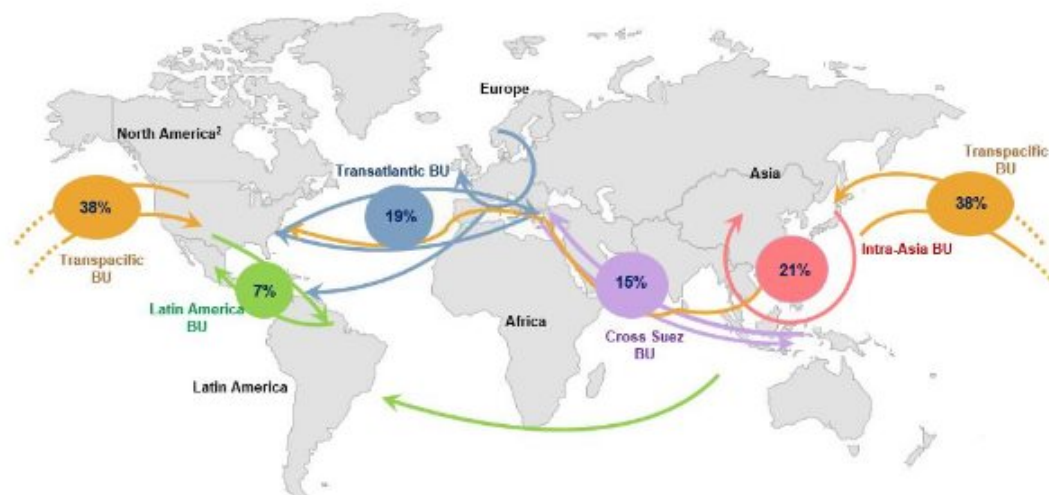
ZIM competes with other liner shipping companies to provide transport services to customers worldwide. The market is significantly concentrated with the top five carriers accounting for approximately 63.2% of the global capacity, and the remaining top carriers each controlling less than 7% of the capacity as of December 2018. ZIM controls approximately 1.4% of the global container shipping capacity and is ranked eleventh among shipping carriers globally as of December 2018 (in terms of TEU capacity) (as compared to a ranking of twelfth in January 2018 and sixteenth in January 2017, reflecting industry consolidation).

To compete in an oversupplied market and to minimize costs, the main containership operators have created, and are continuing to create and enter into alliances of cooperative operational arrangements. These alliances enable rationalization of the activities of the carriers, realization of economies of scale in the operation of vessels and utilization of port facilities, promotion of technical and economic progress and greater, more efficient utilization of container and vessel capacity.

In September 2018, ZIM entered into a strategic cooperation agreement with the 2M Alliance in the Asia-USEC trade zone. The term of the strategic cooperation is seven years. The strategic cooperation includes the creation of a joint network of five loops between Asia and USEC, out of which one is operated by ZIM and four are operated by the 2M Alliance. In addition, ZIM and the 2M Alliance are permitted to swap slots on all five loops under the agreement and ZIM may purchase additional slots in order to meet its total demand in these trades. This strategic cooperation with the 2M Alliance enables ZIM to provide its customers with improved port coverage and transit time, while generating cost efficiencies. In January 2019, ZIM entered into a second strategic cooperation agreement with the 2M Alliance, which will include a combination of vessel sharing, slot exchange and purchase, and covers two additional trade zones: (i) Asia - East Mediterranean and (ii) Asia - American Pacific Northwest. The new cooperation agreement offers four dedicated lines with extensive port coverage and premium service levels. The new services are due to commence from Asia in March 2019, subject to regulatory approvals.

In addition, ZIM is party to a wide range of operational partnerships, including vessel sharing agreements, swap agreements, and slot purchase agreements with other carriers in most of the trade zones in which it operates. For further information on the risks related to competition within the shipping industry and alliances, see "*Item 3.D Risk Factors—Risks Related to Our Other Businesses—Risks Related to Our Interests in ZIM— ZIM's ability to enter into strategic alliances and participate in operational partnerships in the shipping industry remains limited, which may adversely affect ZIM's business, and ZIM faces risks related to its strategic cooperation agreement with the 2M Alliance.*" In light of industry dynamics, ZIM continues to monitor its operational costs and has implemented additional cost reduction practices in order to position itself as a more efficient and profitable carrier.

The map below illustrates ZIM's trade zones of operation, as of December 31, 2018, and the percentage of TEUs transported by zone:



The following table sets forth a description of the major trade zones or sub-trade zones in which ZIM operates (including through cooperation agreements, e.g., with 2M Alliance), and the distribution of TEUs transported by ZIM within each zone, for each of 2018, 2017 and 2016:

Business Unit	Description of Business Unit	2018 TEU Transported (%)	2017 TEU Transported (%)	2016 TEU Transported (%)
Pacific	The Pacific BU consists of the Trans-Pacific trade zone, which covers trade between Asia (mainly China) and the east coast and west coast of the U.S., Canada, Central America and the Caribbean	38.3	34.2	33.6
Cross Suez	The Cross Suez BU consists of the Asia-Europe trade zone, which covers trade between Asia and Europe through the Suez Canal, primarily through the Asia-Black Sea/Mediterranean Sea sub-trade zone	14.7	15.9	16.5
Intra-Asia	The Intra-Asia BU consists primarily of the Intra-Asia trade zone, which covers trade within regional ports in Asia, as well as trade between Asia and Africa	21.4	21.1	20.3
Atlantic	The Atlantic BU consists of the Trans-Atlantic trade zone, which covers the trade between the Mediterranean to U.S. east and west coasts and the Caribbean, as well as Intra trades which include the East Mediterranean, West Mediterranean and North Europe and the Mediterranean to West Africa trade	18.5	21.3	21.4
Latin America	The Latin America BU consists of the Intra-America trade zone, which covers trade within regional ports in the Americas as well as trade between South American east coast and Asia and the Mediterranean to South America east coast via the Atlantic Ocean	7.1	7.5	8.2

Total

100.0

100.0

100.0

Our strategic cooperation agreement with the 2M Alliance entered into September 2018 (prior to the 2019 extension) relates to the Pacific trade zone in the table above.

ZIM's Description of Fleet

ZIM operates in the liner shipping sector and generates revenue from fees paid to it in exchange for transportation services provided by it (through deployment of its fleet of vessels it owns or charters to ZIM's customers). As of December 31, 2018, ZIM's fleet included 73 vessels (as compared to 81 vessels as of December 31, 2017). ZIM's fleet as of December 31, 2018 consisted of 71 container vessels and 2 vehicle transport vessels, of which 3 vessels were indirectly owned by ZIM (through subsidiaries established for vessel-holding purposes only) and 70 vessels were chartered (including 5 vessels accounted under financial leases and 4 vessels accounted under sale and leaseback refinancing agreements). ZIM has re-delivery dates ranging from 2019 to 2026. As of December 31, 2018, the total capacity of ZIM's fleet of vessels (both owned and chartered) was 348,053 TEUs (compared to 385,974 TEUs as of December 31, 2017).

The following table sets forth summary information relating to ZIM's vessels as of December 31, 2018, differentiating between owned and chartered vessels, and the remaining period of the charter:

	Container Vessels			Total
	Number	Capacity (TEU)	Other Vessels	
Vessels owned by ZIM	3	15,031		3
Vessels chartered from parties related to ZIM				
Periods up to 1 year (from December 31, 2018)	2	10,024	1 ¹	3
Periods between 1 to 5 years (from December 31, 2018)	2	8,442	—	2
Periods over 5 years (from December 31, 2018)	—	—	—	—
Vessels chartered from third parties ²				
Periods up to 1 year (from December 31, 2018)	46	202,950	1	47
Periods between 1 to 5 years (from December 31, 2018)	8	44,995	—	8
Periods over 5 years (from December 31, 2018)	10	66,611	—	10
Total	71	348,053	2 ¹	73

(1) Vehicle transport vessels.

(2) Includes 5 vessels accounted under financial leases and 4 vessels accounted under sale and leaseback refinancing agreements (engaged in 2018).

Industry analysts expect shipping companies' deployments of larger vessels to continue increasing and, in particular, to increase in certain of the key trade zones in which ZIM operates. The cost per TEU transported on large vessels is less than the cost per TEU for smaller vessels (assuming the vessels are operating at full capacity). For example, the Panama Canal's 2016 expansion which increased the size of vessels that can pass through the canal is illustrative of the industry trend towards larger vessels. To remain competitive within the Asia-USEC trade zone, ZIM has increased the size of certain of its vessels in this trade zone and entered into the strategic cooperation with the 2M Alliance which operates larger vessels.

Chartered Vessels

ZIM charters vessels under charter agreements for varying periods. With the exception of those vessels whose rates were set in connection with ZIM's 2014 debt restructuring, ZIM's charter rates are fixed at the time of entry into the charter, and depend upon market conditions existing at that time. As of December 31, 2018, of the 70 vessels chartered by ZIM under lease arrangements:

- 60 vessels were chartered under a "time charter," which consists of chartering the vessel capacity for a given period of time against a daily charter fee, with the crewing and technical operation of the vessel handled by its owner, including 5 vessels chartered under a time charter from parties related to ZIM;
- 1 vessel was chartered under a "bareboat charter," which consists of the chartering of a vessel for a given period of time against a charter fee, with the operation of the vessel handled by the charterer; and
- 9 vessels were chartered under financial lease agreements and sale and leaseback refinancing agreements.

Subject to any restrictions in the applicable lease arrangement, the charterer determines the type and quantity of cargo to be carried as well as the ports of loading and discharging. ZIM's vessels operate worldwide within the trading limits imposed by its insurance terms. Except for the bareboat charter, the technical operation and navigation of ZIM's vessels remain, at all times, the responsibility of the vessel owner, who is generally responsible for the vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel, costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses.

Fleet Management

ZIM provides its own operational and technical management services for each of the vessels that it owns, as well as those it accounts for under sale and leaseback refinancing agreements.

ZIM operates vessels in accordance with the ISM Code and the International Ship and Port Facilities Security Code, in addition to developing, implementing and maintaining a safety management system in accordance with the ISM Code. In addition, ZIM follows the regulations of the International Maritime Organization, or IMO. The new IMO regulations expected to come into effect in 2020 will require shipping companies to (i) utilize fuels which emit less sulfur (ii) install scrubbers on vessels to reduce the emission of sulfur or (iii) deploy new types of vessels using liquefied natural gas (LNG). ZIM intends to comply with the regulations when they become effective either by installing scrubbers or switching to fuels that emit less sulfur. For more information on this regulation see "*Item 4.B Business Overview—Our Businesses—ZIM— ZIM's Regulatory, Environmental and Compliance Matters.*"

Non-Fleet Equipment

In addition to the vessels that ZIM owns and charters, ZIM owns and charters a significant number of shipping containers. As of December 31, 2018, ZIM held approximately 383 thousand container units with a total capacity of approximately 632 thousand TEUs, of which approximately 75% were owned by ZIM (including under finance leases) and approximately 25% were chartered.

ZIM's Customers

In 2018, ZIM had more than 32,285 customers. ZIM's customers are divided into "direct customers", including exporters and importers, and "forwarders," (i.e., entities engaged in assembling cargos from various customers and the forwarding thereof through a shipping company). In 2018, 39% of ZIM's customers (in terms of transported volume) were "direct customers," while the remainder were "forwarders." ZIM does not depend upon any single customer.

ZIM's Seasonality

Activity in the marine container shipping industry is affected by various seasonality factors. Generally, the first quarter of the calendar year is marked by a decrease in demand for shipping, and the third quarter is generally the strongest quarter with respect to shipping demand.

Recently, the seasonality factors have not been as apparent as they have been in the past. The marine shipping market is dynamic and volatile by its very nature and has been marked in recent years by relative instability. As global trends that affect the shipping market have been changing rapidly in recent years, it remains difficult to predict these trends and the shipping industry's activities.

ZIM's Legal Proceedings

Derivative Action Concerning ZIM Restructuring

During 2014 a petition for approval of a derivative action was submitted to the District Court in Tel Aviv by a shareholder of the Israeli Corporation Ltd., or IC, against, among others, IC and the ZIM. The petitioner argues that the transaction executed by IC in connection with its participation in ZIM's restructuring deviates from the approval of IC's shareholders meeting and that the condition precedent to the execution of IC's participation in the restructuring, as approved by such meeting, regarding the transferability of the shares in ZIM was not fulfilled. The petitioner moves to have the defendants (other than IC and ZIM) to convene IC's shareholders meeting to approve IC's participation in the ZIM's restructuring or have the defendants (other than IC) compensate IC in the amount of US\$ 27.4 million which, as argued, reflects the damage caused to IC due to its participation in ZIM's restructuring, being the decreased value of ZIM's shares held by IC in consideration therefore, due to the incompleteness of the said condition precedent. During 2016, the derivative action was rejected by the court, followed by an appeal filed by the petitioner which was rejected by the Supreme Court of Israel in February 2019.

2016 Class Action—Local Charges

In January 2016, ZIM's wholly-owned agency in Israel, along with other third party shipping agencies, was served with a filing of a class action. The applicant alleges, among other things, that the agency has, in breach of applicable port regulations, charged their customers higher rates for services rendered than are allowed and charged for services which are not included in the list of services detailed in the regulations.

Competition Law Issues

ZIM is involved in a number of legal matters, including industry-wide investigations regarding competition law issues and applications to approve the filing of class actions, some of which may involve significant monetary amounts. The developments and/or resolutions of such matters, which include either negotiations or litigation, are subject to a high level of uncertainty that cannot be reliably quantified.

During 2017, ZIM was served, together with another defendant, with an application to approve the filing of a class action in Israel, related to alleged breaches of competition rules in respect of carriage of vehicles from South Korea. The applicants have asserted that the total damages caused to the class at a total of NIS 403 million (approximately \$108 million) based on an expert opinion attached to the application. However, from a preliminary review of the opinion, it should be noted that the estimate is based on data which is not necessarily correct and/or relevant to ZIM.

In addition, ZIM representatives received subpoenas in connection with an investigation by the United States Department of Justice Antitrust Division into the container liner shipping industry in the United States. During 2018, ZIM submitted certain internal documents to the United States Department of Justice Antitrust Division and ZIM's legal advisors remained in contact with the Department of Justice regarding ZIM's compliance with the subpoenas. In February 2019, ZIM received notice from the United States Department of Justice Antitrust Division that the investigation has concluded without any adverse findings against either ZIM or its senior officers.

Court's Ruling Against Shipping Agencies in Certain Jurisdictions

In one jurisdiction, courts ruled against the charging by certain shipping agencies of certain fees in such jurisdiction, including a subsidiary of ZIM. The shipping agencies have appealed to the supreme court against this ruling. During 2018, ZIM's subsidiary and additional shipping agencies entered into settlement negotiations.

Based on legal advice and management estimates, ZIM included a provision in its financial statements with respect to certain of the above-mentioned matters.

ZIM's Regulatory, Environmental and Compliance Matters

Government and international regulation significantly affects the ownership and operation of vessels. ZIM is subject to many legal provisions relating to the protection of the environment, including with respect to the emissions of hazardous substances, SOx and NOx gas exhaust emissions, the operation of vessels while at anchor by means of generators, and the use of low-sulfur fuel. ZIM could be exposed to high costs in respect of environmental damages (to the extent that the costs are not covered by its insurance policies), criminal charges, and substantive harm to its operations and goodwill, if and to the extent that environmental damages are caused by its operations. ZIM instructs the crews of its vessels on the environmental regulatory requirements and operates in accordance with procedures that ensure its in compliance with such regulatory requirements. ZIM also insures its activities, where effective for it to do so, in order to hedge its environmental risks. ZIM's vessels are also subject to the standards imposed by the IMO, the United Nations specialized agency with responsibility for the safety and security of shipping and the prevention of marine pollution by ships.

ZIM has taken measures to comply with the IMO Ballast Water regulations. ZIM has taken measures to comply with the amendments of the IMO IMDF code, and the amendments to the International Convention for the Prevention of Pollution from Ships (MARPOL).

ZIM has also taken steps to comply with the Chinese Ministry of Transportation regulations which stipulate a 0.5% sulfur content restriction on fuels used in all Chinese ports and the U.S. National Oceanic and Atmosphere Administration's seasonal 10 knot speed limit on Mid-Atlantic coastal areas between November 1, 2017 and April 30, 2018. These regulations may increase ZIM's operational costs.

In addition, ZIM may be required to incur significant costs in connection with modifications to environmental regulations applicable to shipping companies. For example, ZIM will be required to comply with the new fuel regulation, known as "the Sulphur Cap," which requires all marine carriers to use low sulfur fuel (up to 0.5% sulfur content, down from the current 3.5% requirement), currently expected to become effective in January 2020. The Sulphur Cap regulation, introduced by the IMO in 2016, is aimed at reducing marine pollution and emissions. All shipping companies will be obliged to comply and to significantly reduce emissions on the high seas and in coastal area. The Sulphur Cap regulation will impact all the stakeholders in the industry and compliance with it is currently expected to create a significant cost impact and could also affect the supply of vessels in the market. Carriers can comply by (i) buying compliant fuel at higher prices; (ii) installing new cleaning systems on board vessels (scrubbers); or (iii) deploying new types of vessels using LNG. All three options are expected to result in significant costs for carriers and container shipping companies, including ZIM, may seek to implement a surcharge in order to compensate for the above described cost impact. See *"Risk Factors—ZIM is subject to the IMO's "2020" environmental regulations, and failure to comply with such regulations could have a material adverse effect on ZIM's business."*

ZIM is also subject to extensive regulation that changes from time to time and that applies in the jurisdictions in which shipping companies are incorporated, the jurisdictions in which vessels are registered (flag states), the jurisdictions governing the ports at which the vessels anchor, as well as regulations by virtue of international treaties and membership in international associations. Changes and/or amendments to the regulatory provisions applying to ZIM (e.g., the U.S.'s policy requiring the scanning of all cargo en route to the United States) could have a significant adverse effect on ZIM's results of operations. Additionally, the non-compliance of a port with any of the regulations applicable to it may also adversely impact ZIM's results of operations, by increasing ZIM's operating expenses.

Additionally, ZIM is subject to competition regulations worldwide. For example, in the European Union, ZIM is subject to articles 101 and 102 of the Consolidated Version of the Treaty on the Functioning of the European Union. ZIM's transport activities serving the U.S. ports are subject to the Shipping Act of 1984, as modified by the Ocean Shipping Reform Act of 1998. With respect to Israel, ZIM is subject to the general competition law established in the Israel Antitrust Law, 1988. In certain jurisdictions, exemptions from antitrust laws to certain agreements between ocean carriers that operate in the aforementioned jurisdictions, such as slot exchange agreements and other operational partnerships, are in effect. ZIM is party to certain operational and commercial partnerships with other carriers in the industry and each of those arrangements, as well as any future arrangements it becomes party to, must comply with the applicable antitrust regulations in order to remain protected and enforceable.

ZIM is also subject to Israeli regulation regarding, among other things, national security and the mandatory provision of ZIM's fleet, environmental and sea pollution, and the Israeli Shipping Law (Seamen) of 1973, which regulates matters concerning seamen, and the terms of their eligibility and work procedures.

ZIM is subject, in the framework of its international activities, to laws, directives, decisions and orders in various countries around the world that prohibit or restrict trade with certain countries, individuals and entities. For example, the Block Exemption Regulation, exempts certain cooperation agreements in the liner shipping sector from the prohibition on anti-competitive agreements contained at Article 101 of the TFEU. The Block Exemption Regulation is set to expire on April 2020 and the EC has launched a consultation process on whether the Block Exemption Regulation should be extended and, if so, whether its current text should be amended.

Finally, ZIM has taken steps to comply with the GDPR.

For information on ZIM's regulatory risks, see "*Item 3.D Risk Factors—Risks Related to the Industries in Which Our Businesses Operate— A disruption in our and each of our business' information technology systems, including incidents related to cyber security, could adversely affect our business operations,*" "*Item 3.D Risk Factors—Risks Related to Our Other Businesses—Risks Related to Our Interest in ZIM—ZIM is subject to environmental and other regulations and failure to comply with such regulation could have a material adverse effect on ZIM's business*" and "*Item 3.D Risk Factors—Risks Related to Our Other Businesses—Risks Related to Our Interest in ZIM—The shipping industry is subject to extensive government regulation and standards, international treaties and trade prohibitions and sanctions.*"

ZIM's Special State Share

In connection with the 2004 sale of the holdings of the State of Israel in ZIM to IC, ZIM ceased to be a "mixed company" (as defined in the Government Companies Law of Israel) and issued a Special State Share to the State of Israel. The objectives underlying the Special State Share are to (i) safeguard ZIM's existence as an Israeli company, (ii) ensure ZIM's operating ability and transport capacity, so as to enable the State of Israel to effectively access a minimal fleet in an emergency crisis, or for security purposes and (iii) prevent elements hostile to the State of Israel or elements liable to harm the State of Israel's vital interests or its foreign or security interest or Israel's shipping relations with foreign countries from having influence on ZIM's management. In connection with the completion of ZIM's restructuring plan in 2014, certain transferability restrictions imposed by the terms of the Special State Share were revised. The key terms and conditions of the revised Special State Share include the following requirements:

- ZIM must be, at all times, a company incorporated and registered in Israel, whose headquarters and registered main office are domiciled in Israel;

- at least a majority of the members of ZIM’s board of directors, including the Chairman of the board, as well as the Chief Executive Officer or the person serving as its Chief Business Officer, whatever his/her title may be, must be Israeli citizens;
- any transfer of vessels shall be invalid vis-à-vis ZIM, its shareholders and any third party if, as a result thereof, the minimum fleet target mandated by the State of Israel will not be maintained and the holder of the Special State Share has not given prior written consent thereto;
- any holding and/or transfer of shares and/or allocation that confers possession of shares in ZIM at 35% or more of its issued share capital, or that vests the holder thereof with control over ZIM, including as a result of a voting agreement, shall be invalid vis-à-vis ZIM, its shareholders and any third party, if the holder of the Special State Share has not given prior written consent thereto; and
- any transfer of shares granting the owner a holding exceeding 24% but not exceeding 35%, shall require prior notice to the State of Israel, including full information regarding the transferor and the transferee, the percentage of the shares held by the transferee after the transaction will be completed, and the relevant information about the transaction, including voting agreements and agreements for the appointment of directors (if applicable). In any case, if the State of Israel determines that a transfer of such shares shall constitute potential harm to the State of Israel’s security, or any of its vital interests, or that it has not received the relevant information in order to make a decision, the State of Israel shall be entitled to notify the parties within 30 days that it opposes the transaction, and will be obligated to justify its opposition. In such a situation, the requestor of the transaction shall be entitled to transfer this matter to the competent court, which shall hear and rule on the subject in question.

Any change, including an amendment or cancellation of the rights afforded to the State of Israel by the Special State Share shall be invalid with respect to ZIM, its shareholders and any third party, unless it is approved in advance and in writing by the State of Israel.

Kenon’s ownership of ZIM shares is subject to the terms and conditions of the Special State Share, which restricts Kenon’s ability to transfer its equity interest in ZIM to third parties. The terms of the State of Israel’s consent of Kenon’s and Idan Ofer’s status, individually and collectively, as a “Permitted Holder” of ZIM’s shares, stipulates, among other things, that Kenon’s transfer of the means of control of ZIM is limited if the recipient is required to obtain the State of Israel’s consent, or is required to notify the State of Israel of its holding of ZIM shares pursuant to the terms of the Special State Share, unless such consent was obtained by the recipient or the State of Israel did not object to the notice provided by the recipient. In addition, the terms of the consent provide that, if Idan Ofer’s ownership interest in Kenon is less than 36% or Idan Ofer ceases to be the controlling shareholder, or sole controlling shareholder of Kenon, then Kenon’s rights with respect to its shares in ZIM will be limited to the rights applicable to an ownership of 24% of ZIM, until or unless the State of Israel provides its consent, or does not object to, this decrease in Idan Ofer’s ownership or control. Therefore, if Mr. Ofer sells a portion of his interest in Kenon and owns less than 36% of Kenon, or ceases to be Kenon’s controlling shareholder, then Kenon’s right to vote and receive dividends in respect of its ZIM shares, for example, will be limited to those available to a holder of 24% of ZIM’s shares (even if Kenon holds a greater percentage of ZIM’s shares). “Control”, for the purposes of this consent, is as defined in the State of Israel’s consent, with respect to certain provisions. Additionally, the State of Israel may revoke Kenon’s permit if there is a material change in the facts upon which the State of Israel’s consent was based, or upon a breach of the provisions of the Special State Share by Kenon, Mr. Ofer, or ZIM. For information on the risks related to the State of Israel’s ownership of the Special State Share, including with respect to IC’s transfer of its interest in ZIM to us, see “*Item 3.D Risk Factors —Risks Related to Our Other Businesses—Risks Related to Our Interest in ZIM—Israel holds a Special State Share in ZIM, which imposes certain restrictions on ZIM’s operations and our equity interest in ZIM.*”

Primus

We have a 91% equity interest in **Primus**, an innovative developer and owner of a proprietary natural gas-to-liquid technology process.

Primus' Description of Operations

Primus is an innovative developer of a proprietary liquids technology, the STG+ process, which is designed to produce liquid hydrocarbons from synthesis gas, or syngas, derived from natural gas (including synthetic natural gas) and other feedstocks (e.g., ethane). Primus' STG+ process converts syngas into methanol, reformulated blend-stock for oxygen blending, or RBOB, gasoline or a stream miscible with crude oil (synthetic crude). The availability of large shale gas reserves in the U.S. and the low cost of natural gas in relation to the cost of gasoline and methanol enables Primus to utilize domestically produced natural gas in its STG+ process.

Primus' business strategy is focused on three primary activities:

- **Gasoline Production.** Primus intends to provide its STG+ process to convert natural gas into RBOB gasoline as blend-stock at industrial and chemical plant locations that have spare syngas capacity and in emerging international markets where low value natural gas can be converted to high value (usually imported) gasoline.
- **Gas Flaring Solutions.** Primus offers gas flaring solutions to convert natural gas that would otherwise be flared into gasoline or crude oil diluent. Primus intends to deploy its STG+ technology for operators seeking to remain in compliance with strict anti-flaring regulations and monetize natural gas that would otherwise be flared.
- **Methanol Production.** Primus intends to own, operate and develop, or license the technology for the operation and development of, methanol production plants to service local users of methanol who are located far from larger-scale methanol plants.

Primus seeks to develop, build, own and operate a portfolio of facilities where the company can access low-cost natural gas feedstock and take advantage of lower product transportation costs resulting from locating producing assets closer to markets than competing sources, including through joint ventures with equity partners. Primus seeks to generate revenues from the sale of gasoline, synthetic crude and methanol from its operating plants as well as from construction management services, engineering fees, technology licensing fees, production royalties, and other opportunities the company identifies. Primus intends to finance the first series of plants through non-recourse project financing and is seeking strategic partners to participate alongside Primus in the equity component of the investment. Primus has entered into non-binding term sheets with certain entities regarding the development of future projects. However, at this time none of the term sheets have resulted in definitive agreements and there is no certainty that such projects will be developed.

Primus' STG+ process improves upon existing gas-to-liquid technologies by integrating all reactors into a single-loop process, thereby reducing capital and operating costs while increasing reliability and yield. Primus expects the STG+ process to operate on a smaller scale than the competing methanol-to-gasoline process utilized by other, non-traditional gasoline producers. Primus expects its customers to be able to distribute, store and pump its gasoline using existing fuel infrastructures and expects that the gasoline produced may be utilized in unmodified, conventional vehicles.

Between 2011 and 2013, Primus operated a pilot scale test facility at its headquarters in Hillsborough, New Jersey. Primus' pilot plant consisted of two major units, the first being a wood pellet gasifier that produced syngas, and the second being the STG+ process. The STG+ process has been successfully validated at the pilot scale. Primus used the data obtained from such operations to optimize the design of its demonstration plant, which was completed in August 2013. Primus' demonstration plant generates syngas from natural gas, and converts the syngas into methanol and high-octane gasoline. The demonstration plant has a nameplate production capacity for gasoline of 12.7 gallons per hour, or 100,000 gallons per year, and for methanol of 32.4 gallons per hour or 255,000 gallons per year, and was designed to replicate the key scale parameters of a larger plant, so as to minimize potential scale-up risks. Between 2013 and 2017, Primus successfully operated the demonstration plant for approximately 10,000 hours. The same reactor design and catalyst are in use in other sites in slightly different services around the world. In the fourth quarter of 2018, Primus operated the demonstration plant for 1250 hours to gather data on catalyst life, optimal operating conditions, and to obtain third party validation that Primus' RBOB gasoline meets the required quality specifications for use in U.S. markets.

In the year ended December 31, 2018, Primus generated \$480,000 in revenues from its operations. As of December 31, 2018, we have invested approximately \$76 million (which consists of \$43 million invested by Kenon and \$23 million invested by IC prior to the spin-off) into Primus. In 2018, we provided Primus \$7.0 million via convertible notes. In March 2019, we provided additional funding of \$1 million via a convertible note.

Primus continues to rely on Kenon to fund its operations. In connection with Primus' further development and our efforts to maximize its value, we may provide additional capital to Primus, in the form of debt or equity financing, if deemed appropriate to facilitate Primus' operational and development capital requirements.

We own 91% of Primus and the remaining 9% is primarily held by Primus' founders; on a fully diluted basis, giving effect to management share options, Kenon's ownership interest in Primus is approximately 80%.

Primus' Principal Markets; Customers

Primus intends to develop, build, own and operate methanol production plants in North America and develop, build, own and operate gasoline, synthetic crude, or methanol or stream miscible with crude production plants, including through joint ventures with equity partners, or license the technology for the operation and development of such plants, outside of North America. The intended off-takers of Primus' methanol and gasoline are expected to primarily consist of local distributors or users who are located far from large-scale production plants. In the United States, methanol and gasoline are generally produced in the Gulf Coast and are transported to off-takers throughout the country. Due to transportation costs, customers located outside the Gulf Coast region pay a substantially higher price than customers around the Gulf Coast. Primus intends to construct and own equity in plants in such regions to capture the price spread resulting from the transportation costs and lower costs of natural gas.

Primus intends to provide its gas flaring solutions to customers throughout the world, particularly those in gas-prone regions with strict gas flaring regulations. The production of oil results in the “flaring” of natural gas—a cheap method disposing of, rather than utilizing, associated natural gas. Such flaring has become a concern in many countries as a result of the associated emissions in greenhouse gases and participation in the World Bank’s Zero Routine Flaring by 2030 Initiative. As Primus’ STG+ process converts syngas into gasoline blend stock, Primus can provide its potential customers with the technological tools to transform the natural gas associated with oil production and flaring into gasoline or a diluent to be blended into crude oil.

Potential customers of the gasoline, methanol and synthetic crude produced by Primus’ technology include existing refiners of crude oil, industrial and chemical users, purchasers of oil-based fuels, and blenders of transportation fuels and direct end-users, such as retailers.

Primus Potential Project Pipeline

Primus is engaging in discussions with potential customers and joint venture partners with respect to potential projects, including for the construction of methanol plants, the conversion of syngas into gasoline and synthetic crude and the provision of gas flaring solutions. Should Primus secure these potential projects, which may be located throughout the world, Primus may be compensated through a mix of revenues from sales to off-takers, construction management and engineering fees, technology licensing fees and production royalties. These projects also give Primus the opportunity to own equity in the project. At this time, these projects have not been secured.

Primus’ Raw Materials and Suppliers

In connection with the operation of Primus’ demonstration plant in the year ended December 31, 2018, a single supplier provided Primus with its natural gas requirements, representing an immaterial amount of Primus’ operating expenses in the year ended December 31, 2018.

Primus’ Competition

Primus seeks to operate as a producer of alternative liquids. Its competitors are expected to include other gas-to-liquids companies and companies using other feedstocks to produce syngas, such as ExxonMobil MTG, Haldor Topsøe TIGAS or other newly-established ventures that provide a different technological approach to the production of syngas. Primus also competes with traditional producers of gasoline and methanol. As Primus’ STG+ process is further developed to produce gasoline and methanol, Primus also expects to compete with the traditional and alternative producers of these fuels. Primus believes that its (i) direct synthesis of the desired product, (ii) high yield and cost-effective results, and (iii) selective process allows it to remain competitive with its competitors in both areas.

Primus’ Patents, Licenses, Etc.

Primus’ intellectual property portfolio includes: three issued U.S. patents on its core technology, the “Single Loop Process”, to produce liquid fuels from syngas; two issued U.S. patents on its first commercial product, specifically the “Fuel Composition”; and several additional patent applications and trade secrets that are generally categorized into the following areas: liquid fuel synthesis, liquid fuel composition, incremental improvements and customization, and biomass gasification.

Primus has also filed corresponding patent applications under the Patent Cooperation Treaty and has filed national phase applications in multiple countries for its base process patent. Primus actively evaluates its intellectual property portfolio so as to optimize its intellectual property strategy and to protect the authenticity and commercial value of its STG+ process.

Primus’ Property, Plants and Equipment

Primus’ fully operational 300 gallon-per-day integrated industrial demonstration plant located in Hillsborough, New Jersey, was successfully constructed in August 2013. The demonstration plant converts natural gas feedstock into syngas which is, in turn, converted into high-octane gasoline or methanol. The demonstration plant has a nameplate production capacity for gasoline of 12.7 gallons per hour, or 100,000 gallons per year, and for methanol of 32.4 gallons per hour or 255,000 gallons per year. Primus expects this demonstration plant to provide the performance data necessary for the design and development of other plants.

Primus' Regulatory, Environmental and Compliance Matters

Primus' operations are affected by various local and foreign laws, rules, regulations and authorities. As a result, changes in various types of regulations could affect Primus' business adversely. For example, the implementation of new safety, environmental or legal requirements could impact Primus' ability to produce gasoline and methanol, or use the STG+ process. Furthermore, changes to the various regulations governing gas flaring could impact Primus' ability to provide gas flaring solutions. The impact of these changes in regulation could adversely affect Primus' business, financial condition and results of operations even where the specific regulations do not directly apply to Primus or to its technologies, products or services.

Discontinued Operations – Inkia Business

Sale of the Inkia Business

Share Purchase Agreement

In November 2017, Kenon, through its subsidiaries Inkia and IC Power Distribution Holdings Pte. Ltd., or ICPDH, entered into a share purchase agreement with Nautilus Inkia Holdings LLC which is an entity controlled by I Squared Capital, pursuant to which Inkia and ICPDH agreed to sell all of their interests in power generation and distribution companies in Latin America and the Caribbean (the "Inkia Business"). The sale was completed in December 2017.

The consideration for the sale was \$1,332 million, consisting of (i) \$935 million cash proceeds paid by the buyer, (ii) retained cash at Inkia of \$222 million, and (iii) \$175 million, which was deferred in the form of a Deferred Payment Obligation bearing interest of 8% per annum, payable in kind. The consideration was subject to post-closing adjustments which were not significant. The buyer also assumed Inkia's obligations under Inkia's \$600 million 5.875% Senior Unsecured Notes due 2027.

The consideration that Inkia received in the transaction was before estimated transaction costs, management compensation, advisor fees, other expenses and taxes, were in the aggregate approximately \$263 million, of which \$27 million comprises taxes to be paid upon payment of the \$175 million Deferred Payment Obligation. The estimated tax payment includes taxes payable in connection with a restructuring of some of the companies remaining in the Kenon group, which is intended to simplify Kenon's holding structure. As a result of this restructuring, Kenon now holds its interest in OPC directly. Kenon does not expect any further tax liability in relation to any future sales of its interest in OPC.

This sale was consistent with Kenon's strategy, which includes monetization of its business and distribution of proceeds to shareholders.

Use of Proceeds of Transaction

In January 2018, Kenon used a portion of the proceeds of the transaction to repay debt of IC Power (\$43 million of net debt outstanding), and to repay its loan facility with Israel Corporation (\$240 million including accrued interest, and \$3 million withholding tax).

In addition, in March 2018, Kenon distributed \$665 million in cash to its shareholders.

Indemnification

In the share purchase agreement for the sale, the sellers, Inkia and ICPDH, gave representations and warranties in respect of the Inkia Business and the transaction. Subject to a specified deductibles, caps and time limitations, the sellers agreed to indemnify the buyer and its successors, permitted assigns, and affiliates, and its officers, employees, directors, managers, members, partners, stockholders, heirs and personal representatives from and against any and all losses arising out of:

- prior to their expiration in July 2019 (or December 2020 in the case of representations relating to environmental matters), a breach of any of the sellers' representations and warranties (other than fundamental representations) up to a maximum amount of \$176.55 million;
- prior to their expiration upon the expiration of the statute of limitations applicable to breach of contract claims in New York, a breach of any of the sellers' covenants or agreements set forth in the share purchase agreement;
- prior to their expiration thirty days after the expiration of the applicable statute of limitations, certain tax liabilities for pre-closing periods and certain transfer taxes, breach of certain tax representations and the incurrence of certain capital gain taxes by the transferred companies in connection with the transaction; and
- without limitation with respect to time, a breach of any of the sellers' fundamental representations (including representations relating to due authorization, ownership title, and capitalization).

The sellers' obligation to indemnify Nautilus Inkia Holdings LLC shall not exceed the base purchase price. The sellers' indemnification obligations for any claims under the share purchase agreement that are agreed between the buyer and the sellers, or that are subject to a final non-appealable judgment, will be supported by the following (all time periods running from December 31, 2017):

- IC Power's three-year pledge of OPC shares representing 25% of OPC shares as of December 31, 2017;
- to the extent any indemnification obligations remain outstanding after the exercise of the above-described pledge (or payments of amounts equal to the value of the pledge), a deferral of \$175 million of the purchase price in the form of a four-year \$175 million Deferred Payment Agreement, accruing interest at a rate of 8% per annum payable-in-kind accruing from the closing date, which the buyer may use to set-off any such indemnification obligations owed to it (see "*—Nautilus Energy TopCo LLC Deferred Payment Agreement*"); and
- to the extent any obligations remain outstanding after seeking recourse against of the Deferred Payment Agreement, a three-year corporate guarantee from Kenon.

Subject to certain terms and conditions, the terms of the pledge, the deferred payment agreement and the guarantee may each be extended if there are unresolved claims existing on the applicable expiration dates.

Pledge Agreement with respect to OPC Shares

In connection with the sale of the Inkia Business, ICP (which was the holder of Kenon's shares in OPC at the time of the sale) entered into a pledge agreement with the buyer of the Inkia Business (Nautilus Inkia Holdings LLC) to pledge OPC shares representing 25% of the outstanding shares of OPC as of the date of the pledge agreement in favor of the buyer to secure the sellers' indemnification obligations under the share purchase agreement for the sale. Following the sale of the Inkia Business, ICP transferred all of its shares in OPC to Kenon. As a result, Kenon and the buyer entered into an amended pledge agreement, pursuant to which Kenon became the pledgor and assumed ICP's obligations under the pledge agreement.

Set forth below is a description some of the key provisions of the pledge agreement. The provisions described below are subject to certain conditions described in the agreement which is filed as an exhibit to this annual report.

Pledged Assets

Kenon has pledged 32,971,680 shares of OPC, representing 25% of the outstanding shares of OPC as of the date of the pledge agreement, plus related rights including distributions on those shares and proceeds of sales of such shares and including accounts in which such shares are currently held or may be held in the future and rights in respect of such shares against the trustee holding such shares, all as discussed below.

Secured Obligations

The pledged shares secure indemnification claims by the buyer that are "finally determined" (i.e., agreed by the parties or pursuant to a non-appealable judgment of a court with proper jurisdiction) under the share purchase agreement and obligations in connection with the pledge agreement and related preservation and foreclosure costs and expenses incurred by the buyer. The pledged shares and cash are held in an account that Kenon has pledged in favor of the buyer. The secured obligations are reduced to the extent of indemnification payments to the buyer under the share purchase agreement and to the extent of the net proceeds from sales of shares upon enforcement of the pledge.

Certain Rights of Kenon with respect to the Pledged Shares

Kenon retains voting rights over the pledged shares unless an event of default under the pledge agreement has occurred and is continuing.

All dividends on the pledged shares are paid into the pledged account. Unless an event of default under the pledge agreement has occurred and is continuing,

- Kenon can withdraw dividends paid into that account as follows (i) in the first 365 days from November 24, 2017, if the 30-trading day volume weighted average price, or VWAP prior to drawing such dividends exceeds NIS14.45 Kenon can draw an amount up to 50% of cumulative net income of OPC from January 1, 2017 (such amount is referred to as the "dividend cap"), (ii) during the following 365-day period, if the 30-trading day VWAP prior to drawing such dividends exceeds NIS14.82, Kenon can draw an amount up to the dividend cap and (iii) during the following 365-day period, if the 30-trading day VWAP prior to drawing such dividends exceeds NIS15.17, Kenon can draw an amount up to the dividend cap; and
- in addition, on one occasion over the life of the pledge Kenon can draw from the pledged account its pro rata share of OPC dividends up to \$25 million paid in respect of all of the pledged shares (by way of example if the company makes a distribution of US\$50 million following the original effective date of the pledge agreement, Kenon is entitled to draw from the pledged account \$6.25 million). OPC has not paid a dividend since the date the pledge was executed, and therefore Kenon has not made such draw.

Kenon can sell pledged shares on arms' length terms in cash at market prices or at customary discounts to market prices for such sales (provided that the discounts do not exceed 5% of market price, based on customary VWAP from such a sale on the TASE), provided that cash equal to the number of pledged shares sold multiplied by NIS 14.105 is deposited into the pledged account.

Release of Pledged Shares

In the event of any indemnity claims under the share purchase agreement, pledged shares and cash shall be released in an amount equal to the indemnity payment, with the amount of pledged shares released calculated in accordance with the fair market value of OPC's ordinary shares based on the 30-trading day VWAP of OPC shares prior to the release, and pledged cash is released prior to pledged shares.

Kenon may also release cash from the pledge by depositing additional OPC shares into the pledged account, with released cash being replaced by a number of OPC shares equal to the amount of cash released divided by the lower of (i) the 30-trading day VWAP of OPC shares prior to the release and (ii) NIS 14.105.

All pledged shares and cash remaining in the pledged account will be released on December 31, 2020, provided that if there are unresolved claims by the buyer for indemnity under the Inkia share purchase agreement, the pledge will continue to apply for pledged assets sufficient (in the case of pledged shares, based on a the 30-trading day VWAP prior to December 31, 2020) to cover an amount determined by Kenon and the buyer, each acting in good faith (or a third party evaluator or PricewaterhouseCoopers in case the parties cannot agree on such evaluator) equal to a reasonable estimate of the amount ultimately payable on an unresolved claim (including interest and penalties) to be paid under the Inkia share purchase agreement, plus a reasonable estimate of the amount of costs and expenses that are expected to be incurred to resolve the claim plus 10% of the foregoing (the total amount is referred to as the reserve amount). To the extent that such unresolved indemnity claims which results in an extension of the pledge results in a claim amount actually paid exceeding 110% of the reserve amount, Kenon must pay the buyer interest in cash at a rate of 4% per annum on the difference between the amount paid and 110% of the reserve amount from December 31, 2020 until such payment, and to the extent that such unresolved indemnity claims which in an extension of the pledge results in a claim amount actually paid less than 90% of the reserve amount, the buyer must pay Kenon interest in cash at a rate of 4% per annum on the difference between the amount paid and 90% of the reserve amount from December 31, 2020 until the remaining pledged assets are released from the pledge.

Events of Default; Enforcement of Pledge

The pledge agreement contains events of default for events such as breaches of representations and warranties or undertakings, certain insolvency or bankruptcy events and a failure by Kenon to pay indemnification claims under the Inkia share purchase agreement which claims have been finally determined and are unpaid for three business days. Upon an event of default for a failure to pay a finally determined indemnification claim or a breach of the repeating representation confirming no insolvency or similar events relating to Kenon, the buyer may take customary enforcement measures, including enforcement of the pledges and sale of pledged shares. Upon any other event of default, the buyer may take possession of the pledged assets and exercise voting rights, but may not dispose of the pledged assets.

Nautilus Energy TopCo LLC Deferred Payment Agreement

In December 2017, Inkia loaned \$175 million to Nautilus Energy, as a deferral of a portion of the purchase price for the sale of the Inkia Business. The loan accrues interest at 8% per annum, with such interest capitalized and added to the aggregate principal amount on an annual basis. The principal amount as of December 31, 2018 was \$189 million. Under the deferred payment agreement, Nautilus Energy is subject to certain restrictions with respect to indebtedness, liens, disposals of all or substantially all of the assets of its group, and the general conduct of its group. Subject to the terms of the share purchase agreement, Nautilus Energy may offset its obligation to pay all or some of the aggregate principal amount outstanding under the deferred payment agreement in lieu of seeking a cash payment of a finally determined indemnity claim in an aggregate principal amount equal to the amount of any unpaid finally determined indemnification claim, provided that Nautilus Energy must first offset any indemnity claims first against IC Power's pledge of OPC shares for the benefit of the buyer, Nautilus Inkia Holdings LLC (as described above). The loan matures in December 2021, but may be extended in certain circumstances if there is an unresolved indemnification claim outstanding at the scheduled maturity date. Upon a sale of all or substantially all of the assets of certain of Nautilus Energy's subsidiaries domiciled in Peru, Nautilus Energy may either repay the loan in full, place the aggregate principal amount outstanding together with accrued and unpaid interest in escrow or cause ISQ Global Infrastructure Fund II, L.P. to guarantee Nautilus Energy's obligations (which guarantee shall not be subject to release upon a cross-acceleration event).

The obligations of Nautilus Energy are secured with a share mortgage over its shares by Nautilus Energy Partners LLC and a share mortgage over the shares of the direct subsidiary of Nautilus Energy, Nautilus Inkia Holdings LLC. ISQ Global Infrastructure Fund II, L.P., an indirect parent of Nautilus Energy, has provided a guarantee of Nautilus Energy's obligations under the deferred payment agreement until such time as there is a cross-acceleration of Nautilus Energy's obligations under the deferred payment agreement.

Inkia's rights and obligations under the deferred payment agreement and related pledges have been transferred to Kenon.

Kenon Guarantee

Pursuant to a guarantee agreement entered into in December 2017, Kenon has agreed to guarantee payment of Inkia's and ICPDH's payment obligations under the share purchase agreement relating to the sale of the Inkia Business, including all of their indemnification obligations, subject to certain conditions. The guarantee is only enforceable to the extent that there remain payment obligations under the share purchase agreement after the buyer has exhausted in full its rights under the OPC share pledge and the deferred payment agreement as described above. The guarantee will expire in December 2020, provided that the term of the guarantee shall be extended to the extent that there remain indemnification obligations for which a claim has been made but not resolved at the scheduled expiration date.

Claims Relating to the Inkia Business

Set forth below is a description of the investment treaty claims that are being or may be pursued by Kenon or its subsidiaries and the other claims related to of the Inkia Business to which Kenon or its subsidiaries have rights.

The claims will require funding for legal expenses and Kenon is considering its options with respect to meeting these funding needs, including potentially third party funding for such claims in exchange for a portion of the awards or settlements (as described below). Kenon may also sell its rights under or the rights to proceeds resulting from claims.

Bilateral Investment Treaty Claims Relating to Peru

In June 2017 and November 2018, IC Power and Kenon respectively sent Notices of Dispute to the Republic of Peru under the Free Trade Agreement between Singapore and the Republic of Peru, or the FTA, relating to two disputes described below, based on events that occurred while Kenon, through IC Power, owned and operated their Peruvian subsidiaries Kallpa and Samay I, later sold as part of the Inkia sale. The disputes may be submitted to arbitration pursuant to the FTA subject to the fulfillment of certain procedural requirements, including the submission of a Notice of Intent one month prior to the institution of arbitral proceedings. IC Power and Kenon have not yet quantified their claims against the Republic of Peru, however, the claims are estimated to be valued in excess of \$150 million. Set forth below is a summary of the claims.

IC Power and Kenon have entered into an agreement with a capital provider to provide capital for expenses in relation to the pursuit of their arbitration claims against the Republic of Peru and other costs. The obligations of Kenon and IC Power are secured by pledges relating to the agreement. Credit support has been provided relating to the obligations of Kenon and IC Power. The agreement contains certain representations and covenants by IC Power and the Kenon and events of default in event of breach of such representations and covenants.

Kenon and IC Power have no obligation to repay advances under the agreement except in the event that they receive proceeds from a successful award or settlement of the claims or in the event of a default by Kenon or IC Power, in which case the capital provider is entitled to a return of advances and can rely on credit support granted to the capital provider.

In the event that Kenon or IC Power received proceeds from a successful award or settlement of their claims, the capital provider will be entitled to be repaid the amount committed by the capital provider and to receive a substantial portion of the claim proceeds.

Secondary Frequency Regulation Claim

The Secondary Frequency Regulation, or SFR, is a complementary service required to adjust power generation in order to maintain the frequency of the system in certain situations. In March 2014, OSINERGMIN (the mining and energy regulator in Peru) approved Technical Procedure 22, or PR 22, establishing that the SFR would be provided through a firm and variable base provision. The firm base provision of the SFR would have priority in the daily electricity dispatch to keep turbines permanently on to respond to frequency changes in the system. OSINERGMIN provided that the SFR service would be tendered through a bid.

In February 2016, Kallpa submitted a bid offering to provide the firm base provision of SFR. In April 2016, Kallpa was awarded the SFR firm base provision for three years, until July 2019 on an exclusive basis, independently of its declared generation costs, and in exchange for a Reserve Assignment Price of zero, plus certain reimbursable costs.

In June 2016, OSINERGMIN issued a resolution that materially modified PR 22 (the Resolution). Under the Resolution, the firm base SFR provider can only render the SFR service when it is programmed in the daily electricity dispatch based on its declared generation costs. This retroactive amendment to PR 22 withdrew Kallpa's exclusive right to provide the firm base SFR service that had been awarded to it in April 2016. Kenon and IC Power suffered losses as a result.

Transmission Tolls Claim

Until July 2016, the responsibility for the payment for the use of the secondary and complementary transmission systems was apportioned between generators based on the use of each transmission line. OSINERGMIN identified the generators that made use of particular distribution lines and proceeded to determine payment based on actual use (or the “relevance of use” requirement).

However, in July 2016, OSINERGMIN issued a resolution, referred to as the Transmission Toll Resolution, eliminating the “relevance of use” requirement, replacing it with a methodology that required each generation company to pay for a number of transmission lines, irrespective of the transmission lines the company actually uses. The change in methodology benefited the state-owned electricity companies, including Electroperu, to the detriment of Kenon and IC Power’s Peruvian subsidiaries, causing significant losses to Kenon and IC Power.

Bilateral Investment Treaty Claim relating to Guatemala

The Guatemalan Tax Administrator, or SAT, issued in February 2015 certain binding tax opinions confirming the validity of certain deductions with respect to the referenced distributors. ICP subsequently acquired the distributors. The government of Guatemala changed in 2016 and there also were changes in the SAT management. Subsequently, and notwithstanding the binding tax opinions, the SAT filed a complaint in July 2016 against the distributors for alleged back taxes for fiscal years 2011 and 2012, alleging that such companies improperly deducted interest and amortization of goodwill relating to the acquisition of the distributors in 2011 by their prior owner. In August 2016, the court hearing the SAT complaint ordered the distributors immediately to pay approximately \$17 million in alleged back taxes for fiscal years 2011 and 2012, plus interest and fines within 60 days following the court order. The distributors paid such principal amount, with payment on interest and fines for fiscal years 2011 and 2012 subsequently deferred by the court pending recalculation.

In addition, in light of the SAT’s actions and instructions, to avoid court proceedings by the SAT concerning fiscal years 2013, 2014, and 2015, and to reduce interest obligations, upon instruction of the SAT, the distributors also revised their tax returns for fiscal years 2013, 2014, and 2015, and in August 2016 paid the SAT approximately \$31 million, corresponding to alleged back taxes and interest for fiscal years 2013, 2014, and 2015.

In December 2016, the distributors paid an additional \$26 million corresponding to the alleged interest and fines on the principal amount for fiscal years 2011 and 2012.

The total payments described above relating to fiscal years 2011 through 2015 amount to approximately \$74 million in the aggregate. The distributors made all the foregoing payments subject to a broad reservation of rights, including but not limited to seeking restitution of such payments. The foregoing circumstances form part of the basis for the investment treaty arbitration, which is pending.

ICP commenced an investment treaty arbitration against the Republic of Guatemala in February 2018 pursuant to the Agreement between the Government of the State of Israel and the Government of the Republic of Guatemala for the Reciprocal Promotion and Protection of Investments, or the Treaty. ICP is seeking damages on the basis that Guatemala breached its obligations under the Treaty including through the treatment of DEORSA and DEOCSA, two electricity distributors which were subsidiaries of ICP.

Entitlement to Payments in Respect of Certain Proceedings and Claims

As discussed below, IC Power’s former subsidiary, Inkia, is pursuing claims or is entitled to receive certain payments from the buyer of the Inkia Business in connection with certain insurance and other claims held by companies within the Inkia Business or as a result of the resolution of, and/or a change in regulations or cash payments received relating to the transmission tolls claim or the SFR claim. These payments are subject to conditions, and may be subject to deduction for taxes incurred as a result of the relevant payment. Energuate Representation & Warranty Insurance Claims.

Prior to the sale of the Inkia Business, DEORSA and DEOCSA’s parent company ICPDH, made a claim under the representation & warranty insurance put in place during the acquisition of DEORSA and DEOCSA (the “Insurance Claim”). The Insurance Claim seeks coverage for among other things, taxes, interest and penalties paid in connection with the SAT tax claim in 2016, as described above. The maximum coverage under the insurance policy is \$30 million. The insurer has disputed coverage for the Insurance Claim and that dispute has been submitted to arbitration, which is ongoing.

Kenon’s subsidiary ICPDH, which was not sold as part of the sale of the Inkia Business, has all rights to, and continues to pursue, the Insurance Claim. If any proceeds under this claim are received by DEORSA or DEOCSA, such proceeds must be paid to ICPDH.

Samay I Insurance Claims

Samay I has made an insurance claim for losses suffered as a result of the damage to the turbines at the Samay I Facility in 2016. The amount of the claim is approximately \$25.3 million plus interest and costs. The buyer of the Inkia Business has agreed to use commercially reasonable efforts to pursue this claim, with Inkia required to pay the costs of pursuing the claim, and to pay to Inkia 75% of the insurance claim proceeds received by it.

In Q1 2019, an agreement was reached to settle the claim for \$11.5 million. Kenon's share of these proceeds is expected to be approximately \$5 million.

Transmission Toll Regulation

In the event of certain changes in or revocation of regulation in Peru or a final court order relating to the Transmission Toll Resolution (described above under "*Bilateral Investment Treaty Claims Relating to Peru—Transmission Tolls Claim*") which change, revocation or order has the effect of increasing operating profits of Kallpa or Samay I (which are part of the Inkia Business) then the buyer of the Inkia Business is required to pay or cause to be paid to Inkia in cash 75% of an amount equal to 70% of the increase in operating profits of Kallpa and Samay I attributable directly and solely to the changes in regulation through December 31, 2024.

In addition, in the event of any cash payments made to Kallpa or Samay I as a result certain changes in regulation in Peru relating to the Transmission Toll Resolution or as a result certain claims being pursued in Peru in connection with this resolution, the buyer is required to pay or cause to be paid in cash 75% of an amount equal to 70% of such cash proceeds.

Secondary Frequency Regulation Claim

In the event of certain changes to or revocation of PR 22 (as described under "*Bilateral Investment Treaty Claims Relating to Peru—Secondary Frequency Regulation Claim*") which result in a cash payment to Kallpa or Samay I, the buyer is required to pay or cause to be paid in cash 75% of an amount equal to 70% of such cash proceeds.

Samay I S.A. Force Majeure Proceedings

In connection with the damage to the Samay I turbines in 2016, Samay I made a claim to the Peruvian Ministry of Energy and Mines, or MINEM, demanding that the unavailability to the system of the Samay I turbines was a force majeure event and therefore measures taken by MINEM should be reversed. The buyer of the Inkia Business has agreed, promptly following regulatory approval of the sale of the Inkia Business in Peru, to commence arbitration proceedings against MINEM to recover negative revenue adjustments of approximately \$3 million on the basis that the unavailability of the turbines was a force majeure event.

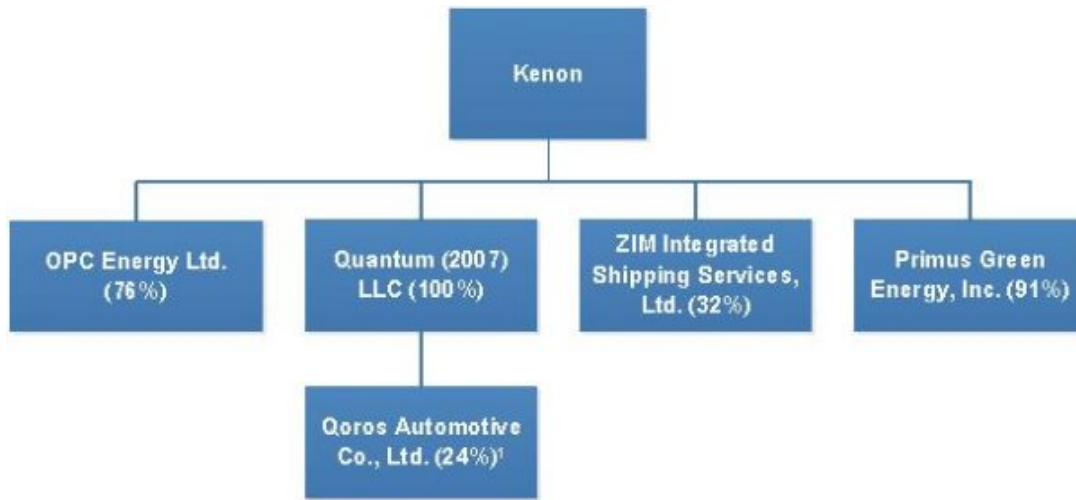
Samay I is required to pay to Inkia 50% of the proceeds received from such proceedings, and Inkia is required to reimburse 50% of the costs in proceeding with the claim.

Bolivian Land

Inkia is entitled to appoint a broker to procure buyers for a plot of land in Bolivia owned by COBBEE (part of the Inkia Business) and consummate a sale of the land, with the sale terms subject to Inkia's consent. All proceeds from the sale must be paid to Inkia, after deduction of reasonable costs and expenses, brokerage fees and taxes.

C. Organizational Structure

The chart below represents a summary of our organizational structure, excluding intermediate holding companies, as of April 5, 2019. This chart should be read in conjunction with the explanation of our ownership and organizational structure above.



- (1) In January 2019, Kenon announced it had entered into an agreement to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros.

D. Property, Plants and Equipment

For information on our property, plants and equipment, see “*Item 4.B Business Overview.*”

ITEM 4A. Unresolved Staff Comments

Not Applicable.

ITEM 5. Operating and Financial Review and Prospects

This section should be read in conjunction with our audited consolidated financial statements, and the related notes thereto, for the years ended December 31, 2018, 2017 and 2016, included elsewhere in this annual report. Our financial statements have been prepared in accordance with IFRS. Our consolidated financial statements as of and for the year ended December 31, 2017 reflect the Inkia Business as discontinued operations and our consolidated financial statements as of and for the year ended December 31, 2016 have been reclassified for comparative purposes to account for the Inkia Business as discontinued operations (see “Item 4.B Business Overview—Discontinued Operations—Inkia Business”).

The financial information below also includes certain non-IFRS measures used by us to evaluate our economic and financial performance. These measures are not identified as accounting measures under IFRS and therefore should not be considered as an alternative measure to evaluate our performance.

Certain information included in this discussion and analysis includes forward-looking statements that are subject to risks and uncertainties, and which may cause actual results to differ materially from those expressed or implied by such forward-looking statements. For further information on important factors that could cause our actual results to differ materially from the results described in the forward-looking statements contained in this discussion and analysis, see “Special Note Regarding Forward-Looking Statements” and “Item 3.D Risk Factors.”

Business Overview

For a discussion of our strategy, see “*Item 4.B Business Overview.*”

Overview of Financial Information Presented

As a holding company, Kenon's results of operations primarily comprise the financial results of each of its businesses. The following table sets forth the method of accounting for our businesses for each of the three years ended December 31, 2018 and our ownership percentage as of December 31, 2018:

	Ownership Percentage	Method of Accounting	Treatment in Consolidated Financial Statements
OPC	76%	Consolidated	Consolidated
Qoros	24% ¹	Equity	Share in losses of associated companies, net of tax
ZIM	32%	Equity	Share in losses of associated companies, net of tax
Other			
<i>Primus</i>	91%	Consolidated	Consolidated

(1) In January 2018, our ownership in Qoros was reduced from 50% to 24% in connection with the investment in Qoros by the Majority Shareholder in Qoros. In January 2019, Kenon announced it had entered into an agreement to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros.

The results of the following companies are included in Kenon's statements of profit and loss as share in losses of associated companies, net of tax, for the years set forth below, except as otherwise indicated: (i) Qoros and (ii) ZIM.

The following tables set forth selected financial data for Kenon's reportable segments for the periods presented:

	Year Ended December 31, 2018				Consolidated Results
	OPC	Quantum ¹	Other ²	Adjustments ³	
	<i>(in millions of USD, unless otherwise indicated)</i>				
Sales	\$ 363	\$ —	\$ 1	\$ —	\$ 364
Depreciation and amortization	(30)	—	—	—	(30)
Financing income	2	10	48	(32)	28
Financing expenses	(27)	(2)	(33)	32	(30)
Gain on third party investment in Qoros	—	504	—	—	504
Fair value loss on option	—	(40)	—	—	(40)
Write back of financial guarantee	—	63	—	—	63
Share in losses of associated companies	—	(78)	(27)	—	(105)
Profit / (Loss) before taxes	\$ 36	\$ 457	\$ (31)	\$ —	\$ 462
Income taxes	(10)	—	(1)	—	(11)
Profit / (Loss) from continuing operations	\$ 26	\$ 457	\$ (32)	\$ —	\$ 451
Segment assets ⁴	\$ 893	\$ 92	\$ 239 ⁵	\$ —	\$ 1,224
Investments in associated companies	—	139	92	—	231
Segment liabilities	700	—	39 ⁶	—	739
Capital expenditure ⁷	100	—	—	—	100

(1) Subsidiary of Kenon that owns Kenon's equity holding in Qoros.

(2) Includes the results of Primus, the results of ZIM, as an associated company; as well as Kenon's and IC Green's holding company and general and administrative expenses.

(3) "Adjustments" includes inter segment financing income and expense.

(4) Includes investments in associates.

(5) Includes Kenon's, IC Green's and IC Power holding company assets.

(6) Includes Kenon's, IC Green's and IC Power holding company liabilities.

(7) Includes the additions of Property, Plant and Equipment, or PP&E, and intangibles based on an accrual basis.

Year Ended December 31, 2017 ¹

	OPC	Quantum ²	Other ³	Adjustments ⁴	Consolidated Results
	<i>(in millions of USD, unless otherwise indicated)</i>				
Sales	\$ 365	\$ —	\$ 1	\$ —	\$ 366
Depreciation and amortization	(30)	—	(1)	—	(31)
Impairment of assets and investments	—	—	29	—	29
Financing income	1	—	13	(11)	3
Financing expenses	(34)	(6)	(41)	11	(70)
Share in (losses) income of associated companies	—	(121)	10	—	(111)
Profit / (Loss) before taxes	\$ 23	\$ (127)	\$ (32)	\$ —	\$ (136)
Income taxes	(9)	—	(64)	—	(73)
Profit / (Loss) from continuing operations	\$ 14	\$ (127)	\$ (96)	\$ —	\$ (209)
Segment assets ⁵	\$ 940	\$ 16	\$ 1,448 ⁶	\$ —	\$ 2,404
Investments in associated companies	—	2	120	—	122
Segment liabilities	743	75	65 ⁷	—	1,475
Capital expenditure ⁸	109	—	121	—	230

(1) Results for this period reflect the results of the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.

(2) Subsidiary of Kenon that owns Kenon's equity holding in Qoros.

(3) Includes the results of Primus and HelioFocus (which was liquidated in July 2017); the results of ZIM, as an associated company; as well as Kenon's and IC Green's holding company and general and administrative expenses.

(4) "Adjustments" includes inter-segment financing income and expenses.

(5) Excludes investments in associates.

(6) Includes Kenon's, IC Green's and IC Power holding company assets.

(7) Includes Kenon's, IC Green's and IC Power holding company liabilities.

(8) Includes the additions of PP&E, and intangibles based on an accrual basis.

Year Ended December 31, 2016 ¹

	OPC	Quantum ²	Other ³	Adjustments ⁴	Consolidated Results
	<i>(in millions of USD, unless otherwise indicated)</i>				
Sales	\$ 324	\$ —	\$ —	\$ —	\$ 324
Depreciation and amortization	(27)	—	—	—	(27)
Impairment of assets and investments	—	—	72	—	(72)
Financing income	3	—	16	(12)	7
Financing expenses	(23)	—	(36)	12	(47)
Share in losses of associated companies	—	(143)	(43)	—	(186)
Provision of financial guarantee	—	—	(130)	—	(130)
Profit/(Loss) before taxes	\$ 20	\$ (143)	\$ (305)	\$ —	\$ (428)
Income taxes	—	—	(2)	—	(2)
Profit/(Loss) from continuing operations	\$ 20	\$ (143)	\$ (307)	\$ —	\$ (430)
Segment assets ⁵	\$ 668	\$ 2	\$ 4,260 ⁶	\$ —	\$ 4,930
Investments in associated companies	—	118	90	—	208
Segment liabilities	534	—	3,710 ⁷	—	4,244
Capital expenditure ⁸	73	—	245	—	318

(1) Results during this period have been reclassified to reflect the results of the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.

(2) Subsidiary of Kenon that owns Kenon's equity holding in Qoros.

- (3) Includes the results of Primus and HelioFocus (which was liquidated in July 2017); the results of ZIM, as an associated company; as well as Kenon's and IC Green's holding company and general and administrative expenses.
- (4) "Adjustments" includes inter-segment financing income and expenses.
- (5) Excludes investments in associates.
- (6) Includes Kenon's, IC Green's and IC Power holding company assets.
- (7) Includes Kenon's, IC Green's and IC Power holding company liabilities.
- (8) Includes the additions of PP&E and intangibles based on an accrual basis.

The following tables set forth summary information regarding each of our equity-method accounting businesses for the periods presented.

	Year Ended December 31, 2018			
	Qoros	ZIM	Other	Total
	<i>(in millions of USD)</i>			
Loss (100% of results)	\$ (330)	\$ (126)	\$ —	\$ (456)
Share of loss from Associates	(78)	(27)	—	(105)
Book Value	139	92	—	231

	Year Ended December 31, 2017			
	Qoros	ZIM	Other	Total
	<i>(in millions of USD)</i>			
(Loss) income (100% of results)	\$ (242)	\$ 6	\$ —	\$ (236)
Share of (Loss) income from Associates	(121)	10	—	(111)
Book Value	2	120	—	122

	Year Ended December 31, 2016			
	Qoros	ZIM	Other	Total
	<i>(in millions of USD)</i>			
Loss (100% of results)	\$ (285)	\$ (168)	\$ —	\$ (453)
Share of Loss from Associates	(143)	(43)	—	(186)
Book Value	118	82	8	208

Qoros

Following the completion of the Majority Shareholder in Qoros investment in 2018, we have a 24% equity interest in Qoros. In January 2019, Kenon agreed to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros.

We account for Qoros pursuant to the equity method of accounting and discuss Qoros' results of operations in our discussion of our share in losses of associated companies, net of tax. Following completion of the sale of half of our remaining interest in Qoros as described in the preceding paragraph, we will no longer account for Qoros as an equity method investment.

ZIM

In July 2014, ZIM completed the restructuring of its outstanding indebtedness, which resulted in IC, and consequently, Kenon, owning 32% of the restructured ZIM as compared to IC's previous interest in ZIM of approximately 99.7%. ZIM's results of operations for the years ended December 31, 2016, 2017 and 2018 are reflected in Kenon's share in losses of associated companies, net of tax.

Material Factors Affecting Results of Operations

Discontinued Operations

In December 2017, Inkia, a wholly-owned subsidiary of IC Power completed the sale of the Inkia Business, which included Inkia's Latin American and Caribbean businesses, to I Squared Capital, an infrastructure private equity firm. As a result, the results of operations of the Inkia Business are reflected as discontinued operations in Kenon's financial statements for the year ended December 31, 2017. Results for 2016 have been reclassified to reflect the classification of the Inkia Business as discontinued operations. Inkia still has certain obligations in relation to the sale of the Inkia Business, including certain indemnification obligations (see "*Item 4.B Business Overview—Discontinued Operations—Inkia Business—Sale of the Inkia Business—Share Purchase Agreement—Indemnification*"), while Kenon holds the deferred payment agreement (see "*—Nautilus Energy TopCo LLC Deferred Payment Agreement*"), and has retained certain claims relating to the Inkia Business (see "*—Claims Relating to Inkia Business Retained by Kenon*"). For further information, see "*Item 4.B Business Overview—Discontinued Operations—Inkia Business*."

OPC

Set forth below is a discussion of the material factors affecting the results of operations of OPC for the periods under review.

Sales—EA Tariffs

In Israel, sales by IPPs are generally made on the basis of PPAs for the sale of energy to customers, with prices predominantly linked to the tariff issued by the EA and denominated in NIS.

The EA operates a Time of Use tariff, which provides different energy rates for different seasons (e.g., summer and winter) and different periods of time during the day. Within Israel, the price of energy varies by season and demand period. For further information on Israel's seasonality and the related EA tariffs, see "*Item 4.B Business Overview—Our Businesses—OPC—Industry Overview—Overview of Israeli Electricity Generation Industry*."

The EA's rates have affected OPC's revenues and income in the periods under review.

In December 2016, the EA published its generation component tariff update, which became effective on January 1, 2017, and reduced the generation component tariff by approximately 0.5% from NIS 265.2 per MWh to NIS 264 per MWh. However, as part of the December 2016 EA decision, the Time of Use tariffs were also adjusted to reflect a decrease in certain payments made by IPPs to the IEC. In January 2018, the EA published its generation component tariff update for 2018, which increased the generation component tariff by approximately 6.7%, from NIS 264 per MWh to NIS 282 per MWh. In January 2019, the generation component tariff was increased by approximately 3.3%, from NIS 282 MWh to NIS 290.9 per MWh.

Cost of Sales

OPC's principal costs of sales are natural gas, transmission, distribution and system services costs, personnel, third-party services and maintenance costs.

The prices at which OPC-Rotem and OPC-Hadera purchase their natural gas from their sole natural gas supplier, the Tamar Group, is predominantly indexed to changes in the EA's generation component tariff, pursuant to the price formula set forth in OPC-Rotem's and OPC-Hadera's supply agreements with the Tamar Group. As a result, increases or decreases in this tariff have a related effect on OPC-Rotem's and PC-Hadera's cost of sales and margins. Additionally, the natural gas price formula in OPC-Rotem's and OPC-Hadera's supply agreement is subject to a floor price mechanism.

As a result of previous declines in the EA's generation component tariff, OPC-Rotem paid the minimum price starting in November 2015 as well as during 2016 to 2018 (excluding one month in 2018). Therefore, declines in the EA generation component tariff may not have a corresponding decline in OPC-Rotem's natural gas expenses, due to the minimum price mechanism, and may lead to a decline in OPC-Rotem's margins, which may have a material adverse effect on OPC's business, results of operations and financial condition. For information on the risks associated with the impact of the EA's generation tariff on OPC's supply agreements with the Tamar Group, see "*Item 3.D Risk Factors—Risks Related to OPC—Changes in the EA's electricity rates may reduce OPC's profitability*."

In December 2018, the EA published the electricity tariffs for 2019, which included an increase of the EA's generation component tariff by approximately 3.3%. As a result, OPC-Rotem's gas prices may rise above the minimum price. For information on the risks associated with the impact of the EA's generation tariff on OPC-Rotem's supply agreement with the Tamar Group, see "*Item 3.D Risk Factors—Risks Related to OPC—Changes in the EA's electricity rates may reduce OPC's profitability*." OPC-Hadera's gas prices exceeded the minimum price in 2018 and are expected to be above the minimum price in 2019.

OPC's costs for transmission, distribution and systems services vary primarily according to the quantity of energy that OPC sells. These costs are passed on to its customers. OPC incurs personnel and third-party services costs in the operation of its plants. These costs are usually independent of the volumes of energy produced by OPC's plants. OPC incurs maintenance costs in connection with the ongoing and periodic maintenance of its generation plants. These costs are usually correlated to the volumes of energy produced and the number of running hours of OPC's plants.

As planned, major overhaul maintenance work was completed between September and November 2018, which halted the OPC-Rotem plant's operations along with the related energy generation activities for a 48-day period. During the maintenance, supply of electricity to OPC-Rotem's private customers continued as usual using energy purchased by OPC, in accordance with the standards published by the EA and OPC-Rotem's PPA agreement with the IEC. This resulted in a decrease in gas costs as well as the increase of costs for purchases of electricity from the IEC, which resulted in lost margins for OPC during the maintenance period.

Income Taxes

OPC is subject to income tax in Israel. The corporate tax rates applicable in Israel as of December 31, 2018, 2017 and 2016 were 23%, 24% and 25%, respectively.

Changes in Exchange Rates

Fluctuations in the exchange rates between currencies in which certain of OPC's agreements are denominated (such as the U.S. Dollar and Euro) and the NIS, which is OPC's functional and reporting currency, will generate either gains or losses on monetary assets and liabilities denominated in such currencies and can therefore affect OPC's profitability. Furthermore, OPC is indirectly influenced by changes in the U.S. Dollar to NIS exchange rate as the IEC electricity tariff is partially linked to increases in fuel prices (mainly coal and gas) that are denominated in U.S. Dollars.

In addition, Kenon's functional currency is the U.S. Dollar, so Kenon reports OPC's NIS-denominated results of operations and balance sheet items in U.S. Dollars, translating OPC's results into U.S. Dollars at the average exchange rate (for results of operation) or rate in effect on the balance sheet date (for balance sheet items). Accordingly, changes in the U.S. Dollar to NIS exchange rate impact Kenon's reported results for OPC.

In 2017, the U.S. Dollar experienced a period of weakening and, therefore, the exchange rate of the U.S. Dollar to the NIS continued to decline. In 2018, the U.S. Dollar was stronger versus the NIS as compared to 2017.

Qoros

Set forth below is a discussion of the material factors affecting the results of operations of Qoros for the periods under review.

In the years ended December 31, 2018 and 2017, Qoros incurred net losses of RMB2.2 billion (approximately \$332 million) and RMB1.6 billion (approximately \$238 million), respectively. Qoros expects to continue experiencing losses and negative cash flows until it achieves significantly higher levels of sales.

For the year ended December 31, 2018, Qoros sold approximately 62,000 cars, as compared to approximately 15,000 cars in 2017. A significant portion of vehicle sales in 2018 were made to a leasing company introduced by the Majority Shareholder in Qoros. Qoros' ability to generate positive net income and cash flow from its operations will depend upon a variety of factors, particularly Qoros' ability to sell its vehicles within its targeted price range and develop an effective dealer network.

In January 2018, Kenon announced the Majority Shareholder in Qoros completed a transaction to purchase 51% of Qoros from Kenon and Chery. As a result, Kenon and Chery have 24% and 25% stakes in Qoros. This investment has improved Qoros' liquidity, but Qoros may need to continue to secure additional financing to meet its operating expenses, including accounts payable, and debt service requirements until it increases its sales levels. Kenon has given guarantees to Chery in respect of Qoros' bank debt in the amount of RMB288 million (approximately \$44 million). Quantum (Kenon's subsidiary which owns Kenon's interest in Qoros) has pledged the shares it holds in Qoros. In addition, if Qoros' other joint venture partners make additional equity investments in Qoros without Kenon also making its pro-rata investment, Kenon's interest in Qoros may be diluted. See "*Item 3.D Risk Factors—Risks Related to Our Strategy and Operations—Some of our businesses have significant capital requirements.*"

In January 2019, Kenon agreed to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros, the Majority Shareholder in Qoros will hold 63% and Chery will own 25%.

ZIM

In July 2014, ZIM completed its financial restructuring, which resulted in IC, and consequently, Kenon, owning 32% of the restructured ZIM as compared to IC's previous interest in ZIM of approximately 99.7%. As a result, Kenon received a 32% equity interest in ZIM upon the consummation of the spin-off.

ZIM's results of operations for the years ended December 31, 2016, 2017 and 2018 are reflected in Kenon's share in losses of associated companies, net of tax, pursuant to the equity method of accounting.

In addition, bunker prices and freight rates are material factors which affect ZIM's results of operations. For a discussion of bunker prices and freight rates, see "*Item 4.B Business Overview—Our Businesses—ZIM—ZIM's Industry Update.*"

The IMO's Sulphur Cap regulations are also expected to impact bunker prices and are material factors which are expected to affect ZIM's revenues and costs, see "*Item 4.B Business Overview—Our Businesses—ZIM—ZIM's Regulatory, Environmental and Compliance Matters.*"

Primus

In the year ended December 31, 2018, Primus generated \$480,000 in revenues from its operations, while in each of the two years ended December 31, 2017, Primus did not generate material revenues from its operations.

Primus seeks to develop, build, own and operate facilities where the company can access low-cost natural gas feedstock and take advantage of lower product transportation costs resulting from locating producing assets closer to markets than competing sources, including through joint ventures with equity partners. Primus seeks to generate revenues from the sale of methanol, gasoline and synthetic crude from its operating plants as well as from construction management services, engineering fees, technology licensing fees, production royalties, and other opportunities the company identifies. Primus intends to finance the first series of plants through non-recourse project financing and is seeking a strategic partner to participate alongside Primus in the equity component of the investment.

Critical Accounting Policies and Significant Estimates

In preparing our financial statements, we make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are reviewed on an ongoing basis and are based upon historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements:

- recoverable amount of non-financial assets and Cash Generating Units;
- fair value of derivative financial instruments (including Qoros put option);
- business combinations; and
- contingent liabilities.

Set forth below is a discussion of impairment analyses conducted by Kenon and its subsidiaries and associated companies. For further information on the estimates, assumptions and judgments involved in our accounting policies and significant estimates, see Note 2 to Kenon's financial statements included in this annual report.

Impairment Analysis

For each reporting period, Kenon examines whether there have been any events or changes in circumstances which would indicate an impairment of one or more non-monetary assets or CGUs. Additionally, when there are indications of an impairment, a review is made as to whether the carrying amount of the non-monetary assets or CGUs exceeds the recoverable amount and, if so, an impairment loss is recognized. An assessment of the impairment of the goodwill is performed once a year or when signs of an impairment exist.

Under IFRS, the recoverable amount of the asset or CGU is determined based upon the higher of (i) the fair value less costs of disposal and (ii) the present value of the future cash flows expected from the continued use of the asset or CGU in its present condition, including cash flows expected to be received upon the retirement of the asset from service and the eventual sale of the asset (value in use). The future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time-value of money and the risk specific to the asset or CGU.

The estimates regarding future cash flows are based upon past experience with respect to this asset or similar assets (or CGUs), and on Kenon's businesses best possible assessments regarding the economic conditions that will exist during the remaining useful life of the asset or CGU. Such estimates rely on the particular business' current development plans and forecasts. As the actual cash flows may differ, the recoverable amount determined could change in subsequent periods, such that an additional impairment loss may need to be recognized or a previously recognized impairment loss may need to be reversed.

Impairment Tests of ZIM

As a result of conditions in the container shipping market, Kenon conducted an impairment test in relation to its 32% equity investment in ZIM as of June 30, 2016 in accordance with IAS 28 and IAS 36. Kenon concluded that the carrying amount of its investment in ZIM was higher than the recoverable amount, and therefore, Kenon recognized an impairment loss of \$72 million with respect to its investment in ZIM in 2016.

As a result of improved operating conditions at ZIM throughout 2017, Kenon conducted another impairment analysis as of December 31, 2017. The analysis concluded that Kenon should reverse \$29 million of the impairment recognized in 2016.

As at December 31, 2018 Kenon did not identify any impairment indicators relating to its holding in ZIM and therefore no impairment analysis was conducted and no impairment was recognized.

Adoption of New Accounting Standards in 2019

IFRS 16

For annual periods beginning on or after January 1, 2019, IFRS 16 “Leases” will replace IAS 17 – Leases and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements. Similarly, the standard determines new and expanded disclosure requirements from those required at present. The standard includes a number of alternatives for the implementation of transitional provisions, so that companies can choose one of the following alternatives at the implementation date: full retrospective implementation or implementation from the effective date while adjusting the balance of retained earnings at that date. The Group examined the expected effects of the implementation of the standard, and the standard is not expected to have a material impact on the financial statements.

For more information on the impact of the adoption of these standards, see Note 3 to our financial statements included in this annual report.

Recent Developments

Kenon

Agreement to sell 12% interest in Qoros

In January 2019, Kenon agreed to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros. The sale is subject to obtaining relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros, the Majority Shareholder in Qoros will hold 63% and Chery will own 25%. For further information, see “*Item 4.B Business Overview—Our Businesses—Qoros — 2019 Qoros Sale Agreement.*”

OPC

Agreement to acquire remaining 5% interest in Tzomet

In January 2019 OPC entered into an agreement for the acquisition of the remaining 5% of the shares of Tzomet, for consideration of approximately \$7 million, which is expected to be completed in increments subject to the fulfillment of certain milestones. Tzomet still requires (among other requirements) a license from the EA to proceed with construction of the planned power station and remains subject to financial closing (expected to take place on January 1, 2020).

EA decision to grant conditional license for Tzomet project

In April 2019, the EA published its decision to grant Tzomet a conditional license for a 66-month term (which can be extended, subject to conditions) for the construction of a 396MW conventional open-cycle power plant. Such conditional license remains subject to the Israeli Minister of Energy's approval and the issuance of a guarantee by Tzomet. The grant of a permanent generation license to Tzomet, upon expiration of the conditional license, is subject to its compliance with the conditions set by law. See “*Item 4.B Business Overview—OPC—OPC's Description of Operations—Tzomet.*”

A. Operating Results

Our consolidated/combined financial statements for the years ended December 31, 2018, 2017 and 2016 are comprised of OPC, Primus, HelioFocus (which was liquidated in July 2017), and the results of the associated companies (Qoros and ZIM).

Our consolidated/combined results of operations for each of the periods primarily comprise the results of OPC.

In December 2017, Inkia completed the sale of the Inkia Business, which consists of its Latin American and Caribbean businesses. The results of the Inkia Business are presented as discontinued operations in our consolidated/combined financial statements for the year ended December 31, 2017. Our consolidated financial statements as of and for the year ended December 31, 2016 have been reclassified for comparative purposes to reflect the Inkia Business as discontinued operations.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

The following tables set forth summary information regarding our operating segment results for the years ended December 31, 2018 and 2017.

	Year Ended December 31, 2018				Consolidated Results
	OPC	Quantum ¹	Other ²	Adjustments ³	
	<i>(in millions of USD, unless otherwise indicated)</i>				
Sales	\$ 363	\$ —	\$ 1	\$ —	\$ 364
Depreciation and amortization	(30)	—	—	—	(30)
Financing income	2	10	48	(32)	28
Financing expenses	(27)	(2)	(33)	32	(30)
Gain on third party investment in Qoros	—	504	—	—	504
Fair value loss on option	—	(40)	—	—	(40)
Write back of financial guarantee	—	63	—	—	63
Share in losses of associated companies	—	(78)	(27)	—	(105)
Profit / (Loss) before taxes	\$ 36	\$ 457	\$ (31)	\$ —	\$ 462
Income taxes	(10)	—	(1)	—	(11)
Profit / (Loss) from continuing operations	\$ 26	\$ 457	\$ (32)	\$ —	\$ 451
Segment assets ⁴	\$ 893	\$ 92	\$ 239 ⁵	\$ —	\$ 1,224
Investments in associated companies	—	139	92	—	231
Segment liabilities	700	—	396	—	739
Capital expenditure ⁷	100	—	—	—	100

(1) Due to maintenance work, OPC-Rotem was not operational for two months in Q4 2018.

(2) Subsidiary of Kenon that owns Kenon's equity holding in Qoros.

(3) Includes the results of Primus, the results of ZIM, as an associated company; as well as Kenon's and IC Green's holding company and general and administrative expenses.

(4) "Adjustments" includes inter segment financing income and expense.

(5) Includes investments in associates.

(6) Includes Kenon's, IC Green's and IC Power holding company assets.

(7) Includes Kenon's, IC Green's and IC Power holding company liabilities.

(8) Includes the additions of Property, Plant and Equipment, or PP&E, and intangibles based on an accrual basis.

Year Ended December 31, 2017 ¹

	OPC	Quantum ²	Other ³	Adjustments ⁴	Consolidated Results
	<i>(in millions of USD, unless otherwise indicated)</i>				
Sales	\$ 365	\$ —	\$ 1	\$ —	\$ 366
Depreciation and amortization	(30)	—	(1)	—	(31)
Impairment of assets and investments	—	—	29	—	29
Financing income	1	—	13	(11)	3
Financing expenses	(34)	(6)	(41)	11	(70)
Share in (losses) income of associated companies	—	(121)	10	—	(111)
Profit / (Loss) before taxes	\$ 23	\$ (127)	\$ (32)	\$ —	\$ (136)
Income taxes	(9)	—	(64)	—	(73)
Profit / (Loss) from continuing operations	\$ 14	\$ (127)	\$ (96)	\$ —	\$ (209)
Segment assets ⁵	\$ 940	\$ 16	\$ 1,448 ⁶	\$ —	\$ 2,404
Investments in associated companies	—	2	120	—	122
Segment liabilities	743	75	65 ⁷	—	1,475
Capital expenditure ⁸	109	—	121	—	230

- (1) In December 2017, Inkia completed the sale of the Inkia Business. Results for this period reflect the results of the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.
- (2) Subsidiary of Kenon that owns Kenon's equity holding in Qoros.
- (3) Includes the results of Primus and HelioFocus (which was liquidated in July 2017); the results of ZIM, as an associated company; as well as Kenon's and IC Green's holding company and general and administrative expenses.
- (4) "Adjustments" includes inter-segment financing income and expenses.
- (5) Excludes investments in associates.
- (6) Includes Kenon's, IC Green's and IC Power holding company assets.
- (7) Includes Kenon's, IC Green's and IC Power holding company liabilities.
- (8) Includes the additions of PP&E, and intangibles based on an accrual basis.

The following table sets forth summary information regarding the results of operations of our equity-method businesses for the periods presented:

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	ZIM	Qoros ¹	ZIM	Qoros ²
	<i>(in millions of USD)</i>			
Revenues	\$ 3,248	\$ 812	\$ 2,978	\$ 280
(Loss)/Income	(126)	(330)	6	(242)
Other comprehensive loss	(6)	-	(4)	—
Total comprehensive (loss)/income	\$ (132)	\$ (330)	\$ 2	\$ (242)
Share of Kenon in total comprehensive (loss)/income	\$ (40)	\$ (78)	\$ 2	\$ (121)
Adjustments	13	-	8	—
Share of Kenon in total comprehensive (loss)/(loss) presented in the books	\$ (27)	\$ (78)	\$ 10	\$ (121)
Total assets	\$ 1,826	\$ 1,914	\$ 1,802	\$ 1,495
Total liabilities	2,050	1,475	1,896	1,674
Book value of investment	92	139	120	2

- (1) We owned 50% of Qoros until January 2018, when our equity interest in Qoros was reduced to 24% in connection with the initial investment by the Majority Shareholder in Qoros. In January 2019, we announced our entry into an agreement to sell half of our remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, we will hold a 12% interest in Qoros.
- (2) We owned 50% of Qoros throughout 2017.

Currency fluctuations in the U.S. Dollar to NIS exchange rate on the translation of OPC's results from NIS into U.S. Dollars did not have a significant impact on the results of 2018 versus 2017 discussed below.

Revenues

Our revenues (primarily representing OPC's revenues) decreased by \$2 million to \$363 million for the year ended December 31, 2018 from \$365 million for the year ended December 31, 2017.

The table below sets forth OPC's revenue for 2018 and 2017, broken down by category.

	For the year ended December 31,	
	2018	2017
	\$ millions	
Revenue from energy generated by OPC and sold to private customers	225	233
Revenue from energy purchased by OPC and sold to private customers	39	20
Revenue from private customers in respect of infrastructures services	79	94
Revenue from energy sold to the System Administrator	4	3
Revenue from sale of steam	16	15
Total	363	365

OPC's revenue from the sale of electricity to private customers derives from electricity sold at the generation component tariffs, as published by the EA, with some discount. Accordingly, changes in the generation component generally affects the prices paid under PPAs by customers of OPC-Rotem and OPC-Hadera. The weighted-average generation component tariff for 2018, as published by the EA in January 2018, was NIS 0.2816 per KW hour. In 2017, the weighted-average generation component tariff was NIS 0.264 per KW hour. This change in the weighted-average generation component tariff is attributed to the mix of consumption in the market. OPC's revenues from sale of steam are linked partly to the price of gas and partly to the Israeli Consumer Price Index (CPI).

Set forth below is a discussion of the changes in revenues by category between 2018 and 2017.

- *Revenue from energy generated by OPC and sold to private customers* – decreased by \$8 million in 2018, as compared to 2017, primarily as a result of (i) an \$18 million decrease in revenues due to the lower availability of the OPC-Rotem power plant and (ii) \$5 million one-off revenues in 2017, partially offset by a \$12 million increase in revenues due to the higher generation component in 2018, as compared to 2017.
- *Revenue from energy purchased by OPC and sold to private customers* – increased by \$19 million in 2018, as compared to 2017, primarily as a result of increased energy purchased and sold by OPC in 2018 as compared to 2017, resulting from the lower availability of the OPC-Rotem power plant due to the maintenance at OPC-Rotem in 2018.
- *Revenue from private customers in respect of infrastructures services* – decreased by \$ 15 million in 2018, as compared to 2017, primarily as a result of (i) an \$11 million decrease in the infrastructure tariffs in 2018, and (ii) a \$2 million decrease due to past reconciliation of OPC's customers in 2017 .
- *Revenue from energy sold to the System Administrator* – increased by \$1 million in 2018, as compared to 2017, primarily as a result of higher sales volume to the System Administrator.
- *Revenue from sale of steam* – increased by \$1 million in 2018, as compared to 2017, primarily as of a result of higher steam consumption by customers.

Cost of Sales and Services (excluding Depreciation and Amortization)

Our cost of sales (representing OPC's cost of sales) decreased by \$8 million to \$258 million for the year ended December 31, 2018, as compared to \$266 million for the year ended December 31, 2017.

The following table sets forth OPC's cost of sales for 2018 and 2017.

	For the year ended December 31,	
	2018	2017
	\$ millions	
Natural gas and diesel oil consumption	118	130
Payment to IEC for infrastructure services and purchase of electricity	118	114
Natural gas transmission	7	7
Operating expenses	15	15
Total	258	266

- *Natural gas and diesel oil consumption* – decreased by \$12 million in 2018, as compared to 2017, primarily due to (i) a \$6 million decrease as a result of scheduled maintenance at OPC-Rotem in 2018, (ii) a \$3 million decrease as diesel oil consumption in 2017 was high due to a disruption in gas supply from the Tamar reservoir, and (iii) a \$2 million reimbursement from IEC for diesel oil cost in prior years.
- *Payment to IEC for infrastructures services and purchase of electricity* – increased by \$4 million in 2018, as compared to 2017, primarily as a result of an approximately \$17 million increase due to lower generation of the OPC-Rotem power plant, partially offset by (i) a \$9 million decrease due to lower infrastructure service tariffs in 2018 and (ii) a \$2 million decrease due to past reconciliation with OPC's customers in 2017.

Depreciation and Amortization

Our depreciation and amortization expenses (representing OPC's depreciation and amortization expenses) remained largely consistent at \$30 million for the year ended December 31, 2018 and the year ended December 31, 2017.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist of payroll and related expenses, bad/doubtful debts, depreciation and amortization, and other expenses. Our selling, general and administrative expenses (excluding depreciation and amortization) decreased to approximately \$34 million for the year ended December 31, 2018, compared to \$56 million for the year ended December 31, 2017. This decrease was primarily driven by (i) a \$9 million decrease in expenses at the Kenon holding company level, (ii) a \$3 million decrease in expenses at IC Green and (iii) a \$14 million decrease in expenses at holding companies related to Inkia partially offset by an increase in OPC's selling, general and administrative expenses (as discussed below).

OPC's selling, general and administrative expenses increased by \$3 million, or 27%, to \$14 million for the year ended December 31, 2018 from \$11 million for the year ended December 31, 2017 primarily as a result of a \$2 million increase in legal and professional fees and a \$1 million increase in salaries and wages .

Financing Expenses, Net

Our financing expenses, net, decreased by \$65 million to \$2 million for the year ended December 31, 2018, compared to \$67 million for the year ended December 31, 2017. This decrease was primarily driven by (i) \$14 million interest income accrued in relation to the Inkia deferred payment consideration, (ii) \$11 million interest received from Qoros, (iii) \$28 million decrease in financing expenses at holding companies related to Inkia and (iv) the decrease in OPC's financing expenses, net (as described below).

OPC's financing expenses, net decreased by approximately \$8 million to \$25 million in 2018 from \$33 million in 2017, primarily as a result of a \$6 million early repayment fee incurred in 2017 in respect of the early repayment in full of OPC's mezzanine loan.

Gain on Third Party Investment in Qoros

As a result of the Qoros transaction completed in January 2018, Kenon recognized a gain on third party investment in Qoros of approximately \$504 million for the year ended December 31, 2018. The gain includes recognition of Kenon's put option in relation to Qoros, which was initially valued at approximately \$130 million. It was subsequently reduced by approximately \$40 million to approximately \$90 million as a result of fair value assessment at December 31, 2018.

Provision of Financial Guarantee

We recorded a provision of financial guarantee in the amount of \$44 million relating to Kenon's back-to-back guarantee obligations to Chery in respect of Qoros bank debt in the year ended December 31, 2017.

In 2018, Kenon reduced its previously recorded liability in respect of Kenon's back-to-back guarantee obligations to Chery to zero as a result of Kenon's assessment of a lower probability that it would be required to make payments under the guarantees following the investment by the Majority Shareholder in Qoros in 2018.

Share In Income (Losses) of Associated Companies, Net of Tax

Our share in losses of associated companies, net of tax decreased to approximately \$105 million for the year ended December 31, 2018, compared to approximately \$111 million for the year ended December 31, 2017. Set forth below is a discussion of income (losses) for our associated companies and the share in income (losses) of associated companies, net of tax.

Qoros

Our share in Qoros' comprehensive loss decreased to approximately \$78 million for the year ended December 31, 2018, compared to losses of approximately \$121 million for the year ended December 31, 2017. Although we now have a 24% equity interest in Qoros, we held a 50% stake in Qoros prior to the Majority Shareholder in Qoros' investment and therefore recognized 50% of the net loss of Qoros in 2018 until January 8, 2018 and 24% of Qoros loss from January 9, 2018 and we recognized 50% Qoros' loss in 2017. Furthermore, in January 2019, Kenon agreed to sell half of its remaining interest in Qoros (i.e. 12%) to the Majority Shareholder in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros. A discussion of Qoros' results of operations (on a 100% basis) for 2018 and 2017 is set forth below.

Qoros' revenues increased by 185% to RMB5,389 million in 2018, as compared to RMB1,886 million in 2017. Qoros' increased revenues in 2018 reflect an approximately 313% increase in car sales from approximately 15,000 cars in 2017 to approximately 62,000 in 2018. A substantial portion of car sales in 2018 included orders from a leasing company introduced by the Majority Shareholder in Qoros, in accordance with the investment agreement.

Qoros' cost of sales increased by 183% to RMB6,410 million in 2018, as compared to RMB2,262 million in 2017. The increase in cost of sales is primarily due to the increase in the number of cars sold, as well as an increase in depreciation and amortization to RMB766 million in 2018, as compared to RMB615 million in 2017.

Qoros' loss increased to RMB2.2 billion for the year ended December 31, 2018, as compared to RMB1.6 billion for the year ended December 31, 2017.

ZIM

Pursuant to the equity method of accounting, our share in ZIM's results of operations was loss of approximately \$27 million for the year ended December 31, 2018 and income of approximately \$9 million for the year ended December 31, 2017. Set forth below is a summary of ZIM's consolidated results for the year ended December 31, 2018 and 2017:

	Year Ended December 31,	
	2018	2017
	<i>(in millions of USD)</i>	
Sales	\$ 3,248	\$ 2,978
Cost of sales	3,100	2,697
Gross profit	148	281
Operating (loss)/profit	(29)*	135
(Loss)/profit before taxes on income	(106)	25
Taxes on income	(14)	(14)
(Loss)/profit after taxes on income	(120)	11
(Loss)/profit for the period	\$ (120)	\$ 11

(*). Includes an impairment of \$38 million with respect to certain vessels classified as held for sale.

ZIM carried approximately 2,914 thousand TEUs in 2018, representing an 11% increase as compared to 2017, in which ZIM carried approximately 2,629 thousand TEUs. The average freight rate per TEU in 2018 was \$973 per TEU, as compared to \$995 per TEU in 2017. ZIM's revenues increased by 9% in 2018 to approximately \$3.2 billion, as compared to approximately \$3.0 billion in 2017, mainly due to the increase in carried quantities. ZIM's operating expenses and cost of services increased by 15% to approximately \$3.0 billion, as compared to approximately \$2.6 billion in 2017, primarily as a result of the increase in bunker expenses, charter hire expenses and cargo handling expenses.

ZIM publishes its results on its website. For more information, see www.ZIM.com. This website, and any information referenced therein, is not incorporated by reference herein.

Tax Expenses

Our taxes on income decreased by \$62 million to \$11 million for the year ended December 31, 2018 from \$73 million for the year ended December 31, 2017. This decrease was primarily driven approximately \$63 million in tax expenses incurred in 2017 in connection with a planned restructuring of some of the companies remaining in the Kenon group to simplify the holding structure.

Profit (Loss) For the Year

As a result of the above, our profit for the year amounted to \$445 million for the year ended December 31, 2018, compared to a profit of \$269 million for the year ended December 31, 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

The following tables set forth summary information regarding our operating segment results for the years ended December 31, 2017 and 2016.

	Year Ended December 31, 2017¹				
	OPC	Quantum²	Other³	Adjustments⁴	Consolidated Results
	<i>(in millions of USD, unless otherwise indicated)</i>				
Sales	\$ 365	\$ —	\$ 1	\$ —	\$ 366
Depreciation and amortization	(30)	—	(1)	—	(31)
Impairment of assets and investments	—	—	29	—	29
Financing income	1	—	13	(11)	3
Financing expenses	(34)	(6)	(41)	11	(70)
Share in (losses) income of associated companies	—	(121)	10	—	(111)
Profit / (Loss) before taxes	\$ 23	\$ (127)	\$ (32)	\$ —	\$ (136)
Income taxes	(9)	—	(64)	—	(73)
Profit / (Loss) from continuing operations	\$ 14	\$ (127)	\$ (96)	\$ —	\$ (209)
Segment assets ⁵	\$ 940	\$ 16	\$ 1,448 ⁶	\$ —	\$ 2,404
Investments in associated companies	—	2	120	—	122
Segment liabilities	743	75	657 ⁷	—	1,475
Capital expenditure ⁸	109	—	121	—	230

(1) In December 2017, Inkia completed the sale of the Inkia Business. Results for this period reflect the results of the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.

(2) Subsidiary of Kenon that owns Kenon's equity holding in Qoros.

(3) Includes the results of Primus and HelioFocus (which was liquidated in July 2017); the results of ZIM, as an associated company; as well as Kenon's and IC Green's holding company and general and administrative expenses.

(4) "Adjustments" includes inter-segment financing income and expenses.

(5) Excludes investments in associates.

(6) Includes Kenon's, IC Green's and IC Power holding company assets.

(7) Includes Kenon's, IC Green's and IC Power holding company liabilities.

(8) Includes the additions of PP&E, and intangibles based on an accrual basis.

	Year Ended December 31, 2016¹				
	OPC	Quantum²	Other³	Adjustments⁴	Consolidated Results
	<i>(in millions of USD, unless otherwise indicated)</i>				
Sales	\$ 324	\$ —	\$ —	\$ —	\$ 324
Depreciation and amortization	(27)	—	—	—	(27)
Impairment of assets and investments	—	—	72	—	(72)
Financing income	3	—	16	(12)	7
Financing expenses	(23)	—	(36)	12	(47)
Share in losses of associated companies	—	(143)	(43)	—	(186)
Provision of financial guarantee	—	—	(130)	—	(130)
Profit/(Loss) before taxes	\$ 20	\$ (143)	\$ (305)	\$ —	\$ (428)
Income taxes	—	—	(2)	—	(2)
Profit/(Loss) from continuing operations	\$ 20	\$ (143)	\$ (307)	\$ —	\$ (430)
Segment assets ⁵	\$ 668	\$ 2	\$ 4,260 ⁶	\$ —	\$ 4,930
Investments in associated companies	—	118	90	—	208
Segment liabilities	534	—	3,710 ⁷	—	4,244
Capital expenditure ⁸	73	—	245	—	318

(1) Results during this period have been reclassified to reflect the results of the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.

- (2) Subsidiary of Kenon that owns Kenon's equity holding in Qoros.
- (3) Includes the results of Primus and HelioFocus (which was liquidated in July 2017); the results of ZIM, as an associated company; as well as Kenon's and IC Green's holding company and general and administrative expenses.
- (4) "Adjustments" includes inter-segment financing income and expenses.
- (5) Excludes investments in associates.
- (6) Includes Kenon's, IC Green's and IC Power holding company assets.
- (7) Includes Kenon's, IC Green's and IC Power holding company liabilities.
- (8) Includes the additions of PP&E and intangibles based on an accrual basis.

The following table sets forth summary information regarding the results of operations of our equity-method businesses for the periods presented:

	Year Ended December 31, 2017		Year Ended December 31, 2016	
	ZIM	Qoros	ZIM	Qoros
	<i>(in millions of USD)</i>			
Revenues	\$ 2,978	\$ 280	\$ 2,539	\$ 377
Income/(Loss)	6	(242)	(168)	(285)
Other comprehensive loss	(4)	—	(13)	—
Total comprehensive income/(loss)	\$ 2	\$ (242)	\$ (181)	\$ (285)
Share of Kenon in total comprehensive income/(loss)	\$ 2	\$ (121)	\$ (57)	\$ (143)
Adjustments	8	—	9	—
Share of Kenon in total comprehensive income/(loss) presented in the books	\$ 10	\$ (121)	\$ (48)	\$ (143)
Total assets	\$ 1,802	\$ 1,495	\$ 1,704	\$ 1,534
Total liabilities	1,896	1,674	1,804	1,469
Book value of investment	120	2	82	118

Revenues

Our revenues (representing OPC's revenues) increased by \$41 million to \$365 million for the year ended December 31, 2017 from \$324 million for the year ended December 31, 2016. As OPC's revenues are denominated in NIS, translation of its revenues to U.S. Dollars had a positive impact of \$21 million. Excluding the impact of fluctuations in the U.S. Dollar to NIS exchange rate on the translation of OPC's results from NIS into U.S. Dollars, revenues increased by \$20 million, primarily as a result of (i) a \$17 million increase due to the higher electricity tariffs in 2017 as compared to 2016 and increased volume of sales to private customers and (ii) \$3 million collected from customers for sales in prior periods, which payments had been delayed due to a delay in availability of relevant data.

Cost of Sales and Services (excluding Depreciation and Amortization)

Our cost of sales (representing OPC's cost of sales) increased by \$16 million to \$267 million for the year ended December 31, 2017, as compared to \$251 million for the year ended December 31, 2016. Translation of OPC's cost of sales to US Dollars increased its cost of sales by \$16 million. Excluding the impact of exchange rate fluctuations on the translation of OPC's cost of sales from NIS into US Dollars, cost of sales decreased by \$1 million, primarily as a result of (i) a \$9 million decrease in energy purchases due to the increased availability of the OPC-Rotem station (in 2016 the OPC-Rotem power plant incurred a scheduled major maintenance) and (ii) a \$4 million decrease in gas costs, as the gas price is indexed to the US Dollar (this impact was partially offset by higher quantities of gas purchased in 2017). These effects were partially offset by a \$11 million increase in payments to IEC due to the increase in infrastructure and system cost rates and \$1 million in payments made to IEC in connection with payments made for prior periods which had been delayed due to a delay in availability of relevant data.

Depreciation and Amortization

Our depreciation and amortization expenses (representing OPC's depreciation and amortization expenses) increased by \$4 million to \$31 million for the year ended December 31, 2017 from \$27 million for the year ended December 31, 2016. Excluding the impact of fluctuations in the U.S. Dollar to NIS exchange rate on the translation of OPC's results from NIS into U.S. Dollars, depreciation and amortization expenses increased by 6%, primarily as a result of maintenance work that was carried out earlier than scheduled, which increased the amounts of fixed assets and accordingly depreciation.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist of payroll and related expenses, bad/doubtful debts, depreciation and amortization, and other expenses. Our selling, general and administrative expenses (excluding depreciation and amortization) increased to approximately \$56 million for the year ended December 31, 2017, compared to \$47 million for the year ended December 31, 2016. This increase was primarily driven by (i) OPC's selling, general and administrative expenses (as discussed below) and (ii) approximately \$6 million in additional payroll and professional fees incurred at the Kenon level in connection with the disposal of the Inkia business, the partial disposal of Qoros and related restructuring of remaining Kenon entities.

OPC's selling, general and administrative expenses increased by \$3 million, or 46%, to \$11 million for the year ended December 31, 2017 from \$8 million for the year ended December 31, 2016. Excluding the impact of fluctuations in the U.S. Dollar to NIS exchange rate on the translation of OPC's results from NIS into U.S. Dollars, OPC's selling, general and administrative expenses increased by 37%, primarily as a result of (i) a \$2 million increase in payroll and directors' fees and a one-off grant and (ii) a \$1 million increase in professional and legal service fees in 2017.

Impairment of Assets and Investments

In 2016, Kenon recognized an impairment loss of \$72 million with respect to its investment in ZIM in 2016. Kenon conducted the impairment test as a result of conditions in the container shipping market during 2016.

In 2017, Kenon did not recognize any impairment of its investments. However, as a result of improved operating conditions at ZIM throughout 2017, Kenon conducted another impairment analysis as of December 31, 2017. The analysis concluded that Kenon should reverse \$29 million of the impairment recognized in 2016.

Financing Expenses, Net

Our financing expenses, net, increased by \$27 million, or 68%, to \$67 million for the year ended December 31, 2017, compared to \$40 million for the year ended December 31, 2016. This increase was primarily driven by the increase in OPC's financing expenses, net (as described below).

OPC's financing expenses, net increased by approximately \$13 million to \$33 million in 2017 from \$20 million in 2016, primarily as a result of (i) a \$6 million early payment (make-whole) fee incurred as a result of the early repayment in full of OPC's mezzanine loan in May 2017, (ii) a \$3 million increase in financing expenses relating to OPC's August 2017 bond issuance (iii) a \$3 million increase due to impact of exchange rate fluctuations, and (iv) a \$1 million increase in expenses as a result of fluctuations in the CPI.

Provision of Financial Guarantee

We recorded a provision of financial guarantee in the amount of \$130 million in the year ended December 31, 2016. In light of Kenon's strategy and Qoros' limited liquidity as of June 30, 2016, Kenon increased its previously recorded liability of \$30 million to \$160 million in respect of Kenon's back-to-back guarantee obligations to Chery. For further information on Kenon's back-to-back guarantee obligations to Chery, including Kenon's agreement to fund shareholder loans to Qoros in connection with the full release of Kenon's obligations under its back-to-back guarantees to Chery, see "*Item 5.B Liquidity and Capital Resources—Kenon's Liquidity and Capital Resources—Kenon's Commitments and Obligations—Back-to-Back Guarantees Provided to Chery.*"

We did not record on our income statement any further provision of financial guarantee in the year ended December 31, 2017. In 2017, Kenon reduced its previously recorded liability in respect of Kenon's back-to-back guarantee obligations to Chery to \$44 million by providing additional shareholder loans to Qoros on behalf of Chery.

Share In Income (Losses) of Associated Companies, Net of Tax

Our share in losses of associated companies, net of tax decreased by 40% to approximately \$111 million for the year ended December 31, 2017, compared to approximately \$186 million for the year ended December 31, 2016. Set forth below is a discussion of income (losses) for our material associated companies and the share in income (losses) of associated companies, net of tax.

Qoros

Our share in Qoros' comprehensive loss decreased to approximately \$121 million for the year ended December 31, 2017, compared to losses of approximately \$143 million for the year ended December 31, 2016. Although we now have a 24% equity interest in Qoros, we held a 50% stake in Qoros prior to the Majority Shareholder Qoros' investment in 2018 and therefore recognized 50% of the net loss of Qoros in 2017 (RMB1,612 million) and 2016 (RMB1,897 million). A discussion of Qoros' results of operations (on a 100% basis; Kenon's share is 24%) for 2017 and 2016 is set forth below.

Qoros' revenues decreased by 25% to RMB1,886 million in 2017, as compared to RMB2,512 million in 2016. Qoros' decreased revenues in 2017 reflect an approximately 38% decrease in car sales from approximately 24,000 cars in 2016 to approximately 15,000 cars in 2017.

Qoros' cost of sales decreased by 25% to RMB2,262 million in 2017, as compared to RMB3,009 million in 2016. The decrease in cost of sales is primarily due to the decrease in the number of cars sold, as well as a decrease in depreciation and amortization to RMB615 million in 2017, as compared to RMB659 million in 2016.

Qoros' research and development expenses increased by 58% to RMB322 million in 2017, as compared to RMB204 million in 2016, reflecting increased expenses incurred for the research and development activities of a Qoros car model.

Qoros' selling, general and administrative expenses decreased by 21% to RMB605 million in 2017, as compared to RMB763 million in 2016. The decrease reflects a reduction in advertising, marketing and promoting and consulting fees.

Primarily as a result of the foregoing, Qoros' loss decreased to RMB1.6 billion for the year ended December 31, 2017, as compared to RMB1.9 billion for the year ended December 31, 2016.

ZIM

Pursuant to the equity method of accounting, our share in ZIM's results of operations was income of approximately \$10 million and loss of \$48 million for the year ended December 31, 2017 and 2016, respectively. Set forth below is a summary of ZIM's consolidated results for the year ended December 31, 2017 and 2016:

	Year Ended December 31,	
	2017	2016
	<i>(in millions of USD)</i>	
Sales	\$ 2,978	\$ 2,539
Cost of sales	2,697	2,480
Gross profit	281	59
Operating profit (loss)	135	(52)
Profit (loss) before taxes on income	25	(145)
Taxes on income	(14)	(19)
Profit (loss) after taxes on income	11	(164)
Profit (loss) for the period	\$ 11	\$ (164)

ZIM carried approximately 2,629 thousand TEUs in 2017, representing an 8% increase as compared to 2016, in which ZIM carried approximately 2,429 thousand TEUs. The average freight rate per TEU in 2017 was 995 thousand TEUs, as compared to 902 thousand TEUs in 2016. ZIM's revenues increased by 17% in 2017 to approximately \$3.0 billion, as compared to approximately \$2.5 billion in 2016, due to the increase in carried quantities, as well as the increase in industry container freight rates. ZIM's operating expenses and cost of services increased by 9% to approximately \$2.6 billion, as compared to approximately \$2.4 billion in 2016, primarily as a result of an increase in cargo handling expenses, as well as an increase in bunker prices.

ZIM publishes its results on its website. For more information, see www.ZIM.com. This website, and any information referenced therein, is not incorporated by reference herein.

Tax Expenses

Our taxes on income increased by \$71 million to \$73 million for the year ended December 31, 2017 from \$2 million for the year ended December 31, 2016. This increase was primarily driven by approximately \$63 million in tax expenses incurred in connection with a planned restructuring of some of the companies remaining in the Kenon group, which will simplify the holding structure. There was also an increase in OPC's tax expenses (as described below).

OPC's tax expenses increased to \$9 million for the year ended December 31, 2017, as compared to \$66 thousand for the year ended December 31, 2016, primarily as a result of lower tax on income reported in 2016 due to the reduction in corporate tax rates in 2016, which reduced deferred tax liabilities.

Net Income For the Year From Discontinued Operations (After Taxes)

Our net income for the year ended December 31, 2017 from discontinued operations (after taxes) is comprised of the results of the Inkia Business and the gain on disposal of the Inkia Business.

Revenues for 2017 from discontinued operations increased to approximately \$1,777 million for the year ended December 31, 2017, compared to approximately \$1,517 million for the year ended December 31, 2016.

Operating income for 2017 from discontinued operations increased to approximately \$152 million for the year ended December 31, 2017, compared to approximately \$92 million for the year ended December 31, 2016.

Our net income for 2017 from discontinued operations (after taxes) increased to approximately \$79 million for the year ended December 31, 2017, compared to approximately \$35 million for the year ended December 31, 2016.

Our 2017 results attributable to discontinued operations includes a net gain (after tax) on the sale of discontinued operations of \$397 million.

For more information on discontinued operations, see Note 27 to our financial statements included in this annual report.

Profit (Loss) For the Year

As a result of the above, our profit for the year amounted to \$269 million for the year ended December 31, 2017, compared to a loss of \$394 million for the year ended December 31, 2016.

B. Liquidity and Capital Resources

Kenon's Liquidity and Capital Resources

As of December 31, 2018, Kenon had approximately \$38 million in cash on an unconsolidated basis and no material gross debt.

In 2018, we distributed a total of \$765 million to our shareholders via a return of capital and a dividend.

Under its dividend policy, OPC has stated that it intends to issue a dividend of 50% net income. The issuance of dividends is subject to board of directors discretion. In 2019, OPC declared a dividend of NIS 36 million (approximately \$10 million).

We believe that Kenon's working capital (on a stand-alone basis) is sufficient for its present requirements. Our principal needs for liquidity are expenses related to our day-to-day operations. We may also incur expenditures related to investments in our businesses, our back-to-back guarantees to Chery with respect to Qoros' indebtedness and expenses we may incur in connection with legal claims and other rights we retained in connection with the sale of the Inkia Business. Our businesses are at various stages of development, ranging from early stage companies to established, cash generating businesses, and some of these businesses will require significant financing, via equity contributions or debt facilities, to further their development, execute their current business plans, and become or remain fully-funded. We may, in furtherance of the development of our businesses, make further investments, via debt or equity financings, in our remaining businesses.

As of December 31, 2018, Kenon has outstanding guarantee obligations to Chery of RMB288 million, with respect to Qoros' debt in principal of RMB320 million.

In connection with Kenon's sale of its Inkia Business, Kenon has given a three-year guarantee of Inkia's indemnification obligations to the buyer of the Inkia Business. For further information, see "*Item 4.B Business Overview—Discontinued Operations – Inkia Business—Sale of the Inkia Business—Kenon Guarantee.*"

Kenon may not have sufficient liquidity to satisfy payment obligations under the guarantees described above. In the event that Kenon is required to make such payments, it would need to obtain such funds from its businesses, which may include OPC (via dividends, loans or advances, or the repayment of loans or advances to us, which may be funded by sales of assets or minority interests in our businesses), or obtain external financing, which may result in dilution of shareholders (in the event of equity financing) or additional debt obligations for the company (in the event of debt financing).

We intend to adhere to our capital allocation principles which seek to limit cross-allocation of funds and capital contributions to our businesses, via debt or equity financings or the provisions of guarantees. Nevertheless, the cash resources on Kenon's balance sheet may not be sufficient to fund additional investments that we deem appropriate in our businesses or meet our guarantee obligations. As a result, Kenon may seek additional liquidity from its businesses. For a description of our capital allocation principles, see "*Item 4.B Business Overview.*" For further information on the risks related to the significant capital requirements of our businesses, see "*Item 3.D Risk Factors—Risks Related to Our Strategy and Operations—Some of our businesses have significant capital requirements.*"

Consolidated Cash Flow Statement

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Cash and cash equivalents decreased to approximately \$131 million for the year ended December 31, 2018, as compared to approximately \$1,417 million for the year ended December 31, 2017, primarily as a result of (i) the \$665 million capital reduction in March 2018, (ii) the \$100 million dividend paid in December 2018 and (iii) the repayment of loans totaling \$418 million during the year. The following table sets forth our summary cash flows from our operating, investing and financing activities for the years ended December 31, 2018 and 2017:

	Year Ended December 31,	
	2018	2017¹
	<i>(in millions of USD)</i>	
Continuing operations		
Net cash flows provided by operating activities		
OPC	86	114
Adjustments and Other	(34)	(42)
Total	52	72
Net cash flows provided by / (used in) investing activities	42	(232)
Net cash flows (used in) / provided by financing activities	(1,217)	200
Net change in cash from continuing operations	(1,123)	40
Net change in cash from discontinued operations	(155)	1,033
Cash—opening balance	1,417	327
Effect of exchange rate fluctuations on balances of cash and cash equivalents	(8)	17
Cash—closing balance	\$ 131	\$ 1,417

(1) Results reflect the results of the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.

Cash Flows Provided by Operating Activities

Net cash flows from operating activities decreased to \$52 million for the year ended December 31, 2018 compared to \$72 million for the year ended December 31, 2017. The decrease is primarily explained by the decrease in OPC's cash provided by operating activities as discussed below.

Cash flows provided by OPC's operating activities decreased to \$86 million for the year ended December 31, 2018 from \$114 million for the year ended December 31, 2017, primarily as a result of a decrease in working capital mainly as a result of higher gas payments in 2018 due to timing differences.

Cash Flows Provided by / (Used in) Investing Activities

Net cash flows provided by our investing activities increased to approximately \$42 million for the year ended December 31, 2018, compared to cash flows used in investing activities of approximately \$232 million for the year ended December 31, 2017. This increase was primarily driven by proceeds from the Qoros transaction of \$188 million and reduced outflows from OPC's investing activities as described below.

Cash flows used in OPC's investing activities decreased to \$102 million for the year ended December 31, 2018 from \$158 million for the year ended December 31, 2017, primarily as a result of \$29 million higher deposits into restricted cash in 2017 related to debt service funds and assurance of guarantees and \$38 million higher investments at OPC-Rotem and OPC-Hadera in 2017.

Cash Flows (Used in) / Provided by Financing Activities

Net cash flows used in financing activities of our consolidated businesses was approximately \$1,217 million for the year ended December 31, 2018, compared to cash flows provided by financing activities of approximately \$200 million for the year ended December 31, 2017. The net outflow in 2018 is primarily explained by (i) the \$665 million capital reduction in March 2018, (ii) the \$100 million dividend paid in December 2018, (iii) the repayment of loans totaling \$418 million in the year and the decrease in OPC cash flows provided by financing activities as described below.

Cash flows used in OPC's financing activities decreased to \$34 million for the year ended December 31, 2018, as compared to \$163 million provided by OPC's financing activities for the year ended December 31, 2017, primarily as a result of \$100 million proceeds from issuance of shares in 2017 and \$88 million proceeds from the issuance of debentures in 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Cash and cash equivalents increased to approximately \$1,417 million for the year ended December 31, 2017, as compared to approximately \$327 million for the year ended December 31, 2016, primarily as a result of our receipt of the proceeds from the sale of the Inkia Business in December 2017. The following table sets forth our summary cash flows from our operating, investing and financing activities for the years ended December 31, 2017 and 2016:

	Year Ended December 31,	
	2017 ¹	2016 ²
	<i>(in millions of USD)</i>	
Continuing operations		
Net cash flows used in operating activities		
OPC	114	25
Adjustments and Other	(42)	(39)
Total	72	(14)
Net cash flows used in investing activities	(232)	(99)
Net cash flows provided by financing activities	200	149
Net change in cash from continuing operations	40	36
Net change in cash from discontinued operations	1,033	(99)
Cash—opening balance	327	384
Effect of exchange rate fluctuations on balances of cash and cash equivalents	17	6
Cash—closing balance	\$ 1,417	\$ 327

- (1) Results reflect the results of the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.
- (2) Results during this period have been reclassified to reflect the results of the Inkia Business as discontinued operations. For further information, see Note 27 to our financial statements included in this annual report.

Cash Flows Provided by / (Used in) Operating Activities

Net cash flows provided by operating activities increased to \$72 million for the year ended December 31, 2017 compared to \$14 million net cash flows used in operating activities for the year ended December 31, 2016. The increase is primarily explained by the increase in OPC's cash provided by operating activities as discussed below.

Cash flows provided by OPC's operating activities increased to \$114 million for the year ended December 31, 2017 from \$25 million for the year ended December 31, 2016, primarily as a result of (i) a one-off payment of \$43 million in system management costs that was made in 2016, (ii) an \$18 million increase in working capital and (iii) the increase in the company's revenues.

Cash Flows Used in Investing Activities

Net cash flows used in our investing activities increased to approximately \$232 million for the year ended December 31, 2017, compared to approximately \$99 million for the year ended December 31, 2016. This increase was primarily driven OPC's investing activities as described below.

Cash flows used in OPC's investing activities increased to \$158 million for the year ended December 31, 2017 from \$19 million for the year ended December 31, 2016, primarily as a result of (i) the increase in the amount of fixed assets purchased, primarily due to a \$39 million additional investment in the Hadera project (ii) a \$21 million deposit into a trust account in relation to the agreement with the Tamar Group, (iii) \$21 million contributed in relation to corporate guarantees, (iv) a \$7 million increase in restricted cash in respect of guarantees issued by OPC-Rotem and OPC-Hadera in 2017 and (v) a \$50 million release of restricted cash in 2016 due to the partial prepayment of the mezzanine loan.

Cash Flows Provided by Financing Activities

Net cash flows provided by the financing activities of our consolidated businesses increased by 34% to approximately \$200 million for the year ended December 31, 2017, compared to approximately \$149 million for the year ended December 31, 2016. This increase was primarily driven by OPC's financing activities as described below.

Cash flows provided by OPC's financing activities increased by \$59 million, or 57%, to \$163 million for the year ended December 31, 2017, as compared to \$104 million provided by OPC's financing activities for the year ended December 31, 2016, primarily as a result of contributions of (i) \$100 million in proceeds from OPC's IPO, (ii) \$88 million in proceeds from OPC's bond issuance, (iii) \$137 million from the drawdown of loans relating to the Hadera project and (iv) a \$39 million decrease in the amount of dividends distributed in 2017 as compared to 2016. These effects were partially offset by OPC's debt repayments in the total amount of \$140 million in relation to its mezzanine loan, parent company loan, current portion of long-term debt and reconciliation of intercompany debt, as compared to \$51 million debt repayments in 2016.

Net Change in Cash from Discontinued Operations

Net change in cash from discontinued operations in 2017 includes approximately \$793 million net cash inflows resulting from the sale of the Inkia Business.

Kenon's Commitments and Obligations

As of December 31, 2018, Kenon had consolidated liabilities of \$739 million, primarily consisting of OPC liabilities.

In addition, Kenon has obligations under its back-to-back guarantees provided by it to Chery, which amounted to RMB288 million, with respect to debt in principal of RMB320 million, plus interest and certain fees. For further information on, and an overview of, the guarantees provided by Kenon in respect of Qoros' debt, see "*— Back-to-Back Guarantees Provided to Chery .*"

Other than the back-to-back guarantees we have provided to Chery in respect of certain of Qoros' indebtedness, and loans from subsidiaries, at the Kenon level, we have no outstanding indebtedness or financial obligations and are not party to any credit facilities or other committed sources of external financing. Kenon has given a three year guarantee of Inkia's indemnity obligations under the share purchase agreement for the sale of the Inkia Business.

Set forth below is a summary of these obligations.

Back-to-Back Guarantees Provided to Chery

Kenon provided back-to-back guarantees to Chery in respect of certain of Qoros' RMB3 billion EXIM bank credit facility and its RMB700 million EXIM bank loan facilities.

In 2016 and 2017, Kenon entered into agreements with Chery to provide financing to Qoros in connection with a release of Kenon's back-to-back guarantee obligations to Chery (which were RMB850 million as of December 31, 2016). Pursuant to these agreements, during 2017, Kenon funded shareholder loans of RMB488 million (of which RMB244 million was advanced on behalf of Chery) to Qoros, reducing Kenon's back-to-back guarantee obligations to Chery from RMB850 million to RMB320 million, with respect to debt in principal of RMB288 million.

In 2018, the Majority Shareholder in Qoros acquired 51% of Qoros from Wuhu Chery and Kenon. As a result, Kenon's stake was reduced to 24% stake, with the 51% controlling interest owned by the Majority Shareholder in Qoros and the remaining 25% interest owned by Wuhu Chery. The Majority Shareholder in Qoros was required to assume its share of Qoros bank guarantee obligations, which reduced Kenon's back-to-back guarantee obligations.

As of December 31, 2018, the outstanding amount of these back-to-back guarantees was RMB288 million (plus certain interest and fees), with respect to debt in principal of RMB320 million.

The following discussion sets forth the liquidity and capital resources of each of our businesses.

OPC's Liquidity and Capital Resources

As of December 31, 2018, OPC had cash and cash equivalents of \$88 million. OPC's total outstanding consolidated indebtedness was \$587 million as of December 31, 2018.

OPC's principal sources of liquidity have traditionally consisted of cash flows from operating activities, short- and long-term borrowings, OPC's bond issuance and OPC's 2017 initial public offering.

In addition, OPC is limited in usage of certain deposits and cash, with such restricted deposits and cash constituting an aggregate amount of \$98 million and \$76 million as of December 31, 2018 and 2017, respectively.

OPC's principal needs for liquidity generally consist of capital expenditures related to the development and construction of generation projects (including OPC-Hadera, Tzomet and other projects OPC may pursue), capital expenditures relating to maintenance (e.g., maintenance and diesel inventory), working capital requirements (e.g., maintenance costs that extend the useful life of OPC's plants) and other operating expenses. OPC believes that its liquidity is sufficient to cover its working capital needs in the ordinary course of OPC's business.

OPC's Material Indebtedness

As of December 31, 2018, OPC had cash and cash equivalents of \$88 million, deposits and restricted cash of \$98 million, and total outstanding consolidated indebtedness of \$587 million, consisting of \$23 million of short-term indebtedness, including the current portion of long-term indebtedness, and \$564 million of long-term indebtedness. All of OPC's debt is denominated in NIS.

The following table sets forth selected information regarding OPC's principal outstanding short-term and long-term debt, as of December 31, 2018:

	Outstanding Principal Amount as of December 31, 2018	Interest Rate	Final Maturity	Amortization Schedule
	(\$ millions)			
OPC-Rotem:				
Financing agreement ¹	336	4.9%-5.4%, CPI linked	June 2031	Quarterly principal payments to maturity
OPC-Hadera:				
Financing agreement ²	172	3.4%-3.9%, CPI linked (2/3 of the loan) 4.8%-5.4% (1/3 of the loan)	18 years from commercial operations date of Hadera power plant	Quarterly principal payments to maturity, commencing 6 months following commercial operations of Hadera power plant
OPC:				
Bonds ³	79	4.45% (commencing from the date of registration for trading on the stock exchange)	December 2030	Semi-annual principal payments to maturity
Total	587			

(1) Represents NIS 1,259 million converted into U.S. Dollars at the exchange rate for NIS into U.S. Dollars of NIS 3.748 to \$1.00. All debt has been issued in Israeli currency (NIS) linked to CPI.

(2) Represents NIS 644 million converted into U.S. Dollars at the exchange rate for NIS into U.S. Dollars of NIS 3.748 to \$1.00. All debt has been issued in Israeli currency (NIS), of which 2/3 is linked to CPI and 1/3 is not linked to CPI.

(3) Represents NIS 294 million converted into U.S. Dollars at the exchange rate for NIS into U.S. Dollars of NIS 3.748 to \$1.00. All debt has been issued in Israeli currency (NIS) and is not linked to CPI.

The debt instruments to which OPC and its operating companies are party to require compliance with financial covenants. Under each of these debt instruments, the creditor has the right to accelerate the debt or restrict the company from declaring and paying dividends if, at the end of any applicable period the applicable entity is not in compliance with the defined financial covenants ratios.

The instruments governing a substantial portion of the indebtedness of OPC operating companies contain clauses that would prohibit these companies from paying dividends or making other distributions in the event that the relevant entity was in default on its obligations under the relevant instrument.

For further information on OPC's financing arrangements, see Note 15 to our financial statements included in this annual report.

OPC-Rotem Financing Agreement

In January 2011, OPC-Rotem entered into a financing agreement with a consortium of lenders led by Bank Leumi Le-Israel Ltd., or Bank Leumi, for the financing of its power plant project. As part of the financing agreement, the lenders committed to provide OPC-Rotem a long-term credit facility, including several types of lines of credit, in the overall amount of NIS 1,800 million (approximately \$474 million). Currently, there are two available lines of credit in the total amount of NIS21 million (approximately \$4 million) and a working capital line of credit. Furthermore, as part of the financing agreement, certain restrictions were provided with respect to distributions of dividends and repayments of OPC-Rotem's shareholders' loans, commencing from the third year after the completion of OPC-Rotem's power plant. The lock-up period prohibiting distributions ended in June 2015. The financing agreement contains additional restrictions and limitations, including:

- minimum liquidity, loan life coverage ratios and debt service coverage ratios covenants; and
- other non-financial covenants and limitations such as restrictions on asset sales, pledges investments and incurrence of debt, as well as reporting obligations

The loans are CPI-linked and are repayable on a quarterly basis beginning in the fourth quarter of 2013 until 2031.

OPC-Rotem created a guarantee reserve account in the amount of NIS57.5 million (approximately \$15 million). As of December 31, 2018, the guarantee reserve account balance is NIS39 million (approximately \$10 million) and NIS 18.5 million must be deposited by December 2019. OPC and Veridis issued corporate guarantees in favour of OPC-Rotem in the amount of NIS46 million (approximately \$12 million) and NIS11.5 million (approximately \$3 million), respectively. Upon deposit of the full guarantee reserve account amount, both OPC and Veridis shall be released from their corporate guarantees.

OPC-Hadera Financing

In July 2016, OPC-Hadera entered into a NIS 1 billion senior facility agreement with Israel Discount Bank Ltd. and Harel Company Ltd. to finance the construction of OPC-Hadera's power plant in Hadera. Pursuant to the agreement, the lenders undertook to provide OPC-Hadera with financing in several facilities (including a term loan facility, a standby facility, a debt service reserve amount, or DSRA, facility to finance the DSRA deposit, a guarantee facility to facilitate the issuance of bank guarantees to be issued to third parties, a VAT facility (for the construction period only)), a hedging facility (for the construction period only), and a working capital facility (for the operation period only).

In December 2017, Israel Discount Bank Ltd. assigned 43.5% of its share in the long-term credit facility (including the facility for variances in construction and related costs) to Clal Pension and Femel Ltd. and Atudot Pension Fund for Salaried and Self-employed Ltd.

Some of the loans under the facility agreement are CPI-linked, while others accrue interest at the rates specified in the relevant agreement. The loans will be repaid in quarterly installments according to repayment schedules specified in the agreement. The financing will mature 18 years after the commencement of repayments in accordance with the provisions of the agreement which will commence approximately half a year following the commencement of commercial operation of the OPC-Hadera plant.

In connection with the senior facility agreement, liens were placed on some of OPC-Hadera's existing and future assets and on certain OPC and OPC-Hadera rights, in favor of Israel Discount Bank Ltd., as collateral agent on behalf of the lenders. The senior facility agreement also contains certain restrictions and limitations, including:

- minimum liquidity, loan life coverage ratios and debt service coverage ratios covenants; and
- other non-financial covenants and limitations such as restrictions on dividend distributions, repayments of shareholder loans, asset sales, pledges investments and incurrence of debt, as well as reporting obligations.

As of December 31, 2018, following the full investment of the project's equity contribution, OPC-Hadera has made drawings in the aggregate amount of NIS 616 million (approximately \$164 million) under the NIS 1 billion loan agreement relating to the project.

OPC Bonds

In May 2017, OPC issued Bonds (Series A) to classified investors under a private placement, which were listed for trade on the Institutional Continuous Trading Platform. The bonds, with a par value of NIS 320 million (approximately \$85 million), bear annual interest at the rate of 4.95% and are repayable, interest and a portion of principal, every six months, commencing on June 30, 2018 (on June 30th and December 30th of every calendar year) through December 30, 2030. The outstanding principal amount as of December 31, 2018 is NIS 294 million. Under the terms, the interest on the bonds will be reduced by 0.5% in the event of their listing for trade on the main list of the TASE. The bonds have received a rating of A3 from Midroog and A- from S&P Global Ratings Maalot Ltd.

In August 2017, OPC listed the bonds for trade in the stock exchange in connection with an issuance and the listing of its shares for trade and accordingly, from that date, interest on the bonds (series A) was reduced by 0.5% and is 4.45% per year. According to the trust deed from May 2017, OPC has registered, in favor of the trustee on behalf of the bond holders, a first-ranking floating charge, unlimited in amount, on all of its assets. The floating charge will not preclude OPC from pledging specific assets and the performance of other asset dispositions by OPC.

Additionally, OPC has created a reserve for the servicing of the debt, out of the issuance consideration, in the amount of 18 months of interest up to the commencement of repayment of the principal of the bonds, and will pay 18 months of principal and interest payments subsequent to the commencement of the bonds' principal repayment (this period was originally 12 months, but was increased to 18 months following an amendment to the terms of the bonds through bondholder consent). The trust account in which the reserve was deposited will be pledged in favor of the trustee on behalf of the bond holders. As of December 31, 2018, the deposit for the debt service fund amounts to approximately NIS 47 million (approximately \$13 million).

The trust deed contains customary clauses for calling for the immediate redemption of the bonds, including events of breach, insolvency, liquidation proceedings, receivership, stay of proceedings and creditors' arrangements, certain types of restructuring, material downturn in the position of OPC. The bondholders' right to call for immediate redemption also arises upon: (1) the occurrence of certain events of loss of control by Kenon; (2) the call for immediate repayment of other debts (or guarantees) of OPC or of OPC-Hadera or OPC-Rotem in certain predefined minimum amounts; (3) a change in the area of operation of OPC such that OPC's main area of activity is not in the energy sector in Israel, including electricity generation in power plants and with renewable energy sources; (4) in the event that a rating is discontinued over a certain period of time, and the rating of the bond falls below the level of Baa3 (or BBB); and (5) in the event of suspending trading for a certain time period if the bonds are listed for trade on the main list of the stock exchange.

Furthermore, the trust deed includes an undertaking by OPC to comply with covenants on the basis of its stand-alone financial statements: debt coverage ratio of at least 1.05 (to be reviewed commencing in the financial statements as at June 30, 2018), minimum equity of NIS 80 million (approximately \$21 million) and an equity-to-balance sheet ratio of at least 12.5%. As at December 31, 2018, the equity attributed to OPC's shareholders amounted to approximately NIS 678 million (approximately \$181 million) and the equity-to-balance sheet ratio was 70%.

The trust deed also includes an undertaking by OPC to monitor the rating by a rating agency and for mandatory early redemption in the event of the sale of means of control in OPC-Rotem and OPC-Hadera.

Additionally, restrictions imposed on distributions, provision of loans to related parties and repayment of loans to related parties, are included as set forth in the trust deed, including compliance with certain covenants.

The terms of the bonds also provide for the possible raising of the interest rate in certain cases of lowering the rating, in certain cases of breach of financial covenants, and in certain cases of use of the reserve for servicing the debt where the reserve is not sufficiently funded within the time frame that is set forth in the trust deed. The ability of OPC to expand the series of the bonds has been limited under certain circumstances, including maintaining the rating of the bonds at its level shortly prior to the expansion of the series and the lack of breach.

Additionally, should OPC raise additional bonds that are not secured (or that are secured with a *pari passu* ranking floating charge), these will not have preference over the bonds (Series A) upon liquidation.

Qoros' Liquidity and Capital Resources

Qoros' cash and cash equivalents was RMB1,024 million as of December 31, 2018, compared to approximately RMB77 million as of December 31, 2017. We have a 24% equity interest in Qoros and, and we do not exercise control over Qoros' cash and cash equivalents.

Qoros' principal sources of liquidity are cash flows from car sales, cash inflows received from financing activities, including long-term loans, short-term facilities and capital contributions (in the form of equity contributions or shareholder loans). Qoros has fully utilized its RMB3 billion syndicated credit facility, RMB1.2 billion syndicated credit facility and its RMB700 million credit facility, and may require additional financing, including the renewal or refinancing of its working capital facilities, to fund its development and operations.

Qoros has historically relied upon shareholder funding as well as bank facilities supported by guarantees and pledges from its shareholders to fund its development and operations. The increase in vehicle sales in 2018 has significantly increased cash flows from operations.

As of December 31, 2018, Qoros had total loans and borrowings of RMB5.1 billion and current liabilities of RMB6.5 billion largely made up of trade and other payables, and current assets of RMB5.0 billion, including significant trade receivables from our largest customer. See "*Item 3.D. Risk Factors—Risk Factors Related to Our Interest in Qoros—Qoros sells a majority of its vehicles to a single purchaser.*" Qoros uses a portion of its liquidity to make debt service payments. Qoros has been required to make amortizing principal payments on its RMB3 billion, RMB1.2 billion and RMB700 million facilities since 2018 and the repayment requirements will increase significantly in 2019 and in future years.

Although the 2018 investment in Qoros by the Majority Shareholder in Qoros has improved Qoros' liquidity position, Qoros will require additional liquidity and will continue to manage its trade payables, accrued expenses and other operating expenses in connection with the management of its liquidity requirements and resources. For further information on the risks related to the effect of Qoros' liquidity situation on its relationship with its suppliers, see "*Item 3.D. Risk Factors—Risk Factors Related to Our Interest in Qoros—Qoros is dependent upon its suppliers.*"

Until Qoros achieves significantly higher levels of sales, Qoros will need to secure additional financing to meet its operating expenses (including accounts payable) and debt service requirements. If Qoros is not able to raise additional financing as required, it may be unable to continue operations, and Kenon may be required to make payments under its back-to-back guarantees to Chery in respect of Qoros' bank debt and pledges over Qoros shares by Quantum (Kenon's subsidiary which owns Kenon's interest in Qoros) may be enforced.

Alternatively, the Majority Shareholder in Qoros (or its related entities), Chery or other investors, may choose to make additional investments in Qoros (without a corresponding Kenon investment) which may result in a dilution of Kenon's interest. For information on the risks related to Qoros' liquidity, see "*Item 3.D Risk Factors—Risks Related to Our Interest in Qoros—Qoros depends on funding to further its development and, until it achieves significant sales levels, to meet its operating expenses, financing expenses, and capital expenditures.*"

Material Indebtedness

As of December 31, 2018, Qoros had total loans and borrowings of RMB5.1 billion, consisting of non-current loans and borrowings of RMB3.3 billion and current loans and borrowings of RMB1.7 million. Set forth below is a discussion of Qoros' material indebtedness.

RMB3 Billion Syndicated Credit Facility

On July 23, 2012, Qoros entered into a consortium financing agreement with a syndicate of banks for the ability to draw down loans, in either RMB or USD, up to an aggregate maximum principal amount of RMB3 billion. The RMB loans bear interest at the 5-year interest rate quoted by the People's Bank of China from time to time and the USD loans bear interest at LIBOR + 4.8% per annum. Outstanding loans are repayable within ten years from July 27, 2012, the first draw down date. The first and second scheduled repayment dates were in July 2015 and January 2016, respectively. Subsequent repayment dates occur every six months after the preceding repayment date. In July 2017, Qoros' lenders approved the rescheduling of principal payments under Qoros' RMB3 billion facility originally scheduled to be made in 2017 and 2018, with substantially all of the principal payments now scheduled to be made between 2019 and 2022.

Qoros' RMB/USD dual currency fixed rate credit facility is secured by Qoros' manufacturing facility, the land use right for the premises on which such manufacturing facility is located, and its equipment, and properties, and several guarantees, including a joint, but not several, guarantee from each of Chery and Changshu Port. Loans under this facility are severally guaranteed by (i) Changshu Port for up to 50% of amounts outstanding under this loan, or up to RMB1.5 billion, plus related interest and fees and (ii) Chery for up to 50% of amounts outstanding under this loan, or up to RMB1.5 billion, plus related interest and fees. Kenon has outstanding back-to-back guarantees to Chery of RMB288 million, with respect to debt in principal of RMB320 million, of which a portion is in respect of Chery's guarantee of this facility.

Qoros' syndicated credit facility contains financial, affirmative and negative covenants, events of default or mandatory prepayments for contractual breaches, including certain changes of control, and for material mergers and divestments, among other provisions. Although Qoros' debt-to-asset ratio is currently higher, and its current ratio is lower, than the allowable ratios set forth in the terms of the syndicated credit facility, in 2016, the lenders under Qoros' syndicated credit facility waived Qoros' compliance with the financial covenants under this facility through the first half of 2020. Should Qoros' debt-to-asset ratio continue to exceed, or its current ratio continue to be less than, the permitted ratios in any period after the waiver period, and Qoros' syndicated lenders do not waive such non-compliance or revise such covenants so as to ensure Qoros' compliance, Qoros' lenders could accelerate the repayment of borrowings due under Qoros' RMB3 billion syndicated credit facility.

As of December 31, 2018, the aggregate amount outstanding on this loan was approximately RMB2.5 billion.

RMB1.2 Billion Syndicated Credit Facility

In July 2014, Qoros entered into a consortium financing agreement with a syndicate of banks for the ability to draw loans, in either RMB or USD, up to an aggregate maximum principal amount of RMB1.2 billion for the research and development of C-platform derivative models. The RMB loans bear interest at the 5-year interest rate quoted by the People's Bank of China from time to time plus 10.0% of such quoted rate and the USD loans bear interest at LIBOR plus 5.0% of such rate per annum. Outstanding loans are repayable within ten years from August 19, 2014, the first draw down date. The first scheduled repayment was made in August 2017 with subsequent repayment dates occurring every six months after the preceding repayment date.

Up to 50% of the indebtedness incurred under this facility is secured by Quantum's pledge of substantially all of its shares in Qoros, including dividends deriving therefrom. The pledge agreement under which Quantum has pledged its equity interest in Qoros includes provisions setting forth, among other things, (i) minimum ratios relating to the value of Quantum's pledged securities, (ii) Quantum's ability to replace the pledge of its equity interest in Qoros with a pledge of cash collateral or to pledge cash collateral instead of pledging additional shares, representing up to 100% of Quantum's equity interest in Qoros, and (iii) the events (e.g., Qoros' default under the syndicated facility) that entitle the Chinese bank to enforce its lien on Quantum's equity interest. In the event that the value of Qoros' equity decreases and Quantum's shares of Qoros' equity is not sufficient to cover its proportionate stake of the pledge, Quantum has the option to provide additional collateral to secure the RMB1.2 billion facility. However, in the event that Quantum does not provide such additional collateral, the lenders under the facility may be entitled to sell some or all of Quantum's shares in Qoros.

In connection with Kenon's 2016 and 2017 funding of shareholder loans to Qoros, pursuant to which Kenon's back-to-back guarantee obligations to Chery were partially released, Quantum pledged equity in Qoros to Chery to secure the back-to-back guarantee reductions (i.e., if Chery is required to make payments on its guarantee of Qoros' debt, then to the extent that Chery makes payments that would have been reimbursed by Kenon but for the back-to-back guarantee reduction, Chery will be entitled to enforce this pledge). Chery may also borrow from Quantum some of Qoros' outstanding equity to meet its pledge obligations under the RMB1.2 billion credit facility. The number of Qoros shares pledged to Chery is subject to adjustment from time to time. In certain circumstances, Quantum must pledge additional shares (to the extent it has unencumbered shares) (e.g., if additional shares must be pledged under the credit facility), and in other circumstances the pledged shares may be released and the borrowed shares must be returned (e.g., in the event that Quantum is required to pledge additional shares to secure the RMB1.2 billion credit facility). The Majority Shareholder in Qoros is required to assume its pro rata share of the pledge obligations by shareholders of Qoros under this facility and is still in the process of assuming its proportionate pledge obligations.

The syndicated loan agreement includes covenants (including financial covenants) and events of default and acceleration provisions.

As of December 31, 2018, the aggregate principal amount outstanding on this loan was approximately RMB1.1 billion.

RMB700 Million Syndicated Credit Facility

In May 2015, Qoros entered into a RMB700 million facility with a bank consortium for the purpose of research and development into a hybrid electric vehicle. Under the facility, Qoros can draw down loans in either RMB or USD, up to an aggregate principal amount of RMB700 million. The loan agreement covers a period of 102 months starting in May 2015, and is secured by a guarantee by Chery and a pledge over Qoros' 90 vehicle patents. The RMB loan bears the 5-year interest rate quoted by the People's Bank of China +10%, and the USD loan bears interest of LIBOR+3.5% per annum. Qoros is required to make principal repayments under this facility beginning in 2018. The facility includes covenants and event of default provisions.

The RMB700 million is guaranteed by Chery. We provided a back-to-back guarantee to Chery in respect of this facility and also pledged shares to Chery.

As of December 31, 2018, the aggregate principal amount outstanding on this loan is RMB0.6 billion.

Working Capital Facilities

Qoros is party to various short-term and working capital facilities. As of December 31, 2018, the balance of these facilities was RMB856 million.

Qoros may require additional financing, including the renewal or refinancing of its working capital facilities. For further information on the risks related to Qoros' liquidity, see "*Item 3.D Risk Factors—Risks Related to Our Interest in Qoros—Qoros depends on funding to further its development and, until it achieves significant sales levels, to meet its operating expenses, financing expenses, and capital expenditures.*"

Shareholder Loans

As of December 31, 2018, Qoros had no outstanding shareholder loans.

ZIM's Liquidity and Capital Resources

As of December 31, 2018, ZIM had an aggregate amount of \$186 million in cash and cash equivalents, as compared to \$158 million of cash and cash equivalents as of December 31, 2017.

During the year ended December 31, 2018, ZIM generated \$225 million from operating activities, generated \$51 million from investing activities and used \$243 million in financing activities.

ZIM has a significant amount of debt and other liabilities. As of December 31, 2018, ZIM had approximately \$1.5 billion of outstanding loans and liabilities to be repaid between 2019 through 2030, of which \$292 million of principal (including short term borrowings and current maturities of long-term debt) is scheduled to be repaid during 2019.

ZIM expects to finance its short-term debt obligations and other liabilities through expected cash flow generation from operating activities, in addition to cash on hand. ZIM may also obtain funds from additional sources including debt issuance and/or other financing transactions and/or sale of assets and/or fund raising activities, including initial public offering or listing and/or re-finance its debt obligations by engaging potential new lenders and existing lenders in order to exchange existing maturities to debt vehicles with longer maturities.

Many of the financing agreements relating to ZIM's debt facilities contain covenants and limitations, including: (a) minimum liquidity, fixed charge coverage ratio and total leverage covenants; and (b) other non-financial covenants and limitations such as restrictions on dividend distribution, asset sales, investments and incurrence of debt, as well as various reporting obligations. During 2016, in light of the continued unfavorable container shipping market conditions, ZIM took various steps to address its liquidity and financial position, including by obtaining waivers from its creditors for compliance with certain financial covenants and deferring certain payments. ZIM obtained additional waivers from its creditors for compliance with certain covenants in July 2018 (except for the minimum liquidity requirement, which continues to apply) and is required to comply with these covenants beginning in March 2020, and repay the deferred amounts on a straight line basis, during a period of up to 36 months, ending on December 31, 2020.

ZIM is continuing to pursue strategies to improve ZIM's commercial and operational processes, and aims to reduce ZIM's operational expenses and improve ZIM's profitability. However, there is no assurance as to the extent of the effectiveness such activities or when, if at all, the results of such activities will be reflected in ZIM's liquidity and capital resources. For further information on the risks related to ZIM's liquidity, see " *Item 3.D Risk Factors—Risks Related to Our Other Businesses—Risks Related to our Interest in ZIM— ZIM is highly leveraged and may be unable to comply with its financial covenants or meet its debt service or other obligations.* "

Primus' Liquidity and Capital Resources

As of December 31, 2018, Primus had cash and cash equivalents of approximately \$1.3 million.

The implementation of Primus' business plan requires additional capital to enable Primus to continue to develop its commercial operations. Primus expects such funding to be provided by us either through capital contributions or shareholder loans, or to the extent Primus pursues projects, through contributions from strategic partners or debt financing. There is no certainty that additional financing will be provided to Primus.

Primus' principal liquidity requirements relate to its operating expenses and investments in various development projects. A lack, or delay, of financing could delay, or prevent completely, Primus' research and commercial development or result in its immediate liquidation or dissolution.

Primus continues to rely on Kenon to fund its operations. In connection with Primus' further development and our efforts to maximize its value, we may provide additional capital to Primus, in the form of debt or equity financing, if deemed appropriate to facilitate Primus' operational and development capital requirements. Through our wholly-owned subsidiary IC Green, we have provided Primus a total of \$43 million (including accrued interest) via a series of convertible notes through December 31, 2018. In 2018, we provided Primus \$7.0 million via convertible notes. In March 2019, we provided additional funding of \$1 million via a convertible note.

Material Indebtedness

Primus does not have any material indebtedness, other than related party indebtedness.

C. Research and Development, Patents and Licenses, Etc.

For a description of Qoros' research and development activities see " *Item 3.D Risk Factors—Risks Related to Our Interest in Qoros—Qoros faces certain risks relating to its business,* " " *Item 4.B Business Overview—Our Businesses—Qoros—Qoros' Description of Operations* " and " *Item 5.A Operating Results—Share In Income (Losses) of Associated Companies, Net of Tax—Qoros.* "

D. Trend Information

The following key trends contain forward-looking statements and should be read in conjunction with " *Special Note Regarding Forward-Looking Statements* " and " *Item 3.D Risk Factors* ." For further information on the recent developments of Kenon and our businesses, see " *Item 5. Operating and Financial Review and Prospects—Recent Developments.* "

Trend Information

OPC

In December 2018, the EA published the electricity tariffs for 2019, which included an increase of the EA's generation component tariff by approximately 3.3%. For further information, see " *Item. 5. Operating and Financial Review and Prospects—Material Factors Affecting Results of Operations—OPC—Sales—EA Tariffs.* "

OPC-Hadera is in the process of constructing a plant. Following delays in the plant's construction and operation, the plant is currently expected to reach COD in the third quarter of 2019. See " *Item 4.B Business Overview—OPC—OPC's Description of Operations—OPC-Hadera.* "

Qoros

Vehicle sales in China decreased in 2018 after many years of growth. Qoros' car sales in Q1 2019 decreased significantly as compared to Q1 2018, due to dealer inventory management and the slowdown in the Chinese economy and car industry.

In light of increased competition in the Chinese automotive market in recent years and the phase-out in 2018 of the purchase tax incentives for conventional vehicles, dealers and OEMs have offered customers a variety of inducements to purchase vehicles, including price reductions. In line with many of its competitors, Qoros offered various incentives for vehicle purchases, including price reductions. In 2018, dealers and OEMs continued to reduce prices and offer further inducements to purchase vehicles. Qoros expects the downward pressure on vehicle prices to continue for the next few years.

The central government and local governments in China have indicated that subsidies for NEV will be reduced in coming years which will inevitably increase the costs to the consumers, which may cause temporary pressure for the electric vehicle market.

In July 2020, the Chinese regulation on emissions will take effect, which will require that new models meet certain emission standards. This could impact the cost of producing vehicles and could impact the timing of purchases by consumers as well as inventories of vehicles that do not meet the standards.

ZIM

For further information on the conditions affecting the shipping industry, see “*Item 4.B Business Overview—Our Businesses—ZIM—ZIM’s Industry Update.*”

E. Off-Balance Sheet Arrangements

Neither Kenon nor any of its subsidiaries are party to off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth Kenon’s contractual obligations (including future interest payments) and commercial commitments as of December 31, 2018, which consist of OPC’s contractual obligations (including future interest payments) and commercial commitments:

	Payments Due by Period ¹				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
OPC’s consolidated contractual obligations					
Trade Payables	\$ 47	\$ 47	\$ —	\$ —	\$ —
Other payables	3	3	—	—	—
Bonds	104	7	12	31	54
Loans	697	39	56	166	436
Total contractual obligations and commitments	\$ 851	96	68	197	490

(1) Excludes Kenon’s back-to-back guarantees to Chery as well as obligations under agreement with capital provider relating to Peru BIT claim and guarantee of indemnity obligations under the sale agreement for the Inkia Business. For further information on other commitments, see Note 19 to our financial statements included in this annual report.

G. Safe Harbor

See “*Special Note Regarding Forward-Looking Statements.*”

ITEM 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Board of Directors

The following table sets forth information regarding our board of directors:

<u>Name</u>	<u>Age</u>	<u>Function</u>	<u>Original Appointment Date</u>	<u>Current Term Begins</u>	<u>Current Term Expires</u>
Antoine Bonnier	36	Board Member	2016	2018	2019
Laurence N. Charney	72	Chairman of the Audit Committee, Compensation Committee Member, Board Member	2016	2018	2019
Barak Cohen	37	Board Member	2018	2018	2019
Cyril Pierre-Jean Ducau	40	Chairman of the Board, Nominating and Corporate Governance Committee Chairman	2014	2018	2019
N. Scott Fine	62	Audit Committee Member, Compensation Committee Chairman, Board Member	2014	2018	2019
Bill Foo	61	Board Member, Nominating and Corporate Governance Committee Member	2017	2018	2019
Aviad Kaufman	48	Compensation Committee Member, Board Member, Nominating and Corporate Governance Committee Member	2014	2018	2019
Arunava Sen	58	Board Member, Audit Committee Member	2017	2018	2019

Our constitution provides that, unless otherwise determined by a general meeting, the minimum number of directors is five and the maximum number is 12.

Senior Management

<u>Name</u>	<u>Age</u>	<u>Position</u>
Robert L. Rosen	46	Chief Executive Officer
Mark Hasson	43	Chief Financial Officer

Biographies

Directors

Antoine Bonnier. Mr. Bonnier is currently a Managing Director of Quantum Pacific (UK) LLP and serves as a member of the board of directors of Club Atletico de Madrid SAD, and of Primus Green Energy, Inc., each of which may be associated with the same ultimate beneficiary, Mr. Idan Ofer. Mr. Bonnier was previously a member of the investment team of Quantum Pacific Advisory Limited from 2011 to 2012. Prior to joining Quantum Pacific Advisory Limited in 2011, Mr. Bonnier was an Associate in the Investment Banking Division of Morgan Stanley & Co. During his tenure there, from 2005 to 2011, he held various positions in the Capital Markets and Mergers and Acquisitions teams in London, Paris and Dubai. Mr. Bonnier graduated from ESCP Europe Business School and holds a Master of Science in Management.

Laurence N. Charney. Mr. Charney currently serves as the chairman of our audit committee. Mr. Charney retired from Ernst & Young LLP in June 2007, where, over the course of his more than 35-year career, he served as Senior Audit Partner, Practice Leader and Senior Advisor. Since his retirement from Ernst & Young, Mr. Charney has served as a business strategist and financial advisor to boards, senior management and investors of early stage ventures, private businesses and small to mid-cap public corporations across the consumer products, energy, high-tech/software, media/entertainment, and non-profit sectors. His most recent directorships also include board tenure with Marvel Entertainment, Inc. (through December 2009), Pacific Drilling S.A. (through November 19, 2018) and TG Therapeutics, Inc. (from March 2012 through the current date). Mr. Charney is a graduate of Hofstra University with a Bachelor's Degree in Business Administration (Accounting), and has also completed an Executive Master's program at Columbia University. Mr. Charney maintains active membership with the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Barak Cohen. Mr. Cohen is a Managing Director of Quantum Pacific (UK) LLP and a board member of OPC, Qoros and Inkia, each of which may be associated with the same ultimate beneficiary, Mr. Idan Ofer. In September 2018, Mr. Cohen was appointed to the board of directors of Kenon, having served as Co-CEO of Kenon till that time. Prior to serving as Kenon's Co-CEO, Mr. Cohen served as Kenon's Vice President of Business Development and Investor Relations from 2015 to September 2017. Prior to joining Kenon in 2015, Mr. Cohen worked in various capacities at Israel Corporation (IC) since 2008 most recently as Israel Corporation's Senior Director of Business Development and Investor Relations. IC is one of the largest Israeli based diversified holding companies with multibillion dollar asset base. Prior to joining Israel Corporation, Mr. Cohen held positions at Lehman Brothers (UK) and Ernst & Young (Israel). Mr. Cohen holds bachelor's degrees in Economics, summa cum laude, and Accounting & Management, magna cum laude, both from Tel Aviv University.

Cyril Pierre-Jean Ducau . Mr. Ducau is the Chief Executive Officer of Ansonia, and the Chief Executive Officer of Eastern Pacific Shipping Pte Ltd. He is a member of the board of directors of Ansonia and IC Power, as well as other private companies, each of which may be associated with the same ultimate beneficiary, Mr. Idan Ofer. He was previously Head of Business Development of Quantum Pacific Advisory Limited in London from 2008 to 2012 and acted as Director and Chairman of Pacific Drilling SA between 2011 and 2018. Prior to joining Quantum Pacific Advisory Limited, Mr. Ducau was Vice President in the Investment Banking Division of Morgan Stanley & Co. International Ltd. in London and, during his tenure there from 2000 to 2008, he held various positions in the Capital Markets, Leveraged Finance and Mergers and Acquisitions teams. Prior to that, Mr. Ducau gained experience in consultancy working for Arthur D. Little in Munich and investment management with Credit Agricole UI Private Equity in Paris. Mr. Ducau graduated from ESCP Europe Business School (Paris, Oxford, Berlin) and holds a Master of Science in business administration and a Diplom Kaufmann.

N. Scott Fine. Mr. Fine is the Chief Executive Officer and Chairman of CTD Holdings Inc., a biotechnology company focused on developing novel therapeutics based on cyclodextrin technologies. Mr. Fine has been involved in investment banking for over 35 years, working on a multitude of debt and equity financings, buy and sell side mergers and acquisitions, strategic advisory work and corporate restructurings. Much of his time has been focused on transactions in the healthcare and consumer products area, including time with The Tempo Group of Jakarta, Indonesia. Mr. Fine was the lead investment banker on the IPO of Keurig Green Mountain Coffee Roasters and Central European Distribution Corporation, or CEDC, a multi-billion-Dollar alcohol company. He was also involved in an Equity Strategic Alliance between Research Medical and the Tempo Group. Mr. Fine continued his involvement with CEDC, serving as a director from 1996 until 2014, during which time he led the CEDC Board's successful efforts in 2013 to restructure the company through a pre-packaged Chapter 11 process whereby CEDC was acquired by the Russian Standard alcohol group. He also served as sole director of Better Place Inc. from 2013 until 2015. In that role, Mr. Fine successfully managed the global wind down of the company in a timely and efficient manner which was approved by both the Delaware and Israeli courts. Mr. Fine devotes time to several non-profit organizations, including through his service on the Board of Trustees for the IWM American Air Museum in Britain. Mr. Fine has been a guest lecturer at Ohio State University's Moritz School of Law.

Bill Foo. Dr. Bill Foo is a director and corporate advisor of several private, listed and non-profit entities, including Mewah International Inc., CDL Hospitality Trusts, Tung Lok Restaurants (2000) Ltd., M&C REIT Management Ltd and chairing the Salvation Army and Heartware Network Youth Charity organizations. In May 2017, Dr. Foo was appointed to the board of directors of Kenon, having served as a director of IC Power between November 2015 and January 2018. Prior to his retirement, Dr. Foo worked in financial services for over 30 years, including serving as CEO of ANZ Singapore and South East Asia Head of Investment Banking for Schroders. Dr. Foo has also worked in various positions at Citibank and Bank of America and has been a director of several listed and government-related entities, including International Enterprise Singapore (Trade Agency), where he chaired the Audit Committee for several years. Dr. Foo has a Master's Degree in Business Administration from McGill University and a Bachelor of Business Administration from Concordia University and an honorary Doctor of Commerce from James Cook University Australia.

Aviad Kaufman . Mr. Kaufman is the Chief Executive Officer of Quantum Pacific (UK) LLP, the chairman of IC, a board member of Israel Chemicals Ltd., and other private companies, each of which may be associated with the same ultimate beneficiary, Mr. Idan Ofer. From 2008 until 2017, Mr. Kaufman served as Chief Financial Officer of Quantum Pacific (UK) LLP (and its predecessor Quantum Pacific Advisory Limited). From 2002 until 2007, Mr. Kaufman served as Director of International Taxation and fulfilled different senior corporate finance roles at Amdocs Ltd. Previously, Mr. Kaufman held various consultancy positions with KPMG. Mr. Kaufman is a certified public accountant and holds a Bachelor's Degree in Accounting and Economics from the Hebrew University in Jerusalem (with distinction), and a Master's of Business Administration in Finance from Tel Aviv University.

Arunava Sen. Mr. Sen is CEO and Managing Director of Coromandel Advisors Pte Ltd, a Singapore-based company that provides strategic and transactional advice to global investors in the infrastructure and clean energy sectors. In May 2017, Mr. Sen was appointed to the board of directors of Kenon, having served as a director of IC Power between November 2015 and January 2018. Between August 2010 and February 2015, Mr. Sen was CEO and Managing Director of Lanco Power International Pte Ltd, a Singapore-registered company focused on the development of power projects globally. Previously, Mr. Sen held several senior roles at Globeleq Ltd, a Houston-based power investment company, including COO, CEO—Latin America and CEO—Asia. In 1999, Mr. Sen cofounded and was COO of Hart Energy International, a Houston-based company that developed and invested in power businesses in Latin America and the Caribbean. Mr. Sen currently serves as a member of the investment committee of Armstrong Asset Management Pte Ltd. A qualified Chartered Accountant, Mr. Sen holds a B.Com. degree from the University of Calcutta and an M.S. degree in Finance from The American University in Washington, DC.

Senior Management

Robert Rosen . Mr. Rosen has served as CEO of Kenon since September 2017. Prior to becoming CEO, Mr. Rosen served as General Counsel of Kenon upon joining Kenon in 2014. Prior to joining Kenon in 2014, Mr. Rosen spent 15 years in private practice with top tier law firms, including Linklaters LLP and Milbank, Tweed, Hadley and McCloy LLP. During his time in private practice, Mr. Rosen was primarily involved in cross-border public and private capital markets offerings and other securities transactions, as well as with the purchase and sale of U.S. and international distressed assets, private equity investments and structured finance transactions. Mr. Rosen is admitted to the Bar in the state of New York, holds a Bachelor's degree with honors from Boston University and a JD and MBA, both from the University of Pittsburgh, where he graduated with high honors.

Mark Hasson . Mr. Hasson has served as Chief Financial Officer at Kenon since October 2017. Prior to this role, Mr. Hasson served as Vice President of Finance at Kenon. Prior to joining Kenon in 2017, Mr. Hasson served in various senior finance positions in Singapore and Australia. He holds a Bachelor's degree in Finance and Accounting from the University of Cape Town in South Africa and is a Chartered Accountant (Institute of Chartered Accountants in England and Wales).

B. Compensation

We pay our directors compensation for serving as directors, including per meeting fees.

For the year ended December 31, 2018, the aggregate compensation accrued (comprising remuneration and the aggregate fair market value of equity awards granted) for our directors and executive officers was approximately \$3 million.

For further information on Kenon's Share Incentive Plan 2014 and Share Option Plan 2014, see "*Item 6.E Share Ownership.*"

C. Board Practices

As a foreign private issuer, we are permitted to follow certain home country corporate governance practices instead of those otherwise required under the NYSE's rules for domestic U.S. issuers, provided that we disclose which requirements we are not following and describe the equivalent home country requirement.

We have elected to apply the corporate governance rules of the NYSE that are applicable to U.S. domestic registrants that are not "controlled" companies, except in the case of our nominating and governance committee, as one of the members of our nominating and corporate governance committee is non-independent under NYSE standards.

Board of Directors

Our constitution gives our board of directors general powers to manage our business. The board of directors, which consists of eight directors, oversees and provides policy guidance on our strategic and business planning processes, oversees the conduct of our business by senior management and is principally responsible for the succession planning for our key executives. Cyril Pierre-Jean Ducau serves as our Chairman.

Director Independence

Pursuant to the NYSE's listing standards, listed companies are required to have a majority of independent directors. Under the NYSE's listing standards, (i) a director employed by us or that has, or had, certain relationships with us during the last three years, cannot be deemed to be an independent director, and (ii) directors will qualify as independent only if our board of directors affirmatively determines that they have no material relationship with us, either directly or as a partner, shareholder or officer of an organization that has a relationship with either us or IC. Ownership of a significant amount of our shares, by itself, does not constitute a material relationship.

Although we are permitted to follow home country practice in lieu of the requirement to have a board of directors comprised of a majority of independent directors, we have determined that we are in compliance with this requirement and that a majority of our board of directors is independent according to the NYSE's listing standard. Our board of directors has affirmatively determined that each of Antoine Bonnier, Arunava Sen, Aviad Kaufman, Bill Foo, Laurence N. Charney and N. Scott Fine, representing six of our eight directors, are currently "independent directors" as defined under the applicable rules and regulations of the NYSE.

Election and Removal of Directors

See "*Item 10.B Constitution.*"

Service Contracts

None of our board members have service contracts with us or any of our businesses providing for benefits upon termination of employment.

Indemnifications and Limitations on Liability

For information on the indemnification and limitations on liability of our directors, see “*Item 10.B Constitution .*”

Committees of our Board of Directors

We have established three committees, which report regularly to our board of directors on matters relating to the specific areas of risk the committees oversee: the audit committee, the nominating and corporate governance committee, and the compensation committee. Although we are permitted to follow home country practices with respect to our establishment of the nominating and corporate governance and compensation committees, we have determined that we are in compliance with the NYSE’s requirements in these respects, except that one of the members of our nominating and corporate governance committee is non-independent under NYSE standards.

Audit Committee

We have established an audit committee to review and discuss with management significant financial, legal and regulatory risks and the steps management takes to monitor, control and report such exposures; our audit committee also oversees the periodic enterprise-wide risk evaluations conducted by management. Specifically, our audit committee oversees the process concerning:

- the quality and integrity of our financial statements and internal controls;
- the compensation, qualifications, evaluation and independence of, and making a recommendation to our board for recommendation to the annual general meeting for appointment of, our independent registered public accounting firm;
- the performance of our internal audit function;
- our compliance with legal and regulatory requirements; and
- review of related party transactions.

The members of our audit committee, Laurence N. Charney, N. Scott Fine and Arunava Sen, are independent directors. Our board of directors has determined that Laurence N. Charney is an audit committee financial expert, as defined under the applicable rules of the SEC, and that each of our audit committee members has the requisite financial sophistication as defined under the applicable rules and regulations of each of the SEC and the NYSE. Our audit committee operates under a written charter that satisfies the applicable standards of each of the SEC and the NYSE.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee oversees the management of risks associated with board governance, director independence and conflicts of interest. Specifically, our nominating and corporate governance committee is responsible for identifying qualified candidates to become directors, recommending to the board of directors candidates for all directorships, overseeing the annual evaluation of the board of directors and its committees and taking a leadership role in shaping our corporate governance.

Our nominating and corporate governance committee considers candidates for director who are recommended by its members, by other board members and members of our management, as well as those identified by any third-party search firms retained by it to assist in identifying and evaluating possible candidates. The nominating and corporate governance committee also considers recommendations for director candidates submitted by our shareholders. The nominating and corporate governance committee evaluates and recommends to the board of directors qualified candidates for election, re-election or appointment to the board, as applicable.

When evaluating director candidates, the nominating and corporate governance committee seeks to ensure that the board of directors has the requisite skills, experience and expertise and that its members consist of persons with appropriately diverse and independent backgrounds. The nominating and corporate governance committee considers all aspects of a candidate’s qualifications in the context of our needs, including: personal and professional integrity, ethics and values; experience and expertise as an officer in corporate management; experience in the industry of any of our portfolio businesses and international business and familiarity with our operations; experience as a board member of another publicly traded company; practical and mature business judgment; the extent to which a candidate would fill a present need on the board of directors; and the other ongoing commitments and obligations of the candidate. The nominating and corporate governance committee does not have any minimum criteria for director candidates. Consideration of new director candidates will typically involve a series of internal discussions, review of information concerning candidates and interviews with selected candidates.

As a foreign private issuer, we are permitted to follow home country practice in lieu of the requirement to have a nominating and corporate governance committee comprised entirely of independent directors. One of the members of our nominating and corporate governance committee is non-independent under NYSE standards and accordingly we rely on the NYSE exemption for foreign private issuers.

The members of our nominating and corporate governance committee are Cyril Pierre-Jean Ducau, Bill Foo and Aviad Kaufman. Our nominating and corporate governance committee operates under a written charter that satisfies the applicable standards of the NYSE for foreign private issuers.

Compensation Committee

Our compensation committee assists our board in reviewing and approving the compensation structure of our directors and officers, including all forms of compensation to be provided to our directors and officers. The compensation committee is responsible for, among other things:

- reviewing and determining the compensation package for our Chief Executive Officer and other senior executives;
- reviewing and making recommendations to our board with respect to the compensation of our non-employee directors;
- reviewing and approving corporate goals and objectives relevant to the compensation of our Chief Executive Officer and other senior executives, including evaluating their performance in light of such goals and objectives; and
- reviewing periodically and approving and administering stock options plans, long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans for all employees, including reviewing and approving the granting of options and other incentive awards.

As a foreign private issuer, we are permitted to follow home country practice in lieu of the requirement to have a compensation committee comprised entirely of independent directors. Nonetheless, we have determined that all of the members of our compensation committee, Laurence N. Charney, N. Scott Fine and Aviad Kaufman are independent directors as defined under the applicable rules of the NYSE. Our compensation committee operates under a written charter that satisfies the applicable standards of the NYSE.

Code of Ethics and Ethical Guidelines

Our board of directors has adopted a code of ethics that describes our commitment to, and requirements in connection with, ethical issues relevant to business practices and personal conduct.

D. Employees

As of December 31, 2018, 2017 and 2016 we, and our consolidated subsidiaries, employed 112, 108 and 115 individuals, respectively, as follows:

Company	Number of Employees as of December 31,		
	2018	2017	2016
OPC	92	88	79
Primus	13	14	31
Kenon	7	6	5
Total	112	108	115

OPC

As of December 31, 2018, OPC employed 92 employees. For further information on OPC's employees, see "Item 4.B Business Overview—OPC—Employees."

Qoros

As of December 31, 2018, Qoros employed approximately 3,400 employees, consisting of headquarter and factory employees predominantly within China.

ZIM

As of December 31, 2018, ZIM employed approximately 3,700 employees (including employees of its subsidiaries).

A significant number of ZIM's Israeli employees are unionized and ZIM is party to numerous collective agreements with respect to its employees. For further information on the risks related to ZIM's unionized employees, see "*Item 3.D Risk Factors—Risks Related to the Industries in Which Our Businesses Operate—Our businesses may be adversely affected by work stoppages, union negotiations, labor disputes and other matters associated with our labor force.*"

Other

As of December 31, 2018, Primus employed 13 employees, all of whom are located in the U.S.

E. Share Ownership

Interests of our Directors and our Employees

Kenon has established the Share Incentive Plan 2014 and the Share Option Plan 2014 for its directors and management. The Share Incentive Plan 2014 and the Share Option Plan 2014 provide grants of Kenon's shares, and stock options in respect of Kenon's shares, respectively, to management and directors of Kenon, or to officers of Kenon's subsidiaries or associated companies, pursuant to awards, which may be granted by Kenon from time to time. The total number of shares underlying awards which may be granted under the Share Incentive Plan 2014 or delivered pursuant to the exercise of options granted under the Share Option Plan 2014 shall not, in the aggregate, exceed 3% of the total issued shares (excluding treasury shares) of Kenon. Kenon granted awards of shares to directors and certain members of its management under the Share Incentive Plan 2014 in 2018, with a value of \$0.4 million.

Equity Awards to Certain Executive Officers—Subsidiaries and Associated Companies

Kenon's subsidiaries and associated companies may, from time to time, adopt equity compensation arrangements for officers and directors of the relevant entity. Kenon expects any such arrangements to be on customary terms and within customary limits (in terms of dilution).

ITEM 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of April 5, 2019, by each person or entity beneficially owning 5% or more of our ordinary shares, based upon the 53,826,749 ordinary shares outstanding as of such date, which represents our entire issued and outstanding share capital as of such date. The information set out below is based on public filings with the SEC as of April 5, 2019.

To our knowledge, as of March 31, 2019, we had 2 shareholders of record in the United States: one holding approximately 99% of our outstanding ordinary shares and the other one holding less than 1% of our outstanding ordinary shares. Such numbers are not representative of the portion of our shares held in the United States nor are they representative of the number of beneficial holders residing in the United States, since the holder of record of approximately 99% of our outstanding ordinary shares (which includes the ordinary shares held by the TASE for trading on the TASE) was one U.S. nominee company, CEDE & Co, which holds all of our shares traded on the NYSE and the TASE indirectly.

All of our ordinary shares have the same voting rights.

Beneficial Owner (Name/Address)	Ordinary Shares Owned	Percentage of Ordinary Shares
Ansonia Holdings Singapore B.V. ¹	31,156,869	58.0%
Clal Insurance Enterprises Holdings Ltd. ²	3,860,158	7.2%
Menora Mivtachim Holdings Ltd. ³	3,120,626	5.8%
Laurence N. Charney ⁴	32,482	*5
N. Scott Fine ⁴	27,265	*5
Bill Foo ⁴	3,085	*5
Arunava Sen ⁴	3,085	*5
Directors and Executive Officers ⁶	–	*5

- (1) Based solely on the Schedule 13-D/A (Amendment No. 4) filed by Ansonia Holdings Singapore B.V. with the SEC on January 25, 2017. A discretionary trust, in which Mr. Idan Ofer is the prime beneficiary, indirectly holds 100% of Ansonia Holdings Singapore B.V.
- (2) Based solely upon the Schedule 13-G/A (Amendment No. 1) filed by Clal Insurance Enterprises Holdings Ltd. with the SEC on February 14, 2019. According to the Schedule 13-G/A, of the 3,860,158 ordinary shares reported on the Schedule 13-G/A, (i) 3,488,155 ordinary shares are held for members of the public through, among others, provident funds and/or pension funds and/or insurance policies, which are managed by subsidiaries of Clal Insurance Enterprises Holdings Ltd., which subsidiaries operate under independent management and make independent voting and investment decisions; and (ii) 372,003 ordinary shares are beneficially held for Clal Insurance Enterprises Holdings Ltd.'s own account.
- (3) Based solely upon the Schedule 13-G/A (Amendment No. 1) filed by Menora Mivtachim Holdings Ltd. with the SEC on February 11, 2019. According to the Schedule 13-G/A (i) the ordinary shares reported are beneficially owned by Menora Mivtachim Holdings Ltd. and by entities that are its direct or indirect, wholly-owned or majority-owned, subsidiaries; and (ii) the economic interest or beneficial ownership in a portion of the ordinary shares reported (including the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities) is held for the benefit of insurance policy holders or the members of provident funds or pension funds, as the case may be. According to the Schedule 13-G/A, of the 3,120,626 ordinary shares reported, (i) 2,542,995 ordinary shares are held by Menora Mivtachim Pensions and Gemel Ltd; (ii) 527,124 ordinary shares are held by Menora Mivtachim Insurance Ltd.; and (iii) 50,507 ordinary shares are held by Menora Mivtachim Vehistadrut Hamehandesim Nihul Kupot Gemel Ltd.
- (4) Based solely on Exhibit 99.3 to the Form 6-K furnished by Kenon with the SEC on May 16, 2018.
- (5) Owns less than 1% of Kenon's ordinary shares.
- (6) Excludes shares held by Laurence N. Charney, N. Scott Fine, Bill Foo and Arunava Sen.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that such person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

We are not aware of any arrangement that may, at a subsequent date, result in a change of our control.

Significant changes in ownership of major shareholders

Based solely upon the Schedule 13-D/A (Amendment No. 3) filed by XT Investments Ltd. and XT Holdings Ltd. with the SEC on April 11, 2018, XT Investments Ltd. decreased its ownership of Kenon ordinary shares, from 11.7% as of August 22, 2017 to 2.3%.

B. Related Party Transactions

Kenon

Pursuant to its charter, the audit committee must review and approve all related party transactions. The audit committee has a written policy with respect to the approval of related party transactions. In addition, we have undertaken that, for so long as we are listed on the NYSE, to the extent that we or our subsidiaries will enter into transactions with related parties, such transactions will be considered and approved by us or our wholly-owned subsidiaries in a manner that is consistent with customary practices followed by companies incorporated in Delaware and shall be reviewed in accordance with the requirements of Delaware law.

We are party to numerous related party transactions with certain of our affiliates. Set forth below is a summary of these transactions. For further information, see Note 29 to our financial statements included in this annual report.

OPC

Sales of Electricity and Gas

OPC-Rotem sells electricity through PPAs to some entities that may be considered to be related parties. OPC-Rotem recorded revenues from related parties in the amount of \$80 million, \$103 million and \$130 million in the years ended December 31, 2018, 2017 and 2016, respectively.

OPC-Rotem and OPC-Hadera also sell an immaterial amount of gas to some entities that may be considered related parties.

Qoros

Qoros has entered into commercial arrangements with its equity holders, including certain loans, capital injections, sales of goods and purchases of materials, parts and services, and has accounts receivable and payable from and to such parties.

Ansonia

Kenon was party to loan agreements with Kenon's major shareholder Ansonia, which loan agreements were entered into in 2016 to provide loans to Kenon to fund Qoros. In 2018, Kenon repaid \$77 million in loans to Ansonia with the proceeds from the Qoros transaction, which resulted in repayment in full of the loans.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. Financial Information

A. Consolidated Statements and Other Financial Information

For information on the financial statements filed as a part of this annual report, see “*Item 18. Financial Statements.*” For information on our legal proceedings, see “*Item 4.B Business Overview*” and Note 19 to our financial statements included in this annual report. For information on our dividend policy, see “*Item 10.B Constitution.*”

B. Significant Changes

For information on any significant changes that may have occurred since the date of our annual financial statements, see “*Item 5. Operating and Financial Review and Prospects—Recent Developments.*”

ITEM 9. The Offer and Listing

A. Offer and Listing Details.

Kenon's ordinary shares are listed on the TASE (trading symbol: KEN), our primary host market, and the NYSE (trading symbol: KEN), our principal market outside our host market.

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares are listed on each of the NYSE and the TASE under the symbol “KEN.”

D. Selling Shareholders

Not applicable.

E. Dilution.

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. Additional Information

A. Share Capital

Not applicable.

B. Constitution

The following description of our constitution is a summary and is qualified by reference to the constitution, a copy of which has been filed with the SEC. Subject to the provisions of the Singapore Companies Act and any other written law and its constitution, the Company has full capacity to carry on or undertake any business or activity, do any act or enter into any transaction.

New Shares

Under Singapore law, new shares may be issued only with the prior approval of our shareholders in a general meeting. General approval may be sought from our shareholders in a general meeting for the issue of shares. Approval, if granted, will lapse at the earliest of:

- the conclusion of the next annual general meeting;
- the expiration of the period within which the next annual general meeting is required by law to be held (i.e., within six months after our financial year end, being December 31); or
- the subsequent revocation or modification of approval by our shareholders acting at a duly convened general meeting.

Our shareholders have provided such general authority to issue new shares until the conclusion of our 2019 annual general meeting. Subject to this and the provisions of the Singapore Companies Act and our constitution, all new shares are under the control of the directors who may allot and issue new shares to such persons on such terms and conditions and with the rights and restrictions as they may think fit to impose.

Preference Shares

Our constitution provides that we may issue shares of a different class with preferential, deferred or other special rights, privileges or conditions as our board of directors may determine. Under the Singapore Companies Act, our preference shareholders will have the right to attend any general meeting insofar as the circumstances set forth below apply and on a poll at such general meeting, to have at least one vote for every preference share held:

- upon any resolution concerning the winding-up of our company; and
- upon any resolution which varies the rights attached to such preference shares.

We may, subject to the prior approval in a general meeting of our shareholders, issue preference shares which are, or at our option, subject to redemption provided that such preference shares may not be redeemed out of capital unless:

- all the directors have made a solvency statement in relation to such redemption; and
- we have lodged a copy of the statement with the Singapore Registrar of Companies.

Further, the shares must be fully paid-up before they are redeemed.

Transfer of Ordinary Shares

Subject to applicable securities laws in relevant jurisdictions and our constitution, our ordinary shares are freely transferable. Shares may be transferred by a duly signed instrument of transfer in any usual or common form or in a form acceptable to our directors. The directors may decline to register any transfer unless, among other things, evidence of payment of any stamp duty payable with respect to the transfer is provided together with other evidence of ownership and title as the directors may require. We will replace lost or destroyed certificates for shares upon notice to us and upon, among other things, the applicant furnishing evidence and indemnity as the directors may require and the payment of all applicable fees.

Election and Re-election of Directors

Under our constitution, our shareholders by ordinary resolution, or our board of directors, may appoint any person to be a director as an additional director or to fill a casual vacancy, provided that any person so appointed by our board of directors shall hold office only until the next annual general meeting, and shall then be eligible for re-election.

Our constitution provides that, subject to the Singapore Companies Act, no person other than a director retiring at a general meeting is eligible for appointment as a director at any general meeting, without the recommendation of the Board for election, unless (a) in the case of a member or members who in aggregate hold(s) more than fifty percent of the total number of our issued and paid-up shares (excluding treasury shares), not less than ten days, or (b) in the case of a member or members who in aggregate hold(s) more than five percent of the total number of our issued and paid-up shares (excluding treasury shares), not less than 120 days, before the date of the notice provided to members in connection with the general meeting, a written notice signed by such member or members (other than the person to be proposed for appointment) who (i) are qualified to attend and vote at the meeting for which such notice is given, and (ii) have held shares representing the prescribed threshold in (a) or (b) above, for a continuous period of at least one year prior to the date on which such notice is given, is lodged at our registered office. Such a notice must also include the consent of the person nominated.

Shareholders' Meetings

We are required to hold an annual general meeting each year. Annual general meetings must be held within six months after our financial year end, being December 31. The directors may convene an extraordinary general meeting whenever they think fit and they must do so upon the written request of shareholders representing not less than one-tenth of the paid-up shares as at the date of deposit carries the right to vote at general meetings (disregarding paid-up shares held as treasury shares). In addition, two or more shareholders holding not less than one-tenth of our total number of issued shares (excluding our treasury shares) may call a meeting of our shareholders. The Singapore Companies Act requires not less than:

- 14 days' written notice to be given by Kenon of a general meeting to pass an ordinary resolution; and
- 21 days' written notice to be given by Kenon of a general meeting to pass a special resolution,

to every member and the auditors of Kenon. Our constitution further provides that in computing the notice period, both the day on which the notice is served, or deemed to be served, and the day for which the notice is given shall be excluded.

Unless otherwise required by law or by our constitution, voting at general meetings is by ordinary resolution, requiring the affirmative vote of a simple majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the resolution. An ordinary resolution suffices, for example, for appointments of directors. A special resolution, requiring an affirmative vote of not less than three-fourths of the shares present in person or represented by proxy at the meeting and entitled to vote on the resolution, is necessary for certain matters under Singapore law, such as an alteration of our constitution.

Voting Rights

Voting at any meeting of shareholders is by a show of hands unless a poll is duly demanded before or on the declaration of the result of the show of hands. If voting is by a show of hands, every shareholder who is entitled to vote and who is present in person or by proxy at the meeting has one vote. On a poll, every shareholder who is present in person or by proxy or by attorney, or in the case of a corporation, by a representative, has one vote for every share held by him or which he represents.

Dividends

We have no current plans to pay annual or semi-annual cash dividends. However, as part of our strategy, we may, in the event that we divest a portion of, or our entire equity interest in, any of our businesses, distribute such cash proceeds or declare a distribution-in-kind of shares in our investee companies. No dividend may be paid except out of profits and we currently do not have distributable profits from which dividends may be declared. Any dividends would be limited by the amount of available distributable reserves, which, under Singapore law, will be assessed on the basis of Kenon's standalone unconsolidated accounts (which will be based upon the SFRS). Under Singapore law, it is also possible to effect a capital reduction exercise to return cash and/or assets to our shareholders. The completion of a capital reduction exercise may require the approval of the Singapore Courts, and we may not be successful in our attempts to obtain such approval.

Additionally, because we are a holding company, our ability to pay cash dividends, or declare a distribution-in-kind of the ordinary shares of any of our businesses, may be limited by restrictions on our ability to obtain sufficient funds through dividends from our businesses, including restrictions under the terms of the agreements governing the indebtedness of our businesses. Subject to the foregoing, the payment of cash dividends in the future, if any, will be at the discretion of our board of directors and will depend upon such factors as earnings levels, capital requirements, contractual restrictions, our overall financial condition, available distributable reserves and any other factors deemed relevant by our board of directors. Generally, a final dividend is declared out of profits disclosed by the accounts presented to the annual general meeting, and requires approval of our shareholders. However, our board of directors can declare interim dividends without approval of our shareholders.

Bonus and Rights Issues

In a general meeting, our shareholders may, upon the recommendation of the directors, capitalize any reserves or profits and distribute them as fully paid bonus shares to the shareholders in proportion to their shareholdings.

Takeovers

The Singapore Code on Take-overs and Mergers, the Singapore Companies Act and the Securities and Futures Act, Chapter 289 of Singapore regulate, among other things, the acquisition of ordinary shares of Singapore-incorporated public companies. Any person acquiring an interest, whether by a series of transactions over a period of time or not, either on his own or together with parties acting in concert with such person, in 30% or more of our voting shares, or, if such person holds, either on his own or together with parties acting in concert with such person, between 30% and 50% (both amounts inclusive) of our voting shares, and if such person (or parties acting in concert with such person) acquires additional voting shares representing more than 1% of our voting shares in any six-month period, must, except with the consent of the Securities Industry Council in Singapore, extend a mandatory takeover offer for the remaining voting shares in accordance with the provisions of the Singapore Code on Take-overs and Mergers.

“Parties acting in concert” comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal), cooperate, through the acquisition by any of them of shares in a company, to obtain or consolidate effective control of that company. Certain persons are presumed (unless the presumption is rebutted) to be acting in concert with each other. They include:

- a company and its related companies, the associated companies of any of the company and its related companies, companies whose associated companies include any of these companies and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing for the purchase of voting rights;
- a company and its directors (including their close relatives, related trusts and companies controlled by any of the directors, their close relatives and related trusts);
- a company and its pension funds and employee share schemes;
- a person and any investment company, unit trust or other fund whose investment such person manages on a discretionary basis but only in respect of the investment account which such person manages;
- a financial or other professional adviser, including a stockbroker, and its clients in respect of shares held by the adviser and persons controlling, controlled by or under the same control as the adviser and all the funds managed by the adviser on a discretionary basis, where the shareholdings of the adviser and any of those funds in the client total 10% or more of the client’s equity share capital;
- directors of a company (including their close relatives, related trusts and companies controlled by any of such directors, their close relatives and related trusts) which is subject to an offer or where the directors have reason to believe a bona fide offer for the company may be imminent;
- partners; and
- an individual and such person’s close relatives, related trusts, any person who is accustomed to act in accordance with such person’s instructions and companies controlled by the individual, such person’s close relatives, related trusts or any person who is accustomed to act in accordance with such person’s instructions and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing for the purchase of voting rights.

Subject to certain exceptions, a mandatory takeover offer must be in cash or be accompanied by a cash alternative at not less than the highest price paid by the offeror or parties acting in concert with the offeror during the offer period and within the six months preceding the acquisition of shares that triggered the mandatory offer obligation.

Under the Singapore Code on Take-overs and Mergers, where effective control of a company is acquired or consolidated by a person, or persons acting in concert, a general offer to all other shareholders is normally required. An offeror must treat all shareholders of the same class in an offeree company equally. A fundamental requirement is that shareholders in the company subject to the takeover offer must be given sufficient information, advice and time to consider and decide on the offer. These legal requirements may impede or delay a takeover of our company by a third-party.

In October 2014, the Securities Industry Council of Singapore waived application of the Singapore Code on Take-overs and Mergers to the Company, subject to certain conditions. Pursuant to the waiver, for as long as Kenon is not listed on a securities exchange in Singapore, and except in the case of a tender offer (within the meaning of U.S. securities laws) where the offeror relies on a Tier 1 exemption to avoid full compliance with U.S. tender offer regulations, the Singapore Code on Take-overs and Mergers shall not apply to Kenon.

Insofar as the Singapore Code on Take-overs and Mergers applies to Kenon, the Singapore Code on Take-overs and Mergers generally provides that the board of directors of Kenon should bring the offer to the shareholders of Kenon in accordance with the Singapore Code on Take-overs and Mergers and refrain from an action which will deny the shareholders from the possibility to decide on the offer.

Liquidation or Other Return of Capital

On a winding-up or other return of capital, subject to any special rights attaching to any other class of shares, holders of ordinary shares will be entitled to participate in any surplus assets in proportion to their shareholdings.

Limitations on Rights to Hold or Vote Ordinary Shares

Except as discussed above under “— *Takeovers*,” there are no limitations imposed by the laws of Singapore or by our constitution on the right of non-resident shareholders to hold or vote ordinary shares.

Limitations of Liability and Indemnification Matters

Our constitution currently provides that, subject to the provisions of the Singapore Companies Act and every other act applicable to Kenon, every director, secretary or other officer of our company or our subsidiaries and affiliates shall be entitled to be indemnified by our company against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties (and where he serves at our request as a director, officer, employee or agent of any of our subsidiaries or affiliates) or in relation thereto and in particular and without prejudice to the generality of the foregoing, no director, secretary or other officer of our company shall be liable for the acts, receipts, neglects or defaults of any other director or officer or for joining in any receipt or other act for conformity or for any loss or expense happening to our company through the insufficiency or deficiency of title to any property acquired by order of the directors for or on behalf of our company or for the insufficiency or deficiency of any security in or upon which any of the moneys of our company shall be invested or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person with whom any moneys, securities or effects shall be deposited or left or for any other loss, damage or misfortune whatever which shall happen in the execution of the duties of his or her office or in relation thereto unless the same shall happen through his or her own negligence, default, breach of duty or breach of trust.

The limitation of liability and indemnification provisions in our constitution may discourage shareholders from bringing a lawsuit against directors for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against directors and officers, even though an action, if successful, might benefit us and our shareholders. A shareholder’s investment may be harmed to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. Insofar as indemnification for liabilities arising under the Securities Act of 1933, or the Securities Act, may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable.

Comparison of Shareholder Rights

We are incorporated under the laws of Singapore. The following discussion summarizes material differences between the rights of holders of our ordinary shares and the rights of holders of the common stock of a typical corporation incorporated under the laws of the state of Delaware which result from differences in governing documents and the laws of Singapore and Delaware.

This discussion does not purport to be a complete statement of the rights of holders of our ordinary shares under applicable law in Singapore and our constitution or the rights of holders of the common stock of a typical corporation under applicable Delaware law and a typical certificate of incorporation and bylaws.

Delaware

Singapore—Kenon Holdings Ltd.

Board of Directors

A typical certificate of incorporation and bylaws would provide that the number of directors on the board of directors will be fixed from time to time by a vote of the majority of the authorized directors. Under Delaware law, a board of directors can be divided into classes and cumulative voting in the election of directors is only permitted if expressly authorized in a corporation’s certificate of incorporation.

The constitution of companies will typically state the minimum and maximum number of directors as well as provide that the number of directors may be increased or reduced by shareholders via ordinary resolution passed at a general meeting, provided that the number of directors following such increase or reduction is within the maximum and minimum number of directors provided in the constitution and the Singapore Companies Act, respectively. Our constitution provides that, unless otherwise determined by a general meeting, the minimum number of directors is five and the maximum number is 12.

Limitation on Personal Liability of Directors

A typical certificate of incorporation provides for the elimination of personal monetary liability of directors for breach of fiduciary duties as directors to the fullest extent permissible under the laws of Delaware, except for liability (i) for any breach of a director's loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law (relating to the liability of directors for unlawful payment of a dividend or an unlawful stock purchase or redemption) or (iv) for any transaction from which the director derived an improper personal benefit. A typical certificate of incorporation would also provide that if the Delaware General Corporation Law is amended so as to allow further elimination of, or limitations on, director liability, then the liability of directors will be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law as so amended.

Pursuant to the Singapore Companies Act, any provision (whether in the constitution, contract or otherwise) purporting to exempt a director (to any extent) from any liability attaching in connection with any negligence, default, breach of duty or breach of trust in relation to Kenon will be void except as permitted under the Singapore Companies Act. Nevertheless, a director can be released by the shareholders of Kenon for breaches of duty to Kenon, except in the case of fraud, illegality, insolvency and oppression or disregard of minority interests.

Our constitution currently provides that, subject to the provisions of the Singapore Companies Act and every other act for the time being in force concerning companies and affecting Kenon, every director, auditor, secretary or other officer of Kenon and its subsidiaries and affiliates shall be entitled to be indemnified by Kenon against all liabilities incurred by him in the execution and discharge of his duties and where he serves at the request of Kenon as a director, officer, employee or agent of any subsidiary or affiliate of Kenon or in relation thereto, including any liability incurred by him in defending any proceedings, whether civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of Kenon, and in which judgment is given in his favor (or the proceedings otherwise disposed of without any finding or admission of any material breach of duty on his part) or in which he is acquitted, or in connection with an application under statute in respect of such act or omission in which relief is granted to him by the court.

Interested Shareholders

Section 203 of the Delaware General Corporation Law generally prohibits a Delaware corporation from engaging in specified corporate transactions (such as mergers, stock and asset sales, and loans) with an "interested stockholder" for three years following the time that the stockholder becomes an interested stockholder. Subject to specified exceptions, an "interested stockholder" is a person or group that owns 15% or more of the corporation's outstanding voting stock (including any rights to acquire stock pursuant to an option, warrant, agreement, arrangement or understanding, or upon the exercise of conversion or exchange rights, and stock with respect to which the person has voting rights only), or is an affiliate or associate of the corporation and was the owner of 15% or more of the voting stock at any time within the previous three years.

There are no comparable provisions in Singapore with respect to public companies which are not listed on the Singapore Exchange Securities Trading Limited.

A Delaware corporation may elect to "opt out" of, and not be governed by, Section 203 through a provision in either its original certificate of incorporation, or an amendment to its original certificate or bylaws that was approved by majority stockholder vote. With a limited exception, this amendment would not become effective until 12 months following its adoption.

Removal of Directors

A typical certificate of incorporation and bylaws provide that, subject to the rights of holders of any preferred stock, directors may be removed at any time by the affirmative vote of the holders of at least a majority, or in some instances a supermajority, of the voting power of all of the then outstanding shares entitled to vote generally in the election of directors, voting together as a single class. A certificate of incorporation could also provide that such a right is only exercisable when a director is being removed for cause (removal of a director only for cause is the default rule in the case of a classified board).

According to the Singapore Companies Act, directors of a public company may be removed before expiration of their term of office with or without cause by ordinary resolution (i.e., a resolution which is passed by a simple majority of those shareholders present and voting in person or by proxy). Notice of the intention to move such a resolution has to be given to Kenon not less than 28 days before the meeting at which it is moved. Kenon shall then give notice of such resolution to its shareholders not less than 14 days before the meeting. Where any director removed in this manner was appointed to represent the interests of any particular class of shareholders or debenture holders, the resolution to remove such director will not take effect until such director's successor has been appointed.

Our constitution provides that Kenon may by ordinary resolution of which special notice has been given, remove any director before the expiration of his period of office, notwithstanding anything in our constitution or in any agreement between Kenon and such director and appoint another person in place of the director so removed.

Filling Vacancies on the Board of Directors

A typical certificate of incorporation and bylaws provide that, subject to the rights of the holders of any preferred stock, any vacancy, whether arising through death, resignation, retirement, disqualification, removal, an increase in the number of directors or any other reason, may be filled by a majority vote of the remaining directors, even if such directors remaining in office constitute less than a quorum, or by the sole remaining director. Any newly elected director usually holds office for the remainder of the full term expiring at the annual meeting of stockholders at which the term of the class of directors to which the newly elected director has been elected expires.

The constitution of a Singapore company typically provides that the directors have the power to appoint any person to be a director, either to fill a vacancy or as an addition to the existing directors, but so that the total number of directors will not at any time exceed the maximum number fixed in the constitution. Any newly elected director shall hold office until the next following annual general meeting, where such director will then be eligible for re-election. Our constitution provides that the shareholders may by ordinary resolution, or the directors may, appoint any person to be a director as an additional director or to fill a vacancy provided that any person so appointed by the directors will only hold office until the next annual general meeting, and will then be eligible for re-election.

Amendment of Governing Documents

Under the Delaware General Corporation Law, amendments to a corporation's certificate of incorporation require the approval of stockholders holding a majority of the outstanding shares entitled to vote on the amendment. If a class vote on the amendment is required by the Delaware General Corporation Law, a majority of the outstanding stock of the class is required, unless a greater proportion is specified in the certificate of incorporation or by other provisions of the Delaware General Corporation Law. Under the Delaware General Corporation Law, the board of directors may amend bylaws if so authorized in the charter. The stockholders of a Delaware corporation also have the power to amend bylaws.

Our constitution may be altered by special resolution (i.e., a resolution passed by at least a three-fourths majority of the shares entitled to vote, present in person or by proxy at a meeting for which not less than 21 days written notice is given). The board of directors has no right to amend the constitution.

Meetings of Shareholders

Annual and Special Meetings

Typical bylaws provide that annual meetings of stockholders are to be held on a date and at a time fixed by the board of directors. Under the Delaware General Corporation Law, a special meeting of stockholders may be called by the board of directors or by any other person authorized to do so in the certificate of incorporation or the bylaws.

Quorum Requirements

Under the Delaware General Corporation Law, a corporation's certificate of incorporation or bylaws can specify the number of shares which constitute the quorum required to conduct business at a meeting, provided that in no event shall a quorum consist of less than one-third of the shares entitled to vote at a meeting.

Annual General Meetings

All companies are required to hold an annual general meeting once every calendar year. The first annual general meeting was required to be held within 18 months of Kenon's incorporation and subsequently, annual general meetings must be held within six months after Kenon's financial year end.

Extraordinary General Meetings

Any general meeting other than the annual general meeting is called an "extraordinary general meeting." Two or more members (shareholders) holding not less than 10% of the total number of issued shares (excluding treasury shares) may call an extraordinary general meeting. In addition, the constitution usually also provides that general meetings may be convened in accordance with the Singapore Companies Act by the directors.

Notwithstanding anything in the constitution, the directors are required to convene a general meeting if required to do so by requisition (i.e., written notice to directors requiring that a meeting be called) by shareholder(s) holding not less than 10% of the total number of paid-up shares of Kenon carrying voting rights.

Our constitution provides that the directors may, whenever they think fit, convene an extraordinary general meeting.

Quorum Requirements

Our constitution provides that shareholders entitled to vote holding 33 and 1/3 percent of our issued and paid-up shares, present in person or by proxy at a meeting, shall be a quorum. In the event a quorum is not present, the meeting may be adjourned for one week.

Indemnification of Officers, Directors and Employers

Under the Delaware General Corporation Law, subject to specified limitations in the case of derivative suits brought by a corporation's stockholders in its name, a corporation may indemnify any person who is made a party to any third-party action, suit or proceeding on account of being a director, officer, employee or agent of the corporation (or was serving at the request of the corporation in such capacity for another corporation, partnership, joint venture, trust or other enterprise) against expenses, including attorney's fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with the action, suit or proceeding through, among other things, a majority vote of a quorum consisting of directors who were not parties to the suit or proceeding, if the person:

- acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation or, in some circumstances, at least not opposed to its best interests; and
- in a criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Delaware corporate law permits indemnification by a corporation under similar circumstances for expenses (including attorneys' fees) actually and reasonably incurred by such persons in connection with the defense or settlement of a derivative action or suit, except that no indemnification may be made in respect of any claim, issue or matter as to which the person is adjudged to be liable to the corporation unless the Delaware Court of Chancery or the court in which the action or suit was brought determines upon application that the person is fairly and reasonably entitled to indemnity for the expenses which the court deems to be proper.

To the extent a director, officer, employee or agent is successful in the defense of such an action, suit or proceeding, the corporation is required by Delaware corporate law to indemnify such person for expenses (including attorneys' fees) actually and reasonably incurred thereby. Expenses (including attorneys' fees) incurred by such persons in defending any action, suit or proceeding may be paid in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of that person to repay the amount if it is ultimately determined that that person is not entitled to be so indemnified.

The Singapore Companies Act specifically provides that Kenon is allowed to:

- purchase and maintain for any officer insurance against any liability attaching to such officer in respect of any negligence, default, breach of duty or breach of trust in relation to Kenon;
- indemnify such officer against liability incurred by a director to a person other than Kenon except when the indemnity is against (i) any liability of the director to pay a fine in criminal proceedings or a sum payable to a regulatory authority by way of a penalty in respect of non-compliance with any requirement of a regulatory nature (however arising); or (ii) any liability incurred by the officer (1) in defending criminal proceedings in which he is convicted, (2) in defending civil proceedings brought by Kenon or a related company of Kenon in which judgment is given against him or (3) in connection with an application for relief under specified sections of the Singapore Companies Act in which the court refuses to grant him relief.
- indemnify any auditor against any liability incurred or to be incurred by such auditor in defending any proceedings (whether civil or criminal) in which judgment is given in such auditor's favor or in which such auditor is acquitted; or
- indemnify any auditor against any liability incurred by such auditor in connection with any application under specified sections of the Singapore Companies Act in which relief is granted to such auditor by a court.

In cases where, inter alia, an officer is sued by Kenon the Singapore Companies Act gives the court the power to relieve directors either wholly or partially from the consequences of their negligence, default, breach of duty or breach of trust. However, Singapore case law has indicated that such relief will not be granted to a director who has benefited as a result of his or her breach of trust. In order for relief to be obtained, it must be shown that (i) the director acted reasonably; (ii) the director acted honestly; and (iii) it is fair, having regard to all the circumstances of the case including those connected with such director's appointment, to excuse the director.

Our constitution currently provides that, subject to the provisions of the Singapore Companies Act and every other act for the time being in force concerning companies and affecting Kenon, every director, auditor, secretary or other officer of Kenon and its subsidiaries and affiliates shall be entitled to be indemnified by Kenon against all liabilities incurred by him in the execution and discharge of his duties and where he serves at the request of Kenon as a director, officer, employee or agent of any subsidiary or affiliate of Kenon or in relation thereto, including any liability incurred by him in defending any proceedings, whether civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of Kenon, and in which judgment is given in his favor (or the proceedings otherwise disposed of without any finding or admission of any material breach of duty on his part) or in which he is acquitted, or in connection with an application under statute in respect of such act or omission in which relief is granted to him by the court.

Shareholder Approval of Business Combinations

Generally, under the Delaware General Corporation Law, completion of a merger, consolidation, or the sale, lease or exchange of substantially all of a corporation's assets or dissolution requires approval by the board of directors and by a majority (unless the certificate of incorporation requires a higher percentage) of outstanding stock of the corporation entitled to vote.

The Delaware General Corporation Law also requires a special vote of stockholders in connection with a business combination with an "interested stockholder" as defined in section 203 of the Delaware General Corporation Law. For further information on such provisions, see "*Interested Shareholders*" above.

The Singapore Companies Act mandates that specified corporate actions require approval by the shareholders in a general meeting, notably:

- notwithstanding anything in Kenon's constitution, directors are not permitted to carry into effect any proposals for disposing of the whole or substantially the whole of Kenon's undertaking or property unless those proposals have been approved by shareholders in a general meeting;
- subject to the constitution of each amalgamating company, an amalgamation proposal must be approved by the shareholders of each amalgamating company via special resolution at a general meeting; and
- notwithstanding anything in Kenon's constitution, the directors may not, without the prior approval of shareholders, issue shares, including shares being issued in connection with corporate actions.

Shareholder Action Without a Meeting

Under the Delaware General Corporation Law, unless otherwise provided in a corporation's certificate of incorporation, any action that may be taken at a meeting of stockholders may be taken without a meeting, without prior notice and without a vote if the holders of outstanding stock, having not less than the minimum number of votes that would be necessary to authorize such action, consent in writing. It is not uncommon for a corporation's certificate of incorporation to prohibit such action.

There are no equivalent provisions under the Singapore Companies Act in respect of passing shareholders' resolutions by written means that apply to public companies listed on a securities exchange.

Shareholder Suits

Under the Delaware General Corporation Law, a stockholder may bring a derivative action on behalf of the corporation to enforce the rights of the corporation. An individual also may commence a class action suit on behalf of himself or herself and other similarly situated stockholders where the requirements for maintaining a class action under the Delaware General Corporation Law have been met. A person may institute and maintain such a suit only if such person was a stockholder at the time of the transaction which is the subject of the suit or his or her shares thereafter devolved upon him or her by operation of law. Additionally, under Delaware case law, the plaintiff generally must be a stockholder not only at the time of the transaction which is the subject of the suit, but also through the duration of the derivative suit. Delaware Law also requires that the derivative plaintiff make a demand on the directors of the corporation to assert the corporate claim before the suit may be prosecuted by the derivative plaintiff, unless such demand would be futile.

Derivative actions

The Singapore Companies Act has a provision which provides a mechanism enabling shareholders to apply to the court for leave to bring a derivative action on behalf of Kenon.

Applications are generally made by shareholders of Kenon or individual directors, but courts are given the discretion to allow such persons as they deem proper to apply (e.g., beneficial owner of shares).

It should be noted that this provision of the Singapore Companies Act is primarily used by minority shareholders to bring an action in the name and on behalf of Kenon or intervene in an action to which Kenon is a party for the purpose of prosecuting, defending or discontinuing the action on behalf of Kenon.

Class actions

The concept of class action suits, which allows individual shareholders to bring an action seeking to represent the class or classes of shareholders, generally does not exist in Singapore. However, it is possible as a matter of procedure for a number of shareholders to lead an action and establish liability on behalf of themselves and other shareholders who join in or who are made parties to the action.

These shareholders are commonly known as “lead plaintiffs.” Further, there are circumstances under the provisions of certain Singapore statutes where shareholders may file and prove their claims for compensation in the event that Kenon has been convicted of a criminal offense or has a court order for the payment of a civil penalty made against it.

Additionally, for as long as Kenon is listed in the U.S. or in Israel, Kenon has undertaken not to claim that it is not subject to any derivative/class action that may be filed against it in the U.S. or Israel, as applicable, solely on the basis that it is a Singapore company.

Dividends or Other Distributions; Repurchases and Redemptions

The Delaware General Corporation Law permits a corporation to declare and pay dividends out of statutory surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year as long as the amount of capital of the corporation following the declaration and payment of the dividend is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets.

Under the Delaware General Corporation Law, any corporation may purchase or redeem its own shares, except that generally it may not purchase or redeem these shares if the capital of the corporation is impaired at the time or would become impaired as a result of the redemption. A corporation may, however, purchase or redeem out of capital shares that are entitled upon any distribution of its assets to a preference over another class or series of its shares if the shares are to be retired and the capital reduced.

The Singapore Companies Act provides that no dividends can be paid to shareholders except out of profits.

The Singapore Companies Act does not provide a definition on when profits are deemed to be available for the purpose of paying dividends and this is accordingly governed by case law. Our constitution provides that no dividend can be paid otherwise than out of profits of Kenon.

Acquisition of a company's own shares

The Singapore Companies Act generally prohibits a company from acquiring its own shares subject to certain exceptions. Any contract or transaction by which a company acquires or transfers its own shares is void. However, provided that it is expressly permitted to do so by its constitution and subject to the special conditions of each permitted acquisition contained in the Singapore Companies Act, Kenon may:

- redeem redeemable preference shares (the redemption of these shares will not reduce the capital of Kenon). Preference shares may be redeemed out of capital if all the directors make a solvency statement in relation to such redemption in accordance with the Singapore Companies Act;
- whether listed (on an approved exchange in Singapore or any securities exchange outside Singapore) or not, make an off-market purchase of its own shares in accordance with an equal access scheme authorized in advance at a general meeting;
- whether listed on a securities exchange (in Singapore or outside Singapore) or not, make a selective off-market purchase of its own shares in accordance with an agreement authorized in advance at a general meeting by a special resolution where persons whose shares are to be acquired and their associated persons have abstained from voting; and
- whether listed (on an approved exchange in Singapore or any securities exchange outside Singapore) or not, make an acquisition of its own shares under a contingent purchase contract which has been authorized in advance at a general meeting by a special resolution.

Kenon may also purchase its own shares by an order of a Singapore court.

The total number of ordinary shares that may be acquired by Kenon in a relevant period may not exceed 20% of the total number of ordinary shares in that class as of the date of the resolution pursuant to the relevant share repurchase provisions under the Singapore Companies Act. Where, however, Kenon has reduced its share capital by a special resolution or a Singapore court made an order to such effect, the total number of ordinary shares shall be taken to be the total number of ordinary shares in that class as altered by the special resolution or the order of the court. Payment must be made out of Kenon's distributable profits or capital, provided that Kenon is solvent. Such payment may include any expenses (including brokerage or commission) incurred directly in the purchase or acquisition by Kenon of its ordinary shares.

Financial assistance for the acquisition of shares

Kenon may not give financial assistance to any person whether directly or indirectly for the purpose of:

- the acquisition or proposed acquisition of shares in Kenon or units of such shares; or
- the acquisition or proposed acquisition of shares in its holding company or ultimate holding company, as the case may be, or units of such shares.

Financial assistance may take the form of a loan, the giving of a guarantee, the provision of security, the release of an obligation, the release of a debt or otherwise.

However, it should be noted that Kenon may provide financial assistance for the acquisition of its shares or shares in its holding company if it complies with the requirements (including, where applicable, approval by the board of directors or by the passing of a special resolution by its shareholders) set out in the Singapore Companies Act. Our constitution provides that subject to the provisions of the Singapore Companies Act, we may purchase or otherwise acquire our own shares upon such terms and subject to such conditions as we may deem fit. These shares may be held as treasury shares or cancelled as provided in the Singapore Companies Act or dealt with in such manner as may be permitted under the Singapore Companies Act. On cancellation of the shares, the rights and privileges attached to those shares will expire.

Transactions with Officers and Directors

Under the Delaware General Corporation Law, some contracts or transactions in which one or more of a corporation's directors has an interest are not void or voidable because of such interest provided that some conditions, such as obtaining the required approval and fulfilling the requirements of good faith and full disclosure, are met. Under the Delaware General Corporation Law, either (a) the stockholders or the board of directors must approve in good faith any such contract or transaction after full disclosure of the material facts or (b) the contract or transaction must have been "fair" as to the corporation at the time it was approved. If board approval is sought, the contract or transaction must be approved in good faith by a majority of disinterested directors after full disclosure of material facts, even though less than a majority of a quorum.

Under the Singapore Companies Act, the chief executive officer and directors are not prohibited from dealing with Kenon, but where they have an interest in a transaction with Kenon, that interest must be disclosed to the board of directors. In particular, the chief executive officer and every director who is in any way, whether directly or indirectly, interested in a transaction or proposed transaction with Kenon must, as soon as practicable after the relevant facts have come to such officer or director's knowledge, declare the nature of such officer or director's interest at a board of directors' meeting or send a written notice to Kenon containing details on the nature, character and extent of his interest in the transaction or proposed transaction with Kenon.

In addition, a director or chief executive officer who holds any office or possesses any property which, directly or indirectly, duties or interests might be created in conflict with such officer's duties or interests as director or chief executive officer, is required to declare the fact and the nature, character and extent of the conflict at a meeting of directors or send a written notice to Kenon containing details on the nature, character and extent of the conflict.

The Singapore Companies Act extends the scope of this statutory duty of a director or chief executive officer to disclose any interests by pronouncing that an interest of a member of the director's or, as the case may be, the chief executive officer's family (including spouse, son, adopted son, step-son, daughter, adopted daughter and step-daughter) will be treated as an interest of the director.

There is however no requirement for disclosure where the interest of the director or chief executive officer (as the case may be) consists only of being a member or creditor of a corporation which is interested in the proposed transaction with Kenon if the interest may properly be regarded as immaterial. Where the proposed transaction relates to any loan to Kenon, no disclosure need be made where the director or chief executive officer has only guaranteed or joined in guaranteeing the repayment of such loan, unless the constitution provides otherwise.

Further, where the proposed transaction is to be made with or for the benefit of a related corporation (i.e. the holding company, subsidiary or subsidiary of a common holding company) no disclosure need be made of the fact that the director or chief executive officer is also a director or chief executive officer of that corporation, unless the constitution provides otherwise.

Subject to specified exceptions, including a loan to a director for expenditure in defending criminal or civil proceedings, etc. or in connection with an investigation, or an action proposed to be taken by a regulatory authority in connection with any alleged negligence, default, breach of duty or breach of trust by him in relation to Kenon, the Singapore Companies Act prohibits Kenon from: (i) making a loan or quasi-loan to its directors or to directors of a related corporation (each, a "relevant director"); (ii) giving a guarantee or security in connection with a loan or quasi-loan made to a relevant director by any other person; (iii) entering into a credit transaction as creditor for the benefit of a relevant director; (iv) giving a guarantee or security in connection with such credit transaction entered into by any person for the benefit of a relevant director; (v) taking part in an arrangement where another person enters into any of the transactions in (i) to (iv) above or (vi) below and such person obtains a benefit from Kenon or a related corporation; or (vi) arranging for the assignment to Kenon or assumption by Kenon of any rights, obligations or liabilities under a transaction in (i) to (v) above. Kenon is also prohibited from entering into the transactions in (i) to (vi) above with or for the benefit of a relevant director's spouse or children (whether adopted or naturally or step-children).

Dissenters' Rights

Under the Delaware General Corporation Law, a stockholder of a corporation participating in some types of major corporate transactions may, under varying

There are no equivalent provisions under the Singapore Companies Act.

circumstances, be entitled to appraisal rights pursuant to which the stockholder may receive cash in the amount of the fair market value of his or her shares in lieu of the consideration he or she would otherwise receive in the transaction.

Cumulative Voting

Under the Delaware General Corporation Law, a corporation may adopt in its bylaws that its directors shall be elected by cumulative voting. When directors are elected by cumulative voting, a stockholder has the number of votes equal to the number of shares held by such stockholder times the number of directors nominated for election. The stockholder may cast all of such votes for one director or among the directors in any proportion.

There is no equivalent provision under the Singapore Companies Act in respect of companies incorporated in Singapore.

Under the Delaware General Corporation Law, the certificate of incorporation of a corporation may give the board the right to issue new classes of preferred stock with voting, conversion, dividend distribution, and other rights to be determined by the board at the time of issuance, which could prevent a takeover attempt and thereby preclude shareholders from realizing a potential premium over the market value of their shares. In addition, Delaware law does not prohibit a corporation from adopting a stockholder rights plan, or “poison pill,” which could prevent a takeover attempt and also preclude shareholders from realizing a potential premium over the market value of their shares.

The constitution of a Singapore company typically provides that the company may allot and issue new shares of a different class with preferential, deferred, qualified or other special rights as its board of directors may determine with the prior approval of the company’s shareholders in a general meeting. Our constitution provides that our shareholders may grant to our board the general authority to issue such preference shares until the next general meeting. For further information, see “*Item 3D. Risk Factors—Risks Relating to Our Ordinary Shares—Our directors have general authority to allot and issue new shares on terms and conditions and with any preferences, rights or restrictions as may be determined by our board of directors in its sole discretion, which may dilute our existing shareholders. We may also issue securities that have rights and privileges that are more favorable than the rights and privileges accorded to our existing shareholders*” and “*Item 10.B Constitution—Preference Shares.*”

Singapore law does not generally prohibit a corporation from adopting “poison pill” arrangements which could prevent a takeover attempt and also preclude shareholders from realizing a potential premium over the market value of their shares.

However, under the Singapore Code on Take-overs and Mergers, if, in the course of an offer, or even before the date of the offer announcement, the board of the offeree company has reason to believe that a bona fide offer is imminent, the board must not, except pursuant to a contract entered into earlier, take any action, without the approval of shareholders at a general meeting, on the affairs of the offeree company that could effectively result in any bona fide offer being frustrated or the shareholders being denied an opportunity to decide on its merits.

For further information on the Singapore Code on Take-overs and Mergers, see “*—Takeovers.*”

C. Material Contracts

For information concerning our material contracts, see “*Item 4. Information on the Company*” and “*Item 5. Operating and Financial Review and Prospects.*”

D. Exchange Controls

There are currently no exchange control restrictions in effect in Singapore.

E. Taxation

The following summary of the United States federal income tax and Singapore tax consequences of ownership of our ordinary shares is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this annual report. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of our ordinary shares. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of our ordinary shares. Each prospective holder is urged to consult its tax adviser as to the particular tax consequences to such holder of the ownership and disposition of our ordinary shares, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date of this annual report, and of any actual changes in applicable tax laws after such date.

U.S. Federal Income Tax Considerations

The following summarizes U.S. federal income tax considerations of owning and disposing of our ordinary shares. This summary applies only to U.S. Holders that hold our ordinary shares as capital assets (generally, property held for investment) and that have the U.S. Dollar as their functional currency.

This summary is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder and on judicial and administrative interpretations of the Code and the Treasury regulations, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. This summary does not purport to be a complete description of the consequences of the transactions described in this annual report, nor does it address the application of estate, gift or other non-income federal tax laws or any state, local or foreign tax laws. Moreover, this summary does not address all the tax consequences that may be relevant to holders of our ordinary shares in light of their particular circumstances, including the alternative minimum tax, the Medicare tax on certain investment income and special rules that apply to certain holders such as (but not limited to):

- persons that are not U.S. Holders;
- persons that are subject to alternative minimum taxes;
- insurance companies;
- tax-exempt entities;
- financial institutions;
- broker-dealers;
- persons that hold our ordinary shares through partnerships (or other entities classified as partnerships for U.S. federal income tax purposes);
- pass-through entities;
- persons that actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock or 10% or more of the total value of shares of all classes of our stock;
- traders in securities that elect to apply a mark-to-market method of accounting, holders that hold our ordinary shares as part of a “hedge,” “straddle,” “conversion,” or other risk reduction transaction for U.S. federal income tax purposes; and
- individuals who receive our ordinary shares upon the exercise of compensatory options or otherwise as compensation.

Moreover, no advance rulings have been or will be sought from the U.S. Internal Revenue Service, or IRS, regarding any matter discussed in this annual report, and counsel to Kenon has not rendered any opinion with respect to any of the U.S. federal income tax consequences relating to the transactions addressed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

HOLDERS AND PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL, NON-U.S. AND OTHER TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES.

For purposes of this summary, a “U.S. Holder” is a beneficial owner of our ordinary shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (or other entity taxable as a partnership for U.S. federal income tax purposes) holds our ordinary shares, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding our ordinary shares, you should consult your tax advisor.

Taxation of Dividends and Other Distributions on the Ordinary Shares

The gross amount of any distribution made to a U.S. Holder with respect to our ordinary shares, including the amount of any non-U.S. taxes withheld from the distribution, generally will be includible in income on the day on which the distribution is actually or constructively received by a U.S. Holder as dividend income to the extent the distribution is paid out of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. A distribution in excess of our current and accumulated earnings and profits (as determined for U.S. federal income tax purposes), including the amount of any non-U.S. taxes withheld from the distribution, will be treated as a non-taxable return of capital to the extent of the U.S. Holder's adjusted basis in our ordinary shares and as a capital gain to the extent it exceeds the U.S. Holder's basis. We do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles; therefore, U.S. Holders should expect that distributions generally will be treated as dividends for U.S. federal income tax purposes. Such dividends will not be eligible for the dividends-received deduction generally allowed to U.S. corporations.

Distributions treated as dividends that are received by individuals and other non-corporate U.S. Holders from "qualified foreign corporations" generally qualify for a reduced maximum tax rate so long as certain holding period and other requirements are met. Dividends paid on our ordinary shares, should qualify for the reduced rate if we are treated as a "qualified foreign corporation." For this purpose, a qualified foreign corporation means any foreign corporation provided that: (i) the corporation was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a PFIC (as discussed below), (ii) certain holding period requirements are met and (iii) either (A) the corporation is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules or (B) the stock with respect to which such dividend was paid is readily tradable on an established securities market in the United States. The United States does not currently have a comprehensive income tax treaty with Singapore. However, the ordinary shares should be considered to be readily tradable on established securities markets in the United States if they are listed on the NYSE. Therefore, we expect that our ordinary shares should generally be considered to be readily tradable on an established securities market in the United States, and we expect that dividends with respect to such ordinary shares should qualify for the reduced rate. U.S. Holders are encouraged to consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to our ordinary shares.

Dividends on our ordinary shares received by a U.S. Holder will generally be treated as foreign source income for U.S. foreign tax credit purposes. The rules with respect to foreign tax credits are complex and U.S. Holders should consult their tax advisors regarding the availability of the foreign tax credit in their particular circumstances.

Taxation of Dispositions of the Ordinary Shares

A U.S. Holder will recognize gain or loss on the sale or other taxable disposition of our ordinary shares in an amount equal to the difference between the amount realized on such sale or other taxable disposition and such U.S. Holder's adjusted tax basis in our ordinary shares. Such gain or loss generally will be long-term capital gain (taxable at a reduced rate for non-corporate U.S. Holders) or loss if, on the date of sale or disposition, such ordinary shares were held by such U.S. Holder for more than one year. The deductibility of capital losses is subject to significant limitations. Any gain or loss recognized by a U.S. Holder generally will be treated as U.S. source gain or loss, as the case may be, for foreign tax credit purposes.

The amount realized on a sale or other taxable disposition of our ordinary shares in exchange for foreign currency generally will equal the U.S. Dollar value of the foreign currency at the spot exchange rate in effect on the date of sale or other taxable disposition or, if the ordinary shares are traded on an established securities market (such as the NYSE or the TASE), in the case of a cash method or electing accrual method U.S. Holder of our ordinary shares, the settlement date. A U.S. Holder will have a tax basis in the foreign currency received equal to the U.S. Dollar amount realized. Any gain or loss realized by a U.S. Holder on a subsequent conversion or other disposition of the foreign currency will be foreign currency gain or loss, which is treated as U.S. source ordinary income or loss for foreign tax credit purposes.

Passive Foreign Investment Company

In general, a non-U.S. corporation will be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any taxable year in which either (i) 75% or more of its gross income consists of certain types of "passive" income or (ii) 50% or more of the fair market value (determined on the basis of a quarterly average) of its assets produce or are held for the production of passive income. For this purpose, cash is categorized as a passive asset and our unbooked intangibles will be taken into account and generally treated as non-passive assets. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the shares.

We do not believe that we were a PFIC for the taxable year ended December 31, 2018, but we may be a PFIC for our current, and any future, taxable year. Our status as a PFIC in any year depends on our assets and activities in that year. The sale of the Inkia Business and the investment in Qoros by the Majority Shareholder in Qoros (which reduced our equity interest in Qoros to 24%) each may increase the value of our assets that produce, or are held for the production of, passive income and/or our passive income and result in us becoming a PFIC for our current, and any future, taxable year. Furthermore, if the sale of half of our remaining interest in Qoros to the Majority Shareholder in Qoros is completed (which would reduce our equity interest in Qoros to 12%), it may increase the value of our assets that produce, or are held for the production of, passive income and/or our passive income and result in us becoming a PFIC for our current, and any future, taxable year. The determination of PFIC status, however, is factual in nature and generally cannot be made until the close of the taxable year, and there can be no assurance that we will not be considered a PFIC for any taxable year.

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ordinary shares, the U.S. Holder will generally be subject to imputed interest taxes, characterization of any gain from the sale or exchange of our ordinary shares as ordinary income, and other disadvantageous tax treatment with respect to our ordinary shares unless the U.S. Holder makes a mark-to-market election (as described below). Further, if we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ordinary shares and any of our non-U.S. subsidiaries is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of each such non-U.S. subsidiary classified as a PFIC (each such subsidiary, a lower tier PFIC) for purposes of the application of these rules. U.S. Holders should consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, a U.S. Holder of “marketable stock” in a PFIC may make a mark-to-market election. A mark-to-market election may be made with respect to our ordinary shares, provided they are actively traded, defined for this purpose as being traded on a “qualified exchange,” other than in de minimis quantities, on at least 15 days during each calendar quarter. We anticipate that our ordinary shares should qualify as being actively traded, but no assurances may be given in this regard. If a U.S. Holder of our ordinary shares makes this election, the U.S. Holder will generally (i) include as income for each taxable year the excess, if any, of the fair market value of our ordinary shares held at the end of the taxable year over the adjusted tax basis of such ordinary shares and (ii) deduct as a loss the excess, if any, of the adjusted tax basis of our ordinary shares over the fair market value of such ordinary shares held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder’s adjusted tax basis in our ordinary shares would be adjusted to reflect any income or loss resulting from the mark-to-market election. In addition, any gain such U.S. Holder recognizes upon the sale or other taxable disposition of our ordinary shares will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, the U.S. Holder will not be required to take into account the gain or loss described above during any period that such corporation is not classified as a PFIC. In the case of a U.S. Holder who has held our ordinary shares during any taxable year in respect of which we were classified as a PFIC and continues to hold such ordinary shares (or any portion thereof) and has not previously made a mark-to-market election, and who is considering making a mark-to-market election, special tax rules may apply relating to purging the PFIC taint of such ordinary shares. Because a mark-to-market election cannot technically be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such U.S. Holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

We do not intend to provide the information necessary for U.S. Holders of our ordinary shares to make qualified electing fund elections, which, if available, would result in tax treatment different from the general tax treatment for PFICs described above.

If a U.S. Holder owns our ordinary shares during any taxable year that we are a PFIC, such U.S. Holder may be subject to certain reporting obligations with respect to our ordinary shares, including reporting on IRS Form 8621.

Each U.S. Holder should consult its tax adviser concerning the U.S. federal income tax consequences of purchasing, holding, and disposing of our ordinary shares, including the possibility of making a mark-to-market election, if we are or become classified as a PFIC.

Material Singapore Tax Considerations

The following discussion is a summary of Singapore income tax, goods and services tax, or GST, stamp duty and estate duty considerations relevant to the acquisition, ownership and disposition of our ordinary shares by an investor who is not tax resident or domiciled in Singapore and who does not carry on business or otherwise have a presence in Singapore. The statements made herein regarding taxation are general in nature and based upon certain aspects of the current tax laws of Singapore and administrative guidelines issued by the relevant authorities in force as of the date hereof and are subject to any changes in such laws or administrative guidelines or the interpretation of such laws or guidelines occurring after such date, which changes could be made on a retrospective basis. The statements made herein do not purport to be a comprehensive or exhaustive description of all of the tax considerations that may be relevant to a decision to acquire, own or dispose of our ordinary shares and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules. Prospective shareholders are advised to consult their tax advisers as to the Singapore or other tax consequences of the acquisition, ownership or disposal of our ordinary shares, taking into account their own particular circumstances. The statements below are based upon the assumption that Kenon is tax resident in Singapore for Singapore income tax purposes. It is emphasized that neither Kenon nor any other persons involved in this annual report accepts responsibility for any tax effects or liabilities resulting from the acquisition, holding or disposal of our ordinary shares.

Income Taxation Under Singapore Law

Dividends or Other Distributions with Respect to Ordinary Shares

Under the one-tier corporate tax system which currently applies to all Singapore tax resident companies, tax on corporate profits is final, and dividends paid by a Singapore tax resident company are not subject to withholding tax and will be tax exempt in the hands of a shareholder, whether or not the shareholder is a company or an individual and whether or not the shareholder is a Singapore tax resident.

Capital Gains upon Disposition of Ordinary Shares

Under current Singapore tax laws, there is no tax on capital gains. There are no specific laws or regulations which deal with the characterization of whether a gain is income or capital in nature. Gains arising from the disposal of our ordinary shares may be construed to be of an income nature and subject to Singapore income tax, if they arise from activities which the Inland Revenue Authority of Singapore regards as the carrying on of a trade or business in Singapore. However, under Singapore tax laws, any gains derived by a divesting company from its disposal of ordinary shares in an investee company between June 1, 2012 and May 31, 2022 are generally not taxable if immediately prior to the date of the relevant disposal, the investing company has held at least 20% of the ordinary shares in the investee company for a continuous period of at least 24 months.

Goods and Services Tax

The issue or transfer of ownership of our ordinary shares should be exempt from Singapore GST. Hence, the holders would not incur any GST on the subscription or subsequent transfer of the shares.

Stamp Duty

Where our ordinary shares evidenced in certificated forms are acquired in Singapore, stamp duty is payable on the instrument of their transfer at the rate of 0.2% of the consideration for or market value of our ordinary shares, whichever is higher.

Where an instrument of transfer is executed outside Singapore or no instrument of transfer is executed, no stamp duty is payable on the acquisition of our ordinary shares. However, stamp duty may be payable if the instrument of transfer is executed outside Singapore and is received in Singapore. The stamp duty is borne by the purchaser unless there is an agreement to the contrary.

On the basis that any transfer instruments in respect of our ordinary shares traded on the NYSE and the TASE are executed outside Singapore through our transfer agent and share registrar in the United States for registration in our branch share register maintained in the United States (without any transfer instruments being received in Singapore), no stamp duty should be payable in Singapore on such transfers.

Tax Treaties Regarding Withholding Taxes

There is no comprehensive avoidance of double taxation agreement between the United States and Singapore which applies to withholding taxes on dividends or capital gains.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the information reporting requirements of the Exchange Act applicable to foreign private issuers, and under those requirements will file reports with the SEC. Those other reports or other information and this annual report may be inspected without charge at 1 Temasek Avenue #36-01, Millenia Tower, Singapore 039192 and inspected and copied at the public reference facilities of the SEC located at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a website at <http://www.sec.gov> from which certain filings may be accessed.

As a foreign private issuer, we will be exempt from the rules under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders will be exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. However, for so long as we are listed on the NYSE, or any other U.S. exchange, and are registered with the SEC, we will file with the SEC, within 120 days after the end of each fiscal year, or such applicable time as required by the SEC, an annual report on Form 20-F containing financial statements audited by an independent registered public accounting firm. We also submit to the SEC on Form 6-K the interim financial information that we publish.

We maintain a corporate website at <http://www.kenon-holdings.com>. Information contained on, or that can be accessed through, our website does not constitute a part of this annual report on Form 20-F. We have included our website address in this annual report solely as an inactive textual reference.

I. Subsidiary Information

Not applicable.

ITEM 11. Quantitative and Qualitative Disclosures about Market Risk

Our multinational operations expose us to a variety of market risks, which embody the potential for changes in the fair value of the financial instruments or the cash flows deriving from them. Our risk management policies and those of each of our businesses seek to limit the adverse effects of these market risks on the financial performance of each of our businesses and, consequently, on our consolidated financial performance. Each of our businesses bear responsibility for the establishment and oversight of their financial risk management framework and have adopted individualized risk management policies to address those risks specific to their operations.

Our primary market risk exposures are to:

- currency risk, as a result of changes in the rates of exchange of various foreign currencies (in particular, the Euro and the New Israeli Shekel) in relation to the U.S. Dollar, our functional currency and the currency against which we measure our exposure;
- index risk, as a result of changes in the Consumer Price Index;
- interest rate risk, as a result of changes in the market interest rates affecting certain of our businesses' issuance of debt and related financial instruments; and
- price risk, as a result of changes in market prices, such as the price of certain commodities (e.g., natural gas and heavy fuel oil).

For further information on our market risks and the sensitivity analyses of these risks, see Note 30—Financial Instruments to our financial statements included in this annual report.

ITEM 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Not applicable.

PART II

ITEM 13. Defaults, Dividend Arrearages and Delinquencies

None.

ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

ITEM 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this annual report, as required by Rule 13a-15(b) under the Exchange Act. Based upon this evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in by the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate "internal control over financial reporting," as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. These rules define internal control over financial reporting as a process designed by, or under the supervision of, a company's chief executive officer and chief financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Our management has assessed the design and operating effectiveness of our internal control over financial reporting as of December 31, 2018. This assessment was performed under the direction and supervision of our chief executive officer and chief financial officer, and based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that as of December 31, 2018, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by our independent registered public accounting firm and their report thereon is included elsewhere in this annual report.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2018, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Disclosure Controls and Procedures in Internal Control over Financial Reporting

It should be noted that any system of controls, however well-designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Projections regarding the effectiveness of a system of controls in future periods are subject to the risk that such controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the policies or procedures.

ITEM 16. [RESERVED]

ITEM 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. Laurence N. Charney is an "audit committee financial expert" as defined in Item 16A of Form 20-F under the Exchange Act. Our board of directors has also determined that Mr. Laurence N. Charney satisfies the NYSE's listed company "independence" requirements.

ITEM 16B. Code of Ethics

We have adopted a Code of Ethics that applies to all our employees, officers and directors, including our chief executive officer and our chief financial officer. Our Code of Conduct is available on our website at www.kenon-holdings.com.

ITEM 16C. Principal Accountant Fees and Services

KPMG LLP, a member firm of KPMG International, is our independent registered public accounting firm for the audits of the years ending December 31, 2018 and 2017.

Our audit committee charter requires that all audit and non-audit services provided by our independent auditors are pre-approved by our audit committee. In particular, pursuant to our audit committee charter, the chairman of the audit committee shall pre-approve all audit services to be provided to Kenon, whether provided by our independent registered public accounting firm or other firms, and all other services (review, attest and non-audit) to be provided to Kenon by the independent registered public accounting firm. Any decision of the chairman of the audit committee to pre-approve audit or non-audit services shall be presented to the audit committee.

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by KPMG LLP, and other member firms within the KPMG network, for the years ended December 31, 2018 and 2017.

	Year ended December 31,	
	2018	2017
	<i>(in thousands of USD)</i>	
Audit Fees ¹	\$ 2,948	\$ 5,170
Audit-Related Fees	1	2
Tax Fees ²	729	974
All Other Fees	472	—
Total	\$ 4,150	\$ 6,146

- (1) Includes fees billed or accrued for professional services rendered by the principal accountant, and member firms in their respective network, for the audit of our annual financial statements, and those of our consolidated subsidiaries, as well as additional services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements, except for those not required by statute or regulation.
- (2) Tax fees consist of fees for professional services rendered during the fiscal year by the principal accountant mainly for tax compliance and assistance with tax audits and appeals.

ITEM 16D. Exemptions from the Listing Standards for Audit Committees

None.

ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

ITEM 16F. Change in Registrant's Certifying Accountant

None.

ITEM 16G. Corporate Governance

There are no significant differences between Kenon's corporate governance practices and those followed by domestic companies under the listing standards of the NYSE. As a foreign private issuer, we are permitted to follow home country practice in lieu of the requirement to have a nominating and corporate governance committee comprised entirely of independent directors. One of the members of our nominating and corporate governance committee is non-independent under NYSE standards and accordingly we rely on the NYSE exemption for foreign private issuers in this respect.

ITEM 16H. Mine Safety Disclosure

Not applicable.

PART III

ITEM 17. Financial Statements

Not applicable.

ITEM 18. Financial Statements

The financial statements and the related notes required by this Item 18 are included in this annual report beginning on page F-1.

ITEM 19. Exhibits

Index to Exhibits

Exhibit Number	Description of Document
1.1	Kenon Holdings Ltd.'s Constitution (Incorporated by reference to Exhibit 1.1 to Amendment No. 1 to Kenon's Registration Statement on Form 20-F, filed on December 19, 2014)
2.1	Form of Specimen Share Certificate for Kenon Holdings Ltd.'s Ordinary Shares (Incorporated by reference to Exhibit 2.1 to Kenon's Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed on March 31, 2015)
2.2	Registration Rights Agreement, dated as of January 7, 2015, between Kenon Holdings Ltd. and Millenium Investments Elad Ltd. (Incorporated by reference to Exhibit 99.5 to Kenon's Report on Form 6-K, furnished to the SEC on January 8, 2015)
4.1	Sale, Separation and Distribution Agreement, dated as of January 7, 2015, between Israel Corporation Ltd. and Kenon Holdings Ltd. (Incorporated by reference to Exhibit 99.2 to Kenon's Report on Form 6-K, furnished to the SEC on January 8, 2015)
4.2	Gas Sale and Purchase Agreement, dated as of November 25, 2012, among Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Isramco Negev 2 Limited Partnership, Avner Oil Exploration Limited Partnership, Dor Gas Exploration Limited Partnership, and O.P.C. Rotem Ltd. (Incorporated by reference to Exhibit 10.8 to Amendment No. 1 to IC Power Pte. Ltd.'s Form F-1, filed on November 2, 2015) ¹
4.3	Facility Agreement, dated as of January 2, 2011, among O.P.C. Rotem Ltd., as borrower, Bank Leumi Le-Israel B.M., as arranger and agent, Bank Leumi Le-Israel Trust Company Ltd., as security trustee, and the senior lenders named therein (Incorporated by reference to Exhibit 4.10 to Kenon's Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed on March 31, 2015)
4.4	Guarantee Contract, dated as of June 9, 2015, between Kenon Holdings Ltd. and Chery Automobile Co. Ltd. (Incorporated by reference to Exhibit 4.12 to Kenon's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on April 22, 2016)
4.5	Guarantee Contract, dated as of November 5, 2015, between Kenon Holdings Ltd. and Chery Automobile Co. Ltd. (Incorporated by reference to Exhibit 4.13 to Kenon's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on April 22, 2016)
4.6	Release Agreement, dated December 21, 2016, between Kenon Holdings Ltd. and Chery Automobile Co. Ltd. (Incorporated by reference to Exhibit 4.21 to Kenon's Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on April 19, 2017)

4.7	Equity Pledge Contract, dated December 21, 2016, between Quantum (2007) LLC, as Pledgor, and Chery Automobile Co. Ltd., as Pledgee (Incorporated by reference to Exhibit 4.22 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on April 19, 2017)
4.8	Further Release and Cash Support Agreement, dated March 9, 2017, between Kenon Holdings Ltd. and Chery Automobile Co. Ltd. (Incorporated by reference to Exhibit 4.23 to Amendment No. 1 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on April 21, 2017)
4.9	The Second Equity Pledge Contract in relation to 700 Million Loan, dated March 9, 2017, between Quantum (2007) LLC, as Pledgor, and Chery Automobile Co. Ltd., as Pledgee (Incorporated by reference to Exhibit 4.24 to Amendment No. 1 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on April 21, 2017)
4.10	Share Purchase Agreement, dated November 24, 2017, among Inkia Energy, Ltd., IC Power Distribution Holdings, PTE. LTD., Nautilus Inkia Holdings LLC, Nautilus Distribution Holdings LLC and Nautilus Isthmus Holdings LLC
4.11	Deferred Payment Agreement, dated December 28, 2017, among Nautilus Energy Topco LLC, as Payee, ISQ Global Infrastructure Fund II, L.P., as Guarantor and Inkia Energy Limited, as Payor
4.12	Amended and Restated Pledge Agreement, dated February 15, 2018, between Kenon Holdings Ltd. and Nautilus Inkia Holdings LLC (Incorporated by reference to Exhibit 4.16 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2017, filed on April 9, 2018)
4.13	Qoros Automobile Company Limited Investment Agreement, dated May 23, 2017, as amended, among Hangzhou Chengmao Investment Co., Ltd., Wuhu Chery Automobile Investment Company Limited, Quantum (2007) LLC and Qoros Automobile Company Limited (Incorporated by reference to Exhibit 4.17 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2017, filed on April 9, 2018)
4.14	Joint Venture Contract, dated as of December 20, 2017, among Wuhu Chery Automobile Investment Co., Ltd., Quantum (2007) LLC and Hangzhou Chengmao Investment Co., Ltd (Incorporated by reference to Exhibit 4.18 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2017, filed on April 9, 2018)
4.15*	Sale and Purchase Agreement, dated January 6, 2019, between Quantum (2007) LLC and Hangzhou Chengmao Investment Co., Ltd.
4.16*	Senior Facilities Agreement, dated as of July 4, 2016, among Advanced Integrated Energy Ltd., as borrower, Israel Discount Bank Ltd. and Harel Insurance Company Ltd, as arrangers, Israel Discount Bank Ltd. as senior agent and security agent, and certain other entities, as senior lenders²
8.1*	List of subsidiaries of Kenon Holdings Ltd.
12.1*	Rule 13a-14(a)/15d-14(a) Certification of Co-Chief Executive Officer
12.2*	Rule 13a-14(a)/15d-14(a) Certification of Co-Chief Executive Officer
13.1*	Certification of Co-Chief Executive Officers and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of KPMG LLP, Independent Registered Public Accounting Firm of Kenon Holdings Ltd.
15.2*	Consent of Deloitte, Inc., Independent Registered Public Accounting Firm of the Combined Entities (Distribuidora de Electricidad de Oriente, S.A. and Distribuidora de Electricidad de Occidente, S.A.)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

- Portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Exchange Act. Omitted information has been filed separately with the SEC.
- Portions of this exhibit have been omitted because they are both (i) not material and (ii) would be competitively harmful if publicly disclosed.

Kenon Holdings Ltd. and subsidiaries

Consolidated Financial Statements

As at December 31, 2018, 2017 and 2016 and for the years then ended

Kenon Holdings Ltd.

Consolidated Financial Statements
as at December 31, 2018, 2017 and 2016 and for the years then ended

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KPMG LLP
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

Telephone +65 6213 3388
Fax +65 6225 0984
Internet www.kpmg.com.sg

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Kenon Holdings Ltd.:

Opinion on Internal Control Over Financial Reporting

We have audited Kenon Holdings Ltd and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2018 and 2017, the related consolidated statements of profit and loss, other comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the 'consolidated financial statements'), and our report dated April 8, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

*Public Accountants and
Chartered Accountants*

Singapore
April 8, 2019



KPMG LLP
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

Telephone +65 6213 3388
Fax +65 6225 0984
Internet www.kpmg.com.sg

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Kenon Holdings Ltd.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Kenon Holdings Ltd. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of profit and loss, other comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 8, 2019, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

We did not audit the combined financial statements of certain discontinued operations relating to Distribuidora de Electricidad de Occidente, S.A. ('DEOCSA') and Distribuidora de Electricidad de Oriente, S.A. ('DEORSA'), which statements constitute approximately \$16 million and \$36 million of both profit for the year from discontinued operations and profit/(loss) for the year, for the years ended December 31, 2017 and 2016, respectively. Those combined financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for DEOCSA and DEORSA, is based solely on the report of the other auditors.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

/s/ KPMG LLP

*Public Accountants and
Chartered Accountants*

We have served as the Company's auditor since 2015.

Singapore
April 8, 2019



Deloitte, Inc.
Contadores Públicos
Autorizados
RUC 16292-152-155203 D.V.
65
Torre Banco Panamá, piso 12
Avenida Boulevard y la
Rotonda
Costa del Este, Panamá
Apartado 0816-01558
Panamá, Rep. de Panamá

Teléfono: (507) 303-4100
Fax: (507) 269-2386
infopanama@deloitte.com
www.deloitte.com/pa

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Distribuidora de Electricidad de Occidente, S.A. and
Distribuidora de Electricidad de Oriente, S.A.
(Guatemalan Entities)

Opinion on the Combined Financial Statements

We have audited the combined statement of financial position of Distribuidora de Electricidad de Occidente, S.A. (DEOCSA) and Distribuidora de Electricidad de Oriente, S.A. (DEORSA, and together with DEOCSA, the “Combined Entities”) as of December 31, 2017, and 2016 and the related combined statements of profit or loss and other comprehensive income, changes in shareholders’ equity, and cash flows for each of the two years in the period ended December 31, 2017 (not presented herein) (collectively referred to as the “combined financial statements”). In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Combined Entities as of December 31, 2017 and 2016, and the combined results of their operations and their cash flows for each of the two years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

These combined financial statements are the responsibility of the Combined Entities’ management. Our responsibility is to express an opinion on the Combined Entities’ combined financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Combined Entities in accordance with the U. S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement, whether due to error or fraud. The Combined Entities are not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Combined Entities’ internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the combined financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that our audits provide a reasonable basis for our opinion.

Deloitte LATCO
Firma miembro de
Deloitte Touche Tohmatsu Limited

Emphasis of a Matter

As discussed in Note 30c of the Combined Entities' combined financial statements, in 2011, the previous owners of DEORSA and DEOCSA acquired the companies through a leveraged buy-out transaction. Years after the transaction, the Guatemalan Tax Authority (Superintendencia de Administración Tributaria, or the "SAT") raised questions concerning tax deductions for interest expenses and amortization of goodwill that derived from that transaction. This culminated in the issuance in February 2015 of two binding tax opinions, one for DEOCSA and another for DEORSA (the "Binding Opinions") addressing the deductions. The government of Guatemala changed in January 2016. After the new government took power, in July 2016, the SAT filed a complaint against DEORSA and DEOCSA (the "Complaint") in disregard of its own conclusions stated in the Binding Opinions, which Opinions remain in force as of this date. The Complaint requests the payment of alleged back taxes, interest, and fines in relation to tax years 2011 and 2012. On August 9, 2016, the court hearing the Complaint ordered the Combined Entities to pay Q.130,499 thousand (US\$17,171 thousand) in alleged back taxes immediately, plus interest and fines within 60 days following the court order, as a condition to lift an order freezing the bank accounts of the Combined Entities. Pursuant to this and another court order of 12 December 2016, on August 10, 2016, the Combined Entities paid Q. 130,499 thousand (US\$17,171 thousand) to the SAT corresponding to the alleged back taxes, and, on December 13, 2016, they paid Q192,974 thousand (US\$25,721 thousand) corresponding to the alleged fines and interest. Due to the actions of the government and in order to avoid the initiation of complaints concerning tax years 2013, 2014, and 2015, and the corresponding imposition of further fines and interest, the Combined Entities followed the instructions of the SAT and paid the alleged back taxes and interest for those years in the following manner: on 9 August 2016, the Combined Entities paid a total of Q. 137,505 thousand (US\$18,093 thousand) for the years 2014 and 2015; and on 19 August 2016, they paid a total of US\$13,189 thousand (Q.100,236 thousand) for the year 2013. In addition, during 2017 and 2016 the Combined Entities made additional payments of income tax in advance by Q.55,535 thousand (US\$7,527 thousand) and Q.40,729 thousand (US\$5,393 thousand), respectively, also considering non-deductible the items related to goodwill's amortization and interests (until May 2017) that were subject to the tax claim. Finally, in January 2018 a new payment of Q.9,545 thousand (US\$1,298 thousand) was made. The abovementioned measures were adopted in order not to put at risk the continuing operation and prevent irreversible damage to the Combined Entities. All payments were made under protest and subject to a broad reservation of rights, including but not limited to seeking restitution of such payments. The Combined Entities and their legal and tax advisors are of the view that the deductions for interest expenses and amortization of goodwill are legitimate tax deductions and are confident of their position under applicable legal frameworks. The Combined Entities are defending against the SAT Complaint and considering all available remedies with respect to this matter. Hence, the Combined Entities' Management considers, based on the opinion of its tax and legal advisors that the receivable generated by these payments is more likely than not to be recovered as a result of the final outcome of this claim and of the other recourses to be initiated by the Combined Entities. As of December 31, 2017 and 2016, the total tax claim amounts to US\$89,516 thousand (Q657,477 thousand) and US\$80,023 thousand (Q.601,943 thousand), respectively. This tax claim has been recorded as Non-current tax receivable.

/s/ Deloitte

Panama, Republic of Panama

March 29, 2018

We have served as the Combined Entities' auditor since 2016.

Kenon Holdings Ltd. and subsidiaries
Consolidated Statements of Financial Position as at December 31, 2018 and 2017

	<u>Note</u>	<u>As at December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>\$ Thousands</u>	
Current assets			
Cash and cash equivalents	5	131,123	1,417,388
Short-term investments and deposits	6	49,938	7,144
Trade receivables	7	35,548	44,137
Other current assets, including derivative instruments	8	41,514	35,752
Income tax receivable		-	220
Assets held for sale	9.F	69,592	-
Total current assets		<u>327,715</u>	<u>1,504,641</u>
Non-current assets			
Investments in associated companies	9	161,188	121,694
Deposits, loans and other receivables, including derivative instruments	11	140,023	106,717
Deferred payment receivable	12	189,166	175,000
Deferred taxes, net	25	632	-
Property, plant and equipment, net	13	635,088	616,164
Intangible assets, net	14	1,306	1,641
Total non-current assets		<u>1,127,403</u>	<u>1,021,216</u>
Total assets		<u>1,455,118</u>	<u>2,525,857</u>

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

Kenon Holdings Ltd. and subsidiaries
Consolidated Statements of Financial Position as at December 31, 2018 and 2017, continued

	<u>Note</u>	<u>As at December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>\$ Thousands</u>	
Current liabilities			
Loans and debentures	15	23,235	447,956
Trade payables	16	47,672	58,895
Other payables, including derivative instruments	17	12,072	82,522
Provisions	18	-	44,342
Income tax payable		6,939	172,607
Total current liabilities		<u>89,918</u>	<u>806,322</u>
Non-current liabilities			
Loans, excluding current portion	15	487,759	503,785
Debentures, excluding current portion	15	75,476	84,758
Deferred taxes, net	25	59,067	52,753
Income tax payable		26,811	26,811
Other non-current liabilities	17	369	81
Total non-current liabilities		<u>649,482</u>	<u>668,188</u>
Total liabilities		<u>739,400</u>	<u>1,474,510</u>
Equity			
	20		
Share capital		602,450	1,267,210
Shareholder transaction reserve		-	3,540
Translation reserve		802	(1,592)
Capital reserve		16,854	19,297
Accumulated profit/(loss)		28,917	(305,337)
Equity attributable to owners of the Company		<u>649,023</u>	<u>983,118</u>
Non-controlling interests		66,695	68,229
Total equity		<u>715,718</u>	<u>1,051,347</u>
Total liabilities and equity		<u>1,455,118</u>	<u>2,525,857</u>

Cyril Pierre-Jean Ducau
Chairman of Board of Directors

Robert L. Rosen
CEO

Mark Hasson
CFO

Approval date of the consolidated financial statements: April 8 , 2019

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

Kenon Holdings Ltd. and subsidiaries
Consolidated Statements of Profit & Loss for the years ended December 31, 2018, 2017 and 2016

	Note	For the year ended December 31,		
		2018	2017	2016
		\$ thousands		
Continuing Operations				
Revenue	22.A	364,012	365,704	324,253
Cost of sales and services (excluding depreciation)	22.B	(259,515)	(267,136)	(251,666)
Depreciation		(29,809)	(30,102)	(26,697)
Gross profit		74,688	68,466	45,890
Selling, general and administrative expenses	23	(34,031)	(56,292)	(47,095)
Write back/(impairment) of assets and investments	9.C.a	-	28,758	(72,263)
Other expenses		(613)	(51)	(229)
Other income		2,147	1,410	2,757
Financing expenses	24	(30,382)	(70,166)	(47,276)
Financing income	24	28,592	2,904	7,724
Financing expenses, net		(1,790)	(67,262)	(39,552)
Gain on third party investment in Qoros	9.C.b.2	504,049	-	-
Fair value loss on option	9.C.b.2	(39,788)	-	-
Write back/(provision) of financial guarantee	9.C.b.6.g	62,563	-	(130,193)
Share in losses of associated companies, net of tax	9.A.2	(105,257)	(110,665)	(186,215)
Profit/(loss) before income taxes		461,968	(135,636)	(426,900)
Income taxes	25	(11,499)	(72,809)	(2,252)
Profit/(loss) for the year from continuing operations		450,469	(208,445)	(429,152)
(Loss)/profit for the year from discontinued operations	1.B, 27	(5,631)	476,565	35,150
Profit/(loss) for the year		444,838	268,120	(394,002)
Attributable to:				
Kenon's shareholders		434,213	236,590	(411,937)
Non-controlling interests		10,625	31,530	17,935
Profit/(loss) for the year		444,838	268,120	(394,002)
Basic/diluted profit/(loss) per share attributable to Kenon's shareholders (in dollars):				
	26			
Basic/diluted profit/(loss) per share		8.07	4.40	(7.67)
Basic/diluted profit/(loss) per share from continuing operations		8.17	(4.00)	(8.08)
Basic/diluted (loss)/profit per share from discontinued operations		(0.10)	8.40	0.41

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

Kenon Holdings Ltd. and subsidiaries
Consolidated Statements of Other Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016

	For the year ended December 31,		
	2018	2017	2016
	\$ thousands		
Profit/(loss) for the year	444,838	268,120	(394,002)
Items that are or will be subsequently reclassified to profit or loss			
Foreign currency translation differences in respect of foreign operations	8,672	29,320	157
Foreign currency translation and capital reserves differences reclassified to profit or loss due to third party investment in Qoros	(15,073)	-	-
Group's share in other comprehensive loss of associated companies	(177)	(1,239)	(3,968)
Change in fair value of derivatives used to hedge cash flows	491	19,489	14,397
Income taxes in respect of components other comprehensive loss	(104)	(6,142)	(1,507)
Total other comprehensive (loss)/income for the year	<u>(6,191)</u>	<u>41,428</u>	<u>9,079</u>
Total comprehensive income/(loss) for the year	<u>438,647</u>	<u>309,548</u>	<u>(384,923)</u>
Attributable to:			
Kenon's shareholders	432,576	270,175	(407,749)
Non-controlling interests	6,071	39,373	22,826
Total comprehensive income/(loss) for the year	<u>438,647</u>	<u>309,548</u>	<u>(384,923)</u>

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

Kenon Holdings Ltd. and subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2018, 2017 and 2016

	Note	Attributable to the owners of the Company					Non-controlling interests	Total	
		Share Capital	Shareholder transaction reserve	Translation reserve	Capital reserve	Accumulated profit/(loss)	Total		
\$ Thousands									
Balance at January 1, 2018		1,267,210	3,540	(1,592)	19,297	(305,337)	983,118	68,229	1,051,347
Share based payments		-	-	-	1,411	-	1,411	403	1,814
Capital distribution	20.A	(664,760)	-	-	-	-	(664,760)	-	(664,760)
Dividend to holders of non-controlling interests in subsidiaries		-	-	-	-	-	-	(8,219)	(8,219)
Dividends paid	20.D	-	-	-	-	(100,118)	(100,118)	-	(100,118)
Transactions with controlling shareholder		-	(3,540)	-	-	-	(3,540)	-	(3,540)
Acquisition of shares of subsidiary from holders of rights not conferring control		-	-	-	-	336	336	4	340
Capital reserve in respect of transactions with holders of non-controlling interests		-	-	-	-	-	-	207	207
Total comprehensive income for the year		-	-	-	-	-	-	-	-
Net profit for the year		-	-	-	-	434,213	434,213	10,625	444,838
Other comprehensive income/(loss) for the year, net of tax		-	-	2,394	(3,854)	(177)	(1,637)	(4,554)	(6,191)
Balance at December 31, 2018		602,450	-	802	16,854	28,917	649,023	66,695	715,718

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

Kenon Holdings Ltd. and subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2018, 2017 and 2016

	Attributable to the owners of the Company					Non- controlling interests	Total	
	Share Capital	Shareholder transaction reserve	Translation reserve	Capital reserve	Accumulated profit/(loss)			Total
Note	\$ Thousands							
Balance at January 1, 2017	1,267,450	26,559	(21,745)	11,575	(602,598)	681,241	212,963	894,204
Share based payments	(240)	-	-	748	-	508	449	957
Dividend to holders of non-controlling interests in subsidiaries	-	-	-	-	-	-	(33,848)	(33,848)
Capital reduction to non-controlling interests in subsidiaries	-	-	-	-	-	-	(13,805)	(13,805)
Sale of Colombian assets	-	-	-	-	-	-	(8,890)	(8,890)
Non-controlling interests in respect of business combination	-	-	-	-	-	-	(50)	(50)
Sale of subsidiaries - Latin America and Caribbean businesses	-	-	(5,650)	2,045	-	(3,605)	(170,513)	(174,118)
Dilution of investment in subsidiary	21	-	299	(4,691)	62,210	57,818	42,550	100,368
Fair value of shareholder loan	-	(23,019)	-	-	-	(23,019)	-	(23,019)
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	236,590	236,590	31,530	268,120
Other comprehensive income/(loss) for the year, net of tax	-	-	25,504	9,620	(1,539)	33,585	7,843	41,428
Balance at December 31, 2017	<u>1,267,210</u>	<u>3,540</u>	<u>(1,592)</u>	<u>19,297</u>	<u>(305,337)</u>	<u>983,118</u>	<u>68,229</u>	<u>1,051,347</u>

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

Kenon Holdings Ltd. and subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2018, 2017 and 2016

	Attributable to the owners of the Company						Non- controlling interests	Total
	Share Capital	Shareholder transaction reserve	Translation reserve	Capital reserve	Accumulated profit/(loss)	Total		
	Note	\$ Thousands						
Balance at January 1, 2016	1,267,210	-	(16,916)	2,212	(191,292)	1,061,214	202,341	1,263,555
Share based payments	240	-	-	307	-	547	285	832
Dividend to holders of non- controlling interests in a subsidiary	-	-	-	-	-	-	(35,255)	(35,255)
Acquisition of non- controlling interest in subsidiary	-	-	-	-	670	670	20,325	20,995
Contribution from non-controlling interest	-	-	-	-	-	-	2,441	2,441
Transactions with controlling shareholder	9.C.b.6	-	3,540	-	-	3,540	-	3,540
Gain in fair value of shareholder loan	9.C.b.5	-	23,019	-	-	23,019	-	23,019
Total comprehensive income for the year								
Net (loss)/profit for the year	-	-	-	-	(411,937)	(411,937)	17,935	(394,002)
Other comprehensive (loss)/income for the year, net of tax	-	-	(4,829)	9,056	(39)	4,188	4,891	9,079
Balance at December 31, 2016	<u><u>1,267,450</u></u>	<u><u>26,559</u></u>	<u><u>(21,745)</u></u>	<u><u>11,575</u></u>	<u><u>(602,598)</u></u>	<u><u>681,241</u></u>	<u><u>212,963</u></u>	<u><u>894,204</u></u>

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

Kenon Holdings Ltd. and subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2018, 2017 and 2016

	For the year ended December 31		
	2018	2017	2016
	\$ Thousands		
Cash flows from operating activities			
Profit/(loss) for the year	444,838	268,120	(394,002)
Adjustments:			
Depreciation and amortization	30,416	178,461	172,381
Impairment/(write back) of assets and investments	4,812	(8,314)	72,263
Financing expenses, net	1,790	275,799	171,118
Share in losses of associated companies, net	105,257	109,980	185,592
Capital (gains)/losses, net *	—	(25,529)	2,534
Loss on disposal of property, plant and equipment, net	206	—	—
Net change in fair value of derivative financial instruments	1,002	—	—
(Write back)/provision of financial guarantee	(62,563)	—	130,193
Bad debt expense	—	7,866	4,896
Gain on third party investment in Qoros	(504,049)	—	—
Fair value loss on option	39,788	—	—
Write down of other payables	489	—	—
Share-based payments	1,814	957	832
Income taxes	16,244	278,447	59,334
	<u>80,044</u>	<u>1,085,787</u>	<u>405,141</u>
Change in inventories	—	1,291	(40,076)
Change in trade and other receivables	9,192	(62,436)	(68,634)
Change in trade and other payables	(35,311)	(568,364)	22,835
Change in provisions and employee benefits	—	2,021	(41,243)
Cash generated from operating activities	<u>53,925</u>	<u>458,299</u>	<u>278,023</u>
Income taxes paid, net	(1,546)	(66,830)	(116,429)
Dividends received from investments in associates	—	382	743
Net cash provided by operating activities	<u>52,379</u>	<u>391,851</u>	<u>162,337</u>

* Mainly relate to (gains)/losses from disposal of property, plant and equipment.

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

Kenon Holdings Ltd. and subsidiaries
Consolidated Statements of Cash Flows, continued
For the years ended December 31, 2018, 2017 and 2016

	Note	For the year ended December 31,		
		2018	2017	2016
		\$ Thousands		
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment and intangible assets		66	4,727	426
Short-term deposits and loans, net		(28,511)	(4,876)	222,451
Investment in long-term deposits, net		(13,560)	—	—
Cash paid for businesses purchased, less cash acquired		—	—	(206,059)
Cash paid for asset acquisition, less cash acquired		(2,344)	—	—
Sale of subsidiaries - Latin America and Caribbean businesses, net of cash disposed off	27	—	792,585	—
Income tax paid		(169,845)	—	—
Sale of Colombian assets, net of cash disposed off		—	600	—
Investment in associates		(90,154)	—	(111,153)
Sale of securities held for trade and available for sale, net		—	—	17,334
Acquisition of property, plant and equipment		(69,314)	(227,601)	(280,955)
Acquisition of intangible assets		(132)	(10,412)	(9,598)
Proceeds from realization of long-term deposits		18,476	4,655	—
Interest received		12,578	6,825	6,143
Proceeds from transactions in derivatives, net		31	—	—
Proceeds from dilution of third party investment in Qoros		259,749	—	—
Payment of consideration retained		—	—	(2,204)
Receipt/(payment) to release financial guarantee		18,336	(72,278)	(36,023)
Payment of transaction cost for sale of subsidiaries		(48,759)	—	—
Energuate purchase adjustment		—	10,272	—
Insurance claim received		—	80,000	—
Net cash (used in)/provided by investing activities		(113,383)	584,497	(399,638)
Cash flows from financing activities				
Dividend paid to non-controlling interests		(8,219)	(29,443)	(32,694)
Dividends paid		(100,084)	—	—
Capital distribution		(664,700)	—	—
Proceeds from issuance of shares to holders of non-controlling interests in subsidiaries		—	100,478	9,468
Payment of issuance expenses related to long term debt		—	(34,391)	—
Payment of consent fee		—	(4,547)	—
Receipt of long-term loans and issuance of debentures		33,762	1,938,877	799,481
Repayment of long-term loans and debentures		(376,412)	(1,506,553)	(444,976)
Short-term credit from banks and others, net		(77,073)	(126,287)	(5,477)
Payment of swap unwinding and early repayment fee		—	(46,966)	—
Purchase of non-controlling interest		—	(13,805)	—
Interest paid		(24,875)	(180,242)	(151,241)
Net cash (used in)/provided by financing activities		(1,217,601)	97,121	174,561
(Decrease)/increase in cash and cash equivalents		(1,278,605)	1,073,469	(62,740)
Cash and cash equivalents at beginning of the year		1,417,388	326,635	383,953
Effect of exchange rate fluctuations on balances of cash and cash equivalents		(7,660)	17,284	5,422
Cash and cash equivalents at end of the year		131,123	1,417,388	326,635

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

Kenon Holdings Ltd.
Notes to the consolidated financial statements

Note 1 – Financial Reporting Principles and Accounting Policies

A. The Reporting Entity

Kenon Holdings Ltd (the “Company” or “Kenon”) was incorporated on March 7, 2014 in the Republic of Singapore under the Singapore Companies Act. Our principal place of business is located at 1 Temasek Avenue #36-01, Millenia Tower, Singapore 039192.

The Company is a holding company and was incorporated to receive investments spun-off from their former parent company, Israel Corporation Ltd. (“IC”). The Company was formed to serve as the holding company of several businesses (together referred to as the “Group”).

Kenon shares are traded on New York Stock Exchange (“NYSE”) and on Tel Aviv Stock Exchange (“TASE”) (NYSE and TASE: KEN).

B. Sale of power business

In December 2017, Kenon, through its wholly-owned subsidiary Inkia Energy Limited (“Inkia”), sold its Latin American and Caribbean power business to an infrastructure private equity firm, I Squared Capital (“ISQ”). As a result, the Latin American and Caribbean businesses were classified as discontinued operations. Associated results of operations are separately reported for all periods presented. See Note 28 for further information.

C. Definitions

In these consolidated financial statements -

1. Subsidiaries – Companies whose financial statements are fully consolidated with those of Kenon, directly or indirectly.
2. Associates – Companies in which Kenon has significant influence and Kenon’s investment is stated, directly or indirectly, on the equity basis.
3. Investee companies – subsidiaries and/or associated companies.
4. Related parties – within the meaning thereof in International Accounting Standard (“IAS”) 24 “*Related Parties*” .

Note 2 – Basis of Preparation of the Financial Statements

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

The consolidated financial statements were prepared by management of the Group in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were approved for issuance by the Company’s Board of Directors on April 8 , 2019.

B. Functional and presentation currency

These consolidated financial statements are presented in US dollars, which is Kenon’s functional currency, and have been rounded to the nearest thousands, except where otherwise indicated. The US dollar is the currency that represents the principal economic environment in which Kenon operates.

C. Basis of measurement

The consolidated financial statements were prepared on the historical cost basis, with the exception of the following assets and liabilities:

- Deferred tax assets and liabilities
- Provisions
- Assets and liabilities in respect of employee benefits
- Investments in associates
- Qoros put option

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

For additional information regarding measurement of these assets and liabilities – see Note 3 “Significant Accounting Policies”.

D. Use of estimates and judgment

The preparation of consolidated financial statements in conformity with IFRS 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 preparation of accounting estimates used in the preparation of the consolidated financial statements requires management of the Group to make assumptions regarding circumstances and events that involve considerable uncertainty. Management prepares the estimates based on past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

1. Recoverable amount of non-financial assets and Cash Generating Units

Each reporting date, the management of the Group examines whether there have been any events or changes in circumstances which would indicate impairment of one or more of its non-financial assets or Cash Generating Units (“CGUs”). When there are indications of impairment, an examination is made as to whether the carrying amount of the non-financial assets or CGUs exceeds their recoverable amount, and if necessary, an impairment loss is recognized. Assessment of the impairment of goodwill and of other intangible assets having an indeterminable life is performed at least once a year or when signs of impairment exist.

The recoverable amount of the asset or CGU is determined based on the higher of the fair value less selling costs of the asset or CGU and the present value of the future cash flows expected from the continued use of the asset or CGU in its present condition, including the cash flows expected upon retiring the asset from service and its eventual sale (value in use).

The future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

The estimates regarding future cash flows are based on past experience with respect to this asset or similar assets (or CGUs), and on the Group’s best possible assessments regarding the economic conditions that will exist during the remaining useful life of the asset or CGU.

The estimate of the future cash flows relies on the Group’s budget and other forecasts. Since the actual cash flows may differ, the recoverable amount determined could change in subsequent periods, such that an additional impairment loss needs to be recognized or a previously recognized impairment loss needs to be reversed.

2. Fair value of derivative financial instruments (including Qoros put option)

The Group is a party to derivative financial instruments used to hedge foreign currency risks, interest risks and price risks. The derivatives are recorded based on their respective fair values. The fair value of the derivative financial instruments is determined using acceptable valuation techniques that characterize the different derivatives, maximizing the use of observable inputs. Fair value measurement of long-term derivatives takes into account the counterparties credit risks. Changes in the economic assumptions and/or valuation techniques could give rise to significant changes in the fair value of the derivatives.

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

3. Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase gain is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in profit or loss.

Any contingent consideration is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

4. Contingent Liabilities

From time to time, the Group is involved in routine litigation that arises in the ordinary course of business. Provisions for litigation are recognized as set out in Note 3(N). Contingent liabilities for litigation and other claims do not result in provisions, but are disclosed in Note 19. The outcomes of legal proceedings with the Group are subjected to significant uncertainty and changes in factors impacting management's assessments could materially impact the consolidated financial statements.

Note 3 – Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, unless otherwise stated.

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

Commencing on January 1, 2018, the Group implemented the new accounting standards and amendments as described below:

(1) IFRS 9 (2014), Financial Instruments

i) The accounting for financial assets before January 1, 2018 are as follows:

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit and loss, held-to-maturity financial assets, loans and receivables and held-for-sale financial assets.

The Group classifies non- financial liabilities into the other financial liabilities categories.

a) Non-derivative financial assets and financial liabilities - recognition and de-recognition

The Group initially recognizes loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognized initially on the trade date.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership are transferred and does not retain control over the transferred asset. Any interest in such derecognized financial asset that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged, or cancelled or expire.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

b) Non-derivative financial assets – measurement

Financial assets at fair value through profit and loss	A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, including any interest or dividend income, are recognized in profit or loss.
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Held-to-maturity financial assets	These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.
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Loans and receivables	These assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses.
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Held-for-sale financial assets	These assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognized in Other Comprehensive Income (“OCI”) and accumulated in the fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.
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Note 3 – Significant Accounting Policies (Cont'd)

c) Non-derivative financial liabilities - Measurement

Non-derivative financial liabilities include loans and credit from banks and others, debentures, trade and other payables and finance lease liabilities.

Non-derivative financial liabilities are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

d) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are recognized initially at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

e) Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount accumulated in equity is retained in OCI and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

f) Financial guarantees

A financial guarantee is initially recognized at fair value. In subsequent periods, a financial guarantee is measured at the higher of the amount recognized in accordance with the guidelines of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the liability initially recognized under IAS 39 Financial Instruments: Recognition and Measurement and subsequently amortized in accordance with the guidelines of IAS 18 Revenue. Any resulting adjustment of the liability is recognized in profit or loss.

ii) Commencing in the first quarter of 2018, the Group implemented IFRS 9 (2014), Financial Instruments (in this section: “the Standard” or “IFRS 9”), which supersedes IAS 39, Financial Instruments: Recognition and Measurement (in this section: “IAS 39”). The Group has elected to implement the Standard as from January 1, 2018, without adjustment of the comparative figures.

All financial instruments that under IAS 39 had been allocated to the loans and receivables measurement group, have been reallocated to the amortized cost measurement group pursuant to the provisions of IFRS 9. The first-time implementation of IFRS 9 did not have a material effect on the opening balances of retained earnings and other equity components.

Presented below are the principal changes in the accounting policy following the implementing of the Standard, commencing on January 1, 2018:

a) Classification and measurement of financial assets and financial liabilities

Initial recognition and measurement

The Group initially recognizes trade receivables on the date that they are originated. All other financial assets and financial liabilities are initially recognized on the date on which the Group becomes a party to the contractual provisions of the instrument. As a rule, a financial asset or a financial liability are initially measured at fair value with the addition, for a financial asset or a financial liability that are not presented at fair value through profit or loss, of transaction costs that can be directly attributed to the acquisition or the issuance of the financial asset or the financial liability. Trade receivables that do not contain a significant financing component are initially measured at the price of the related transaction. Trade receivables originating in contract assets are initially measured at the carrying amount of the contract assets on the date of reclassification from contract assets to receivables.

Note 3 – Significant Accounting Policies (Cont'd)

Financial assets - subsequent classification and measurement

On initial recognition, financial assets are classified to measurement at amortized cost.

Financial assets are not reclassified in subsequent periods, unless, and only to the extent that the Group changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets the two following cumulative conditions and is not designated for measurement at fair value through profit or loss:

- The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows; and
- The contractual terms of the financial asset create entitlement on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group has balances of trade and other receivables and deposits that are held under a business model the objective of which is collection of the contractual cash flows. The contractual cash flows in respect of such financial assets comprise solely payments of principal and interest that reflects consideration for the time-value of the money and the credit risk. Accordingly, such financial assets are measured at amortized cost.

Financial assets at amortized cost

In subsequent periods, these assets are measured at amortized cost, using the effective interest method and net of impairment losses. Interest income, currency exchange gains or losses and impairment are recognized in profit or loss. Any gains or losses on derecognition are also carried to profit or loss.

b) Financial assets at fair value through profit or loss

In subsequent periods, these assets are measured at fair value. Net gains and losses are carried to profit or loss.

Financial liabilities - classification, subsequent measurement and gains and losses

Financial liabilities are classified to measurement at amortized cost or at fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured at fair value, and any net gains and losses, including any interest expenses, are recognized in profit or loss. Other financial liabilities are measured at amortized cost in subsequent periods, using the effective interest method. Interest expenses and currency exchange gains and losses are recognized in profit or loss. Any gains or losses on derecognition are also carried to profit or loss.

Derecognition of financial liabilities

Financial liabilities are derecognized when the contractual obligation of the Group expires or when it is discharged or canceled. Additionally, a significant amendment of the terms of an existing financial liability, or an exchange of debt instruments having substantially different terms, between an existing borrower and lender, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value.

The difference between the carrying amount of the extinguished financial liability and the consideration paid (including any other non-cash assets transferred or liabilities assumed), is recognized in profit or loss. In the event of a non-material modification of terms (or exchange of debt instruments), the new cash flows are discounted at the original effective interest rate and the difference between the present value of financial liability under the new terms and the present value of the original financial liability is recognized in profit or loss.

Note 3 – Significant Accounting Policies (Cont'd)

c) **Impairment**

Financial assets, contract assets and receivables on a lease

The Group creates a provision for expected credit losses in respect of:

- Contract assets (as defined in IFRS 15).
- Financial assets measured at amortized cost.

The Group has elected to measure the provision for expected credit losses in respect of trade receivables, contract assets and receivables on a lease at an amount that is equal to the credit losses expected over the life of the instrument.

In assessing whether the credit risk of a financial asset has significantly increased since initial recognition and in assessing expected credit losses, the Group takes into consideration information that is reasonable and verifiable, relevant and attainable at no excessive cost or effort. Such information comprises quantitative and qualitative information, as well as an analysis, based on the past experience of the Group and the reported credit assessment, and contains forward-looking information.

The Group assumes that the credit risk of a financial asset has increased significantly since initial recognition whenever contractual payments are more than 30 days in arrears.

The Group considers a financial asset to be in default if:

- It is not probable that the borrower will fully meet its payment obligations to the Company, and the Company has no right to perform actions such as the realization of collaterals (if any); or
- The contractual payments in respect of the financial asset are more than 90 days in arrears.

The Group considers a debt instrument as having a low credit risk if its credit risk coincides with the global structured definition of “investment rating”.

The credit losses expected over the life of the instrument are expected credit losses arising from all potential default events throughout the life of the financial instrument.

Expected credit losses in a 12-month period are the portion of the expected credit losses arising from potential default events during the period of 12 months from the reporting date.

The maximum period that is taken into account in assessing the expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses represent a probability-weighted estimate of credit losses. Credit losses are measured at the present value of the difference between the cash flows to which the Group is entitled under the contract and the cash flows that the Group expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial asset.

Financial assets impaired by credit risk

At each reporting date, the Group assesses whether financial assets that are measured at amortized cost and debt instruments that are measured at fair value through other comprehensive income have become impaired by credit risk. A financial asset is impaired by credit risk upon the occurrence of one or more of the events that adversely affect the future cash flows estimated for such financial asset.

Note 3 – Significant Accounting Policies (Cont'd)

Presentation of impairment

A provision for expected credit losses in respect of a financial asset that is measured at amortized cost is presented as a reduction of the gross carrying amount of the financial asset.

The provision for expected credit losses in respect of investments in debt instruments that are measured at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

Impairment losses in respect of trade and other receivable, including contract assets, are presented separately in the statements of profit or loss and other comprehensive income. Impairment losses in respect of other financial assets are presented under financing expenses.

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments.

Derivatives are recognized initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

Hedge accounting

As of December 31, 2018, hedge relationships designated for hedge accounting under IAS 39 qualify for hedge accounting under IFRS 9, and are therefore deemed as continuing hedge relationships.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount accumulated in equity is retained in OCI and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

Financial guarantees

A financial guarantee is initially recognized at fair value. In subsequent periods, a financial guarantee is measured at the higher of the amount recognized in accordance with the guidelines of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the liability initially recognized under IFRS 9 Financial Instruments and subsequently amortized in accordance with the guidelines of IFRS 15 Revenue from Contracts with Customers. Any resulting adjustment of the liability is recognized in profit or loss.

Note 3 – Significant Accounting Policies (Cont'd)

(2) IFRS 15, Revenue from Contracts with Customers

On January 1, 2018, the Group has implemented for the first time International Financial Reporting Standard No. 15 (in this section: “IFRS 15” or “the Standard”), which sets out guidelines for revenue recognition.

The Group has elected to implement the Standard using the catch-up approach, with an adjustment of the balance of retained earnings as of January 1, 2018, and without restatement of the comparative figures. The first-time implementation of the Standard did not have a material cumulative effect on the financial statements as of January 1, 2018. Thus, no adjustment was made.

The Standard presents a new five-step model for the recognition of revenue from contracts with customers:

- (1) Identifying the contract with the customer.
- (2) Identifying separate performance obligations in the contract.
- (3) Determining the transaction price.
- (4) Allocating the transaction price to separate performance obligations.
- (5) Recognizing revenue when the performance obligations are satisfied.

Presented in Note 3(O) are the principals of the new accounting policy for revenue recognition, as applied following the adoption of IFRS 15, commencing on January 1, 2018.

(3) IFRIC 22, Foreign Currency Transactions and Advance Consideration

The Interpretation determines that the date of the transaction, for the purpose of determining the exchange rate in recognizing a foreign-currency transaction involving advances, is the date of initial recognition by the Group of the non-monetary asset/liability in respect of the advance. If there are multiple payments or receipts in advance, the Group will establish a date of transaction for each payment/receipt.

The Interpretation was applied prospectively.

B. Basis for consolidation/ combination

(1) Business combinations

The Group accounts for all business combinations according to the acquisition method.

The acquisition date is the date on which the Group obtains control over an acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred less the net amount of the fair value of identifiable assets acquired less the fair value of liabilities assumed.

If the Group pays a bargain price for the acquisition (meaning including negative goodwill), it recognizes the resulting gain in profit or loss on the acquisition date.

The Group recognizes contingent consideration measured at fair value at the acquisition date. The contingent consideration that meets the definition of a financial instrument that is not classified as equity will be measured at fair value through profit or loss; except for non-derivative financial instrument contingent consideration which will be measured through other comprehensive income.

Furthermore, goodwill is not adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.

Costs associated with acquisitions that were incurred by the acquirer in the business combination such as: finder’s fees, advisory, legal, valuation and other professional or consulting fees are expensed in the period the services are received.

Note 3 – Significant Accounting Policies (Cont'd)

(2) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date when control ceased. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

The Company has no interest in structured entities as of December 31, 2018, 2017 and 2016.

(3) Non-Controlling Interest (“NCI”)

NCI comprises the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company, and they include additional components such as: share-based payments that will be settled with equity instruments of the subsidiaries and options for shares of subsidiaries.

NCIs are measured at their proportionate share of the acquiree’s identifiable net assets at the acquisition date.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Transactions with NCI, while retaining control

Transactions with NCI while retaining control are accounted for as equity transactions. Any difference between the consideration paid or received and the change in NCI is included directly in equity.

Allocation of comprehensive income to the shareholders

Profit or loss and any part of other comprehensive income are allocated to the owners of the Group and the NCI. Total comprehensive income is allocated to the owners of the Group and the NCI even if the result is a negative balance of NCI.

Furthermore, when the holding interest in the subsidiary changes, while retaining control, the Group re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Group and the NCI.

Cash flows deriving from transactions with holders of NCI while retaining control are classified under “financing activities” in the statement of cash flows.

(4) Investments in equity-accounted investees

The Group’s interests in equity-accounted investees comprise interests in associates and a joint-venture.

Associates are entities in which the Group has the ability to exercise significant influence, but not control, over the financial and operating policies. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account.

Joint-venture is an arrangement in which the Group has joint control, whereby the Group has the rights to assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Associates and joint-venture are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group’s share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

The Group’s share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the Group’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term interests that form part thereof, is reduced to zero. When the Group’s share of long-term interests that form a part of the investment in the investee is different from its share in the investee’s equity, the Group continues to recognize its share of the investee’s losses, after the equity investment was reduced to zero, according to its economic interest in the long-term interests, after the aforesaid interests were reduced to zero. When the group’s share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the entity’s net investment in the associate, the recognition of further losses is discontinued except to the extent that the Group has an obligation to support the investee or has made payments on behalf of the investee.

Note 3 – Significant Accounting Policies (Cont'd)

(5) Loss of significant influence

The Group discontinues applying the equity method from the date it loses significant influence in an associate and it accounts for the retained investment as a financial asset, as relevant.

On the date of losing significant influence, the Group measures at fair value any retained interest it has in the former associate. The Group recognizes in profit or loss any difference between the sum of the fair value of the retained interest and any proceeds received from the partial disposal of the investment in the associate or joint venture, and the carrying amount of the investment on that date.

Amounts recognized in equity through other comprehensive income with respect to such associates are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the associate had itself disposed the related assets or liabilities.

(6) Change in interest held in equity accounted investees while retaining significant influence

When the Group increases its interest in an equity accounted investee while retaining significant influence, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest remains the same.

When there is a decrease in the interest in an equity accounted investee while retaining significant influence, the Group derecognizes a proportionate part of its investment and recognizes in profit or loss a gain or loss from the sale under other income or other expenses.

Furthermore, on the same date, a proportionate part of the amounts recognized in equity through other comprehensive income with respect to the same equity accounted investee are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the associate had itself realized the same assets or liabilities.

(7) Intra-group Transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(8) Reorganizations under Common Control Transactions

Common control transactions that involve the setup of a new group company and the combination of entities under common control are recorded using the book values of the parent company.

Note 3 – Significant Accounting Policies (Cont'd)

C. Foreign currency

(1) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary items measured at historical cost would be reported using the exchange rate at the date of the transaction.

Foreign currency differences are generally recognized in profit or loss, except for differences relating to qualifying cash flow hedges to the extent the hedge is effective which are recognized in other comprehensive income.

(2) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into US dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US dollars at average exchange rates over the relevant period.

Foreign operation translation differences are recognized in other comprehensive income.

When the foreign operation is a non-wholly-owned subsidiary of the Group, then the relevant proportionate share of the foreign operation translation difference is allocated to the NCI.

When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal.

Furthermore, when the Group's interest in a subsidiary that includes a foreign operation changes, while retaining control in the subsidiary, a proportionate part of the cumulative amount of the translation difference that was recognized in other comprehensive income is reattributed to NCI.

The Group disposes of only part of its investment in an associate that includes a foreign operation, while retaining significant influence, the proportionate part of the cumulative amount of the translation difference is reclassified to profit or loss.

Generally, foreign currency differences from a monetary item receivable from or payable to a foreign operation, including foreign operations that are subsidiaries, are recognized in profit or loss in the consolidated financial statements.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and are presented within equity in the translation reserve.

D. Cash and Cash Equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Note 3 – Significant Accounting Policies (Cont'd)

E. Property, plant and equipment, net

(1) Recognition and measurement

Items of property, plant and equipment comprise mainly power station structures, power distribution facilities and related offices. These items are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

- The cost of materials and direct labor;
- Any other costs directly attributable to bringing the assets to a working condition for their intended use;
- When the Group has an obligation to remove the assets or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalized borrowing costs.

If significant parts of an item of property, plant and equipment items have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss in the year the asset is derecognized.

(2) Subsequent Cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group, and its cost can be measured reliably.

(3) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

The following useful lives shown on an average basis are applied across the Group:

	Years
Land, roads and buildings	30
Installations, machinery and equipment	5 – 25
Dams	18 – 80
Office furniture, motor vehicles and other equipment	3 – 16
Computer	3
Leasehold improvements (*)	3 – 30

* The shorter of the lease term and useful life

Depreciation methods, useful lives and residual values are reviewed by management of the Group at each reporting date and adjusted if appropriate.

Note 3 – Significant Accounting Policies (Cont'd)

F. Intangible assets, net

(1) Recognition and measurement

Goodwill	Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment; and any impairment loss is allocated to the carrying amount of the equity investee as a whole.
Software	Software acquired by the Group and have a finite useful life are measured at cost less accumulated amortization and any accumulated impairment losses.
Concessions	Intangible assets granted by the Energy and Mining Ministry of Guatemala to DEORSA and DEOCSA to operate power distribution business in defined geographic areas, and acquired as part of business combination. The Group measures Concessions at cost less accumulated amortization and any accumulated impairment losses.
Customer relationships	Intangible assets acquired as part of a business combination and are recognized separately from goodwill if the assets are separable or arise from contractual or other legal rights and their fair value can be measured reliably. Customer relationships are measured at cost less accumulated amortization and any accumulated impairment losses.
Other intangible assets	Other intangible assets, including licenses, patents and trademarks, which are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(2) Amortization

Amortization is calculated to charge to expense the cost of intangible assets less their estimated residual values using the straight-line method over their useful lives, and is generally recognized in profit or loss. Goodwill is not amortized.

The estimated useful lives for current and comparative year are as follows:

- Concessions 33 years*
- Customer relationships 1-12 years
- Software 3-10 years
- Others 5-27 years

* The concessions are amortized over the remaining life of the licenses from the date of the business combination.

Amortization methods and useful lives are reviewed by management of the Group at each reporting date and adjusted if appropriate.

G. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill is expensed as incurred.

Note 3 – Significant Accounting Policies (Cont'd)

H. Service Concession arrangements

The Group has examined the characteristics, conditions and terms currently in effect under its electric energy distribution license and the guidelines established by IFRIC 12. On the basis of such analysis, the Group concluded that its license is outside the scope of IFRIC 12, primarily because the grantor does not control any significant residual interest in the infrastructure at the end of the term of the arrangement and the possibility of renewal.

The Group accounts for the assets acquired or constructed in connection with the Concessions in accordance with IAS 16 Property, plant and equipment.

I. Leases

(1) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Asset held under other leases are classified as operating leases and are not recognized in the Group's consolidated statement of financial position.

(2) Lease payments

Payments made under operating leases, other than conditional lease payments, are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

J. Inventories

Inventories are measured at the lower of cost and net realizable value. Inventories consist of fuel, spare parts, materials and supplies. Cost is determined by using the average cost method.

K. Borrowing costs

Specific and non-specific borrowing costs are capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use. Non-specific borrowing costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources which were not specifically capitalized. Foreign currency differences from credit in foreign currency are capitalized if they are considered an adjustment of interest costs. Other borrowing costs are expensed as incurred. Income earned on the temporary investment of specific credit received for investing in a qualifying asset is deducted from the borrowing costs eligible for capitalization.

Note 3 – Significant Accounting Policies (Cont'd)

L. Impairment of non-financial assets

At each reporting date, management of the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment or whenever impairment indicators exist.

For impairment testing, assets are grouped together into smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Goodwill arising from a business combination is allocated to CGUs or group of CGUs that are expected to benefit from these synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

M. Employee benefits

(1) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.

(2) Bonus plans transactions

The Group's senior executives receive remuneration in the form of share-appreciations rights, which can only be settled in cash (cash-settled transactions). The cost of cash-settled transactions is measured initially at the grant date. With respect to grants made to senior executives of OPC Energy Ltd ("OPC"), this benefit is calculated by determining the present value of the settlement (execution) price set forth in the plan. The liability is re-measured at each reporting date and at the settlement date based on the formulas described above. Any changes in the liability are recognized as operating expenses in profit or loss.

(3) Termination Benefits

Severance pay is charged to income statement when there is a clear obligation to pay termination of employees before they reach the customary age of retirement according to a formal, detailed plan, without any reasonable chance of cancellation. The benefits given to employees upon voluntary retirement are charged when the Group proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and the number of employee acceptances can be estimated reliably.

(4) Defined Benefit Plans

The calculation of defined benefit obligation is performed at the end of each reporting period by a qualified actuary using the projected unit credit method. Remeasurements of the defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. Interest expense and other expenses related to defined benefit plan are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Note 3 – Significant Accounting Policies (Cont'd)

(5) Share-based compensation plans

Qualifying employees are awarded grants of the Group's shares under the Group's 2014 Share Incentive Plan. The fair value of the grants are recognized as an employee compensation expense, with a corresponding increase in equity. The expense is amortised over the service period – the period that the employee must remain employed to receive the benefit of the award. At each balance sheet date, the Group revises its estimates of the number of grants that are expected to vest. It recognises the impact of the revision of original estimates in employee expenses and in a corresponding adjustment to equity over the remaining vesting period.

N. **Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

O. **Revenue recognition**

Revenue from electricity

Accounting policy applied commencing from January 1, 2018

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer. Revenue from sale of electricity is recognized in the period in which the sale takes place. The Group's revenues include mainly revenue from sale of electricity to private customers and to Israel Electric Company (IEC).

Identification of the contract

The Group treats a contract with a customer only where all of the following conditions are fulfilled:

- (A) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying their obligations thereunder;
- (B) The Group is able to identify the rights of each party in relation to the goods or services that are to be transferred;
- (C) The Group is able to identify the payment terms for the goods or services that are to be transferred;
- (D) The contract has commercial substance (i.e., the entity's risk, timing and amount of future cash flows are expected to change as a result of the contract); and
- (E) It is probable that the consideration to which the Group is entitled to in exchange for the goods or services transferred to the customer will be collected.

For purposes of Paragraph (E) the Group examines, among other things, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

Combination of contracts

The Group combines two or more contracts entered into on the same date or on proximate dates with the same customer (or related parties of the customer) and accounts for them as one contract when one or more of the following conditions are met:

Note 3 – Significant Accounting Policies (Cont'd)

- (A) Negotiations were held on the contracts as one package with a single commercial purpose;
- (B) The amount of the consideration in one contract depends on the price or performance of a different contract; or
- (C) The goods or services promised in the contracts (or certain goods or services promised in each one of the contracts) constitute a single performance obligation.

Identification of performance obligations

On the contract's inception date the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

- (A) Goods or services (or a bundle of goods or services) that are distinct; or
- (B) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is separately identifiable, the Group examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

In the area of sales of electricity, as part of the contracts with customers for sale of electricity, the Group identified one performance obligation in each contract

Determination of the transaction price

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of all the following elements when determining the transaction price: variable consideration, the existence of a significant financing component, non-cash consideration, and consideration payable to the customer.

Variable consideration

The transaction price includes fixed amounts and amounts that may change as a result of discounts, credits, price concessions, incentives, penalties, claims and disputes and contract modifications where the consideration in their respect has not yet been agreed to by the parties.

The Group includes the amount of the variable consideration, or part of it, in the transaction price only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Group revises the amount of the variable consideration included in the transaction price.

Discharge of performance obligations

Revenue is recognized when the Group discharges a performance obligation by transferring control over promised goods or services to the customer.

Contract costs

Incremental costs of obtaining a contract with a customer, such as sales fees to agents, are recognized as an asset when the Group is likely to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred, unless the customer can be billed for those costs.

Note 3 – Significant Accounting Policies (Cont'd)

Costs incurred to fulfill a contract with a customer and that are not covered by another standard are recognized as an asset when they: relate directly to a contract the Group can specifically identify; they generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and they are expected to be recovered. In any other case the costs are recognized as an expense as incurred.

Capitalized costs are amortized in the statement of income on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

In every reporting period, the Group examines whether the carrying amount of the asset recognized as aforesaid exceeds the consideration the entity expects to receive in exchange for the goods or services to which the asset relates, less the costs directly attributable to the provision of these goods or services that were not recognized as expenses, and if necessary an impairment loss is recognized in the statement of income.

Contract modifications

A contract modification is a change in the scope or price (or both) of a contract that was approved by the parties to the contract. A contract modification can be approved in writing, orally or be implied by customary business practices. A contract modification can take place also when the parties to the contract have a disagreement regarding the scope or price (or both) of the modification or when the parties have approved the modification in scope of the contract but have not yet agreed on the corresponding price modification.

When a contract modification has not yet been approved by the parties, the Group continues to recognize revenues according to the existing contract, while disregarding the contract modification, until the date the contract modification is approved or the contract modification is legally enforceable.

The Group accounts for a contract modification as an adjustment of the existing contract since the remaining goods or services after the contract modification are not distinct and therefore constitute a part of one performance obligation that is partially satisfied on the date of the contract modification. The effect of the modification on the transaction price and on the rate of progress towards full satisfaction of the performance obligation is recognized as an adjustment to revenues (increase or decrease) on the date of the contract modification, meaning on a catch-up basis.

Accounting policy applied in periods prior to January 1, 2018

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from the sale of electricity are recognized in the period in which the sale occurs. The Company's revenues are primarily from sale of electricity to private customers and to Israel Electric Company.

Note 3 – Significant Accounting Policies (Cont'd)

P. Government grants

Government grants related to distribution projects are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recorded at the value of the grant received and any difference between this value and the actual construction cost is recognized in profit or loss of the year in which the asset is released.

Government grants related to distribution assets are deducted from the related assets. They are recognized in statement of income on a systematic basis over the useful life of the related asset reducing the depreciation expense.

Q. Deposits received from consumers

Deposits received from consumers, plus interest accrued and less any outstanding debt for past services, are refundable to the users when they cease using the electric energy service rendered by the Group. The Group has classified these deposits as current liabilities since the Group does not have legal rights to defer these payments in a period that exceed a year. However, the Group does not anticipate making significant payments in the next year.

R. Energy purchase

Costs from energy purchases either acquired in the spot market or from contracts with suppliers are recorded on an accrual basis according to the energy actually delivered. Purchases of electric energy, including those which have not yet been billed as of the reporting date, are recorded based on estimates of the energy supplied at the prices prevailing in the spot market or agreed-upon in the respective purchase agreements, as the case may be.

S. Financing income and expenses

Financing income includes income from interest on amounts invested and gains from exchange rate differences. Interest income is recognized as accrued, using the effective interest method.

Financing expenses include interest on loans received, commitment fees on borrowings, and changes in the fair value of derivatives financial instruments presented at fair value through profit or loss, and exchange rate losses. Borrowing costs, which are not capitalized, are recorded in the income statement using the effective interest method.

In the statements of cash flows, interest received is presented as part of cash flows from investing activities. Dividends received are presented as part of cash flows from operating activities. Interest paid and dividends paid are presented as part of cash flows from financing activities. Accordingly, financing costs that were capitalized to qualifying assets are presented together with interest paid as part of cash flows from financing activities. Gains and losses from exchange rate differences and gains and losses from derivative financial instruments are reported on a net basis as financing income or expenses, based on the fluctuations on the rate of exchange and their position (net gain or loss).

The Group's finance income and finance costs include:

- Interest income;
- Interest expense;
- The net gain or loss on the disposal of held-for-sale financial assets;
- The net gain or loss on financial assets at fair value through profit or loss;
- The foreign currency gain or loss on financial assets and financial liabilities;
- The fair value loss on contingent consideration classified as financial liability;
- Impairment losses recognized on financial assets (other than trade receivables);
- The net gain or loss on hedging instruments that are recognized in profit or loss; and
- The reclassification of net gains previously recognized in OCI.

Interest income or expense is recognized using the effective interest method.

Note 3 – Significant Accounting Policies (Cont'd)

T. Income taxes

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax liability arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and associates where the Group is able to control the timing of the reversal of the temporary differences and it is not probable that they will reverse it in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profit improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Management of the Group regularly reviews its deferred tax assets for recoverability, taking into consideration all available evidence, both positive and negative, including historical pre-tax and taxable income, projected future pre-tax and taxable income and the expected timing of the reversals of existing temporary differences. In arriving at these judgments, the weight given to the potential effect of all positive and negative evidence is commensurate with the extent to which it can be objectively verified.

Management believes the Group's tax positions are in compliance with applicable tax laws and regulations. Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The Group believes that its liabilities for unrecognized tax benefits, including related interest, are adequate in relation to the potential for additional tax assessments. There is a risk, however, that the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and, therefore, could have a material impact on our tax provision, net income and cash flows.

(iii) Uncertain tax positions

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

Note 3 – Significant Accounting Policies (Cont'd)

U. Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary share capital. The basic earnings per share are calculated by dividing income or loss allocable to the Group's ordinary equity holders by the weighted-average number of ordinary shares outstanding during the period. The diluted earnings per share are determined by adjusting the income or loss allocable to ordinary equity holders and the weighted-average number of ordinary shares outstanding for the effect of all potentially dilutive ordinary shares including options for shares granted to employees.

V. Share capital – ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity.

W. Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- Represents a separate major line of business or geographic area of operations,
- Is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sell.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

In the cash flow, the net proceeds from discontinued operations is disclosed in a separate line. The changes based on operating, investing and financing activities are reported in Note 27.

X. Operating segment and geographic information

The Company's CEO and CFO are considered to be the Group's chief operating decision maker ("CODM"). Based on the internal financial information provided to the CODM, the Group has determined that it has two reportable segments in 2018, which are OPC segment and Quantum segment. In addition to the segments detailed above, the Group has other activities, such as a shipping services and renewable energy businesses categorized as Other.

The CODM evaluates the operating segments performance based on Adjusted EBITDA. Adjusted EBITDA is defined as the net income (loss) excluding depreciation and amortization, financing income, income taxes and other items. Qoros is an associated company of the Group and the CODM evaluates the performance of Qoros based on the share of profit/loss in Quantum.

The CODM evaluates segment assets based on total assets and segment liabilities based on total liabilities.

The accounting policies used in the determination of the segment amounts are the same as those used in the preparation of the Group's consolidated financial statements. Inter-segment pricing is determined based on transaction prices occurring in the ordinary course of business.

In determining of the information to be presented on a geographic basis, revenue is based on the geographic location of the customer and non-current assets are based on the geographic location of the assets.

The segment information were restated to only present results from continuing operations following the discontinued operations.

Y. Transactions with controlling shareholders

Assets, liabilities and benefits with respect to which a transaction is executed with the controlling shareholders are measured at fair value on the transaction date. The Group records the difference between the fair value and the consideration in equity.

Note 3 – Significant Accounting Policies (Cont'd)

Z. New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019, and have not been applied in preparing these consolidated financial statements. The impact on the consolidated financial statements of the Group is described below:

- 1) **International Financial Reporting Standard IFRS 16 “Leases”** – The standard replaces IAS 17 – Leases and its related interpretations. The standard's instructions annul the existing requirement for lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements. Similarly, the standard determines new and expanded disclosure requirements from those required at present. The standard includes a number of alternatives for the implementation of transitional provisions, so that companies can choose one of the following alternatives at the implementation date: full retrospective implementation or implementation from the effective date while adjusting the balance of retained earnings at that date. The Group examined the expected effects of the implementation of the Standard, and the Standard is not expected to have a material impact on the financial statements.
- 2) **International Accounting Standard IAS 28 “Investments in Associates and Joint Ventures”** – The amendment clarifies that:
 - a venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss on an investment-by-investment basis.
 - a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

The Group examined the expected effects of the implementation of the Standard, and the Standard is not expected to have a material impact on the financial statements.

Note 4 – Determination of Fair Value

A. Business Combinations

The Group measures the value of the acquired assets, liabilities, and contingent liabilities considering the fair value basis from the date on which the Group took control. The criteria considered to measure the fair value of the main items were the following:

- Fixed assets were valued considering the market value provided by an appraiser;
- Intangibles consider the valuation of Concessions;
- Deferred taxes were valued based on the temporary differences between the accounting and tax basis of the business combination;
- Non-controlling interests were measured as a proportional basis of the net assets identified on the acquisition date
- Intangibles consider the valuation of its Power Purchase Agreements (PPAs); and,
- Contingent liabilities were determined over the average probability established by third party legal processes.

B. Cash Generating Unit for impairment testing

See Note 14.C.

C. Derivatives and Qoros put option

See Note 30 regarding “Financial Instruments”.

D. Non-derivative financial liabilities

Non-derivative financial liabilities are measured at their respective fair values, at initial recognition and for disclosure purposes, at each reporting date. Fair value for disclosure purposes, is determined based on the quoted trading price in the market for traded debentures, whereas for non-traded loans, debentures and other financial liabilities is determined by discounting the future cash flows in respect of the principal and interest component using the market interest rate as at the date of the report.

Note 5 – Cash and Cash Equivalents

	As at December 31,	
	2018	2017
	\$ Thousands	
Cash in banks	72,074	1,313,710
Time deposits	59,049	103,678
	<u>131,123</u>	<u>1,417,388</u>

The Group's exposure to credit risk, interest rate risk and currency risk and a sensitivity analysis with respect to the financial assets and liabilities is detailed in Note 30 "Financial Instruments".

Note 6 – Short-Term Investments and Deposits

	As at December 31,	
	2018	2017
	\$ Thousands	
Restricted cash and short-term deposits (1)	49,881	7,085
Others	57	59
	<u>49,938</u>	<u>7,144</u>

(1) Balance as at December 31, 2018 includes approximately \$22 million held in escrow in relation to the Tamar dispute (Refer to Note 19.A.a).

Note 7 – Trade Receivables

	As at December 31,	
	2018	2017
	\$ Thousands	
Trade receivables	35,548	44,137

The Group's exposure to credit risk is detailed in Note 30 "Financial Instruments".

Note 8 – Other Current Assets, Including Derivative Instruments

	As at December 31,	
	2018	2017
	\$ Thousands	
Advances to suppliers	827	673
Prepaid expenses	1,740	1,818
Qoros put option (1)	24,435	-
Derivative instruments	726	1,471
Government agencies	5,362	7,408
Contingent consideration (2)	4,500	18,004
Other receivables	3,924	6,378
	<u>41,514</u>	<u>35,752</u>

(1) Refer to Note 9.C.b.2.

(2) This represents contingent consideration receivable from ISQ as a part of the transaction described in Note 27.

Note 9 – Investment in Associated Companies

A. Condensed information regarding significant associated companies

1. Condensed financial information with respect to the statement of financial position

	ZIM		Qoros*	
	As at December 31,			
	2018	2017	2018	2017
	\$ Thousands			
	International		China	
	32%	32%	24%	50%
Principal place of business				
Proportion of ownership interest				
Current assets	746,636	579,595	724,697	235,237
Non-current assets	1,079,501	1,222,743	1,188,996	1,259,762
Current liabilities	(932,969)	(686,693)	(939,950)	(804,062)
Non-current liabilities	(1,117,180)	(1,209,137)	(534,720)	(870,192)
Non-controlling interests	(6,282)	(6,509)	-	-
Total net (liabilities)/assets attributable to the Group	<u>(230,294)</u>	<u>(100,001)</u>	<u>439,023</u>	<u>(179,255)</u>
Share of Group in net (liabilities)/assets	(73,694)	(32,000)	105,366	(89,627)
Adjustments:				
Write back of assets and investments	-	28,758	-	-
Currency translation	-	-	33,818	-
Excess cost	165,290	123,242	-	-
Loans	-	-	-	61,645
Financial guarantee	-	-	-	29,676
Book value of investment	<u>91,596</u>	<u>120,000</u>	<u>139,184</u>	<u>1,694</u>
Assets held for sale	-	-	69,592	-
Investment in associated companies	<u>91,596</u>	<u>120,000</u>	<u>69,592</u>	<u>1,694</u>

* Qoros is an associated company (See Note 9.C.b). The current assets include cash and cash equivalent of \$149 million (2017: \$12 million). The current and non-current liabilities excluding trade and other payables and provisions amount to \$766 million (2017: \$1 billion).

Note 9 – Investment in Associated Companies (Cont'd)

2. Condensed financial information with respect to results of operations

	ZIM			Qoros*		
	For the year ended December 31,					
	2018	2017	2016	2018	2017	2016
	\$ Thousands					
Revenue	3,247,864	2,978,291	2,539,296	811,997	280,079	377,456
(Loss) / income **	(125,653)	6,235	(168,290)	(330,023)	(242,395)	(285,069)
Other comprehensive (loss) / income **	(6,057)	(3,871)	(12,351)	(23)	31	7
Total comprehensive (loss) / income	(131,710)	2,364	(180,641)	(330,046)	(242,364)	(285,062)
Kenon's share of comprehensive (loss) / income	(42,147)	756	(57,805)	(79,211)	(121,182)	(142,531)
Adjustments	13,290	8,538	9,856	873	(16)	(3)
Kenon's share of comprehensive (loss) / income presented in the books	(28,857)	9,294	(47,949)	(78,338)	(121,198)	(142,534)

* The depreciation and amortization, interest income, interest expense and income tax expenses recorded by Qoros during 2018 were \$129 million, \$5 million, \$42 million and \$142 thousand (2017: \$102 million, \$2 million, \$50 million and \$14 thousand; 2016: \$119 million, \$2 million, \$63 million and \$37 thousand) respectively.

** Excludes portion attributable to non-controlling interest.

Note 9 – Investment in Associated Companies (Cont'd)

B. Associated companies that are individually immaterial

	Associated Companies		
	As at December 31,		
	2018	2017	2016
	\$ Thousands		
Book value of investments as at December 31	-	-	8,897

C. Additional information

a. ZIM

1. The container shipping industry is dynamic and volatile and has been marked in recent years by instability, which is characterized by a large supply-demand gap and an increase in vessel capacity. In addition, the container shipping market has experienced significant consolidation as carriers look for operational savings that will improve efficiency and margins. This situation combined with the increase in tariffs and trade tensions between the U.S. and China and other countries have impacted the global trade environment. Bunker prices have increased substantially since reaching historical low levels in January 2016 (excluding a decrease which began in November 2018), while freight rates have decreased since the end of 2017. By the end of 2018, freight rates started to recover in most trades, while bunker prices continued to increase.

In view of the aforementioned business environment, the volatile bunker prices and in order to improve ZIM's results of operations and liquidity position, Management continues to optimize ZIM's network rationalizations including establishment of new partnerships, invest in upgrading customer services and constantly strive to create and maintain efficiencies and cost reductions. However, an adverse trend could negatively affect the entire industry and also affect ZIM's business, financial position, assets value, results of operations, cash flows and compliance with certain financial covenants.

As of December 31, 2018 ZIM's total equity amounted to a negative balance of \$224 million (compared to negative balance of \$93 million as of December 31, 2017) and its working capital amounted to a negative balance of \$186 million (compared to negative balance of \$107 million as of December 31, 2017).

During the year ended December 31, 2018, ZIM recorded operating loss of \$29 million (compared to operating profit of \$135 million during the year ended December 31, 2017 and operating loss of \$52 million during the year ended December 31, 2016) and net loss of \$120 million (compared to net profit of \$11 million during the year ended December 31, 2017 and net loss of \$164 million during the year ended December 31, 2016).

As at December 31, 2018, ZIM complies with its financial covenants as amended (see below), ZIM's liquidity amounts to \$187 million (Minimum Liquidity required is \$125 million).

In order to improve its financial position and liquidity, during the second half of 2016, ZIM took the following steps:

- (a) ZIM approached some of its creditors for the purpose of rescheduling payments.

Below are the main components of the agreements reached:

- 1) Deferral of payments in a total amount of \$116 million (the "Deferred Amounts"), during a period of up to 12 months starting on September 30, 2016, each creditor with relation to its specific contracts. The repayment of the Deferred Amounts will begin as from January 1, 2018 on a straight line basis and will end on December 31, 2020 (the "Repayment Period"). In case any respective agreement expires before the end of the Repayment Period, the unpaid balance of Deferred Amounts will be paid in full upon expiration.
- 2) The Deferred Amounts bear interest, at an annual rate of Libor + 2.8% paid quarterly in cash.
- 3) ZIM granted security related to its rights and interests deriving from certain of its receivables, for securing the repayment of the Deferred Amounts (using a similar receivable-backed facility as described in No). The balance of the secured Deferred Amounts as of December 31, 2018 amounted to \$58 million.
- 4) In case of excess cash, as defined in the rescheduling agreements, a mechanism of mandatory prepayments of the abovementioned rescheduled amounts and their related accrued interest, will apply.

Further to such rescheduling, certain agreements of containers leases previously classified as operational leases were reclassified as financial leases, resulting in recognition of additional assets and liabilities in a total amount of \$73 million.

Note 9 – Investment in Associated Companies (Cont'd)

(a) ZIM obtained amendments to its financial covenants in 2018. Below are the current financial covenants of ZIM:

- 1) Fixed Charge Cover ratio – During the period starting on (and including) September 30, 2018 and through (and including) December 31, 2019, all prior Fixed Charge Cover ratio requirements are waived. In the following periods, the required ratio will be 0.90:1 and will remain at that level thereafter.
- 2) Total Leverage ratio - During the period starting on (and including) September 30, 2018 and through (and including) December 31, 2019, all prior Total Leverage ratio requirements are waived. In the following periods, the required ratio will be 9.00:1 and will remain at that level thereafter.
- 3) Minimum Liquidity - This covenant was amended as from March 31, 2016 to include all cash and cash equivalents available to ZIM without any restrictions. In addition, during 2016 and through (and including) September 30, 2016 ZIM was required to stand a minimum liquidity of \$150 million. Starting December 31, 2016 the minimum Liquidity required is reinstated at \$125 million.

ZIM obtained additional waivers from its creditors for compliance with certain covenants in July 2018 (except for the minimum liquidity requirement, which continues to apply) and is required to comply with these covenants beginning in March 2020, and repay the deferred amounts on a straight line basis, during a period of up to 36 months, ending on December 31, 2020. As at December 31, 2018, ZIM is in compliance with its financial covenants. According to these consolidated Financial Statements, ZIM's liquidity amounts to \$187 million (Minimum Liquidity required is \$125 million).

ZIM's financial position, liquidity and the risk of deviation from financial covenants depend on the recovery of the shipping industry and especially the freight rates. Current economic conditions make forecasting difficult, and there is possibility that actual performance may be materially different from Management plans and expectations.

In the opinion of ZIM's management and its Board of Directors, the updated forecast and the abovementioned actions with regards to rescheduling of payments and covenants amendments and waivers described above, enables ZIM to meet its liabilities and operational needs and to comply with the new set of financial covenants for a period of at least 12 months following the balance sheet date.

2. Further to the recent trends in the shipping industry, ZIM tested its assets for impairment based on IAS 36, where ZIM operates an integrated liner network, as one cash-generating unit ("CGU"). ZIM estimated its recoverable amount on the basis of fair value less costs to sell, using the discounted cash flow ("DCF") method, measured at Level 3 fair value measurement under IFRS 13. The impairment test resulted with a recoverable amount exceeding the carrying amount of the CGU with a range between \$418 million and \$543 million, and therefore no impairment was recognized. Although ZIM believes the assumptions used for impairment are reasonable and acceptable, no assurance can be made against the level of bunker prices and freight rates sustainability.

For the year ended December 31, 2016, Kenon recognized an impairment loss of \$72 million in relation to its carrying value of ZIM. Based on a valuation performed at the end of 2017, Kenon recorded an impairment write-back of \$29 million, bringing the carrying value of ZIM as at December 31, 2017 to \$120 million. As at December 31, 2018, Kenon did not identify any impairment indicators in relation to its carrying value in ZIM and hence no valuation analysis was performed and no additional impairment was recognized.

As of December 31, 2018, due to commercial and cost-benefit considerations, ZIM designated certain vessels, to be sold or scraped. Accordingly, ZIM classified such vessels as held for sale, measured per their scrap value, further to a recording of an impairment in an amount of \$38 million in their books). In addition and further to an agreement concluded in December 2018, with respect to the sale of containers for a net consideration of \$20 million, ZIM classified the related containers as held for sale.

1. During 2016, ZIM sold a portion of its holdings in an associated company and ceased to have significant influence over such investee. ZIM recognized a disposal gain in an amount of \$16 million, Kenon's share of the disposal gain is \$5 million and is recognized in share of net income and losses from associated companies.
2. During 2017 and 2018, ZIM did not sell any of its holdings.

Note 9 – Investment in Associated Companies (Cont'd)

b. Qoros Automotive Co. Ltd. (“Qoros”)

1. As at December 31, 2018, the Group holds a 24% equity interest in Qoros through a wholly-owned and controlled company, Quantum (2007) LLC (“Quantum”). Chery Automobiles Limited (“Chery”), a Chinese automobile manufacturer, holds a 25% equity interest and, following the transaction detailed below, the remaining 51% interest is held by an entity related to the Baoneng Group (“New Qoros Investor” or “New Strategic Partner”).

In January 2019, Kenon further announced that it had entered into an agreement to sell half of its remaining interest in Qoros (i.e. 12%) to the New Qoros Investor, giving the latter a 63% equity interest in Qoros on completion. Chery’s equity interest in Qoros will remain at 25%, and Quantum’s equity interest in Qoros will be reduced to 12% (see Note 31.1.A).

2. Qoros introduced a New Strategic Partner

In January 2018, the New Qoros Investor purchased 51% of Qoros from Kenon and Chery for RMB 3.315 billion (approximately \$501 million); this was part of an investment structure to invest a total of approximately RMB 6.63 billion (approximately \$1,002 million) by the New Qoros Investor. In connection with this investment, Kenon received total cash proceeds of RMB 1.69 billion (\$260 million) from the dilution.

In July 2018, the relevant authorities in China approved the completion of a capital increase in Qoros of RMB 6.5 billion (approximately \$932 million) including the conversion of existing shareholder loans owing from Qoros in the principal amount of RMB 944 million (approximately \$143 million) to each of Kenon and Chery. Qoros’ shareholders (including the New Qoros Investor) have invested a total of RMB 6.5 billion (approximately \$982 million) in Qoros’ equity in proportion to their post-investment equity ownership to finalise the capital increase. The New Qoros Investor has advanced their proportionate share totaling RMB 3.315 billion (approximately \$501 million) directly to Qoros. As a result, all funds for the investment, totaling RMB 6.63 billion (approximately \$1,002 million) have now been advanced by the New Qoros Investor. In August 2018, Kenon used RMB 0.62 billion (approximately \$90 million) of the proceeds they received from the sale of their Qoros interests to partially fund their portion of the investment in Qoros together with the conversion of RMB 0.94 billion (approximately \$137 million) of existing shareholder loans. The transaction did not involve any new money invested from Kenon and Kenon has no remaining obligations to Qoros.

As part of the Investment Agreement, Kenon has a put option to sell its remaining interest in Qoros to the New Qoros Investor for total consideration of RMB 3.12 billion (approximately \$454 million), exercisable in two stages. The New Qoros Investor has an option exercisable over the next two years to increase its stake to 67% by investing further directly into Qoros.

As a result of the transaction, Kenon recognized a gain on third party investment in Qoros of approximately \$504 million for the year ended December 31, 2018. The gain includes recognition of Kenon’s put option in relation to Qoros which was initially valued at approximately \$130 million. It was subsequently reduced by approximately \$40 million to approximately \$90 million as a result of fair value assessment at December 31, 2018 (the put option is presented in the accompanying balance sheet under other current assets, including derivative instruments and non-current deposits, loans and other receivables, including derivative instruments).

3. As at December 31, 2018, Kenon’s investment in Qoros amounts to \$139.2 million (2017: \$1.7 million).
4. Qoros incurred a net loss of RMB2.2 billion (approximately \$332 million) in 2018 and had net current liabilities of approximately RMB 1.5 billion (approximately \$215 million) for the year ended December 31, 2018, (RMB 1.4 billion (approximately \$211 million) and RMB 3.7 billion (approximately \$555 million) as of December 31, 2017 and RMB 1.9 billion (approximately \$284 million) and RMB 3.57 billion (approximately \$515 million) as of December 31, 2016 respectively).

Qoros has given careful consideration to the future of its liquidity. With its available sources of finance and the addition of the New Strategic Partner, Qoros believes it will have sufficient financial resources to continue as a going concern for the next twelve months.

Note 9 – Investment in Associated Companies (Cont'd)

5. Ansonia Loans

a. Overview

On April 22 and September 2, 2016, Ansonia Holdings Singapore B.V. ("Ansonia"), which owns approximately 58% of the outstanding shares of Kenon, entered an agreement to provide loans ("Ansonia loans") in an aggregate amount of up to RMB 450 million (\$69 million) with an interest rate of 6% per annum, through Quantum, to support Qoros. Wuhu Chery completed its provision of loans to Qoros in the same amount and on similar conditions.

Following the transaction with the New Qoros Investor and the conversion of Quantum's shareholder loans in Qoros to equity as described above, the Ansonia loans were fully repaid in August 2018.

6. Financial Guarantees Provision and Releases

- a. In July 2012, Chery provided a guarantee to the banks, in the amount of RMB1.5 billion (\$242 million), in relation to an agreement with the banks to provide Qoros a loan, in the amount of RMB3 billion (\$482 million). In November 2015, Kenon provided back-to-back guarantees to Chery of RMB750 million (approximately \$115 million) in respect of this loan thereby committing to pay half of every amount Chery may be required to pay with respect to the guarantee. As a result, if Qoros is unable to comply with the terms of certain of its debt agreements, Kenon may be required to make payments under its guarantees to Chery. The fair value of the guarantee has been recorded in the financial statements.
- b. On May 12, 2015, Qoros signed a Consortium Loan Agreement with the Export-Import Bank of China, and China Construction Bank Co., LTD, Suzhou Branch, concerning the Project of Research and Development of Hybrid Model ("Loan Agreement"), for an amount of RMB700 million (\$108 million) or in USD not exceeding the equivalent to RMB480 million (\$78 million) (the "Facility").
- c. On June 15, 2015, this Facility was guaranteed by Chery and pledged with Qoros' 90 vehicle patents with an appraisal value of minimum RMB3.1 billion (\$500 million). The Loan Agreement's term of 102 months bears a 5-years interest rate quoted by the People's Bank of China in RMB at LIBOR+10%, or in USD at LIBOR+3.50% per annum.

In relation to the above, Kenon provided back-to-back guarantees to Chery of RMB350 million (approximately \$54 million) thereby committing to pay half of every amount Chery may be required to pay with respect to the guarantee. As at December 31, 2016, Qoros had drawn down the Facility of RMB700 million (\$108 million) with an interest rate of 5.39% (RMB 700 million as at December 31, 2015). The fair value of the guarantee has been recorded in the financial statements.

- d. On July 31, 2014, in order to secure additional funding for Qoros of approximately RMB 1.2 billion (\$200 million as of August 7, 2014) IC pledged a portion of its shares (including dividends derived therefrom) in Qoros, in proportion to its share in Qoros's capital, in favor of the Chinese bank providing Qoros with such financing. Simultaneously, the subsidiary of Chery that holds Chery's rights in Qoros also pledged a proportionate part of its rights in Qoros. Such financing agreement includes, inter alia, liabilities, provisions regarding covenants, events of immediate payment and/or early payment for violations and/or events specified in the agreement. The lien agreement includes, inter alia, provisions concerning the ratio of securities and the pledging of further securities in certain circumstances, including pledges of up to all of Quantum's shares in Qoros (or cash), provisions regarding events that would entitle the Chinese Bank to exercise the lien, certain representations and covenants, and provisions regarding the registration and approval of the lien.

As part of the reduction of guarantee obligations in Note 9.C.b.6, Kenon has pledged approximately 9% of the outstanding shares of Qoros to Chery to secure the amount of the back-to-back guarantee reduction. Chery may also borrow from Kenon up to 5% of Qoros' outstanding shares to meet its pledge obligations under the abovementioned RMB 1.2 billion loan facility.

- e. On June 30, 2016, Kenon increased its previously recognized provision of \$30 million to \$160 million in respect to Kenon's "back-to-back" guarantee obligations to Chery (RMB1,100 million), in respect of guarantees that Chery has given for Qoros' bank debt and has pledged a portion of its interests in Qoros to secure Qoros' bank debt. In addition to the current liquidity needs of Qoros, its financial position and Kenon's strategic intent, the provision was made due to uncertainty in the Chinese automobile market. As a result, Kenon recognized a \$130 million charge to expense for such financial guarantees in its consolidated statement of profit or loss in 2016.

These back-to-back guarantees consist of (i) a back-to-back guarantee of one-half of the principal amount of Chery's guarantee of RMB1.5 billion with respect to Qoros' RMB3 billion facility, and (ii) a back-to-back guarantee of one-half of the principal amount of Chery's guarantee of Qoros' RMB700 million facility, and interest and fees, if applicable.

Note 9 – Investment in Associated Companies (Cont'd)

- f. On December 25, 2016, Kenon has agreed to provide a RMB250 million (approximately \$36 million) shareholder loan to Qoros, and in relation to this loan, the maximum amount of Kenon's back-to-back guarantee obligations to Chery was reduced by RMB250 million. As part of the loan to Qoros, Kenon's back-to-back guarantee obligations to Chery with respect to Chery's guarantee of Qoros' RMB3 billion loan facility with the Export-Import Bank of China ("EXIM Bank") were reduced by one third, and the maximum amount of Kenon's obligations under this back-to-back guarantee (subject to certain obligations to negotiate fees and interest) were reduced from RMB750 million to RMB500 million (approximately \$72 million). In addition, Ansonia committed to fund RMB25 million (approximately \$4 million) of Kenon's remaining back-to-back guarantee obligations to Chery in certain circumstances ("Ansonia Commitment").

Chery agreed to make a corresponding RMB250 million loan to Qoros. The proceeds of these loans were used to support Qoros' ordinary course working capital requirements and Qoros' investments in new initiatives, such as new-energy vehicles, while it continues its fund raising efforts.

As part of this transaction, Quantum pledged approximately 9% of the outstanding shares of Qoros to Chery to secure the amount of the back-to-back guarantee reduction. Chery may also borrow from Quantum up to 5% of Qoros' outstanding equity to meet its pledge obligations under the Qoros RMB 1.2 billion loan facility with EXIM Bank.

Kenon has been informed that, in order to facilitate Kenon's above mentioned reduction in Kenon's back-to-back guarantee obligations to Chery, an affiliate of Kenon's major shareholder has given certain undertakings to Chery with respect to the released guarantee obligations.

- g. On March 10, 2017, Kenon announced that it had agreed to fund up to RMB777 million (approximately \$114 million) to Qoros in relation to the full release of its remaining RMB825 million (approximately \$125 million) back-to-back guarantee obligations to Chery in two tranches, which releases Kenon from commitments to pay any related interest and fees to Chery under the guarantees.

On March 10, 2017, Kenon transferred RMB388.5 million (approximately \$57 million) ("First Tranche Loans") to Qoros in relation to a reduction of RMB425 million (approximately \$64 million) of Kenon's back-to-back guarantee obligations to Chery, including related interest and fees; the provision of the Second Tranche Loans was at Kenon's discretion.

As part of the First Tranche Loans, in relation to 50% reduction of the guarantee, Kenon funded 50% of such loans for Kenon and 50% on behalf of Chery. The proceeds of the First Tranche Loans were used to support Qoros' ordinary course working capital requirements, debt service requirements and investments in new initiatives, such as new-energy vehicles. The transactions enabled Kenon to support Qoros and its fundraising efforts, while reducing its back-to-back guarantee obligations to Chery.

On April 25, 2017, Kenon funded RMB100 million (approximately \$16 million) as part of the remaining provision of RMB388.5 million to Qoros (the "Second Tranche Loans") on similar terms in connection with the remaining RMB425 million reduction in its back-to-back guarantees.

In the event that Chery's obligations under its guarantees are reduced, Kenon is entitled to the proportionate return from Chery of the loans provided on Chery's behalf (i.e., up to RMB388.5 million (approximately \$57 million) with respect to the First Tranche Loans and the Second Tranche Loans) and the release of the pledges described above.

Following completion of the transaction with the New Qoros Investor in 2018, the New Qoros Investor was required to assume its pro rata share of guarantees and equity pledges of Kenon and Chery based on the changes to its equity ownership. As a result, Chery returned approximately RMB119 million (approximately \$18 million) to Kenon in relation to loans previously provided by Kenon on Chery's behalf (see above).

As at December 31, 2017, Kenon's remaining liability under its guarantee obligations totals RMB320 million in respect of RMB288.5 million (approximately \$44 million) principal amount of debt. As at December 31, 2018, all provisions related to financial guarantees have been released. This is a result of Kenon's assessment that, following the investment into Qoros by the New Qoros Investor, the likelihood of future cash payments in relation to the guarantees is now not probable.

Note 9 – Investment in Associated Companies (Cont'd)

Set forth below is an overview of the financial guarantees provided by Kenon as described above:

Date	Description	Amount (US\$ million)
June 2016	Provision in respect of Kenon's "back-to-back" guarantee obligations to Chery (See Note 9.C.b.6.e)	160
December 2016	Shareholder loan to Qoros (See Note 9.C.b.6.f)	(36)
March 2017	Transfer of First Tranche Loans (See Note 9.C.b.6.f)	(64)
April 2017	Transfer of Second Tranche Loans (See Note 9.C.b.6.g)	(16)
January 2018	Release of remaining financial guarantees (See Note 9.C.b.6.g)	(44)
December 2018	Year end balance	-

In addition, as at December 31, 2018, Quantum has pledged approximately 1% of the equity of Qoros to Chery in relation to the back-to-back guarantees, which pledges are enforceable to the extent Kenon would have been required to make payments under such guarantees but for the guarantee releases. Quantum has also pledged approximately 11% of the equity of Qoros in relation to Qoros' RMB1.2 billion loan facility.

7. Business Plans

As at December 31, 2017 and December 31, 2018, Kenon concluded that the recoverable amount of its CGU, based on the 3rd-party transactions with the New Qoros Investor (see Note 9.C.b.2 and Note 31.1.A), was higher than the combined carrying value of the investment in Qoros (2017 and 2018) and the put option (2018 only). The recoverable amount was determined based on fair value of Qoros' assets less the costs of disposal. Therefore, no impairment was recognized in Qoros' December 31, 2017 and December 31, 2018 financial statements in respect of its CGU.

D. **Details regarding dividends received from associated companies**

	For the Year Ended December 31,		
	2018	2017	2016
	\$ Thousands		
From associated companies	-	382	743

E. **Restrictions**

Qoros

Qoros has restrictions with respect to distribution of dividends and sale of assets deriving from legal and regulatory restrictions, restrictions under the joint venture agreement and the Articles of Association and restrictions stemming from credit received.

Note 9 – Investment in Associated Companies (Cont'd)

ZIM

The holders of ordinary shares of ZIM are entitled to receive dividends when declared and are entitled to one vote per share at meetings of ZIM. All shares rank equally with regard to the ZIM's residual assets, except as disclosed below.

In the framework of the process of privatizing ZIM, all the State of Israel's holdings in ZIM (about 48.6%) were acquired by IC pursuant to an agreement from February 5, 2004. As part of the process, ZIM allotted to the State of Israel a special State share so that it could protect the vital interests of the State.

On July 14, 2014 the State and ZIM reached a settlement agreement (the "Settlement Agreement") that has been validated as a judgment by the Supreme Court. The Settlement Agreement provides, inter alia, the following arrangement shall apply: the State's consent is required to any transfer of the shares in ZIM which confers on the holder a holding of 35% and more of the ZIM's share capital. In addition, any transfer of shares which confers on the holders a holding exceeding 24% but not exceeding 35%, shall require prior notice to the State. To the extent the State determines that the transfer involves a potential damage to the State's security or any of its vital interests or if the State did not receive the relevant information in order to formulate a decision regarding the transfer, the State shall be entitled to inform, within 30 days, that it objects to the transfer, and it will be required to reason its objection. In such an event, the transferor shall be entitled to approach a competent court on this matter.

The Special State Share, and the permit which accompanies it, also imposes transferability restrictions on our equity interest in ZIM. Furthermore, although there are no contractual restrictions on any sales of our shares by our controlling shareholders, if major shareholders' ownership interest in Kenon (controlling shareholders of Kenon) is less than 36%, or major shareholders cease to be the controlling shareholder, or sole controlling shareholder of Kenon, then Kenon's rights with respect to its shares in ZIM (e.g., Kenon's right to vote and receive dividends in respect of its ZIM shares), will be limited to the rights applicable to an ownership of 24% of ZIM, until or unless the State of Israel provides its consent, or does not object to, this decrease in major shareholders' ownership or "control" (as defined in the State of Israel consent received by IC in relation to the spin-off). The State of Israel may also revoke Kenon's permit if there is a material change in the facts upon which the State of Israel's consent was based, upon a breach of the provisions of the Special State Share by Kenon, Mr. Ofer, or ZIM, or if the cancellation of the provisions of the Special State Share with respect to a person holding shares in ZIM contrary to the Special State Share's provisions apply (without limitation).

The Special State Share is non-transferable. Except for the rights attached to the said share, it does not confer upon its holder voting rights or any share capital related rights.

F. Assets held for sale

On January 8, 2019, Kenon announced that it had entered into an agreement to sell half of its remaining interest in Qoros (i.e. 12%) to the New Qoros Investor in Qoros for a purchase price of RMB1,560 million (approximately \$227 million), which is based on the same post-investment valuation as the initial investment by the New Qoros Investor in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros, the New Qoros Investor in Qoros will hold 63% and Chery will own 25%. Kenon's equity interest in Qoros being sold as per the agreement mentioned above is shown in the balance sheet at its carrying value (equity accounted) under Assets held for sale. Refer to Note 31.1.A for more details.

Note 10 – Subsidiaries

A. Investments

1. O.P.C. Energy Ltd. (formerly part of the I.C. Power Ltd group)

a. Acquisition of Tzomet Energy Ltd. (“Tzomet”)

In March 2018, OPC completed the acquisition of 95% of the shares of Tzomet, which is developing a natural gas-fired power station in Israel with a capacity of approximately 396 MW. The total consideration for the acquisition is estimated at approximately \$23 million, subject to adjustments and milestones. On March 7, 2018, the transaction completion date, OPC paid an amount of \$3.65 million. Later in March 2018, an additional \$3.65 million was paid while the balance of \$15.8 million will be paid on Tzomet’s financial closing date. Tzomet assets have been included within OPC’s property, plant and equipment as it is an asset acquisition.

Subsequent to the year end, an outline was determined for the expansion of the activities of the group to which OPC belongs (“the Idan Ofer Group”) in the area of generation of electricity from an economy-wide business concentration perspective. See Note 31.2.A.

Also subsequent to the date of the report, on January 3, 2019, OPC signed an agreement with the private shareholders in Tzomet, for which a trustee holds 5% of Tzomet’s share capital (hereinafter – “the Sellers”), whereby the Sellers will sell their shares in Tzomet to the Company (hereinafter – “the Sale Agreement” and “Shares Being Sold”, respectively) in increments, on a number of dates and subject to fulfillment of milestones.

The aggregate consideration to be paid by OPC for the Shares Being Sold is NIS 27 million (approximately \$7 million), and it is to be paid in installments against a proportionate transfer of the Shares Being Sold to the Company on every payment date and subject to fulfillment of the milestones provided in the Sale Agreement. Upon signing of the Sale Agreement, the first payment is to be made, in the amount of NIS 1.5 million (approximately \$400 thousand). The balance of the consideration is to be paid in two installments (against transfer of the balance of the Shares Being Sold, as stated), subject to fulfillment of the milestones in the Tzomet project, where most of the consideration, in the amount of NIS 21 million (approximately \$5.6 million), is to be paid upon completion of the financial closing (if and when completed).

The Tzomet project is subject to preconditions that have not yet been fulfilled, including approval of a generation license from the Electricity Authority and assurance of the ability to output electricity from the project site and maintenance (reservation) of a position in the network (electricity grid) at the time required for execution of the project. In addition, completion of the Tzomet project is subject to completion of a financial closing by the date required, among other things, by force of Regulation 914, which as at the date of this Report is January 2020. OPC is continuing to take action in order to fulfill the conditions along with execution of other activities – this being for purposes of advancing the Tzomet project toward a financial closing, however there is no certainty that the Tzomet project will ultimately be completed, and that stated is contingent on, among other things, factors not under OPC’s control. Subsequent to the year end, the Electricity Authority published its decision to grant Tzomet a new conditional licence. See Note 31.2.A for more details.

2. I.C. Green Energy Ltd (I.C. Green)

- a. As of December 31, 2018, I.C. Green held 90.85% of the shares of Primus Green Energy Inc. (“PGE”). In 2017 I.C. Green granted PGE additional \$7.4 million as convertible bridge financing agreement. All of the convertible loans including interest have been consolidated to a convertible bridge financing agreement in the amount of \$35 million with interest of 7% annually. During 2018, I.C. Green granted PGE additional \$7 million with interest of 2% annually.

Note 10 – Subsidiaries (Cont'd)

B. The following table summarizes the information relating to each of the Group's subsidiaries in 2018, 2017 and 2016 that has material NCI:

	As at and for the year ended December 31,					
	2018	2017	2016*			
	OPC Energy Ltd.	OPC Energy Ltd.	Samay I.S.A	Nicaragua Energy Holding	Kallpa Generacion S.A.	Cerro del Aguila S.A.
	\$ Thousands					
NCI percentage **	32.23%	34.82%	25.10%	35.42%	25.10%	25.10%
Current assets	184,211	204,461	75,485	41,630	108,246	53,843
Non-current assets	720,469	736,123	380,947	144,313	611,928	949,440
Current liabilities	(77,792)	(99,441)	(73,846)	(26,053)	(55,323)	(85,935)
Non-current liabilities	(624,570)	(667,996)	(311,030)	(100,834)	(511,277)	(618,219)
Net assets	202,318	173,147	71,556	59,056	153,574	299,129
Carrying amount of NCI	65,215	60,290	17,961	20,918	38,547	75,081
Revenues	363,262	365,395	40,000	90,017	438,475	49,646
Profit	26,266	15,934	548	7,511	35,820	9
Other comprehensive (loss)/income	(14,280)	8,514	4,825	—	—	10,449
Profit attributable to NCI	11,396	8,323	138	2,660	8,991	2
OCI attributable to NCI	(4,554)	3,686	1,211	—	—	2,623
Cash flows from operating activities	85,581	110,290	(1,276)	17,737	114,838	25,629
Cash flows from investing activities	(102,080)	(154,194)	(60,468)	(931)	(16,082)	(69,372)
Cash flows from financing activities excluding dividends paid to non-controlling interests	(34,474)	165,107	—	(4,004)	(16,943)	—
Dividends paid to non-controlling interests	—	(4,159)	47,088	(26,440)	(88,911)	62,823
Effect of changes in the exchange rate on cash and cash equivalents	(7,570)	7,126	373	(348)	198	369
Net (decrease)/increase in cash and cash equivalents	(58,543)	124,170	(14,283)	(13,986)	(6,900)	19,449

* These entities are discontinued operations in 2017.

** The NCI percentage represents the effective NCI of the Group.

Note 11 – Deposits, Loans and Other Receivables, including Derivative Instruments**Composition:**

	As at December 31,	
	2018	2017
	\$ Thousands	
Deposits in banks and others – restricted cash	48,640	54,300
Long-term trade receivable	1,067	-
Qoros put option (1)	65,668	-
Deferred expenses, net (2)	18,786	21,412
Contract asset	3,720	747
Other receivables (3)	2,142	30,258
	<u>140,023</u>	<u>106,717</u>

(1) Refer to Note 9.C.b.2.

(2) Mainly relates to deferred expenses, net from OPC.

(3) Mainly from discontinued operations.

Note 12 – Deferred Payment Receivable

	As at December 31,	
	2018	2017
	\$ Thousands	
Deferred payment receivable	<u>189,166</u>	<u>175,000</u>

As part of the sale of IC Power's Latin America businesses, proceeds from ISQ include a four-year deferred payment obligation accruing 8% interest per annum, payable in kind. The Group has performed an assessment and concluded that no expected credit loss provision is required.

Note 13 – Property, Plant and Equipment, Net

A. Composition

As at December 31, 2018

	<u>Balance at beginning of year</u>	<u>Additions</u>	<u>Disposals</u> \$ Thousands	<u>Differences in translation reserves</u>	<u>Balance at end of year</u>
Cost					
Land, roads, buildings and leasehold improvements	42,789	4,188	(188)	(3,266)	43,523
Installations, machinery and equipment	499,431	22,388	(17,990)	(36,942)	466,887
Office furniture, equipment and motor vehicles	5,568	9,294	(2,242)	1,548	14,168
	<u>547,788</u>	<u>35,870</u>	<u>(20,420)</u>	<u>(38,660)</u>	<u>524,578</u>
Plants under construction	164,619	59,531	-	(17,002)	207,148
Spare parts for installations	13,390	5,007	(829)	(1,171)	16,397
	<u>725,797</u>	<u>100,408</u>	<u>(21,249)</u>	<u>(56,833)</u>	<u>748,123</u>
Accumulated depreciation					
Land, roads, buildings and leasehold improvements	7,293	1,671	(188)	(514)	8,262
Installations, machinery and equipment	100,833	27,800	(17,970)	(7,483)	103,180
Office furniture, equipment and motor vehicles	1,507	562	(348)	(128)	1,593
	<u>109,633</u>	<u>30,033</u>	<u>(18,506)</u>	<u>(8,125)</u>	<u>113,035</u>
Balance as at December 31, 2018	<u><u>616,164</u></u>	<u><u>70,375</u></u>	<u><u>(2,743)</u></u>	<u><u>(48,708)</u></u>	<u><u>635,088</u></u>

Note 13 – Property, Plant and Equipment, Net (Cont'd)

	As at December 31, 2017					Balance at end of year
	Balance at beginning of year	Additions	Disposals	Differences in translation reserves	Sale of subsidiaries*	
	\$ Thousands					
Cost						
Land, roads, buildings and leasehold improvements	1,041,723	4,139	(1,615)	4,167	(1,005,625)	42,789
Installations, machinery and equipment	2,445,579	68,410	(70,142)	49,825	(1,994,241)	499,431
Dams	164,469	105	(5)	-	(164,569)	-
Office furniture, equipment and motor vehicles	455,352	43,744	(4,954)	11,589	(500,163)	5,568
	4,107,123	116,398	(76,716)	65,581	(3,664,598)	547,788
Plants under construction	131,178	109,709	(15)	9,356	(85,609)	164,619
Spare parts for installations	68,854	4,364	(186)	1,487	(61,129)	13,390
	4,307,155	230,471	(76,917)	76,424	(3,811,336)	725,797
Accumulated depreciation						
Land, roads, buildings and leasehold improvements	83,737	20,523	(807)	530	(96,690)	7,293
Installations, machinery and equipment	637,794	112,416	(13,466)	8,547	(644,458)	100,833
Dams	48,385	8,097	(250)	-	(56,232)	-
Office furniture, equipment and motor vehicles	39,939	23,824	(1,307)	484	(61,433)	1,507
	809,855	164,860	(15,830)	9,561	(858,813)	109,633
Balance as at December 31, 2017	3,497,300	65,611	(61,087)	66,863	(2,952,523)	616,164

* This amount includes impairment as a result of the sale of Colombian assets. The Group recorded the impairment in cost of sales of \$10 million

B. Net carrying values

	As at December 31,	
	2018	2017
	\$ Thousands	
Land, roads, buildings and leasehold improvements	35,261	35,496
Installations, machinery and equipment	363,707	398,598
Office furniture, equipment and motor vehicles	12,575	4,061
Plants under construction	207,148	164,619
Spare parts for installations	16,397	13,390
	635,088	616,164

Note 13 – Property, Plant and Equipment, Net (Cont'd)

- C. When there is any indication of impairment, the Group's entities perform impairment tests for their long-lived assets using fair values less cost to sell based on independent appraisals or value in use estimations, with assumptions based on past experience and current sector forecasts, described below:
- Discount rate is a post-tax measure based on the characteristics of each CGU.
 - Cash flow projections include specific estimates for around five years and a terminal growth rate thereafter. The terminal growth rate is determined based on management's estimate of long-term inflation.
 - Existing power purchase agreements (PPAs) signed and existing number of customers.
 - The production mix of each country was determined using specifically-developed internal forecast models that consider factors such as prices and availability of commodities, forecast demand of electricity, planned construction or the commissioning of new capacity in the country's various technologies.
 - The distribution business profits were determined using specifically-developed internal forecast models that consider factors such as forecasted demand, fuel prices, energy purchases, collection rates, percentage of losses, quality service improvement, among others.
 - Fuel prices have been calculated based on existing supply contracts and on estimated future prices including a price differential adjustment specific to every product according to local characteristics.
 - Assumptions for energy sale and purchase prices and output of generation facilities are made based on complex specifically-developed internal forecast models for each country.
 - Demand – Demand forecast has taken into consideration the most probably economic performance as well as growth forecasts of different sources.
 - Technical performance – The forecast takes into consideration that the power plants have an appropriate preventive maintenance that permits their proper functioning and the distribution business has the required capital expenditure to expand and perform properly in order to reach the targeted quality levels.
- D. The amount of borrowing costs capitalized in 2018 was \$8 million (\$3 million in 2017).
- E. Fixed assets purchased on credit in 2018, 2017 and 2016 were \$23 million, \$5 million and \$25 million respectively.
- F. The composition of depreciation expenses from continuing operations is as follows

	As at December 31,	
	2018	2017
	\$ Thousands	
Depreciation charged to cost of sales	29,809	30,102
Depreciation charged to general, selling and administrative expenses	224	597
Depreciation charged to results	<u>30,033</u>	<u>30,699</u>
Amortization of intangibles charged to general, selling and administrative expenses	383	95
Depreciation and amortization from continuing operations	<u>30,416</u>	<u>30,794</u>

Note 14 – Intangible Assets, Net**A. Composition:**

	<u>Goodwill</u>	<u>Software</u>	<u>Others</u>	<u>Total</u>
	<u>\$ Thousands</u>			
Cost				
Balance as at January 1, 2018	21,914	1,153	509	23,576
Acquisitions – self development	—	162	—	162
Translation differences	(34)	(67)	(55)	(156)
Balance as at December 31, 2018	<u>21,880</u>	<u>1,248</u>	<u>454</u>	<u>23,582</u>
Amortization and impairment				
Balance as at January 1, 2018	21,455	445	35	21,935
Amortization for the year	94	107	182	383
Translation differences	(4)	(28)	(10)	(42)
Balance as at December 31, 2018	<u>21,545</u>	<u>524</u>	<u>207</u>	<u>22,276</u>
Carrying value				
As at January 1, 2018	459	708	474	1,641
As at December 31, 2018	<u>335</u>	<u>724</u>	<u>247</u>	<u>1,306</u>

Note 14 – Intangible Assets, Net (Con't)

	<u>Goodwill</u>	<u>Concessions licenses</u>	<u>Customer relationships</u>	<u>Software</u>	<u>Others</u>	<u>Total</u>
	<u>\$ Thousands</u>					
Cost						
Balance as at January 1, 2017	117,550	189,351	41,074	1,771	83,897	433,643
Acquisitions as part of business combinations	296	-	-	195	-	491
Acquisitions – self development	-	-	-	179	10,280	10,459
Disposals	-	-	-	-	(82)	(82)
Sale of subsidiaries	(97,167)	(189,351)	(41,074)	(1,066)	(93,842)	(422,500)
Translation differences	1,235	-	-	74	256	1,565
Balance as at December 31, 2017	<u>21,914</u>	<u>-</u>	<u>-</u>	<u>1,153</u>	<u>509</u>	<u>23,576</u>
Amortization and impairment						
Balance as at January 1, 2017	21,455	5,434	20,942	1,015	8,019	56,865
Amortization for the year	-	5,759	3,970	209	2,984	12,922
Disposals	-	-	-	25	-	25
Sale of subsidiaries*	-	(11,193)	(24,912)	(804)	(11,021)	(47,930)
Translation differences	-	-	-	-	53	53
Balance as at December 31, 2017	<u>21,455</u>	<u>-</u>	<u>-</u>	<u>445</u>	<u>35</u>	<u>21,935</u>
Carrying value						
As at January 1, 2017	<u>96,095</u>	<u>183,917</u>	<u>20,132</u>	<u>756</u>	<u>75,878</u>	<u>376,778</u>
As at December 31, 2017	<u>459</u>	<u>-</u>	<u>-</u>	<u>708</u>	<u>474</u>	<u>1,641</u>

* This amount includes impairment as a result of the sale of Colombian assets. The Group recorded the impairment in cost of sales of \$10 million (\$3 million in Others and \$7 million in Goodwill).

Note 14 – Intangible Assets, Net (Cont'd)**B. The total carrying amounts of intangible assets with a finite useful life and with an indefinite useful life or not yet available for use**

	As at December 31,	
	2018	2017
	\$ Thousands	
Intangible assets with a finite useful life	971	1,182
Intangible assets with an indefinite useful life or not yet available for use	335	459
	<u>1,306</u>	<u>1,641</u>

C. Examination of impairment of cash generating units containing goodwill

For the purpose of testing impairment, goodwill is allocated to the Group's cash-generating units that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill is calculated based on the local currencies of the countries that the subsidiaries operate in and translated into US dollars at the exchange rate at the reporting date. Refer to Note 13C for assumptions used in testing impairment.

Goodwill arises from the following Group entities in OPC (cash generating unit):

	As at December 31,	
	2018	2017
	\$ Thousands	
OPC Rotem (former AIE)	425	459
	<u>425</u>	<u>459</u>

Note 15 – Loans and Debentures

Following are the contractual conditions of the Group's interest-bearing loans and credit, which are measured based on amortized cost. Additional information regarding the Group's exposure to interest risks, foreign currency and liquidity risk is provided in Note 30, in connection with financial instruments.

	As at December 31	
	2018	2017
	\$ thousands	
Current liabilities		
Short-term loans from banks, financial institutions and others (1)	-	317,684
	<u>-</u>	<u>317,684</u>
Current maturities of long-term liabilities:		
Loans from banks, financial institutions and others	20,302	123,908
Non-convertible debentures	2,933	6,364
	<u>23,235</u>	<u>130,272</u>
Total current liabilities	<u>23,235</u>	<u>447,956</u>
Non-current liabilities		
Loans from banks and financial institutions	487,759	503,785
Non-convertible debentures	75,476	84,758
Total non-current liabilities	<u>563,235</u>	<u>588,543</u>
Total liabilities	<u>586,470</u>	<u>1,036,499</u>

(1) Balances as at December 31, 2017 mainly relate to loans from related parties (see Note 29.D).

Note 15 – Loans and Debentures (Cont'd)

A. Classification based on currencies and interest rates

	Weighted- average interest rate December 31 2018 %	As at December 31,	
		2018	2017
		\$ Thousands	
Non-current liabilities (including current maturities)			
Debentures			
In shekels	4.45%	78,409	91,122
		<u>78,409</u>	<u>91,122</u>
Loans from financial institutions (including financing lease)			
In dollars	-	-	99,964
In shekels	4.72%	508,061	527,729
		<u>508,061</u>	<u>627,693</u>
		<u>586,470</u>	<u>718,815</u>

As at December 31, 2018, all loans and debentures relate to liabilities incurred by OPC.

Long term loans from banks and others

- B.** *O verseas Investments Peru* — On May 9, 2016, Overseas Investments Peru S.A., a 100% whole-owned subsidiary of ICP, signed a \$100 million Credit Facility with Credit Suisse AG. The proceeds from this facility were fully drawn on August 31, 2016. This facility had an original maturity on November 9, 2017 bears an interest rate of 90-day Libor plus 5.00% (from the funding date to the 6-month anniversary of the funding date); 90-day Libor plus 5.75% (from one day after the 6-month anniversary to the 12-month anniversary of the funding date); and 90-day Libor plus 6.50% thereafter. On September 8, 2017, Overseas Investment Peru signed an amendment changing the final maturity date to May 9, 2019. As of December 31, 2017, the outstanding principal amount under this facility was \$ 100 million. (\$99.9 million, net of transaction costs) (\$97 million, net of transaction costs as of December 31, 2016).

On January 3, 2018, this loan was fully repaid for a total amount of \$101 million (including interest accrued).

Note 15 – Loans and Debentures (Cont'd)

- C. *OPC Rotem* - In January 2011, OPC entered into a financing agreement with a consortium of lenders led by Bank Leumi L'Israel Ltd ("Bank Leumi") (shareholder of Kenon - 14% shareholding) for the financing of its power plant project. The financing consortium includes Bank Leumi and institutional entities from the following groups: Clal Insurance Company Ltd.; Amitim Senior Pension Funds; Phoenix Insurance Company Ltd.; and Harel Insurance Company Ltd ("OPC's lenders"). As part of the financing agreement, the lenders committed to provide OPC a long-term credit facility (including a facility for variances in the construction costs), a working capital facility, and a facility for financing the debt service, in the overall amount of approximately NIS 1,800 million (approximately \$480 million). The loans are CPI linked and are repaid on a quarterly basis beginning in the fourth quarter of 2013 until 2031. As part of the financing agreement, OPC had certain restrictions to make distributions of dividends and repayments of shareholders' loans, only after the third year after the completion of OPC's power plant. On October 13, 2015, OPC and the senior lenders amended the Facility Agreement to remove this restriction.

As part of the Facility Agreement, OPC is required to keep a Debt Service Reserve equivalent to the following two quarterly debt payments (hereinafter "the reserve") within the period of two years following power plant construction completion. As of December 31, 2018 and 2017, the amount of the reserve is NIS51 million (approximately \$14 million) and NIS72 million (approximately \$19 million) respectively.

As of December 31, 2018 and 2017, OPC used NIS7 million (approximately \$1.9 million) and NIS5 million (approximately \$1.3 million), respectively from the guarantee.

Under the Facility Agreement, OPC and IC Power Asia Development Ltd ("ICPAD") together and the non-controlling interests in Rotem ("Veridis"), issued corporate guarantees in favor of Rotem in amounts of NIS92 million (approximately \$24.5 million) and NIS23 million (approximately \$6.1 million), respectively.

In December 2017, an amended credit facility agreement was signed, according to which ICPAD was released from the corporate guarantee, in return for the accumulation of an additional fund in Rotem in the amount of NIS 57.5 million (approximately \$15.3 million) ("the owners' guarantee fund") such that as at December 31, 2018, the corporate guarantee of OPC and Veridis amounts to NIS 72.5 million (approximately \$19.3 million), according to their relative portion in holdings. The owners' guarantee fund is subject to an adjustment mechanism under which in certain coverage ratios it can reach a maximum amount of NIS115 million (approximately \$31 million). The owners' guarantee fund will accumulate in the following manner – NIS20 million (approximately \$5.3 million) upon signing the amended credit agreement and the balance will accumulate over 24 months in semi-annual deposits. After the completion of the accumulation of the owners' guarantee fund, Veridis and OPC will be released from the corporate guarantee. As at December 31, 2018, the owners' guarantee fund amounted to NIS39 million (approximately \$10.4 million).

- D. *OPC Hadera* - In July 2016, Hadera entered into a financing agreement for the senior debt (hereinafter – "the Hadera Financing Agreement") with Israel Discount Bank Ltd. (hereinafter – "Bank Discount") and Harel Insurance Company Ltd. (hereinafter – "Harel") to finance the construction of the Hadera Power Plant, whereby the lenders undertook to provide Hadera credit frameworks, mostly linked to the CPI, in the amount of NIS 1,006 million in several facilities (some of which are alternates): (1) a long-term credit facility (including a framework for changes in construction and related costs); (2) a working capital facility; (3) a debt service reserves account and a VAT facility; (4) a guarantees facility; and (5) a hedge facility. In December 2017, Bank Discount assigned to Clal Pension and Provident Ltd. and Atudot Pension Fund for Salaried Employees and Self-Employed Persons Ltd. 43.35% of its share in the long-term credit facility (including the facility for changes in construction and related costs). In March 2017, the Electricity Authority confirmed that Hadera had complied with a milestone for a financial closing, as stipulated in the conditional license for construction of the power station.

Some of the loans in the Hadera Financing Agreement are linked to the CPI and some are unlinked. The loans accrue interest at the rates specified in the agreement and are to be repaid in quarterly installments according to the repayment schedules specified in the Hadera Financing Agreement over a period of 18 years from the commencement date of the repayments in accordance with the provisions of the agreement (which will commence about six months after the commercial operation of the Hadera power station).

As at the date of the report, Hadera withdrew a total of NIS 616 million (approximately \$164 million) out of the Financing Agreement of Hadera. During 2018, Hadera's withdrawals amounted to a total of NIS 122 million (approximately \$34 million). The interest rate on the withdrawn amounts up to the date of the report ranges between about 3.1% and about 3.9% on the CPI-linked loans and between about 4.7% and about 5.4% on the loans not linked to the CPI.

Note 15 – Loans and Debentures (Cont'd)

Debentures

- E. In May, 2017, OPC issued debentures (Series A) to classified investors under a private placement, which were listed for trade on the Institutional Continuous Trading Platform. The debentures, with a par value of NIS 320 million (approximately \$85 million), bear annual interest at the rate of 4.95% and are repayable, principal and interest, every six months, commencing on June 30, 2018 (on June 30 and December 30 of every calendar year) through December 30, 2030. Under the terms, the interest on the debentures will be reduced by 0.5% in the event of their listing for trade on the main list of the TASE. The debentures have received a rating of A3 from Midroog and A- from S&P Global Ratings Maalot Ltd. (hereinafter — “Maalot”).

On August 20, 2017, OPC listed the debentures for trade in the stock exchange under an issuance and the listing of its shares for trade and accordingly, from that date, interest on the debentures (Series A) was reduced by 0.5% and is 4.45% per year.

According to the trust deed from May 2017, OPC has registered, in favor of the trustee on behalf of the holders of the debentures, a first-ranking floating charge, unlimited in amount, on all of its assets. The floating charge will not preclude OPC from pledging specific assets and the performance of other asset dispositions by OPC.

The trust deed contains customary clauses for calling for the immediate redemption of the debentures, including events of default, insolvency, liquidation proceedings, receivership, stay of proceedings and creditors' arrangements, certain types of restructuring, material downturn in the position of OPC. The right to call for immediate redemption also arises upon: (1) the occurrence of certain events of loss of control by Kenon; (2) the call for immediate repayment of other debts (or guarantees) of the Company or of Hadera or Rotem in certain predefined minimum amounts; (3) a change in the area of operation of OPC such that OPC's main area of activity is not in the energy sector in Israel, including electricity generation in power plants and with renewable energy sources; (4) in the event that a rating is discontinued over a certain period of time, and the rating of the debentures falls below the level of Baa3 (or BBB-); and (5) in the event of suspending trading for a certain time period if the debentures are listed for trade on the main list of the Stock Exchange. All of such conditions, pursuant to the terms set out in the trust deed.

Additionally, OPC has created a reserve for the servicing of the debt, out of the issuance consideration, in the amount of 18 months of principal and interest and to comply with financial covenants and limitations on distributions such that the historical debt coverage ratio will not be less than 1.2, there must be minimum shareholders' equity of NIS 80 million and an “equity to total assets” ratio of at least 12.5%. As at the date of the report OPC was in compliance with all the financial covenants in accordance with the trust certificate.

Additionally, restrictions imposed on distributions, provision of loans to related parties and repayment of loans to related parties, are included as set forth in the trust deed, including compliance with certain covenants.

The terms of the debentures also provide for the possible raising of the interest rate in certain cases of lowering the rating, in certain cases of breach of financial covenants, and in certain cases of use of the reserve for servicing the debt where the reserve is not sufficiently funded within the time frame that is set forth in the trust deed. The ability of OPC to expand the debenture series was limited under certain circumstances, including maintaining the rating of the debentures at its level shortly prior to the expansion of the series and the lack of breach. Additionally, should OPC issue additional debentures that are not secured (or that are secured with a pari passu ranking floating charge), these will not have preference over the debentures (Series A) upon liquidation.

Note 16 – Trade Payables

	As at December 31,	
	2018	2017
	\$ Thousands	
Current		
Trade Payables	25,082	36,994
Accrued expenses and other payables	22,590	21,901
	<u>47,672</u>	<u>58,895</u>

Note 17 – Other Payables, including Derivative Instruments

	As at December 31,	
	2018	2017
	\$ Thousands	
Current liabilities:		
Financial derivatives not used for hedging	-	73
Financial derivatives used for hedging	-	439
The State of Israel and government agencies	244	1,208
Employees and payroll-related agencies	40	179
Accrued expenses	7,505	14,915
Interest payable	277	21
Transaction costs on sale of subsidiaries	-	59,000
Others	4,006	6,687
	<u>12,072</u>	<u>82,522</u>
Non-current liabilities:		
Others	369	81
	<u>369</u>	<u>81</u>

Note 18 – Provisions

	Financial Guarantee*	Total	Financial Guarantee*	Others	Total
	2018		2017		
	\$ thousands		\$ thousands		
Balance at January, 1	44,342	44,342	118,763	768	119,531
Provision released	(44,342)	(44,342)	(74,421)	(768)	(75,189)
Balance at December, 31	<u>-</u>	<u>-</u>	<u>44,342</u>	<u>-</u>	<u>44,342</u>

* Relates to Kenon's provision of financial guarantees to Chery in respect of an obligation of Qoros (see Note 9.C.b.6).

Note 19 – Contingent Liabilities, Commitments and Concessions

A. Claims

OPC

a. OPC Rotem – Tamar

In July 2013, the EA published four generation component tariffs/power cost indicators, ranging from NIS 386 per megawatt hour, or MWh, to NIS 333.2 per MWh, instead of the single tariff that had previously been used. In January 2015, the EA published new tariffs, which reduced the tariff rates by approximately 10%. In connection with the indexation of their natural gas price formula for OPC's gas supply agreement with the Tamar Partner, OPC and the Tamar Partners disagreed as to which of the EA's July 2013 tariffs applied to the Tamar's supply agreement and have a similar disagreement with respect to the tariffs published in January 2015. On February 2, 2017, OPC received a letter from Tamar's attorney claiming a debt of \$24.6 million (including accrued interest) and requesting that such amount be deposited in escrow pursuant to the GSPA.

On June 21, 2017, the Tamar Partners filed a request for arbitration against OPC Rotem in accordance with the gas supply agreement. On July 20, 2017, OPC Rotem submitted its response to such request, rejecting the arguments of Tamar Partners and requesting (i) that it be determined that the relevant tariff in connection with the price of gas for the period in dispute is NIS 333.2 per MWh; (ii) that the amount deposited in escrow, plus the gains accrued thereon, should be released immediately; and (iii) that Tamar Partners bear OPC Rotem's arbitration expenses.

In February 2018, Tamar Partners filed a detailed statement of claim in which they repeated the abovementioned contentions. In addition, an alternative claim was raised. OPC Rotem rejects the contentions of Tamar Partners and, in June 2018, OPC Rotem filed a detailed statement of defence wherein it rejected the contentions. In October 2018 a statement of response was filed by Tamar Partners and in December 2018 OPC Rotem filed its final reply. Subsequent to the date of the report, in February 2019, a hearing was held. The arbitration decision has not yet been rendered and is expected to be issued no later than the second half of 2019.

As at December 31, 2018, OPC Rotem believes that it is more likely than not that its position will be accepted and, accordingly, no provision has been recognized in the financial statements in respect of this claim.

b. ORL Claim

In November 2017, a request was filed with the Tel Aviv-Jaffa District Court to approve a derivative claim on behalf of Oil Refineries Ltd. ("ORL"). The request is based on the petitioner's contention that the undertaking in the electricity purchase transaction between ORL and OPC-Rotem is an extraordinary interested party transaction that did not receive the approval of the general assembly of ORL shareholders on the relevant dates. The respondents to the request include ORL, Rotem, the Israel Corporation Ltd. and the members of ORL's Board of Directors at the time of entering into the electricity purchase transaction. The requested remedies include remedies such as a "do" order and financial remedies.

The subject of the request is the gas purchase transactions of ORL, Israel Chemicals Ltd., OPC Rotem and OPC Hadera (hereinafter - the "Group Companies"), including their inter-company aspects, including: (1) a transaction of the Group Companies for the purchase of natural gas from Tamar Partners; and (2) transactions of the Group Companies for the purchase of natural gas from Energean.

Note 19 – Contingent Liabilities, Commitments and Concessions (Cont'd)

As for the transaction with Energean, the plaintiff contends that beyond the Group's transaction with a third party (i.e., Energean), a transaction is required among the Group Companies themselves regarding the distribution of the economic benefits achieved in the joint negotiations in a manner that suits the purchasing and bargaining power of each of the group companies.

The plaintiff contends that the alleged absence of such an inter-company transaction (or the alleged absence of a proper procedure regarding the distribution of the benefit) discriminates against ORL (the inter-company dimension is not at market conditions) and ORL does not receive its share in the economic benefits due to its large purchasing power and its contribution to the negotiations with Energean (inter alia, in view of the fact that the transaction was made at similar prices for the Group Companies).

The main remedies for which the plaintiff is petitioning in relation to the Energean deal are a number of declarative and financial measures, and inter alia, an inter-company process that will reflect the differences in purchasing power between the companies.

With respect to the Tamar transaction, the petitioner claims that the Tamar transaction was not approved by ORL as required and additional claims regarding this transaction, including the question of its being beneficial to ORL and at market conditions; with respect to the Tamar transaction, declaratory remedies and compensatory remedies were requested from ORL and/or the refund of the amounts of the benefits that the OPC Hadera and the other parties to the transaction allegedly received, at the expense of ORL, with an additional coefficient petitioned.

In August 2018 the Group Companies submitted their response to the claim filed. The response rejected the contentions appearing in the claim and requested summary dismissal of the claim. A pre-trial hearing has been scheduled for June 2019.

OPC believes, based on advice from its legal advisors, that the claim will not be accepted by the Court and, accordingly, no provision has been included in the financial statements in respect of the claim. Therefore, no provision was included in the financial statements as at December 31, 2018.

B. Commitments

a. OPC Rotem

Power Purchase Agreements (PPA)

On November 2, 2009, OPC signed a 20-year power purchase agreement (“the PPA”) with Israel Electric Company Ltd. (“IEC”) to purchase capacity and energy from OPC over a period of twenty (20) years from the commencement date of commercial operation (“COD”) of the plant. The PPA is a “capacity and energy” agreement, meaning, a right of OPC Rotem to provide the plant’s entire production capacity to IEC and to produce electricity in the quantities and on the dates as required by IEC.

PPA with end users

The PPA with IEC provides OPC Rotem with the option to allocate and sell the generated electricity of the power station directly to end users. OPC Rotem has exercised this option and sells all of its energy and capacity directly to end users.

Most of the agreements are for a period of 10 years. The consideration, tariff, are set based on the TAOZ, the generation component of the time-of-use electricity tariff, less a discount from the generation component. Both the TAOZ and the generation component are determined by the Electricity Authority (EA, previously name PUA) and are updated from time to time.

If the consideration is less than a minimum tariff of the generation component, the Company has the right to terminate the agreements.

The agreements guarantee a certain level of availability of the power plant below which, customers are entitled to compensation.

Note 19 – Contingent Liabilities, Commitments and Concessions (Cont'd)

Natural supply gas agreement

On November 25, 2012, OPC Rotem signed an agreement with Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Isramco Negev 2 Limited Partnership, Avner Oil Exploration Limited Partnership and Dor Gas Exploration Limited Partnership ("Tamar Partners") regarding the natural gas supply to the power plant. The agreement shall terminate upon the earlier of: June 2029 or until OPC Rotem has consumed the entire contractual quantity. In addition, each party has the right to extend the period of the agreement for a period of up to two additional years under certain conditions or until the date of consuming the total contract quantity, whichever is earlier (the "Tamar Agreement").

The price of the gas is linked to changes in the "Production Cost" Tariff, which is part of the TAOZ, and partially linked to the USD representative exchange rate, and includes "a floor price". According to the Agreement, OPC Rotem shall purchase natural gas with a total contractual quantity of 10.6 BCM (billions of cubic meters). OPC Rotem is under a "take or pay" obligation regarding a certain annual quantity of natural gas based on a mechanism set forth in the Tamar Agreement. The Tamar Agreement contains certain conditions that provide in the future flexibility to reduce the minimum annual quantity.

On December 28, 2015 the agreement received the Israeli Antitrust Authority, ("Authority") approval. The agreement between Tamar and OPC Rotem allows cutting back the supply of gas to OPC Rotem during the "interim period" in the event of gas shortage and gives preference in such scenario to certain customers of Tamar Partners over OPC Rotem.

In December 2016, the EA published its decision regarding an update of the generation component of the TAOZ, which became effective on January 1, 2017, and further reduced the generation component tariff by approximately 0.5% from NIS 265.2 per MWh to NIS 264 per MWh (as opposed to the 8% reduction that was initially proposed in the October 2016 EA draft decision). However, as part of the December 2016 EA decision, TAOZ was also adjusted to reflect a decrease in certain payments made by IPPs to the IEC. As a result of such adjustment, OPC Rotem's tariffs effectively increased by approximately 2% (despite the 0.5% reduction in the generation component tariff).

On January 8, 2018, the EA published a resolution which entered into force and effect on January 15, 2018, regarding the update of tariffs for 2018 ("2018 Tariff Update"), in which the rate of the production component was raised by 6.7% from NIS 265 per MWh to NIS 281.6 per MWh. As a result of the 2018 Tariff Update, Rotem and Hadera paid a price in 2018 that was higher than the minimum price stipulated in their gas agreements.

In December 2018, the Electricity Authority published a decision that entered into effect, subsequent to the date of the report, on January 1, 2019, regarding update of the tariffs for 2019 (hereinafter – "the 2019 Tariff Update"), whereby the rate of the generation component was raised by 3.3% from NIS 281.6 per MWh to NIS 290.9 per MWh. As a result of the 2019 Tariff Update, Rotem and Hadera is expected to pay a higher price for the natural gas than the minimum price stipulated in its gas agreement.

b. OPC Hadera

Power and Steam Purchase Agreement ("PSPA")

On August 10, 2015, OPC Hadera and Hadera Paper entered into two agreements for the supply of electricity and steam to Hadera Paper's facility:

- Short Term PSPA - Pursuant this agreement, OPC Hadera will supply steam and electricity until COD of the power plant, which shall be done through the existing energy center.
- Long Term PSPA – Pursuant this agreement, OPC Hadera will supply steam and electricity during the period commencing upon COD of the power plant and for a period of 18 years thereafter. Subsequent to the date of the report, in January 2019, an amendment was signed to this agreement providing that the period will be 25 years from the COD of the power plant.

Note 19 – Contingent Liabilities, Commitments and Concessions (Cont'd)

In consideration for electricity purchased under each of the PSPAs, Hadera Paper will pay an electricity tariff which is based on a certain discount in comparison with the electricity tariffs charged by the Israeli Electric Company Ltd. The steam price paid by Hadera Paper is subject to adjustment based upon Hadera Paper's annual steam consumption.

Hadera Paper is under a "take or pay" obligation (hereinafter – "the TOP") regarding a certain annual quantity of steam based on a mechanism set forth in the agreements. Under the PSPAs, OPC Hadera is obligated to certain availability with respect to the supply of electricity and steam, which obligation excludes unavailability due to events predominately not in the control of OPC Hadera. In addition, in certain circumstances, OPC Hadera may be subject to penalties in the event of delays in the COD of the power plant. OPC Hadera's liability is subject to an annual cap, as set out in the agreements.

PPA with end users

As of December 31, 2018, OPC Hadera completed the signing of agreements for the sale of most of the generation capacity of the power plant to end users. The agreements are for a period of 10 years, and under most of the agreements the end user has an early termination right, in accordance with the terms set forth in the agreement with right of refusal of OPC Hadera. The consideration was set based on the TAOZ rate, less a discount from the generation component.

If the consideration is less than the minimum tariff set for the generation component, OPC Hadera has the right to terminate the agreements. In addition, the agreements include compensation in the event of a delay of power plant's COD and compensation for the unavailability of the power plant below an agreed minimum level.

Gas Sale and Purchase Agreement ("GSPA")

On November 25, 2012, Rotem signed an agreement with Tamar Partners which, as at the date of the report, consist of Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Isramco Negev 2 Limited Partnership, Dor Gas Exploration Limited Partnership, Everest Infrastructures Limited Partnership and Tamar Petroleum Limited Partnership (hereinafter – "Tamar Partners"), regarding supply of natural gas to the power plant (hereinafter – "the Agreement between Tamar and Rotem"). The Agreement between Tamar and Rotem will remain in effect until the earlier of June 2029 or the date on which Rotem consumes the full contractual quantity. Rotem is to purchase natural gas in an overall maximum quantity of 10.6 BCM (billion cubic meters).

Certain annual quantities in the Agreement between Tamar and Rotem are subject to a "Take-or-Pay" obligation (hereinafter – "the TOP"), based on a mechanism set forth in the Agreement. Under the Agreement between Tamar and Rotem, under certain circumstances, where there is a payment for a quantity of natural gas that is not actually consumed or a quantity of gas is purchased above the TOP amount, Rotem may, subject to the restrictions and conditions set forth in the Agreement, accumulate this amount, for a limited time, and use it within the framework of the Agreement. The Agreement includes a mechanism that allows, under certain conditions, assignment of these rights to related parties for quantities that were not used proximate to their expiration date. In addition, Rotem is permitted to sell surplus gas in a secondary sale (with respect to distribution companies, at a rate of up to 15%). In addition, Rotem was granted an option to reduce the contractual daily quantity to a quantity equal to 83% of the average gas consumption in the three years preceding the notice of exercise of this option. The annual contractual quantity will be reduced starting 12 months after the date of such notice, subject to the adjustments set forth in the Tamar Agreement with Rotem (including the TOP). If the annual contractual quantity is decreased, all other contractual quantities set forth in the agreement are to be decreased accordingly. Nevertheless, the TOP is expected to decrease such that the minimum consumption quantity will constitute 50% of the average gas consumption in the three years prior to the notice of exercise of the option. The option is exercisable starting from January 1, 2020, but not later than December 31, 2022. The Supervisor of Restrictive Business Practices (Antitrust) (hereinafter – "the Supervisor") is authorized to update the notice period in accordance with the circumstances. On December 28, 2015, the Agreement received the Supervisor's approval.

The Agreement between Tamar and Rotem allows reducing the supply of gas to Rotem during the "interim period" (as detailed below) in the event of gas shortage and gives preference in such a case to certain customers of Tamar Partners over Rotem. Nevertheless, in April 2017, the Natural Gas Sector Regulations (Maintaining a Natural Gas Sector during an Emergency), 2017, were published, which provide for handling of the gas supply in the event of failure by a gas supplier to supply all of the natural gas out of the relevant field. In general, pursuant to the Regulations, in the event of shortage of natural gas, the available gas will be allocated proportionately among consumers that generate electricity and consumers that do not generate electricity, based on their average consumption, and after deducting gas quantities that are reserved for distribution consumers. It is noted that in extraordinary circumstances of a shortage that has a significant adverse impact on the regular operation of the electricity sector, the Regulations authorize the Minister of Energy to make an exception to the allocation provided in the Regulations, after consulting with the Director of the Natural Gas Authority and the Director of the Electricity Authority.

Note 19 – Contingent Liabilities, Commitments and Concessions (Cont'd)

Without detracting from that stated above, pursuant to the gas sale and purchase agreement (hereinafter – “the GSPA”), Rotem is defined as a “Tier B” customer and accordingly during the “Interim Period”, which according to a statement from Tamar Partners commenced, in April 2015 and will end in September 2020, under certain circumstances, Tamar Partners will not be obligated to supply Rotem’s daily capacity. On the other hand, during the “Interim Period” Rotem is not subject to any TOP obligation.

Pursuant to the agreement, the price is based on a base price in NIS that was determined on the signing date of the agreement, linked to changes in the generation component tariff, which is part of the TAOZ, and in part (30%) to the representative rate of exchange of the U.S. dollar. As a result, increases and decreases in the generation component, as determined by the Electricity Authority, affect Rotem’s cost of sales and its profit margins. In addition, the natural gas price formula set forth in the Agreement between Tamar and Rotem is subject to a minimum price denominated in US dollars. As a result of past reductions in the generation component tariff, Rotem began paying the minimum price in November 2014, and therefore decreases in the generation tariff in February and September 2015 adversely affected Rotem’s profit margins.

In July 2013, the Electricity Authority published four generation component tariff indices, ranging from NIS 333.2 per MWh to NIS 386 per MWh, instead of the single tariff that had previously been used. In January 2015, the Electricity Authority published new tariffs, which reduced the tariff rates by about 10%. A disagreement arose between the parties in connection with the manner of indexing the natural gas price formula with respect to Rotem’s gas supply agreement with the Tamar Partners, namely, which of the Electricity Authority’s July 2013 tariffs applied to Rotem’s supply agreement and, similarly, also with respect to the tariffs published in January 2015 (see Note 19.A.a for further information).

Under the Agreement between Tamar and Rotem, on May 25, 2017 Rotem deposited in escrow the amount of \$21,750 thousand (the balance of which includes accrued interest as at December 31, 2018, amounted to NIS 82,046 thousand) until the dispute is finally decided (hereinafter – “the Trust Deposit”). This amount represents the amount in dispute, excluding the accrued interest.

Israel Natural Gas Lines Ltd. Agreement for the Transmission of Natural Gas

On July 11, 2007, Hadera Paper signed a gas transmission agreement with Israel Natural Gas Lines Ltd. (hereinafter- “INGL”), which was assigned to OPC Hadera on August 10, 2015, in accordance to the SPA. The agreement as amended on June 7, 2013 and March 31, 2015 is extended until July 14, 2018 and governs the transmission of natural gas to the Energy Center. The agreement was further extended and modified by a third amendment on December 28, 2015 which facilitates transmission of natural gas to the power plant, by means of the construction and installation of a new pressure regulation and measurement (PRMS) station, and includes additional commercial terms. The duration of the agreement, as modified by the third amendment, shall be 16 years from an agreed upon “start date” with an option for extension. The “start date” in accordance with the third amendment, will occur within a window of time as stipulated in the agreement. Such window may be postponed due to reasons attributable to changes in specifications of the PRMS or to the land on which the PRMS is to be constructed.

As part of the agreement, OPC Hadera extended to INGL a bank guarantee in the amount of approximately NIS 296 thousand (approximately \$85 thousand) linked to the CPI in connection with OPC Hadera's monthly payment commitment pursuant to the agreement, which replaces the original guarantee provided by OPC Hadera.

In addition, OPC Hadera provided a CPI-linked corporate guarantee in an amount equal to NIS 4 million (approximately \$1 million) in connection with the undertaking to construct the new PRMS facility for OPC Hadera under the agreement.

Note 19 – Contingent Liabilities, Commitments and Concessions (Cont'd)

IDOM Servicios Integrados

On January 21, 2016, an agreement was signed between OPC Hadera and SerIDOM Servicios Integrados IDOM, S.A.U (hereinafter - "IDOM"), for the design, engineering, procurement and construction of a cogeneration power plant in consideration of approximately \$156 million (including additions to the Agreement that were signed at a later date), which is payable on the basis of progress and the achievement of milestones. The agreement contains a mechanism for the compensation of OPC Hadera in the event that IDOM fails to meet its contractual obligations, up to the amounts that are set forth in the agreement. IDOM has provided bank guarantees and a corporate guarantee by its parent company to secure said obligations and OPC Hadera has extended to IDOM a guarantee to secure part of OPC Hadera's liabilities.

In October 2018, an addendum to the construction agreement was signed (in this Section – "the Addendum to the Agreement") whereby the additional amount Hadera was to pay, in the amount of about €10 million (approximately \$11.5 million), in two payments of NIS 21.5 million (approximately \$5.7 million) each, was updated such that the second payment was conditioned on construction of the Hadera Power Plant up to February 16, 2019 (a condition that was not fulfilled). Pursuant to the Addendum to the Agreement, a delay in completion of the work reduces the above-mentioned payment in accordance with a mechanism determined by the parties. In addition, as part of the change order the parties agreed, among other things, to waive past claims. In the Company's estimation, the commercial operation date of the Hadera Power Plant is expected to be in the third quarter of 2019 – this taking into account the delays that occurred during the construction, including, the timetables for replacement of a faulty component discovered during performance of the construction work, and as stated pursuant to the construction agreement Hadera is entitled to a certain compensation from IDOM in respect of delay in completion of the construction.

General Electric International and GE Global Parts

On June 27, 2016, OPC Hadera entered into a long-term service agreement (hereinafter - "the Service Agreement") with General Electric International Ltd. (hereinafter - "GEI") and GE Global Parts & Products GmbH (hereinafter - "GEGPP"), pursuant to which these two companies will provide maintenance treatments for the two gas turbines of GEI, generators and auxiliary facilities of the OPC Hadera Power Plant for a period commencing on the date of commercial operation until the earlier of: (a) the date on which all of the covered units (as defined in the Service Agreement) have reach the end-date of their performance and (b) 25 years from the date of signing the Service Agreement. The cost of the service agreement amounts to \$42 million when the consideration will be payable over the term of the Agreement, based on the formula prescribed therein.

The Service Agreement contains a guarantee of reliability and other obligations concerning the performance of the Power Plant and indemnification to OPC Hadera in the event of failure to meet the performance obligations. At the same time, OPC Hadera has undertaken to pay bonuses in the event of improvement in the performance of the plant as a result of the maintenance works, up to a cumulative ceiling for every inspection period. GEI provided its subsidiary with a corporate guarantee of the parent company.

c. OPC Energy Ltd.

Option agreement with Hadera Paper

On April 5, 2017, OPC Energy signed an option agreement with Hadera Paper, effective from February 9, 2017, concerning the lease of an area of some 68,000 sq.m. in proximity to the Hadera Power Plant. The option period commenced on the date of signing and expires on December 31, 2022. The option period is divided into three periods for which the option fees will be payable: NIS 500 thousand (approximately \$144 thousand) for 2017; NIS 1.5 million (approximately \$433 thousand) for 2018; and NIS 3 million (approximately \$800 thousand) for each of the years 2019 through 2022 (inclusive). Subsequent to the date of the report, in January 2019, an amendment to the option agreement with Hadera Paper was signed whereby it was agreed to extend the option period to 2019, and where the amendment provides that notwithstanding that stated in the original option agreement, the Company is to pay Hadera Paper NIS 2.2 million (approximately \$587 thousand) for 2019, and if the Company exercises the option and signs a lease agreement it will pay Hadera Paper on the financial closing date with a financing party with respect to construction of the Hadera Power Plant, an additional amount of NIS 800 thousand (approximately \$213 thousand). The amendment to the optionag provides that no other change applies to the option periods in respect of the years 2020–2022 and the payment in respect thereof.

Note 19 – Contingent Liabilities, Commitments and Concessions (Cont'd)

Additionally, OPC Energy is required to notify, at least 90 days prior to the end of each option year, of its intention to extent the option for an additional year. Otherwise, the option will expire at the end of the same year. According to the agreement, the option will expire if the National Infrastructure Committee in the Planning Administration refuses to approve the statutory plan and the Company does not initiate legal proceedings in connection with such refusal. If the option is exercised, the lease agreement to be signed will be for a period of 25 years less one month, commencing from the date of transfer of possession of the leasehold (i.e., the exercise date of the option) or the commencement date of commercial operation, as set forth in the agreement, with an option to extend the undertaking. It is further stipulated that the lease agreement will not include a liability limit and that OPC Energy will bear all fees, taxes and payments that are imposed in respect of the construction of a power plant on the leasehold.

d. Tzomet Energy Ltd.

Acquisition of Tzomet

On April 6, 2017, OPC Energy (formerly IC Power Israel) entered into a series of agreements to acquire 95% of the shares of Tzomet Energy Ltd. (Tzomet) from Ipswich Holdings Netherlands B.V. (47.5%) and Rapac Energy Ltd. (47.5%), and an agreement with Methy Invest S.A. (Methy) for the waiver of its rights in connection with the shares of Ipswich and Rapac. Tzomet holds the rights to develop a natural gas fired power station at Plugot Junction (Israel) with an estimated capacity of approximately 396 MW, and the land rights and statutory approvals.

The total transaction consideration under the aforesaid agreements is expected to aggregate approximately \$24 million, subject to adjustments pertaining to the volume of the Tzomet Project and subject to the payment milestones that are stipulated in the agreement.

On August 7, 2017, OPC Energy received a letter from the Israel Antitrust Authority and the Chairman of the Committee for the Reduction of Concentration (“the Concentration Committee”), addressed to the Electricity Authority, stating that the Concentration Committee recommends not to grant a conditional license for the Tzomet project. Subsequent to the year end, an outline was determined for the expansion of the activities of the group to which OPC belongs (“the Idan Ofer Group”) in the area of generation of electricity from an economy-wide business concentration perspective. See Note 31.2.A.

In March 2018, OPC completed the acquisition of 95% of the shares of Tzomet Energy, although Tzomet still requires the necessary regulatory approvals, the approval for a new conditional licenses for electricity generation of the Electricity Authority and the approval of the Anti-Trust Commissioner.

Subsequent to the date of the report, on January 3, 2019, OPC signed an agreement with the private shareholders in Tzomet, for which a trustee holds 5% of Tzomet’s share capital (hereinafter – “the Sellers”), whereby the Sellers will sell their shares in Tzomet to the Company (hereinafter – “the Sale Agreement” and “Shares Being Sold”, respectively) in increments, on a number of dates and subject to fulfillment of milestones (see 10.A.1.a for further information).

PW Power Systems LLC

In September 2018, Tzomet signed a planning, procurement and construction agreement (hereinafter – “the Agreement”) with PW Power Systems LLC (hereinafter – “the Tzomet Construction Contractor”), for construction of the Tzomet project. The Agreement is a “lump-sum turnkey” agreement wherein the Tzomet Construction Contractor committed to construct the Tzomet project in accordance with the technical and engineering specifications determined and includes various undertakings of the contractor. In addition, the Tzomet Construction Contractor committed to provide certain maintenance services in connection with the power station’s main equipment for a period of 20 years commencing from the start date of the commercial operation.

Pursuant to the Agreement, the Tzomet Construction Contractor undertook to complete the construction work of the Tzomet project, including the acceptance tests, within a period of about two and a half years from the date of receipt of the work commencement order from OPC (hereinafter – “the Work Commencement Order”), subject to certain circumstances spelled out in the Agreement. The Agreement includes a preliminary “development work” period, which commenced on September 6, 2018 (hereinafter – “the Preliminary Development Work”). The Preliminary Development Work includes, among other things, preliminary planning and receipt of building permits. It is noted that OPC is not required to submit a work commencement order and is permitted to conclude the Agreement in each of its stages, subject to certain circumstances stipulated in the Agreement.

In OPC’s estimation, based on the work specifications, the aggregate consideration that will be paid in the framework of the Agreement is about \$300 million, and it will be paid based on the milestones provided therein.

Note 19 – Contingent Liabilities, Commitments and Concessions (Cont'd)

Furthermore, the Agreement includes provisions that are customary in agreements of this type, including commitments for agreed compensation, limited in amount, in a case of non-compliance with the terms of the Agreement, including with respect to certain guaranteed executions and for non-compliance with the timetables set, and the like. The Agreement also provides that the Zomet Construction Contractor is to provide guarantees, including a parent company guarantee, as is customary in agreements of this type.

e. OPC Rotem and OPC Hadera

Energean agreement

On December 6, 2017, OPC Rotem and OPC Hadera signed an agreement with Energean Israel Ltd. (hereinafter - "Energean"), which has holdings in the Karish and Tanin gas reservoirs (hereinafter - "the gas reservoir"), subject to the fulfillment of suspending conditions). The agreements with OPC Rotem and OPC Hadera are separate and independent. According to the terms set forth in the agreements, the total quantity of natural gas that OPC Rotem and OPC Hadera are expected to purchase is about 9 BCM (for OPC Rotem and OPC Hadera together) for the entire supply period (hereinafter - the "Total Contractual Quantity"). The agreement includes, among other things, TOP mechanism under which OPC Rotem and OPC Hadera will undertake to pay for a minimum quantity of natural gas, even if they have not used it.

The agreements include additional provisions and arrangements for the purchase of natural gas, and with regard to maintenance, gas quality, limitation of liability, buyer and seller collateral, assignments and liens, dispute resolution and operational mechanisms.

The agreements are valid for 15 years from the date the agreement comes into effect or until completion of the supply of the total contractual quantity from Energean to each of the subsidiaries (OPC Rotem and OPC Hadera). According to each of the agreements, if after the elapse of 14 years from the date the agreement comes into effect, the contracting company did not take an amount equal to 90% of the total contractual quantity, subject to advance notice, each party may extend the agreement for an additional period which will begin at the end of 15 years from the date the agreement comes into effect until the earlier of: (1) completion of consumption of the total contractual quantity; or (2) at the end of 18 years from the date the agreement comes into effect. The agreement includes circumstances under which each party will be entitled to bring the relevant agreement to an end before the end of the contractual period, in case of prolonged non-supply, damage to collateral and more.

As for the consideration, the price of natural gas is based on an agreed formula, linked to the electricity generation component and includes a minimum price. The total financial volume of the agreements may reach \$ 1.3 billion (assuming maximum consumption according to the agreements and according to the gas price formula as at the report date), and depends mainly on the electricity generation component and the gas consumption. On January 14, 2018, the agreement was approved by OPC Energy's shareholders.

OPC Hadera signed an agreement with an unrelated third party for the sale of surplus gas quantities which will be supplied to it pursuant to the agreement with Energean. As the agreements cannot be settled on a net basis and the undertakings were made for the purpose of OPC Hadera's own independent contractual use, the agreements for the purchase and sale of gas are not within the scope of IFRS 9. Accordingly, the agreements were accounted for as executory contracts.

f. Inkia Energy Limited

Under the share purchase agreement, our subsidiary Inkia has agreed to indemnify the buyer and its successors, permitted assigns, and affiliates against certain losses arising from a breach of Inkia's representations and warranties and certain tax matters, subject to certain time and monetary limits depending on the particular indemnity obligation. These indemnification obligations are supported by (a) a three-year pledge of shares of OPC which represent 25% of OPC's outstanding shares, (b) a deferral of \$175 million of the purchase price in the form of a four-year \$175 million Deferred Payment Agreement, accruing interest at 8% per year and payable in-kind, and (c) a three-year corporate guarantee from Kenon for all of the Inkia's indemnification obligations, all of the foregoing periods running from the closing date of December 31, 2017. In December 2018, the indemnification commitment was assigned by Inkia to a fellow wholly owned subsidiary of Kenon.

Note 20 – Share Capital and Reserves

A. Share Capital

	Company No. of shares (‘000)	
	2018	2017
Authorised and in issue at January, 1	53,808	53,720
Issued for share plan	19	88
Authorised and in issue at December, 31	53,827	53,808

All shares rank equally with regards to Company’s residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All issued shares are fully paid with no par value.

The capital structure of the Company comprises of issued capital and accumulated profits. The management manages its capital structure to ensure that the Company will be able to continue to operate as a going concern. The Company is not subjected to externally imposed capital requirement.

In 2018, 19,171 (2017: 87,911) ordinary shares were granted under the Share Incentive Plan to key management at an average price of \$21.07 (2017: \$12.51) per share.

Capital reduction

In December 2017, Kenon's shareholders approved a capital reduction to permit a distribution to shareholders of a portion of the proceeds received from the sale of Kenon's Latin American and Caribbean power generation and distribution businesses (the "Sale"). The capital reduction of up to \$750 million was approved by the High Court of the Republic of Singapore on February 20, 2018. Kenon's Board of Directors considered a number of factors in determining the amount of the distribution, including the amount of proceeds from the Sale remaining after the repayment of debt, the payment of tax and other expenses, and Kenon's anticipated cash needs after the distribution.

On March 22, 2018, Kenon distributed an aggregate amount of \$665 million, or \$12.35 per share, to Kenon’s shareholders. As a result, the share capital and total equity of Kenon reduced by \$665 million.

B. Translation reserve

The translation reserve includes all the foreign currency differences stemming from translation of financial statements of foreign activities as well as from translation of items defined as investments in foreign activities commencing from January 1, 2007 (the date IC first adopted IFRS).

C. Capital reserves

Capital reserves reflect the unrealized portion of the effective part of the accrued net change in the fair value of hedging derivative instruments that have not yet been recorded in the statement of profit or loss.

D. Dividend

On November 27, 2018, Kenon announced that its board of directors approved a cash dividend of \$1.86 per share (an aggregate amount of \$100 million), to Kenon’s shareholders of record as of the close of trading on December 7, 2018, for payment on December 17, 2018.

Note 20 – Share Capital and Reserves (Cont'd)**E. Kenon's share plan**

Kenon has established a share incentive plan for its directors and management. The plan provides grants of Kenon shares, as well as stock options in respect of Kenon's shares, to directors and officers of the Company pursuant to awards, which may be granted by Kenon from time to time, representing up to 3% of the total issued shares (excluding treasury shares) of Kenon. During 2018 and 2017, Kenon granted awards of shares to certain members of its management. Such shares are vested upon the satisfaction of certain conditions, including the recipient's continued employment in a specified capacity and Kenon's listing on each of the NYSE and the TASE. The fair value of the shares granted in 2018 is \$404 thousand (2017: \$1 million, 2016: \$ 240 thousand) and was determined based on the fair value of Kenon's shares on the grant date. Kenon recognized \$732 thousand as general and administrative expenses in 2018 (2017: \$508 thousand, 2016: \$547 thousand).

Note 21 – OPC Energy Ltd's Initial Public Offering

On August 10, 2017, OPC Energy Ltd ("OPC") completed the issuance of 31,866,700 ordinary shares on the Tel Aviv Stock Exchange to the public at a price of NIS 12.5 per share (approximately US\$ 3.47 per share). The proceeds of the issuance amount to approximately NIS 399 million (approximately \$ 111 million), net of issuance costs of NIS 39 million (approximately \$11 million). After the completion of the issuance, the public holds 24.2% of OPC's shares, while the Group's equity interest was diluted to 75.8% of the total issued shares of OPC. As a result of the dilution, the Group, registered \$57 million, net of capital reserves realization, in equity attributable to equity holders and \$42 million in non-controlling interest.

Note 22 – Revenue and Cost of Sales and Services**A. Revenue**

	For the Year Ended December 31,		
	2018	2017	2016
	\$ Thousands		
Revenue from sale of electricity	347,167	349,957	309,249
Revenue from sale of steam	16,095	15,438	14,939
Others	750	309	65
	<u>364,012</u>	<u>365,704</u>	<u>324,253</u>

Note 22 – Revenue and Cost of Sales and Services (Cont'd)

B. Cost of Sales and Services

	For the Year Ended December 31,		
	2018	2017	2016
	\$ Thousands		
Fuels	118,698	129,788	125,528
Electricity and infrastructure services	125,623	122,340	112,038
Salaries and related expenses	6,097	5,822	5,305
Generation and operating expenses and outsourcing	6,509	6,432	6,119
Third party services	1,548	1,734	1,764
Other	1,040	1,020	912
	<u>259,515</u>	<u>267,136</u>	<u>251,666</u>

The following footnote in the financial statements have been restated to be comparable with current year presentation:

For the year ended December 31, 2017	As previously stated	Effect of restatements	Restated
	\$ Thousands		
Fuels	-	129,788	129,788
Fuel, gas and lubricants	137,832	(137,832)	-
Electricity and infrastructure services	-	122,340	122,340
Capacity and energy purchases and transmission costs	50,973	(50,973)	-
Regulatory expenses	62,908	(62,908)	-
Salaries and related expenses	6,269	(447)	5,822
Generation and operating expenses and outsourcing	-	6,432	6,432
Third party services	2,670	(936)	1,734
Other	6,484	(5,464)	1,020
	<u>267,136</u>	<u>-</u>	<u>267,136</u>

For the year ended December 31, 2016	As previously stated	Effect of restatements	Restated
	\$ Thousands		
Fuels	-	125,528	125,528
Fuel, gas and lubricants	133,012	(133,012)	-
Electricity and infrastructure services	-	112,038	112,038
Capacity and energy purchases and transmission costs	57,310	(57,310)	-
Regulatory expenses	48,509	(48,509)	-
Salaries and related expenses	5,942	(637)	5,305
Generation and operating expenses and outsourcing	-	6,119	6,119
Third party services	2,890	(1,126)	1,764
Other	4,003	(3,091)	912
	<u>251,666</u>	<u>-</u>	<u>251,666</u>

Note 23 – Selling, General and Administrative Expenses

	For the Year Ended December 31,		
	2018	2017	2016
	\$ Thousands		
Payroll and related expenses	11,399	21,380	14,830
Depreciation and amortization	607	692	641
Professional fees	12,115	20,334	23,863
Other expenses	9,910	13,886	7,761
	<u>34,031</u>	<u>56,292</u>	<u>47,095</u>

Note 24 – Financing Income (Expenses), Net

	For the Year Ended December 31,		
	2018	2017	2016
	\$ Thousands		
Interest income from bank deposits	4,360	640	2,269
Interest income from deferred payment	14,166	-	-
Interest income from associated company	8,494		
Net change from change in exchange rates	1,129	2,259	5,448
Net change in fair value of derivative financial instruments	-	-	6
Other income	443	5	1
Financing income	<u>28,592</u>	<u>2,904</u>	<u>7,724</u>
Interest expenses to banks and others	(30,382)	(59,514)	(45,317)
Net change in fair value of derivative financial instruments	-	(1,168)	-
Other expenses	-	(9,484)	(1,959)
Financing expenses	<u>(30,382)</u>	<u>(70,166)</u>	<u>(47,276)</u>
Net financing expenses recognized in the statement of profit and loss	<u>(1,790)</u>	<u>(67,262)</u>	<u>(39,552)</u>

Note 25 – Income Taxes

A. Components of the Income Taxes

	For the Year Ended December 31,		
	2018	2017	2016
	\$ Thousands		
Current taxes on income			
In respect of current year*	1,878	64,291	1,687
In respect of prior years	(48)	44	92
Deferred tax income			
Creation and reversal of temporary differences	9,669	8,474	473
Total taxes on income	<u>11,499</u>	<u>72,809</u>	<u>2,252</u>

No previously unrecognized tax benefits were used in 2016, 2017 or 2018 to reduce our current tax expense.

* Current taxes on income in 2017 include \$61 million taxes payable in connection with a restructuring to simplify the holding structure of some of the companies remaining in the Kenon group subsequent to the Inkia transaction. As a result of this restructuring (which was substantially completed in January 2018), Kenon holds its interest in OPC directly. Kenon does not expect any further tax liability in relation to any future sales of its interest in OPC.

B. Reconciliation between the theoretical tax expense (benefit) on the pre-tax income (loss) and the actual income tax expenses

	For the Year Ended December 31,		
	2018	2017	2016
	\$ Thousands		
Profit/(loss) from continuing operations before income taxes	461,968	(135,636)	(426,900)
Statutory tax rate	17.00%	17.00%	17.00%
Tax computed at the statutory tax rate	78,535	(23,058)	(72,573)
Increase (decrease) in tax in respect of:			
Elimination of tax calculated in respect of the Group's share in losses of associated companies	18,215	20,924	31,651
Income subject to tax at a different tax rate	2,632	63,446	(2,548)
Non-deductible expenses	6,752	12,850	41,960
Exempt income	(97,664)	(7,006)	-
Taxes in respect of prior years	(48)	44	92
Changes in temporary differences in respect of which deferred taxes are not recognized	(4)	4,285	1,419
Tax losses and other tax benefits for the period regarding which deferred taxes were not recorded	2,883	350	2,449
Differences between the measurement base of income reported for tax purposes and the income reported in the financial statements	-	13	-
Other differences	198	961	(198)
Taxes on income included in the statement of profit and loss	<u>11,499</u>	<u>72,809</u>	<u>2,252</u>

Note 25 – Income Taxes (Cont'd)

C. Deferred tax assets and liabilities

1. Deferred tax assets and liabilities recognized

The deferred taxes are calculated based on the tax rate expected to apply at the time of the reversal as detailed below. Deferred taxes in respect of subsidiaries were calculated based on the tax rates relevant for each country.

The deferred tax assets and liabilities are derived from the following items:

	Property plant and equipment	Employee benefits	Carryforward of losses and deductions for tax purposes \$ thousands	Other*	Total
Balance of deferred tax asset (liability) as at January 1, 2017	(207,493)	1,711	84,735	(79,203)	(200,250)
Changes recorded on the statement of profit and loss	(13,940)	(1,097)	(13,919)	15,845	(13,111)
Changes recorded to equity reserve	-	882	-	(7,024)	(6,142)
Translation differences	(10,046)	24	4,397	1,253	(4,372)
Impact of change in tax rate	575	-	-	-	575
Sale of subsidiaries	140,736	(1,520)	(39,764)	71,095	170,547
Balance of deferred tax asset (liability) as at December 31, 2017	<u>(90,168)</u>	<u>-</u>	<u>35,449</u>	<u>1,966</u>	<u>(52,753)</u>
Changes recorded on the statement of profit and loss	4,532	68	(14,695)	134	(9,961)
Changes recorded to equity reserve	-	-	-	(104)	(104)
Translation differences	6,344	(2)	(1,972)	13	4,383
Balance of deferred tax asset (liability) as at December 31, 2018	<u>(79,292)</u>	<u>66</u>	<u>18,782</u>	<u>2,009</u>	<u>(58,435)</u>

* This amount includes deferred tax arising from derivative instruments, intangibles, undistributed profits, non-monetary items and trade receivables distribution.

2. The deferred taxes are presented in the statements of financial position as follows:

	As at December 31,	
	2018	2017
	\$ Thousands	
As part of non-current assets	632	-
As part of non-current liabilities	(59,067)	(52,753)
	<u>(58,435)</u>	<u>(52,753)</u>

Income tax rate in Israel is 23%, 24% and 25% for the years ended December 31, 2018 and December 31, 2017 and 2016, respectively.

On January 4, 2016, Amendment 216 to the Income Tax Ordinance (New Version) – 1961 (hereinafter – “the Ordinance”) was passed in the Knesset. As part of the amendment, OPC’s and Hadera’s income tax rate was reduced by 1.5% to a rate of 25% as from 2016. Furthermore, on December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

As a result of reducing the tax rate to 25%, the deferred tax balances as at January 4, 2016 were calculated according to the new tax rate specified in the Law for the Amendment of the Income Tax Ordinance, at the tax rate expected to apply on the reversal date.

Note 25 – Income Taxes (Cont'd)

In Singapore, under its one-tier corporate taxation system, profits are taxed at the corporate level at 17% and this is a final tax. Dividends paid by a Singapore resident company under the one-tier corporate tax system should not be taxable.

A Company is liable to pay tax in Singapore on income that is:

- Accrued in or derived from Singapore; or
- Received in Singapore from outside of Singapore.

Certain categories of foreign sourced income including,

- dividend income;
- trade or business profits of a foreign branch; or
- service fee income derived from a business, trade or
- profession carried on through a fixed place of operation in a foreign jurisdiction.

may be exempted from tax in Singapore.

Tax exemption should be granted when all of the three conditions below are met:

1. The highest corporate tax rate (headline tax rate) of the foreign jurisdiction from which the income is received is at least 15% at the time the foreign income is received in Singapore;
2. The foreign income had been subjected to tax in the foreign jurisdiction from which they were received (known as the "subject to tax" condition). The rate at which the foreign income was taxed can be different from the headline tax rate; and
3. The Tax Comptroller is satisfied that the tax exemption would be beneficial to the person resident in Singapore.

The Comptroller will regard the "subject to tax" condition as having met if the income is exempt from tax in the foreign jurisdiction due to tax incentive granted for substantive business activities carried out in that jurisdiction.

Extension of safe harbour under Singapore Budget 2016

Singapore does not impose taxes on disposal gains, which are considered to be capital in nature, but imposes tax on income and gains of a trading nature. As such, whenever a gain is realized on the disposal of an asset, the practice of the IRAS is to rely upon a set of commonly-applied rules in determining the question of capital (not taxable) or revenue (taxable). Under Singapore tax laws, any gains derived by a divesting company from its disposal of ordinary shares in an investee company between June 1, 2012 and May 31, 2022 (extended from May 31, 2017 to May 31, 2022) are generally not taxable if, immediately prior to the date of such disposal, the divesting company has held at least 20% of the ordinary shares in the investee company for a continuous period of at least 24 months.

Note 26 – Earnings per Share**Data used in calculation of the basic / diluted earnings per share****A. Income/(Loss) allocated to the holders of the ordinary shareholders**

	For the year ended December 31,		
	2018	2017	2016
	\$ Thousands		
Income/(loss) for the year attributable to Kenon's shareholders	434,213	236,590	(411,937)
(Loss)/income for the year from discontinued operations (after tax)	(5,631)	476,565	35,150
Less: NCI	-	(24,928)	(13,250)
(Loss)/income for the year from discontinued operations (after tax) attributable to Kenon's shareholders	(5,631)	451,637	21,900
Income/(loss) for the year from continuing operations attributable to Kenon's shareholders	439,844	(215,047)	(433,837)

B. Number of ordinary shares

	For the year ended December 31		
	2018	2017	2016
	Thousands		
Weighted Average number of shares used in calculation of basic/diluted earnings per share	53,826	53,761	53,720

Note 27 – Discontinued Operations**(a) I.C. Power (Latin America businesses)**

In December 2017, Inkia, a wholly-owned subsidiary of IC Power completed the sale of its Latin American and Caribbean businesses to ISQ, an infrastructure private equity firm.

The sale generated proceeds of approximately \$1,332 million consisting of \$1,110 million proceeds paid by ISQ plus retained unconsolidated cash at Inkia of \$222 million. This reflects the base purchase price of \$1,177 million after certain adjustments, including estimated working capital, debt and cash at closing. The purchase price was subject to adjustments, including a final adjustment based on actual working capital, debt and cash amounts as of the closing date.

As part of the transaction, ISQ assumed Inkia's \$600 million of bonds, which were issued in November and December 2017.

At the date of closing, ISQ paid \$935 million and entered into a four year \$175 million deferred payment obligation accruing 8% interest payable in kind.

In addition, Kenon's subsidiaries is entitled to receive payments from ISQ in connection with certain insurance and other claims held by companies within the Inkia's businesses. In 2018, \$7.3 million (2017: \$12 million) was recognized in discontinued operations relating to such claims.

Note 27 – Discontinued Operations (Cont'd)**Set forth below are the results attributable to the discontinued operations**

	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017</u>	<u>Year ended December 31, 2016</u>
	<u>\$ thousands</u>		
Revenue	-	1,777,232	1,517,391
Cost of sales and services (excluding depreciation and amortization)	-	(1,235,214)	(1,076,563)
Depreciation and amortization	-	(135,733)	(132,998)
Gross profit	-	406,285	307,830
Income before taxes on income	1,178	152,280	92,233
Taxes on income (1)	(3,944)	(73,141)	(57,083)
(Loss)/income after taxes on income	(2,766)	79,139	35,150
(Loss)/gain on sale of discontinued operations (2)	(2,065)	529,923	-
Tax on loss on sale of discontinued operations	(800)	(132,497)	-
(Loss)/income from discontinued operations	<u>(5,631)</u>	<u>476,565</u>	<u>35,150</u>
Net cash flows provided by operating activities	-	319,637	176,515
Net cash flows (used in)/provided by investing activities	(155,361)	816,544	(300,833)
Net cash flows (used in)/provided by financing activities	-	(103,524)	25,308
Cash and cash equivalents (used in)/provided by discontinued operations	<u>(155,361)</u>	<u>1,032,657</u>	<u>(99,010)</u>
Income tax payable	4,744		
Net liabilities	<u>4,744</u>		

(1) Additional taxes in relation to the sale by IC Power of its Latin American and Caribbean businesses.

(2) Mainly relates to the write down of a contingent asset following settlement of the related insurance claim.

Note 28 – Segment, Customer and Geographic Information**A. General**

The following summary describes the Group's reportable segments in 2018:

- OPC** – OPC Energy Ltd operates in the Israeli electricity generation sector, including the initiation, development, construction and operation of power plants and the sale and supply of electricity.
- Quantum** – Quantum (2007) LLC is a wholly owned subsidiary of Kenon and holds Kenon's share in Qoros. Qoros is a China-based automotive company that is jointly-owned with Baoneng Group and a subsidiary of Wuhu.

In addition to the segments detailed above, the Group has other activities, such as the discontinued power businesses in Latin America and Caribbean, container shipping services and renewable energy businesses categorized as Others.

Evaluation of the operating segments performance is based on Adjusted EBITDA. Adjusted EBITDA is defined as the net income (loss) excluding depreciation and amortization, financing income, income taxes and other items as presented in the tables below.

There were no intersegment sales in 2018, 2017 and 2016.

Note 28 – Segment, Customer and Geographic Information (Cont'd)

B. Information regarding reportable segments

Financial information of the reportable segments is set forth in the following table.

	<u>OPC</u>	<u>Quantum</u>	<u>Other</u>	<u>Adjustments</u>	<u>Total</u>
	<u>\$ thousands</u>				
2018					
Total sales	363,262	-	750	-	364,012
Income/(loss) before taxes	36,499	456,854	(31,385)		461,968
Income Taxes	(10,233)	-	(1,266)	-	(11,499)
Income/(loss) from continuing operations	26,266	456,854	(32,651)	-	450,469
Depreciation and amortization	29,809	-	607		30,416
Financing income	(2,031)	(10,371)	(48,430)	32,240	(28,592)
Financing expenses	27,219	2,003	33,400	(32,240)	30,382
Other items:					
Write back of financial guarantee	-	(62,563)	-	-	(62,563)
Gain on third party investment in Qoros	-	(504,049)	-	-	(504,049)
Fair value loss on option	-	39,788	-	-	39,788
Share in losses of associated companies	-	78,338	26,919	-	105,257
	54,997	(456,854)	12,496	-	(389,361)
Adjusted EBITDA	91,496	-	(18,889)	-	72,607
Segment assets	893,162	91,626	239,550	-	1,224,338
Investments in associated companies	-	139,184	91,596	-	230,780
					1,455,118
Segment liabilities	700,452	-	38,948	-	739,400
Capital expenditure	100,389	-	19	-	100,408
	<u>OPC</u>	<u>Quantum</u>	<u>Other</u>	<u>Adjustments</u>	<u>Total</u>
	<u>\$ thousands</u>				
2017					
Total sales	365,395	-	309	-	365,704
Income/(loss) before taxes	22,708	(127,526)	(30,818)	-	(135,636)
Income Taxes	(8,945)	-	(63,864)	-	(72,809)
Income/(loss) from continuing operations	13,763	(127,526)	(94,682)	-	(208,445)
Depreciation and amortization	30,102	-	692	-	30,794
Financing income	(1,088)	-	(13,230)	11,414	(2,904)
Financing expenses	33,753	6,328	41,499	(11,414)	70,166
Other items:					
Share in losses/(income) of associated companies	-	121,198	(10,533)	-	110,665
Write back of impairment of investments	-	-	(28,758)	-	(28,758)
	62,767	127,526	(10,330)	-	179,963
Adjusted EBITDA	85,475	-	(41,148)	-	44,327
Segment assets	939,809	15,654	1,448,700	-	2,404,163
Investments in associated companies	-	1,694	120,000	-	121,694
					2,525,857
Segment liabilities	742,692	75,081	656,737	-	1,474,510
Capital expenditure	109,226	-	121,245	-	230,471

Note 28 – Segment, Customer and Geographic Information (Cont'd)

	OPC	Quantum	Other \$ thousands	Adjustments	Total
2016					
Total sales	324,188	-	65	-	324,253
Income/(loss) before taxes	20,450	(142,534)	(304,816)	-	(426,900)
Income Taxes	(67)	-	(2,185)	-	(2,252)
Income/(loss) from continuing operations	20,383	(142,534)	(307,001)	-	(429,152)
Depreciation and amortization	26,697	-	589	-	27,286
Financing income	(2,988)	-	(17,081)	12,345	(7,724)
Financing expenses	22,838	-	36,783	(12,345)	47,276
Other items:					
Share in losses/(income) of associated companies	-	142,534	43,681	-	186,215
Provision of financial guarantee	-	-	130,193	-	130,193
Impairment of investments	-	-	72,263	-	72,263
	46,547	142,534	266,428	-	455,509
Adjusted EBITDA	66,997	-	(38,388)	-	28,609
Segment assets	667,631	2,016	4,261,929	-	4,931,576
Investments in associated companies	-	117,593	90,640	-	208,233
					5,139,809
Segment liabilities	533,684	-	3,709,905	-	4,243,589
Capital expenditure	72,540	-	245,313	-	317,853

C. Customer and Geographic Information

Major customers

Following is information on the total sales of the Group to material customers and the percentage of the Group's total revenues (in \$ Thousand):

Customer	2018		2017		2016	
	Total revenues	Percentage of revenues of the Group	Total revenues	Percentage of revenues of the Group	Total revenues	Percentage of revenues of the Group
Customer 1	74,019	20.33%	75,757	20.72%	59,886	18.47%
Customer 2	61,482	16.89%	50,461	13.80%	32,449	10.01%
Customer 3	54,639	15.01%	53,617	14.66%	39,359	12.14%
Customer 4	42,487	11.67%	*	*	*	*
Customer 5	39,276	10.79%	38,223	10.45%	36,394	11.22%

(*) Represents an amount less than 10% of revenues.

Note 28 – Segment, Customer and Geographic Information (Cont'd)**Information based on geographic areas**

The Group's geographic revenues are as follows:

	For the year ended December 31,		
	2018	2017	2016
	\$ Thousands		
Israel	363,262	365,395	324,188
Others	750	309	65
Total revenues	364,012	365,704	324,253

The Group's non-current assets* on the basis of geographic location:

	As at December 31,	
	2018	2017
	\$ Thousands	
Israel	636,256	617,358
Others	138	447
Total non-current assets	636,394	617,805

* Composed of property, plant and equipment and intangible assets.

Note 29 – Related-party Information**A. Identity of related parties:**

The Group's related parties are as defined in IAS 24 – *Related Party Disclosures* and include Kenon's beneficial owners and Kenon's subsidiaries, affiliates and associates companies.

In the ordinary course of business, some of the Group's subsidiaries and affiliates engage in business activities with each other.

Ordinary course of business transactions are aggregated in this Note. Other than disclosed elsewhere in the consolidated financial statements during the period, the Group engaged the following material related party transactions.

Key management personnel of the Company are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company. The directors, CEO and CFO are considered as key management personnel of the Company.

B. Transactions with directors and officers (Kenon's directors and officers):**B. Key management personnel compensation**

	For the year ended December 31,	
	2018	2017
	\$ thousands	
Short-term benefits	2,475	5,632
Share-based payments	732	508
	3,207	6,140

Note 29 – Related-party Information (Cont'd)

C. Transactions with related parties (excluding associates):

	For the year ended December 31,		
	2018	2017	2016
	\$ thousands		
Sales of electricity	80,269	102,443	148,119
Administrative expenses	393	331	614
Sales of gas	6,868	31,296	29,873
Financing expenses, net	(2,091)	18,444	14,475
Repayment of loan to Ansonia	(77,085)	-	-
Repayment of loan to IC	(239,971)	-	-

D. Transactions with associates:

	For the year ended December 31,		
	2018	2017	2016
	\$ Thousands		
Finance income, net	8,494	-	-
Other income, net	140	198	178

Balances with related parties:

	As at December 31,		As at December 31,		
	2018		2017		
	Other related parties *	Total	Ansonia	Other related parties *	Total
	\$ Thousands		\$ Thousands		
Trade receivables	7,041	7,041	—	12,778	12,778
Loans and Other Liabilities					
In US dollar or linked thereto	(1,481)	(1,481)	75,081	242,598	317,679
Weighted-average interest rates (%)	0.00%	0.00%	6.00%	7.69%	7.29%
Repayment years					
Current maturities	1,170		75,081	242,598	
Second year	-		—	—	
Third year	-		—	—	
Fourth year	-		—	—	
Fifth year	311		—	—	
Sixth year and thereafter	-		—	—	
	1,481		—	242,598	

* IC, Israel Chemicals Ltd (“ICL”), Oil Refineries Ltd (“ORL”).

These balances relate to amounts with entities that are related to Kenon's beneficial owners.

E. Regarding the convertible loan from Ansonia to Quantum, see Note 9.C.b.6.

F. Gas Sale Agreement with ORL, see Note 19.B.(a).

Note 30 – Financial Instruments

A. General

The Group has international activity in which it is exposed to credit, liquidity and market risks (including currency, interest, inflation and other price risks). In order to reduce the exposure to these risks, the Group holds derivative financial instruments, (including forward transactions, interest rate swap (“SWAP”) transactions, and options) for the purpose of economic (not accounting) hedging of foreign currency risks, inflation risks, commodity price risks, interest risks and risks relating to the price of inputs.

This note presents information about the Group’s exposure to each of the above risks, and the Group’s objectives, policies and processes for measuring and managing the risk.

The risk management of the Group companies is executed by them as part of the ongoing current management of the companies. The Group companies monitor the above risks on a regular basis. The hedge policies with respect to all the different types of exposures are discussed by the boards of directors of the companies.

The comprehensive responsibility for establishing the base for the risk management of the Group and for supervising its implementation lies with the Board of Directors and the senior management of the Group.

B. Credit risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on their obligations under the contract. This includes any cash amounts owed to the Group by those counterparties, less any amounts owed to the counterparty by the Group where a legal right of set-offs exists and also includes the fair values of contracts with individual counterparties which are included in the financial statements. The maximum exposure to credit risk at each reporting date is the carrying value of each class of financial assets mentioned in this note.

(1) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As at December 31,	
	2018	2017
	\$ Thousands	
	Carrying amount	
Cash and cash equivalents	131,123	1,417,388
Short-term investments and deposits	49,938	7,144
Trade receivables, net	35,548	44,137
Other current assets	33,210	35,752
Deposits and other long-term receivables including derivative instruments	305,616	259,555
	<u>555,435</u>	<u>1,763,976</u>

The maximum exposure to credit risk for trade receivables, as of the date of the report, by geographic region was as follows:

	As at December 31,	
	2018	2017
	\$ Thousands	
Israel	35,291	44,058
Other regions	257	79
	<u>35,548</u>	<u>44,137</u>

Note 30 – Financial Instruments (Cont'd)

(2) Aging of debts and impairment losses

Set forth below is an aging of the trade receivables:

	As at December 31	
	2018	2017
	<u>\$ Thousands</u>	<u>\$ Thousands</u>
Not past due	35,438	50
Past due up to 3 months	87	40,879
Past due 3 – 6 months	—	3,208
Past due more than one year	23	—
	<u>35,548</u>	<u>44,137</u>

No impairment has been recorded on any of the trade receivable amounts.

C. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and adverse credit and market conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages its liquidity risk by means of holding cash balances, short-term deposits, other liquid financial assets and credit lines.

Set forth below are the anticipated repayment dates of the financial liabilities, including an estimate of the interest payments. This disclosure does not include amounts regarding which there are offset agreements:

	As at December 31, 2018					
	Book value	Projected cash flows	Up to 1 year	1-2 years	2-5 years	More than 5 years
	<u>\$ Thousands</u>					
Non-derivative financial liabilities						
Trade payables	47,672	47,672	47,672	-	-	-
Other payables	5,885	5,885	5,885	-	-	-
Non-convertible debentures *	78,409	103,561	6,555	11,596	30,910	54,500
Loans from banks and others *	538,209	699,563	41,646	56,446	165,829	435,642
	<u>670,175</u>	<u>856,681</u>	<u>101,758</u>	<u>68,042</u>	<u>196,739</u>	<u>490,142</u>

* Includes current portion of long-term liabilities.

Note 30 – Financial Instruments (Cont'd)

	As at December 31, 2017					
	Book value	Projected cash flows	Up to 1 year	1-2 years	2-5 years	More than 5 years
	\$ Thousands					
Non-derivative financial liabilities						
Loans from banks and others *	317,684	317,786	317,786	-	-	-
Trade payables	58,895	58,895	58,895	-	-	-
Other payables	77,869	77,964	77,964	-	-	-
Non-convertible debentures **	91,122	125,089	13,153	7,086	34,033	70,817
Loans from banks and others **	627,150	846,652	157,805	50,768	173,222	464,857
Financial guarantee ***	44,342	44,342	44,342	-	-	-
Financial liabilities – hedging instruments						
Forward exchange rate contracts	439	439	439	-	-	-
Financial liabilities not for hedging						
Derivatives on exchange rates	73	73	73	-	-	-
	1,217,574	1,471,240	670,457	57,854	207,255	535,674

* Excludes current portion of long-term liabilities and long-term liabilities which were classified to short-term.

** Includes current portion of long-term liabilities and long-term liabilities which were classified to short-term.

*** Financial Guarantees contractual period in Qoros is dependent on Qoros's timeliness to meet the obligation of current loans payable.

D. Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, the CPI, interest rates and prices of capital products and instruments will affect the fair value of the future cash flows of a financial instrument.

The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Boards of Directors of the companies. For the most part, the Group companies enter into hedging transactions for purposes of avoiding economic exposures that arise from their operating activities. Most of the transactions entered into do not meet the conditions for recognition as an accounting hedge and, therefore, differences in their fair values are recorded on the statement of profit and loss.

(1) CPI and foreign currency risk

Currency risk

The Group's functional currency is the U.S. dollar. The exposures of the Group companies are measured with reference to the changes in the exchange rate of the dollar vis-à-vis the other currencies in which it transacts business.

The Group is exposed to currency risk on sales, purchases, assets and liabilities that are denominated in a currency other than the respective functional currencies of the Group entities. The primary exposure is to the Shekel (NIS).

The Group uses options and forward exchange contracts on exchange rates for purposes of hedging short-term currency risks, usually up to one year, in order to reduce the risk with respect to the final cash flows in dollars deriving from the existing assets and liabilities and sales and purchases of goods and services within the framework of firm or anticipated commitments, including in relation to future operating expenses.

The Group is exposed to currency risk in relation to loans it has taken out and debentures it has issued in currencies other than the dollar. The principal amounts of these bank loans and debentures have been hedged by swap transactions the repayment date of which corresponds with the payment date of the loans and debentures.

Note 30 – Financial Instruments (Cont'd)

Inflation risk

The Group has CPI-linked loans. The Group is exposed to payments of higher interest and principal as the result of an increase in the CPI. It is noted that part of the Group's anticipated revenues will be linked to the CPI. The Group does not hedge this exposure beyond the expected hedge included in its revenues.

- (a) **Exposure to CPI and foreign currency risks** The Group's exposure to CPI and foreign currency risk, based on nominal amounts, is as follows:

	As at December 31, 2018		
	Foreign currency		
	Shekel		
	Unlinked	CPI linked	Other
Non-derivative instruments			
Cash and cash equivalents	86,896	—	2,778
Short-term investments, deposits and loans	27,638	—	55
Trade receivables	35,291	—	44
Other receivables	286	—	26
Long-term deposits and loans	48,490	—	—
Total financial assets	198,601	—	2,903
Trade payables	23,774	—	9,968
Other payables	2,215	—	811
Loans from banks and others and debentures	163,162	450,571	—
Total financial liabilities	189,151	450,571	10,779
Total non-derivative financial instruments, net			
Derivative instruments	—	—	90,184
Net exposure	—	—	90,184
	As at December 31, 2017		
	Foreign currency		
	Shekel		
	Unlinked	CPI linked	Other
Non-derivative instruments			
Cash and cash equivalents	158,679	—	18,593
Short-term investments, deposits and loans	60,855	—	—
Trade receivables	42,004	—	—
Other receivables	2,686	—	3,603
Long-term deposits and loans	25,600	—	—
Total financial assets	289,824	—	22,196
Loans from banks and others	—	—	30,308
Trade payables	31,286	—	86
Other payables	3,178	—	1,316
Long-term loans from banks and others and debentures	109,629	478,891	—
Total financial liabilities	144,093	478,891	31,710
Total non-derivative financial instruments, net	145,731	478,891	(9,514)
Derivative instruments	—	—	(439)
Net exposure	145,731	478,891	(9,953)

Note 30 – Financial Instruments (Cont'd)

(b) Sensitivity analysis

A strengthening of the dollar exchange rate by 5%–10% against the following currencies and change of the CPI in rate of 5%–10% would have increased (decreased) the net income or net loss and the equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

	As at December 31, 2018			
	10% increase	5% increase	5% decrease	10% decrease
	\$ Thousands			
Non-derivative instruments				
Shekel/dollar	(35,582)	(18,658)	18,658	35,582
CPI	(25,875)	(12,937)	10,222	10,600
	As at December 31, 2017			
	10% increase	5% increase	5% decrease	10% decrease
	\$ Thousands			
Non-derivative instruments				
Shekel/dollar	13,248	6,940	(6,940)	(13,248)
CPI	(43,536)	(22,804)	22,804	43,536

(2) Interest rate risk

The Group is exposed to changes in the interest rates with respect to loans bearing interest at variable rates, as well as in relation to swap transactions of liabilities in foreign currency for dollar liabilities bearing a variable interest rate.

The Group has not set a policy limiting the exposure and it hedges this exposure based on forecasts of future interest rates.

The Group enters into transactions mainly to reduce the exposure to cash flow risk in respect of interest rates. The transactions include interest rate swaps and “collars”. In addition, options are acquired and written for hedging the interest rate at different rates.

Type of interest

Set forth below is detail of the type of interest borne by the Group’s interest-bearing financial instruments:

	As at December 31,	
	2018	2017
	Carrying amount	
	\$ Thousands	
Fixed rate instruments		
Financial assets	55,027	1,438,243
Financial liabilities	(586,334)	-
	<u>(531,307)</u>	<u>1,438,243</u>
Variable rate instruments		
Financial assets	102,392	-
Financial liabilities	-	(239,876)
	<u>102,392</u>	<u>(239,876)</u>

Note 30 – Financial Instruments (Cont'd)**Type of interest (Cont'd)**

The Group's assets and liabilities bearing fixed interest are not measured at fair value through the statement of profit and loss and the Group does not designate derivatives interest rate swaps as hedging instruments under a fair value hedge accounting model. Therefore, a change in the interest rates as at the date of the report would not be expected to affect the income or loss with respect to changes in the value of fixed – interest assets and liabilities.

A change of 100 basis points in interest rate at reporting date would have increased/(decreased) profit and loss before tax by the amounts below. This analysis assumes that all variables, in particular foreign currency rates, remain constant.

	As at December 31, 2018	
	100bp increase	100 bp decrease
	\$ thousands	
Variable rate instruments	1,024	(1,023)

	As at December 31, 2017	
	100bp increase	100 bp decrease
	\$ thousands	
Variable rate instruments	(2,399)	2,399

E. Fair value**(1) Fair value compared with carrying value**

The Group's financial instruments include mainly non-derivative assets, such as: cash and cash equivalents, investments, deposits and short-term loans, receivables and debit balances, investments and long-term receivables; non-derivative liabilities: such as: short-term credit, payables and credit balances, long-term loans, finance leases and other liabilities; as well as derivative financial instruments.

Due to their nature, the fair value of the financial instruments included in the Group's working capital is generally identical or approximates the book value.

The following table shows in detail the carrying amount and the fair value of financial instrument groups presented in the financial statements not in accordance with their fair value.

	As at December 31, 2018	
	Carrying amount	Level 2
	\$ thousands	
Non-convertible debentures	78,409	80,998
Long-term loans from banks and others (excluding interest)	508,203	555,570

	As at December 31, 2017	
	Carrying amount	Level 2
	\$ thousands	
Non-convertible debentures	91,122	105,488
Long-term loans from banks and others (excluding interest)	527,706	649,487

The fair value is measured using the technique of discounting the future cash flows with respect to the principal component and the discounted interest using the market interest rate on the measurement date.

Note 30 – Financial Instruments (Cont'd)

(2) Hierarchy of fair value

The following table presents an analysis of the financial instruments measured at fair value, using an evaluation method. The various levels were defined as follows:

- Level 1: Quoted prices (not adjusted) in an active market for identical instruments.
- Level 2: Observed data, direct or indirect, not included in Level 1 above.
- Level 3: Data not based on observed market data.

	As at December 31, 2018	As at December 31, 2017
	Level 3	Level 2
	\$ Thousands	\$ Thousands
Assets		
Qoros put option	90,103	-
Derivatives not used for accounting hedge	-	1,471
	<u>90,103</u>	<u>1,471</u>
Liabilities		
Derivatives used for accounting hedge	-	439
Derivatives not used for accounting hedge	-	73
	<u>-</u>	<u>512</u>

(3) Data and measurement of the fair value of financial instruments at Level 2

Level 2

The fair value of forward contracts on foreign currency is determined using trading programs that are based on market prices. The market price is determined based on a weighting of the exchange rate and the appropriate interest coefficient for the period of the transaction along with an index of the relevant currencies.

The fair value of contracts for exchange (SWAP) of interest rates and fuel prices is determined using trading programs which incorporate market prices, the remaining term of the contract and the credit risks of the parties to the contract.

The fair value of currency and interest exchange (SWAP) transactions is valued using discounted future cash flows at the market interest rate for the remaining term.

The fair value of transactions used to hedge inflation is valued using discounted future cash flows which incorporate the forward CPI curve, and market interest rates for the remaining term.

If the inputs used to measure the fair value of an asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The fair value of marketable securities held for trade is determined using the 'Discounts for Lack of Marketability' ("DLOM") valuation method, which is a method used to calculate the value of restricted securities. The method purports that the only difference between a company's common stock and its restricted securities is the lack of marketability of the restricted securities which is derived from the price difference between both prices.

Level 3

The fair value of Qoros put option, as of the valuation date, was based on the Binomial model using the following variables:

- *The underlying asset value* is Qoros' equity value as of the valuation date.
- *The exercise price of the option* is the price that must be paid for the stock on the date the put option is exercised, and is defined by the terms of the award.
- *The expected exercise date* is the period between the grant date and the expiration date.
- *The Risk-free interest rate* was based on yields on traded China government bonds, with time to maturity equals to the put option contractual period.
- *Expected volatility* was based on the historical weekly volatility of comparable companies for a period of 4.3 years (remaining contractual term of the put option, as of the valuation date).

- *Expected dividend yield* is 0% as no dividend distribution is expected in the foreseeable future.

Note 30 – Financial Instruments (Cont'd)

The *credit risk* adjustment was calculated using a recovery rate of 40% (common assumption of market participants) and credit spreads based on traded corporate bonds which have credit ratings of AA for a similar time to maturity as the put option.

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values as at December 31, 2018 and 2017, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable data	Inter-relationship between significant unobservable inputs and fair value measurement
Interest rate Swaps	The Group applies standard valuation techniques such as: <i>discounted cash flows</i> for fixed and variables coupons (estimated with forward curves) using as discounted rates the <i>projected LIBOR zero coupon curve</i> . The observable inputs are obtained through market information suppliers.	Not applicable	Not applicable
Put Options	The Group applies standard valuation techniques such as: Binomial model using risk free rates from market information suppliers.	The group researched on data from comparable companies on inputs such as expected volatility and credit risk.	The estimated fair value would increase(decrease) if: - the volatility is higher (lower) - the credit risk is lower (higher)
Foreign Exchange Forwards	The Group applies standard valuation techniques which include market observable parameters such as the implicit exchange rate calculated with forward points. These variables are obtained through market information suppliers.	Not applicable	Not applicable
Credit from banks, others and debentures	Discounted cash flows with market interest rate	Not applicable	Not applicable
Marketable Securities held for trade	DLOM valuation method	Not applicable	Not applicable

Note 31 – Subsequent Events

1. Qoros

- A. On January 8, 2019, Kenon announced that it had entered into an agreement to sell half of its remaining interest in Qoros (i.e. 12%) to the New Qoros Investor in Qoros for a purchase price of RMB1,560 million (approximately \$227 million), which is based on the same post-investment valuation as the initial investment by the New Qoros Investor in Qoros. The sale is subject to obtaining customary relevant third-party consents and other closing conditions, including approvals by relevant government authorities. Following completion of the sale, Kenon will hold a 12% interest in Qoros, the New Qoros Investor in Qoros will hold 63% and Chery will own 25%.

As a result of the transaction, Kenon will recognize an estimated gain on disposal of approximately \$133 million in its financial statements in 2019. The 12% investment in Qoros was classified as assets held for sale as at December 31, 2018. See Note 9.F.

Following the transaction, Kenon will lose significant influence over Qoros and will account for its remaining 12% interest in Qoros on a fair value basis going forward. As a result of the change from equity to fair value accounting Kenon will recognize a fair value gain.

The sale was not made pursuant to the put option described in Note 9.C.b.2. Furthermore, following completion of the sale, the Majority Shareholder in Qoros will be required to assume its pro rata share of guarantees and equity pledges of Kenon and Chery based on the change to its equity ownership.

2. OPC

A. Market Concentration Committee – Regulatory Outline Plan

In January 2019, an outline was determined for expansion of the activities of the Group to which OPC belongs to (“the Idan Ofer Group”) in the area of generation of electricity from an economy-wide business concentration perspective (“the Business Concentration Outline”). The Business Concentration Outline is intended to allow the Business Concentration Committee to revise its opinion regarding provision of a conditional license for generation of electricity to Tzomet, and to notify the Electricity Authority that it does not see a preclusion for reasons of economy-wide business concentration to granting the requested license to Tzomet, however this being only after compliance with the conditions provided in the Business Concentration Outline and to permit the Business Concentration Committee to notify the Electricity Authority that it does not see a preclusion for reasons of economy-wide business concentration to allowing the Idan Ofer Group to receive additional licenses in the area of electricity generation up to the scope provided in the sector arrangement, however this being only after compliance with the conditions provided in the Business Concentration Outline. It is noted that the Business Concentration Committee was provided a commitment of Mr. Idan Ofer in connection with the Business Concentration Outline. The sale of the Idan Ofer Group’s holdings in Reshet Media Ltd., which was one of the conditions under the outline plan, has been completed.

In April 2019, the Electricity Authority published its decision to grant Tzomet a new conditional license for the construction of a 396MW conventional open-cycle power plant, for a period of 66 months. Pursuant to this decision, the license will become valid following the Israeli Minister of Energy’s approval and the deposit of a guarantee by Tzomet. The period of the conditional license can be extended by the Electricity Authority, subject to the Israeli Minister of Energy’s approval, and subject to the regulation. At the end of the period, Tzomet will be granted a permanent generation license, subject to its compliance with the conditions set by law.

B. Dividend

In March 2019, OPC declared a dividend of NIS 36 million (approximately \$10 million). Kenon’s share of the dividend is approximately \$7.5 million.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Kenon Holdings Ltd.

By: /s/ Robert L. Rosen
Name: Robert L. Rosen
Title: Chief Executive Officer

Date: April 8, 2019

ITEM 19. Exhibits

Index to Exhibits

Exhibit Number	Description of Document
1.1	Kenon Holdings Ltd.'s Constitution (Incorporated by reference to Exhibit 1.1 to Amendment No. 1 to Kenon's Registration Statement on Form 20-F, filed on December 19, 2014)
2.1	Form of Specimen Share Certificate for Kenon Holdings Ltd.'s Ordinary Shares (Incorporated by reference to Exhibit 2.1 to Kenon's Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed on March 31, 2015)
2.2	Registration Rights Agreement, dated as of January 7, 2015, between Kenon Holdings Ltd. and Millenium Investments Elad Ltd. (Incorporated by reference to Exhibit 99.5 to Kenon's Report on Form 6-K, furnished to the SEC on January 8, 2015)
4.1	Sale, Separation and Distribution Agreement, dated as of January 7, 2015, between Israel Corporation Ltd. and Kenon Holdings Ltd. (Incorporated by reference to Exhibit 99.2 to Kenon's Report on Form 6-K, furnished to the SEC on January 8, 2015)
4.2	Gas Sale and Purchase Agreement, dated as of November 25, 2012, among Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Isramco Negev 2 Limited Partnership, Avner Oil Exploration Limited Partnership, Dor Gas Exploration Limited Partnership, and O.P.C. Rotem Ltd. (Incorporated by reference to Exhibit 10.8 to Amendment No. 1 to IC Power Pte. Ltd.'s Form F-1, filed on November 2, 2015) ¹
4.3	Facility Agreement, dated as of January 2, 2011, among O.P.C. Rotem Ltd., as borrower, Bank Leumi Le-Israel B.M., as arranger and agent, Bank Leumi Le-Israel Trust Company Ltd., as security trustee, and the senior lenders named therein (Incorporated by reference to Exhibit 4.10 to Kenon's Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed on March 31, 2015)
4.4	Guarantee Contract, dated as of June 9, 2015, between Kenon Holdings Ltd. and Chery Automobile Co. Ltd. (Incorporated by reference to Exhibit 4.12 to Kenon's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on April 22, 2016)
4.5	Guarantee Contract, dated as of November 5, 2015, between Kenon Holdings Ltd. and Chery Automobile Co. Ltd. (Incorporated by reference to Exhibit 4.13 to Kenon's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on April 22, 2016)
4.6	Release Agreement, dated December 21, 2016, between Kenon Holdings Ltd. and Chery Automobile Co. Ltd. (Incorporated by reference to Exhibit 4.21 to Kenon's Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on April 19, 2017)

4.7	Equity Pledge Contract, dated December 21, 2016, between Quantum (2007) LLC, as Pledgor, and Chery Automobile Co. Ltd., as Pledgee (Incorporated by reference to Exhibit 4.22 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on April 19, 2017)
4.8	Further Release and Cash Support Agreement, dated March 9, 2017, between Kenon Holdings Ltd. and Chery Automobile Co. Ltd. (Incorporated by reference to Exhibit 4.23 to Amendment No. 1 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on April 21, 2017)
4.9	The Second Equity Pledge Contract in relation to 700 Million Loan, dated March 9, 2017, between Quantum (2007) LLC, as Pledgor, and Chery Automobile Co. Ltd., as Pledgee (Incorporated by reference to Exhibit 4.24 to Amendment No. 1 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on April 21, 2017)
4.10	Share Purchase Agreement, dated November 24, 2017, among Inkia Energy, Ltd., IC Power Distribution Holdings, PTE. LTD., Nautilus Inkia Holdings LLC, Nautilus Distribution Holdings LLC and Nautilus Isthmus Holdings LLC
4.11	Deferred Payment Agreement, dated December 28, 2017, among Nautilus Energy Topco LLC, as Payee, ISQ Global Infrastructure Fund II, L.P., as Guarantor and Inkia Energy Limited, as Payor
4.12	Amended and Restated Pledge Agreement, dated February 15, 2018, between Kenon Holdings Ltd. and Nautilus Inkia Holdings LLC (Incorporated by reference to Exhibit 4.16 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2017, filed on April 9, 2018)
4.13	Qoros Automobile Company Limited Investment Agreement, dated May 23, 2017, as amended, among Hangzhou Chengmao Investment Co., Ltd., Wuhu Chery Automobile Investment Company Limited, Quantum (2007) LLC and Qoros Automobile Company Limited (Incorporated by reference to Exhibit 4.17 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2017, filed on April 9, 2018)
4.14	Joint Venture Contract, dated as of December 20, 2017, among Wuhu Chery Automobile Investment Co., Ltd., Quantum (2007) LLC and Hangzhou Chengmao Investment Co., Ltd (Incorporated by reference to Exhibit 4.18 to Kenon’s Annual Report on Form 20-F for the fiscal year ended December 31, 2017, filed on April 9, 2018)
4.15*	Sale and Purchase Agreement, dated January 6, 2019, between Quantum (2007) LLC and Hangzhou Chengmao Investment Co., Ltd.
4.16*	Senior Facilities Agreement, dated as of July 4, 2016, among Advanced Integrated Energy Ltd., as borrower, Israel Discount Bank Ltd. and Harel Insurance Company Ltd, as arrangers, Israel Discount Bank Ltd. as senior agent and security agent, and certain other entities, as senior lenders ²
8.1*	List of subsidiaries of Kenon Holdings Ltd.
12.1*	Rule 13a-14(a)/15d-14(a) Certification of Co-Chief Executive Officer
12.2*	Rule 13a-14(a)/15d-14(a) Certification of Co-Chief Executive Officer
13.1*	Certification of Co-Chief Executive Officers and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of KPMG LLP, Independent Registered Public Accounting Firm of Kenon Holdings Ltd.
15.2*	Consent of Deloitte, Inc., Independent Registered Public Accounting Firm of the Combined Entities (Distribuidora de Electricidad de Oriente, S.A. and Distribuidora de Electricidad de Occidente, S.A.)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

1. Portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Exchange Act. Omitted information has been filed separately with the SEC.

2. Portions of this exhibit have been omitted because they are both (i) not material and (ii) would be competitively harmful if publicly disclosed.



SALE AND PURCHASE AGREEMENT

THIS SALE AND PURCHASE AGREEMENT (this “Agreement”) is entered into on January 6, 2019:

BY AND BETWEEN :

- (1) **Quantum (2007) LLC** , a company organized and validly existing under the laws of State of Delaware, the United States of America, with its registered address at 16192 Coastal Highway Lewes Delaware 19958 USA (the “Vendor”);and
- (2) **Hangzhou Chengmao Investment Co., Ltd.** , a company organized and validly existing under the laws of the PRC, with its registered address at Room 316, Building 9, 588 Feijiatang Road, Xiacheng District, Hangzhou City, Zhejiang Province, the PRC (the “Purchaser”).

WHEREAS , the Vendor is the legal and beneficial owner of the 24% equity interest of Qoros Automotive Co., Ltd., a limited liability company organized under the laws of the PRC with its registered capital of RMB 16,925,480,000 (the “Company”); and

WHEREAS , the Parties have agreed that the Vendor shall sell, and the Purchaser shall purchase, the Sale Shares (as defined below) on and subject to the terms and conditions of this Agreement.

IT IS THEREFORE AGREED as follows:

ARTICLE 1
DEFINITION

1.1 Capitalized terms used herein and not otherwise defined in the context shall have the following meanings:

“AOA” means, the Articles of Association of the Company, dated as of February 7, 2018.

“Affiliate” means, with respect to any specified Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person.

“Business Day” means any day except a Saturday, Sunday, or other day on which commercial banks in New York, Hong Kong, or Beijing are authorized by law to close.

“Closing” means the closing of the sale and purchase of the Sale Shares contemplated under this Agreement.

“ Closing Date ” means the date when the Closing shall have occurred.

“ Encumbrance ” means a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance or security interest of any kind, or any type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect, provided, however, that the Encumbrance shall not include any Encumbrance in favor of the Purchaser.

“ EXIM ” means the Export-Import Bank of China.

“ JV Contract ” means, the Joint Venture Contract, dated as of February 7, 2018, entered into by and among Wuhu Chery, the Purchaser and the Vendor.

“ Party ” shall mean each of the Vendor and the Purchaser, the “ **Parties** ” shall mean all of them together.

“ Person ” means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, or other similar entity.

“ PRC ” means the People’s Republic of China, which for the purpose of this Agreement, does not include Hong Kong, Macau and Taiwan.

“ RMB ” means Renminbi yuan, the lawful currency of the PRC.

“ Sale Shares ” means 12% of the equity interest of the Company (equivalent to RMB 2,031,057,600 registered capital amount) held by the Vendor as on the Closing Date.

“ Security Allocation Agreement ” means the security allocation agreement, dated as of December 18, 2017, entered into by and among the Vendor, the Purchaser, Wuhu Chery and the other relevant parties thereto.

“ Wuhu Chery ” means Wuhu Chery Automobile Investment Company Limited.

1.2 Any of the terms defined herein may, unless the context otherwise requires, be used in the singular or plural depending on the reference. References to an “Article” or a “Section” are, unless otherwise specified, to one of the articles or sections or subsections of this Agreement.

1.3 The titles of the Articles and Sections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

ARTICLE 2
SALE AND PURCHASE OF SHARES

2.1 The Vendor agrees to sell to the Purchaser the Sale Shares free from all Encumbrances (except for any Encumbrance resulting from the Articles of Association of the Company and except as may be required to be pledged to EXIM), and the Purchaser agrees to purchase such Sale Shares, on the terms and conditions set out in this Agreement, together with all title and rights then attaching to them as at Closing.

ARTICLE 3
PURCHASE PRICE AND PAYMENT

3.1 As consideration for its purchase of the Sale Shares hereunder, the Purchaser agrees to pay to the Vendor a purchase price of RMB 1,560,000,000 (the “**Purchase Price**”).

3.2 To secure the performance of the Purchaser’s obligations under this Agreement, the Purchaser agrees to transfer an amount equal to RMB 20,000,000 (as a portion of the Purchase Price) into an escrow account set up in the name of the Purchaser (the “**Escrow Account**”) on the date hereof, and the remaining of the Purchase Price (i.e., RMB1,540,000,000) within ten (10) business days after the transaction contemplated under this Agreement has (1) been duly approved by the Ministry of Commerce or its competent local counterpart and (2) been filed with the National Development Reform Commission or its competent local counterpart (if required by Applicable Laws).

Following the full payment of the Purchase Price into the Escrow Account, the Vendor shall take all necessary actions, with assistance and cooperation from the Purchaser, to register the transaction contemplated hereunder with the PRC State Administration of Market Regulation or its competent local counterpart. The Purchaser and the Vendor shall maintain their joint and respective specimen signatures/seals for the Escrow Account, and all funds under such Escrow Account shall be used and transferred only for the purpose of the payment of the Purchase Price or as otherwise agreed by this Agreement.

3.3 The Vendor and the Purchaser agree that subject to (1) the approval of the Ministry of Commerce or its local counterpart, the filing with the National Development Reform and Commission or local counterpart (if required by Applicable Laws) and the registration with the PRC State Administration of Market Regulation or its local counterpart of the transfer by the Vendor of the Sale Shares; (2) the completion of the Company’s foreign exchange information amendment filing for the transfer by the Vendor of the Sale Shares; and (3) the completion of the filing with competent tax authority of the outbound remittance under trade in services and other items in respect of the transfer by the Vendor of the Sale Shares made by the Vendor and the Purchaser, the Purchase Price shall be paid to the Vendor within five (5) business days upon the date when the matters set out in the aforesaid sub-clauses (1), (2) and (3) are completed. Once the Purchase Price is released from the Escrow Account to the Vendor, the Vendor shall, upon request from the Purchaser, immediately cooperate with the Purchaser to go through relevant procedures to terminate the escrow arrangement on the Escrow Account. The Vendor further agrees that if it has received the Purchase Price paid by the Purchaser before the Closing, without the consent of the Purchaser, the Vendor shall not transfer or use such Purchase Price in any manner.

3.4 If this Agreement is terminated in accordance with Article 9 of this Agreement or as a matter of law, the Vendor shall release the escrow so established under Clause 3.2, and, under the circumstance that the Purchaser has been registered as the holder of the Sale Shares, upon request by the Vendor, the Purchaser shall use its commercially reasonable efforts to cooperate with the Vendor to conduct the relevant formalities to reverse the transaction contemplated under this Agreement, including assisting the Company to complete the approval, filing and registration procedures with relevant governmental authorities for the reversion of the title to the Sale Shares in the Company to the Vendor.

For the avoidance of doubt, if this Agreement is terminated in accordance with Clause 9.2 of this Agreement, such termination or any performance of the Non-Defaulting Party (as defined below) of its respective obligations set forth in this Clause 3.4 above shall not be deemed to constitute a waiver of any available remedy (including specific performance, if available) of the Non-Defaulting Party for any breach or misrepresentation of the Defaulting Party (as defined below), nor shall the Defaulting Party be relieved of any liability that has arisen or occurred for its breach of, or for any misrepresentation under this Agreement.

3.5 Both Parties shall procure the Company to sign all necessary documents and take all necessary actions to obtain the approval or complete the registrations or filings set out in sub-clauses (1), (2) and (3) of Section 3.3, and the Parties shall cooperate with each other and the Company, and provide such information or assistance as may be required for the purpose of enabling the Company to obtain the said approval or complete the said registrations or filings. Further, the Purchaser shall sign all documents and perform such acts as may be necessary or desirable to effect the payment of the Purchase Price to the Vendor including but not limited to filing an application via the paying bank for the approval of the competent foreign exchange administration authority of the payment of the Purchase Price by the Purchaser and such paying bank.

3.6 The Purchaser shall, and shall cause its Affiliates (if necessary) to, sign all necessary documents and take all necessary actions to perform the obligations of the Purchaser and/or its Affiliates as provided in the Security Allocation Agreement.

ARTICLE 4

CLOSING

4.1 The Closing shall take place on the fifth (5th) Business Day or such other date as the Parties may agree after all conditions set forth in Article 5 are satisfied (or waived by the relevant Party) at the primary office of the Company or other places as agreed by the Parties.

ARTICLE 5
CLOSING CONDITIONS

5.1 The obligations of the Purchaser to consummate the transaction contemplated hereunder shall be subject to the fulfillment or written waiver by the Parties, at or prior to the Closing, of each of the following conditions:

- (a) As of the date of the Closing Date, the Vendor shall not have materially breached this Agreement;
- (b) the Parties and Wuhu Chery shall have executed and delivered the amended AOA;
- (c) the Company shall have notified all lending banks of the transaction contemplated in this Agreement in writing and obtained the written consent of or the waiver by, the lending banks, to the extent required; and
- (d) The transaction contemplated hereunder has been approved by the Ministry of Commerce or its local counterpart, filed with National Development Reform and Commission or local counterpart (if required by applicable laws) and registered with the PRC State Administration of Market Regulation or its local counterpart.

ARTICLE 6
REPRESENTATIONS AND WARRANTIES

6.1 The Vendor hereby represents and warrants to the Purchaser that as of the date of this Agreement and the Closing Date:

- (a) it has been duly incorporated and is validly existing under the laws of its place of incorporation;
- (b) it has, and on the Closing Date will have, valid, good and unencumbered title to the Sale Shares to be delivered by the Vendor on the Closing Date (except for any Encumbrance resulting from the Articles of Association of the Company and except as may be required to be pledged to EXIM), and it has full right, power and authority to enter into and perform its obligations under this Agreement. Upon the Closing of the transaction contemplated hereunder, the Purchaser will acquire valid and good title to the Sale Shares to be delivered by the Vendor on the Closing Date, free of any Encumbrance (except for any Encumbrance resulting from the Articles of Association of the Company and except as may be required to be pledged to EXIM);
- (c) this Agreement has been duly executed and delivered by the Vendor and constitutes legal and binding obligations of the Vendor enforceable against it in accordance with its terms. The Vendor's execution, delivery and performance of this Agreement will not contravene, breach or violate or result in a contravention, violation or breach of (i) the memorandum and articles of association or other constitutive documents of the Vendor; (ii) the laws of the PRC or laws of any other jurisdiction which may otherwise be applicable to the Vendor or the transaction contemplated under this Agreement; or (iii) any agreement or other instrument binding upon the Vendor or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Vendor.

6.2 The Purchaser hereby represents and warrants to the Vendor that as of the date of this Agreement and the Closing Date:

- (a) it has been duly incorporated and is validly existing under the laws of its place of incorporation;
- (b) it has full right, power and authority to enter into and perform its obligations under this Agreement;
- (c) this Agreement has been duly executed and delivered by the Purchaser and constitutes legal and binding obligations of the Purchaser enforceable against it in accordance with its terms. The Purchaser's execution, delivery and performance of this Agreement will not contravene, breach or violate or result in a contravention, violation or breach of (i) the articles of association of the Purchaser; (ii) the laws of the PRC or laws of any other jurisdiction which may otherwise be applicable to Purchaser or the transaction contemplated under this Agreement; or (iii) any agreement or other instrument binding upon the Purchaser or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Purchaser.

ARTICLE 7
POST-CLOSING VENDOR RIGHTS

7.1 In the event the Purchaser and/or its Affiliate which holds Equity Securities of the Purchaser (directly or indirectly) lists its equity interest of the JV Company in a stock exchange through an vehicle other than the JV Company, the Parties shall negotiate and agree in good faith a plan that the remaining equity interest the Vendor holds in the Company will be exchanged at a fair market value for the equity securities of the such vehicle which will be listed. If Parties fail to execute the swap transaction, the Parties agree to discuss an alternative solution, which shall have an equivalent economic effect to the swap transaction. For the avoidance of doubt, the Vendor shall have the sole discretion to decide whether to participate in and execute the swap transaction, and the terms and conditions of such transaction.

A RTICLE 8
DISPUTE RESOLUTION

8.1 The Parties shall make their efforts to resolve any disputes resulting from or relating to this Agreement through amicable negotiation. If the disputes cannot be resolved through negotiation within thirty (30) days after any Party serves a notice to other Parties, any Party may refer such dispute to arbitration in Beijing before China International Economic and Trade Arbitration Commission (“**CIETAC**”) in accordance with its arbitration rules then in effect. The arbitration tribunal shall consist of three (3) arbitrators. Each of the Parties shall have the right to appoint one (1) arbitrator. The third arbitrator shall be appointed by CIETAC. All arbitration proceedings shall be conducted in both English and Chinese languages, provided that if only one language is permitted, the proceedings shall be conducted in English. Any arbitration award rendered by the arbitration tribunal shall be final and binding upon the Parties. The arbitration costs, including attorney’s fees, shall be borne by the losing Party, unless otherwise specified in the arbitration award.

8.2 In the process of resolving the disputes, the Parties shall continue exercising their rights and performing their obligations under this Agreement that are not affected in good faith, except for the disputed matters.

A RTICLE 9
TERMINATION

9.1 This Agreement may be terminated in writing by unanimous agreement of the Vendor and the Purchaser.

9.2 If (1) any of the obligations of any of the Parties under this Agreement which should have been fulfilled by such Party has not been duly and promptly performed in any material aspect or any of the Parties materially breaches this Agreement, or (2) any of the representations or warranties made by any of the Parties under this Agreement is or becomes apparent that any of such representations or warranties would be untrue, incorrect, incomplete or misleading in any material aspect, or any event occurs or matter arises which renders, or would render, any of the representations or warranties of any of the Parties under this Agreement untrue, incorrect, incomplete or misleading in any material aspect, then, in any such case, the other Party to which none of the foregoing situations has occurred (the “**Non-Defaulting Party**”) shall notify such default to the other Party (the “**Defaulting Party**”) requesting for the correction thereof within thirty (30) days. If the Defaulting Party fails to correct such default within the aforesaid thirty (30) days, the Non-Defaulting Party may, in its sole and absolute discretion, by notice in writing to the Defaulting Party, terminate this Agreement.

9.3 The provisions of Article 8, this Article 9 and Article 10 shall survive the termination of this Agreement.

ARTICLE 10
GENERAL PROVISIONS

10.1 Governing Law. This Agreement shall be governed by and construed exclusively in accordance with the laws of the PRC (excluding its choice of law rules).

10.2 Effectiveness. This Agreement shall take effect and be binding over the Parties hereto immediately upon its execution by the Parties.

10.3 Confidentiality. Unless otherwise agreed to in writing by the Parties, none of the Parties shall, directly or indirectly, disclose, or permit the disclosure of, to any third Person (i) the existence or content of this Agreement or of discussions regarding the transaction contemplated hereunder, (ii) any of the terms, conditions or other aspects of the transaction contemplated hereunder, or (iii) the status of performance of this Agreement, except (a) to advisors, agents, shareholders, limited partners, directors, officers or employees of the relevant Party and its Affiliates, (b) to financial institutions and banks whose consent or financing will be obtained for the transaction contemplated hereunder, (c) as may be compelled in a judicial or administrative proceeding or as otherwise required by law and regulation or pursuant to legal proceedings (in which case the disclosing Party shall notify the other Parties in writing promptly if lawfully permitted to do so), and (d) as may be required by government or regulatory authorities or stock exchanges or agencies that have jurisdiction over a Party (or its parent company) or the transaction contemplated hereunder (in which case the disclosing Party shall notify the other Parties in writing promptly thereof).

10.4 Successors and Assigns. Except as otherwise specifically provided herein, this Agreement shall bind and inure to the benefit of each Party's respective successors and permitted assigns; *provided* that no Party shall have any right to assign any of its rights hereunder or any interest herein without obtaining the written consent of the other Parties hereto to such assignment, and any purported assignment made without obtaining such written consent shall be null and void.

10.5 Notices. All notices under this Agreement shall be given in writing and shall be deemed to have been given upon delivery if delivered by hand or air courier, upon generation of confirmed receipt by the machine if sent by facsimile transmission, or on the seventh Business Day after mailing if sent by air mail, certified or registered mail, return receipt requested and postage prepaid, in each case to the address set forth below (or to such other address or addressee as a Party may specify by notice given hereunder);

(a) If to the Vendor

Address:	1 Temasek Avenue#36-01 Millenia Tower Singapore 039192
Attention to:	Robert L. Rosen
Tel:	(65) 6351 1788

(b) If to the Purchaser

Address:	Room 316, Building 9, 588 Feijiatang Road, Xiacheng District, Hangzhou City, Zhejiang Province, P.R.China, 310006
Attention to:	Sun Li
Tel:	(86) 136 0257 5157

10.6 Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

10.7 Amendments. Any term of this Agreement may be amended only with the written consent of the Parties.

10.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the Parties hereto.

10.9 Language. This Agreement is written and executed in Chinese and English versions and both versions shall have equal validity.

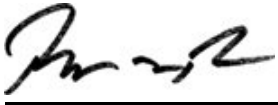
10.10 Taxes and Expenses. Unless otherwise expressly provided in this Agreement, each Party hereto shall bear and be responsible for the payment of all taxes, government charges, costs and expenses it incurs in relation to the discussion, conclusion, delivery and performance of this Agreement.

[Remainder of this page has been intentionally left blank]

IN WITNESS WHEREOF, the Parties hereto have caused this Sale and Purchase Agreement to be duly executed and delivered as of the day and year first above written.

VENDOR :

Quantum (2007) LLC

By: 

Name: Robert L. Rosen
Title: Manager

PURCHASER :

Hangzhou Chengmao Investment Co., Ltd.

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Parties hereto have caused this Sale and Purchase Agreement to be duly executed and delivered as of the day and year first above written.

VENDOR:

Quantum (2007) LLC

By: _____
Name: Robert L. Rosen
Title: Manager

PURCHASER:

Hangzhou Chengmao Investment Co., Ltd.

By: _____
Name:
Title:



PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED BECAUSE THEY ARE BOTH (i) NOT MATERIAL AND (ii) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED. THE OMISSIONS HAVE BEEN INDICATED BY ASTERISKS (“[***]”).

SENIOR FACILITIES AGREEMENT

DATED JULY 4, 2016

NIS 1,006,000,000

SENIOR FACILITIES

for

**ADVANCED INTEGRATED ENERGY LTD.
(as Borrower)**

Co-Arranged by

**ISRAEL DISCOUNT BANK LTD. and HAREL INSURANCE COMPANY LTD
(as Arrangers)**

with

**ISRAEL DISCOUNT BANK LTD.
(as Senior Agent)**

**ISRAEL DISCOUNT BANK LTD.
(as Security Agent)**

and

OTHERS

ERDINAST, BEN NATHAN, TOLEDANO & CO.

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This senior facilities agreement (the “ **Agreement** ”) is dated July 4, 2016 between:

- (1) **ADVANCED INTEGRATED ENERGY LTD.** , a special purpose limited liability company incorporated under the laws of the State of Israel under certificate of incorporation number 514495852 and having its registered office at Ha’Arbaa Street 19, Tel Aviv 61204, Israel (the “ **Borrower** ”);
- (2) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (Senior Lenders and Commitments) (in this capacity the “ **Original Senior Lenders** ”);
- (3) **ISRAEL DISCOUNT BANK LTD. and HAREL INSURANCE COMPANY LTD.** , as co-arrangers (in this capacity the “ **Arrangers** ”);
- (4) **ISRAEL DISCOUNT BANK LTD.** , as agent for the Senior Lenders (in this capacity the “ **Senior Agent** ”);
- (5) **ISRAEL DISCOUNT BANK LTD.** , as security agent (in this capacity the “ **Security Agent** ”);
- (6) **ISRAEL DISCOUNT BANK LTD.** , as account bank (in this capacity the “ **Account Bank** ”);
- (7) **ISRAEL DISCOUNT BANK LTD.** , as the issuing bank (in this capacity the “ **Issuing Bank** ”); and
- (8) **ISRAEL DISCOUNT BANK LTD.** , as the hedging bank (in this capacity the “ **Hedging Bank** ”).

IT IS AGREED as follows:

1. INTERPRETATION

1.1. Definitions

In this Agreement, the terms appearing in this Clause 1.1 (Definitions) of this Agreement shall have the meanings set opposite them as follows:

Acceptable Bank

means:

- (a) any commercial bank which its long-term international rating is at least “A” or its equivalent rating by Standard & Poor’s Rating Services, Moody’s Investors Service Limited or Fitch Ratings Ltd., provided that its long-term international rating in each abovementioned agency rating is not below “A-” or its equivalent rating in each such agency rating, and is incorporated in a state that has diplomatic ties with the State of Israel;

- (b) any commercial bank which is one of the five (5) largest commercial banks in Israel; or
- (c) until the expiry of the Warranty Period, Banco Santander, S.S. or Banco Bilbao Vizcaya Argentaria, S.A. , so long as such commercial banks maintain a long-term international rating of at least “BBB-” or its equivalent rating by Standard & Poor’s Rating Services, Moody’s Investors Service Limited or Fitch Ratings Ltd. ,

and provided that with respect to paragraphs (a) and (b) above, so long as the Senior Agent has bank lines of credit with such commercial bank.

Account

means each of the bank accounts set out in the Accounts Schedule.

Accounts Schedule

means the accounts schedule attached hereto as Schedule 3 (Accounts).

Actual Completion Date

means the date on which each of the following conditions has been satisfied to the satisfaction of the Senior Agent, as notified by the Senior Agent to the Borrower in writing:

- (a) the Borrower has issued the Actual Project Acceptance Certificate (as defined in the EPC Contract) in accordance with the EPC Contract and there is no impediment on the supply of electricity from the IPP to IEC’s Electricity Network and the supply of steam to the End Users;
- (b) all material Transaction Authorisations (including the Permanent License and the Supply License) have been obtained and are in full force and effect;
- (c) the Borrower has delivered to the Senior Agent a Borrower’s certificate, in a form satisfactory to the Senior Agent, signed by the Borrower’s CEO or the Borrower’s CFO and approved by legal counsel confirming, as of the date of the first request for Distribution, the absence of any outstanding claims made by the EPC Contractor against the Borrower, other than claims which do not exceed in the aggregate an amount of twelve million and five hundred thousands USD (USD 12,500,000) or its equivalent; provided further that such claims are being contested in good faith and by appropriate means and that the Borrower has set aside adequate monetary reserves against such claims in the amount as required by the Auditors;

- (d) the Project, including all materials, services, equipment and other parts of the Project Works and Project Facilities, is free and clear of all Security Interests (encumbrances in the nature of mechanics, labour or material men's liens, possessory liens and "moral rights"), except as permitted under the Senior Finance Documents;
- (e) the Commercial Operation Date shall have occurred;
- (f) the Borrower has received written confirmation by the Operator: (i) of an absence of any known claims against the Borrower by the Operator regarding the completion of the works under the EPC Contract, and (ii) that there is no impediment on the operation of the Project in accordance with the terms of the O&M Contract, in a form satisfactory to the Senior Agent;
- (g) the Borrower has delivered to the Senior Agent a Borrower's certificate, in a form satisfactory to the Senior Agent, signed by the Borrower's CEO or the Borrower's CFO and approved by legal counsel confirming, as of the date of the first request for Distribution, the absence of any outstanding claims against the Borrower by Hadera Paper regarding the completion of the works under the EPC Contract, (ii) the operation of the Energy Center and (iii) the Short Term Hadera PPA, other than (a) claims with respect to the operation of the Energy Center and which are referred to in Clause 2.3(b) (EPC/Energy Center) of the Equity Subscription Agreement which do not exceed in the aggregate the Guarantee Amount (as defined therein); or (b) other claims not referred to in sub-paragraph (a) above which do not exceed in the aggregate an amount of thirty million NIS (NIS 30,000,000), provided, in each case, that such claims are being contested in good faith and by appropriate means and that the Borrower has set aside an adequate monetary reserve against such claims in the amount as required by the Auditors;

- (h) all the Insurances and Reinsurances are in full force and effect in accordance with the requirements of the Senior Finance Documents;
- (i) the Borrower has received all the Project Guarantees with respect to the Commercial Operation Phase as required in accordance with the Project Documents;
- (j) no Event of Default or Potential Default has occurred and is continuing;
- (k) the Borrower shall have delivered to the Senior Agent a certificate in the form attached hereto as Schedule 6 (Borrower's Actual Completion Certificate) certifying that the conditions set out in paragraphs (a) – (j) above have been satisfied; and
- (l) the Technical Adviser shall have delivered to the Senior Agent a certificate in the form attached hereto as Schedule 7 (Technical Adviser Certificate with respect to Actual Completion), confirming that the conditions set out in paragraphs (a) and (b) above have been satisfied.

Additional Calculation Date

means the date by which the Senior Agent has requested an additional calculation of the Ratios in accordance with Clause 16.6 (Financial Model and Ratios) of this Agreement.

Administrative Party

means each of the Agents, the Arrangers and the Account Bank.

ADSCR or Annual Debt Service Cover Ratio

means the Debt Service Cover Ratio, for any twelve (12) months period.

Adviser

means the Technical Adviser, the Environmental Adviser, the Legal Adviser, the Insurance Adviser, the Model Auditor, or any other adviser appointed by the Senior Finance Parties in accordance with this Agreement.

Agent

means the Senior Agent and/or the Security Agent.

Affiliate

means with respect to any Person, another Person directly or indirectly Controlling, Controlled by, or under common Control with that Person.

Applicable Law

means any applicable treaty, statute, code, law, regulation, ordinance, rule, judgement, official order, judicial order, writ, decree, approval, licence, directive, guideline, standard, requirement, or other governmental restriction; and a similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing of any Government Authority whether or not having the force of law (including, the measures taken to implement the proposals made by the Basel Committee on Bank Regulations and Supervisory Practices for the International Convergence of Capital Measurements and Capital Standards; the Bank of Israel Proper Conduct of Banking Business Regulations; and guidelines, directives or regulations of the Commissioner including with respect to Solvency II) and the Electricity Legislation, whether in effect as of the Signature Date or thereafter and in each case as amended, re-enacted or replaced.

Assumptions

means subject to the terms of this Agreement, the assumptions set out in the Assumptions Book.

Assumptions Book

means the financial model data book dated on or about the Signature Date in respect of the Project in the form provided to and approved by the Senior Agent and any revision thereof approved by the Senior Agent.

Auditors

means KPMG Somekh Heikin, any other auditor which is one of the five (5) largest firms of auditors in Israel as may be appointed by the Borrower or any other auditor subject to the prior written approval of the Senior Agent.

Authorised Investment

has the meaning set forth in the Accounts Schedule.

Available Cashflow

means for any period:
[***]

Available Funding

means on any date, the aggregate (without double counting) of:

- (a) the Total Long Term Commitments;
- (b) the Total Standby Commitments;
- (c) the Equity Commitments and any additional amounts that the Shareholders have committed to contribute to the Borrower pursuant to Clause 2.6 (Supplemental Contributions in respect of Equity Cure Rights) of the Equity Subscription Agreement;

- (d) the aggregate amount standing to the credit of any Account on that date to the extent that the Borrower is entitled, in accordance with the Accounts Schedule, to utilise such amounts to pay Project Costs; and
- (e) the amount of any delay liquidated damages or other payments from any third party in connection with Capital Costs which the Borrower has demonstrated to the satisfaction of the Senior Agent to be due and payable to it.

Availability Period

means:

- (a) with respect to the Long Term Facility and the Standby Facility – the period from Financial Close up to and including the date which is the earlier of: (i) thirty nine (39) months after the Signature Date; or (ii) the date upon which the applicable Senior Facility is fully drawn.
- (b) with respect to the VAT Facility – the period from Financial Close up to and including the date which is the earlier of: (i) the Commercial Operation Date; (ii) thirty nine (39) months after the Signature Date; or (iii) the Second Mandatory Drawdown Date.
- (c) with respect to the Guarantees Facility – the period from Financial Close up to and including the Final Maturity Date for Loans under the Guarantees Facility.
- (d) with respect to the DSRA Facility – the period from the last day of the Availability Period of the VAT Facility up to and including the date which is the earlier of: (i) the date falling fifteen (15) days after the Commercial Operation Date; (ii) the date upon which the DSRA Facility is fully drawn; or (iii) the Second Mandatory Drawdown Date.
- (e) with respect to the Working Capital Facility – the period from the Commercial Operation Date up to and including the date falling three (3) months prior to the Final Maturity Date for Loans under the Long Term Facility; and
- (f) with respect to the Hedging Facility – the period from Financial Close up to and including the Final Maturity Date for Loans under the Long Term Facility.

Base Index

means the Index known on the Signature Date.

Bond Rate

means:

- (a) for a Linked Loan, the weighted average of the gross yield to maturity (“**YTM**”), which shall be calculated according to the following formula, based on two governmental bonds, bearing a fixed interest and linked to the Index (“**Linked Reference Bonds**”), having a Duration (as defined below) which is the closest to the Duration of the Linked Loan, and which fulfil the following conditions: (i) the daily trade volume of each Linked Reference Bond during at least seven (7) trading days in the ten (10) trading days preceding the Utilisation Date is at least five million NIS (NIS 5,000,000); (ii) the Duration of one Linked Reference Bond is equal or shorter and the Duration of the second Linked Reference Bond is longer than the Duration of the relevant Loan (the “**Linked Loan Bond Rate**”).
- (b) for a Non Linked Loan, the weighted average of the gross yield to maturity (“**YTM**”), which shall be calculated according to the following formula, based on two governmental bonds bearing a fixed interest and not linked to the Index (“**Non Linked Reference Bonds**”), having a Duration which is the closest to the Duration of the Non Linked Loan, and which fulfil the following conditions: (i) the daily trade volume of each Non Linked Reference Bond during at least seven (7) trading days in the ten (10) trading days preceding the Utilisation Date is at least five million NIS (NIS 5,000,000); (ii) the Duration of one Non Linked Reference Bond is equal or shorter and the Duration of the second Non Linked Reference Bond is longer than the Duration of the relevant Loan (the “**Non Linked Loan Bond Rate**”).

In this definition, the “**Determining Average**” will be the simple average of the YTM during the five (5) trading days immediately preceding the date of calculation thereof, of each Linked Reference Bond or Non Linked Reference Bond (as applicable) calculated based on its quote as published by the Tel-Aviv Stock Exchange.

The Bond Rate will be calculated according to the following formula:

$$YTMa + (YTMb - YTMa) / (Db - Da) * (Dd - Da)$$

Whereas:

a - the Linked Reference Bond or the Non Linked Reference Bond (as applicable) bearing equal or shorter Duration than the Duration of the relevant Loan.

Da - the Duration of a.

YTMa - the Determining Average of the YTM of a as per the Utilisation Date.

b - the Linked Reference Bond or the Non Linked Reference Bond (as applicable) bearing longer Duration than the Duration of the relevant Loan.

Db - the Duration of b.

YTMb - the Determining Average of the YTM of b as per the Utilisation Date.

Dd – the Duration of the relevant Loan.

“ **Duration** ” of the Loans shall be calculated in accordance with the following formula:

$$\frac{A/B}{4}$$

Where:

$$A = \sum_0^t \frac{PMT_t * \left(\frac{t}{90}\right)}{\left(1 + \frac{r1 + m}{4}\right)^{\left(\frac{t}{360}\right)}}$$

$$B = \sum_0^i \frac{PMT_t}{\left(1 + \frac{r_1 + m}{4}\right)^{\left(\frac{t}{360}\right)}}$$

PMT_t = the entire amount of Debt Service payments to be made for each period (t) (including applicable linkage differentials);

m = the relevant Margin (yearly basis) expressed in percent;

t = the actual number of days until each Repayment Date and thereafter until the Final Maturity Date;

r₁ = the Bond Rate prevailing on the Utilisation Date.

Budget

means a Construction Budget, an Energy Center Budget or an Operating Budget.

Business Day

means any day that is neither a Saturday, a day on which banking institutions licensed in the State of Israel are required or authorised to be closed, nor any day which is recognised by the Bank of Israel as not being a business day.

Calculation Date

means:

- (a) a Scheduled Calculation Date; and
- (b) an Additional Calculation Date.

Calculation Period

means the period from (and excluding) a Scheduled Calculation Date to (and including) the next Scheduled Calculation Date.

Capital Costs

means each of the following (without double-counting), provided that such costs and expenses are included in the Construction Budget or in the Energy Center Budget, as applicable:

- (a) capital expenditure incurred by the Borrower in carrying out the Project Works;
- (b) the cost of any Transaction Authorisations necessary for the Project Works (other than those costs to be incurred by the EPC Contractor);
- (c) premia payable in respect of Insurances (other than Insurances to be effected and paid for by the EPC Contractor) but excluding premia under Insurances relating to the period after the Commercial Operation Date;

- (d) Financing Costs accrued prior to the Commercial Operation Date;
- (e) Operating Costs accrued prior to the Commercial Operation Date;
- (f) legal, accounting and other professional fees and costs incurred by the Borrower in connection with the negotiation and entry into of the Transaction Documents and any documents referred to in the Transaction Documents, which accrued prior to the Financial Close;
- (g) fees and costs of the Advisers incurred prior to the Commercial Operation Date;
- (h) payments by the Borrower pursuant to the Land Lease Agreement or the Energy Center Land Lease Agreement due prior to the Commercial Operation Date;
- (i) development costs incurred by the Borrower prior to the first Utilisation Date in an aggregate amount which exceeds the Recognised Equity, as approved in advance by the Senior Agent;
- (j) Taxes payable in connection with the period prior to the Commercial Operation Date (except those referred to in paragraph (e) below); and
- (k) any other costs and expenses agreed as such by the Borrower and the Senior Agent.

but excluding:

- (a) Financing Costs (except those referred to in paragraph (d) above);
- (b) Financing Principal;
- (c) Operating Costs (except those referred to in paragraph (e) above);
- (d) Cost Overruns; and
- (e) any value added tax or similar Tax in respect of any of the items listed in paragraph (a) to (k).

**Cashflow Insurance
Proceeds**

means Insurance Proceeds for delay in start-up, business interruption, anticipated loss in revenue, actually received by the Borrower (not including any insurance proceeds that are payable for third party liability or employees' liability).

Charge	means each of: <ul style="list-style-type: none"> (a) the Fixed Charge; and (b) the Floating Charge.
Code	means the US Internal Revenue Code of 1986, as amended, and the rules and regulations thereunder.
Commercial Operation Date	means the date upon which the Permanent License has been issued and the IPP is connected to the IEC's Electricity Network and is entitled to supply electricity at the tariff set forth in the Tariff Approval.
Commercial Operation Phase	means a period of twenty (20) years commencing on the Commercial Operation Date.
Commercial Operation Phase Insurances	means the Insurances for the Commercial Operation Phase specified in Schedule 8 (Insurance) hereof.
Commissioner	means the Commissioner of Capital Market, Insurance and Savings at the Ministry of Finance.
Commitment	means in respect of a Senior Lender and a Senior Facility, the amount set forth opposite its name in Schedule 1 (Senior Lenders and their Commitments) of this Agreement with respect to such Senior Facility, in each case to the extent not cancelled, transferred, utilised or reduced under this Agreement.
Compensation	means any sum (other than any Insurance Proceeds) payable to or for the account of the Borrower under the Electricity Legislation, the Property Tax and Compensation Fund Law, 5721-1961 or any other Applicable Law: <ul style="list-style-type: none"> (a) in respect of the nationalisation, confiscation or requisition of all or part of the Project; (b) in respect of the forfeiture, suspension or other abrogation by any Government Authority of any part of the rights of the Borrower under the Transaction Documents or the Transaction Authorisations; (c) in respect of any other disturbance, intervention in the Project by or on behalf of any Government Authority; or (d) in respect of a terminating Force Majeure Event or change in law event under the PUA Rules, which has the same effect on the Project as in paragraphs (a)-(c) above.

Construction Account	means the account designated as such under the terms of the Accounts Schedule.
Construction Budget	means the Initial Construction Budget or, if any subsequent construction budget has been delivered by the Borrower in accordance with Clause 16.5 (Budgets) of this Agreement and approved by the Senior Agent, the latest such construction budget.
Construction Completion Date	means the date of issuance of the Taking-Over Certificate (as such term is defined in the EPC Contract) under the EPC Contract.
Construction Phase	means the period from the issuance of the Notice to Commence until the Construction Completion Date.
Construction Phase Insurances	means the Insurances required during the Construction Phase pursuant to the terms of Schedule 8 (Insurance) hereof.
Construction Schedule	means the Borrower's construction schedule attached to the EPC Contract as schedule 1 (Baseline Project Schedule), and as may be updated from time to time by the Borrower and the EPC Contractor with the prior written approval of the Senior Agent in consultation with the Technical Adviser.
Control	means as defined in section 1 of the Securities Law.
Cost Overrun	means any item of actual or anticipated expenditure that: <ul style="list-style-type: none"> (a) is not included in the Initial Construction Budget; or (b) exceeds the budgeted amount in the Initial Construction Budget for such item of expenditure and such excess is not attributed to linkage differentials that is funded through the linkage of the Total Long Term Commitments.
Dangerous Substance	means any natural or artificial substance or emission (whether in solid or liquid form or in the form of a gas or vapour) which is capable of causing harm to man or any other living organism or damaging the environment or public health including but not limited to any controlled, special, hazardous, toxic, radioactive or dangerous waste under Applicable Law or with respect to which any handling, transportation, disposal or release into the environment or any human exposure is prohibited, limited or otherwise regulated by any Government Authority by reason of its hazardous nature.

Debt Service	means in relation to any period, all repayments of Financing Costs due and payable and Financing Principal due and payable, during that period.
Debt Service Cover Ratio	<p>means in relation to any period, the ratio of Available Cashflow to Debt Service for that period, provided that for the purpose of calculating the Debt Service Cover Ratio under this Agreement, the Debt Service for any period means all repayments of:</p> <ul style="list-style-type: none"> (a) Financing Costs, and (b) Financing Principal calculated in accordance with the relevant Repayment Schedule, Supplementary Repayment Schedule and/or the Hedging Repayment Schedule (as applicable), <p>in each case, due and payable for that period, but excluding repayment of Financing Costs and Financing Principal with respect to Loans under the Guarantees Facility and the Working Capital Facility (other than such amounts that are due and payable on the Final Maturity Date with respect to such Loans).</p>
Deductible	means any amount deducted by the PUA under the PUA Rule 130.
Deed of Accession	means a deed of accession substantially in the form of Schedule 2 (Form of Deed of Accession) of the Intercreditor Agreement under which a Person accedes to this Agreement with such amendments as the Senior Agent may approve or reasonably require, provided that any amendments which may adversely affect the Borrower shall be subject to the approval of the Borrower.
Default	means an Event of Default or Potential Default.
Defaulting Lender	<p>means any Lender:</p> <ul style="list-style-type: none"> (a) which has failed to make its share in a Loan available or has given notice to the Senior Agent that it will not make available its share in any Loan by the relevant Utilisation Date; or (b) which has otherwise rescinded or repudiated a Senior Finance Document;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by an administrative or technical error and payment is made within five (5) Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

Direct Agreement

means each of:

- (a) the EPC Direct Agreement;
- (b) the Operator Direct Agreement;
- (c) the LTSA Contractor Direct Agreement;
- (d) the direct agreement to be entered into between the Borrower, the Gas Supplier, the Security Agent and the Senior Agent;
- (e) the Lessor Direct Agreement; and
- (f) any other document designated as such by the Senior Agent and the Borrower.

Distribution

means any payment by the Borrower to any Related Party, including:

- (a) any dividend or other distribution (in cash or in kind) on or in respect of any of the Borrower's share capital;
- (b) any repayment or redemption of any capital notes issued by the Borrower;
- (c) any payment of or in respect of any liability under any Equity Document, including in respect of any Equity Subordinated Loans; and
- (d) any Tax in respect of any of the above.

but excluding payment by the Borrower to any Related Party of (i) Capital Costs or Operating Costs, in each case not higher than the amounts set out for such payment(s) in the then current Construction Budget, the Energy Center Budget or the Operating Budget, or (ii) Cost Overruns as approved by the Senior Agent pursuant to the terms of this Agreement.

Distribution Account

means the Account designated as such under the terms of the Accounts Schedule.

Documentary Credit

means any documentary credit issued by the Issuing Bank pursuant to the terms of this Agreement.

Documentary Credit Request	means a request for a Documentary Credit substantially in the form of Schedule 14 (Documentary Credit Request) hereof.
Drawdown Request or Request	means (as applicable): <ul style="list-style-type: none"> (a) in respect of a Loan, a request made by the Borrower for a Loan, substantially in the form of Schedule 4 (Form of Drawdown Request) hereof; and (b) in respect of a Documentary Credit, a Documentary Credit Request.
DSRA or Debt Service Reserve Account	means the account designated as such under the terms of the Accounts Schedule.
Electricity Legislation	means the Electricity Sector Law, the PUA Rules and any other Applicable Law regarding the electricity market in Israel.
Electricity Network	means facilities and systems for the conduction, supply, transformation, distribution, sale and measurement of electric energy of any voltage, including electrical poles, underground or overhead conductions, piping used for underground or overhead conductions and any equipment or element installed on or attached to any of the foregoing, electricity wires, transformation station, switch boxes and any connections thereto, as well as underground and overhead connections to homes and other consumption facilities.
Electricity Sector Law	means the Electricity Sector Law, 5756-1996 and all regulations promulgated thereunder.
End Users	means any Person purchasing electricity and/or steam from the Borrower other than IEC.
Energy Center	means the facilities, structures, components, systems, infrastructures, equipment and spare parts (as set out in more detail in exhibit 1.16 to the Share and Facilities Purchase Agreement), which together comprise the energy center at Hadera Paper's facility.
Energy Center Budget	means the Initial Energy Center Budget or, if any subsequent Energy Center budget has been delivered in accordance with Clause 16.5 (Budgets) of this Agreement and approved by the Senior Agent, the latest such Energy Center budget.

Energy Center Land Lease Agreement	means the land lease agreement dated August 10, 2015 between the Borrower and the Lessor with respect to the Energy Center Site.
Energy Center Licenses	means the licenses for the operation of 17.9 MW and 7 MW steam turbines located in the Energy Center.
Energy Center Site	means the site described in schedule 1.3.7 of the Energy Center Land Lease Agreement.
Enforcement Action	means commencing any action pursuant to Clause 20.28 (Enforcement Action) below or the closing out of any hedging transaction under a Hedging Agreement pursuant to the terms of the Intercreditor Agreement.
Environmental Adviser	means an entity that may be appointed as an environmental adviser on behalf of the Senior Finance Parties.
Environmental Approval	means any authorisation required by an Environmental Law.
Environmental Claim	means any claim by any Person in connection with: <ul style="list-style-type: none"> (a) a breach, or alleged breach, of an Environmental Law; (b) any accident, fire, explosion or other event of any type involving an emission or substance which is capable of causing harm to any living organism or the environment; or (c) any other environmental contamination.
Environmental Law	means: <ul style="list-style-type: none"> (a) any Applicable Law concerning: <ul style="list-style-type: none"> (i) health and safety; (ii) the protection of human health or the environment; (iii) any emission or substance which is capable of causing harm to any living organism or the environment; (iv) nuisance or noise; (v) sewage and recycling of water; or (vi) Dangerous Substances. (b) international treaties binding in Israel of which a principal objective is the preservation, protection or improvement of the environment.

EPC Contract	means the engineering, procurement and construction contract by and between the Borrower and the EPC Contractor dated January 21, 2016.
EPC Contractor	means SerIDOM Servicios Integrados IDOM, S.A.U.
EPC Contract Bank Guarantee	means the Performance Guarantee (as defined in the EPC Contract).
EPC Contract Corporate Guarantee	means the PCG (as defined in the EPC Contract).
EPC Contract Guarantee	means an EPC Contract Bank Guarantee or an EPC Contract Corporate Guarantee.
EPC Contract Guarantor	means IDOM S.A.U.
EPC Contractor Member	means IDOM S.A.U.
EPC Direct Agreement	means the direct agreement dated on or about the Signature Date between the Borrower, the EPC Contractor, the Senior Agent and the Security Agent.
Equity	<p>means, at any time:</p> <ul style="list-style-type: none"> (a) the aggregate of the amount subscribed for and paid in as share capital or capital notes in the Borrower by the Shareholders and not repaid or otherwise reimbursed to the Shareholders on or before that time; and (b) with respect to any equity in excess of the amount representing the minimum percentage required under the Electricity Legislation of the Project's "normative cost" – Equity Subordinated Loans (to the extent the Borrower has elected to obtain Equity Subordinated Loans); <p>in each case, the rights in respect of which are subordinated to the Loans in all respects in accordance with the Equity Subscription Agreement.</p>
Equity Commitments	means the remaining obligation, if any, of each Shareholder to invest Equity in accordance with Clauses 2.1 (Equity Commitments) and 2.2 (Equity Contribution with respect to Senior Facilities) of the Equity Subscription Agreement.

Equity Cure Right	means as defined in Clause 20.23 (Ratios) of this Agreement.
Equity Document	means each of: <ul style="list-style-type: none"> (a) the Equity Subscription Agreement; (b) any shareholders' agreement by and among the Shareholders and the Borrower, if applicable; (c) the Equity Pledges; (d) any Equity Subordinated Loan Agreement; or (e) any other document designated as such by the Senior Agent and the Borrower.
Equity Pledge	means each equity pledge dated on or about the Signature Date between the Borrower, the Security Agent and each of the Shareholders in relation to, among other things, all of the shares in the Borrower held by each Shareholder and the rights of the Shareholders under any Equity Subordinated Loan Agreements.
Equity Subordinated Loan	means a loan made under an Equity Subordinated Loan Agreement.
Equity Subordinated Loan Agreement	means an agreement, in the form attached hereto as Schedule 16 (Equity Subordinated Loan Agreement), to the extent entered into between a Shareholder and the Borrower for the provision of an equity subordinated loan.
Equity Subscription Agreement	means the equity subscription agreement dated on the Signature Date between the Shareholders, the Senior Agent, the Security Agent and the Borrower.
Event of Default	means an event specified as such in Clause 20 (Default) of this Agreement.
Event of Loss	means: <ul style="list-style-type: none"> (a) loss of all or substantially all of the Project or the use thereof due to destruction or substantial loss or damage, which is uninsured (including loss of profit and business interruption insurance for the whole period of time to repair and restore the Project to its condition prior to the event other than the Deductible) or which available proceeds of insurance are inadequate to repair or which would otherwise require a material period of time to repair or restore the Project to its condition prior to the event; or

- (b) the condemnation, seizure, expropriation, nationalisation or requisition for an indefinite period of the Project or the right of use thereof by any Government Entity.

FATCA

means

- (a) sections 1471 to 1474 of the Code;
- (b) any treaty, law or regulation of any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of any law or regulation referred to in paragraph (a) above; or
- (c) any agreement pursuant to the implementation of any treaty, law or regulation referred to in paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

FATCA Application Date

means:

- (a) in relation to a “withholdable payment” described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US) – July 1, 2014;
- (b) in relation to a “withholdable payment” described in section 1473(1)(A)(ii) of the Code (which relates to “gross proceeds” from the disposition of property of a type that can produce interest from sources within the US) – January 1, 2017; or
- (c) in relation to a “pass-through payment” described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above – January 1, 2017,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the Signature Date.

FATCA Deduction

means a deduction or withholding from a payment under a Senior Finance Document required by FATCA.

FATCA Exempt Party	means a party that is entitled to receive payments free from any FATCA Deduction.
Fee Letter	means any letter entered into by reference to this Agreement between one or more of the Administrative Parties and the Borrower setting out the amount of certain fees to be paid by the Borrower.
Final Discharge Date	means the date on which each of the Senior Facilities in respect of the Project has been unconditionally and irrevocably paid and discharged in full, as determined by the Senior Agent.
Final Maturity Date	<p>means:</p> <p>(a) with respect to Loans under the Long Term Facility, the Standby Facility, the DSRA Facility or the Hedging Facility – the earlier of: (i) the date falling eighteen (18) years following the “Commercial Operation Date” (as defined in the Hadera PPA); (ii) the date falling two (2) years prior to the end of the Commercial Operation Phase; (iii) the date falling two (2) years prior to the expiry of the Permanent License; or (iv) the date falling twenty one (21) years and three (3) months after the Signature Date.</p> <p>(b) with respect to Loans under the VAT Facility, the earlier of: (i) two (2) Business Days from the date on which the Borrower receives the repayment or credit for the VAT paid by the Loan; (ii) one hundred and twenty (120) days from the Utilisation Date of the Loan; (iii) the date falling fifteen (15) days after the Commercial Operation Date; or (iv) the Second Mandatory Drawdown Date.</p> <p>(c) with respect to Loans under the Guarantees Facility, the earlier of: (i) thirty six (36) months following the date on which a Loan is made by virtue of a drawing of a Third Party Guarantee by the beneficiary thereunder; or (ii) the Final Maturity Date for Loans under the Long Term Facility.</p> <p>Provided, however, that in the event that on the date falling six (6) months prior to the Final Maturity Date under the Long Term Facility, neither the Senior Agent nor the Issuing Bank have confirmed to their full satisfaction that the Borrower has complied with the terms set out in Clause 6.7 (Release of Third Party Guarantees Prior to Final Maturity Date) of the Equity Subscription Agreement, then the Final Maturity Date for Loans under the Guarantees Facility shall be the date falling six (6) months prior to the Final Maturity Date for Loans under the Long Term Facility;</p>

- (d) with respect to Loans under the Working Capital Facility – (i) with respect to a Loan drawn for the purpose set out in Clause 3.6(a) below, the Final Maturity Date for such Loans under the VAT Facility; or (ii) with respect to any other Loan, the date for the repayment of such Loan as determined upon the Utilisation Date for such Loan, but in no event later than the Final Maturity Date for Loans under the Long Term Facility; and
- (e) with respect to Loans under the Hedging Facility – the Final Maturity Date for Loans under the Long Term Facility.

Finance Document

means a Senior Finance Document.

Financial Close

means the date on which the conditions precedent set out in Clause 4.1 (Initial Conditions Precedent) and in Clause 4.2 (Further Conditions Precedent) have been fulfilled to the full satisfaction of the Senior Agent or waived.

Finance Support Rules

means the finance support tariff arrangements for independent power producers (‘ *hesderim tariffiim tomchei mimun leyatzranei hashmal pratiim* ’) issued by the PUA in decision 268 dated July 19, 2009 and decision 403 dated June 3, 2013 and any PUA Rule associated therewith, including all clarifications thereto and as amended from time to time to the extent such amendments are applicable to the Borrower or the Project.

Financial Indebtedness

means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit (including any dematerialised equivalent);

- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any agreement treated as a finance or capital lease in respect of a Person in accordance with generally accepted accounting principles in the jurisdiction of incorporation of that Person;
- (f) receivables sold or discounted;
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any hedging or derivative transaction protecting against or benefiting from fluctuations in any rate or price and, when calculating the value of any hedging or derivative transaction, only the marked to market value or, if any actual amount is due as a result of the termination or close-out of that hedging or derivative transaction, that amount shall be taken into account;
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank;
- (k) any credit from suppliers except credit under the Project Documents or that is payable within a period that is in the ordinary course of business and in any event within one hundred and eighty (180) days; or
- (l) any guarantee, indemnity or similar assurance against financial loss of any Person in respect of any item referred to in the above paragraphs.

Financial Model

means:

- (a) on or before Financial Close, the Initial Financial Model; and
- (b) at any time thereafter, the Initial Financial Model as updated, revised, amended or replaced from time to time, as approved by the Senior Agent in accordance with the terms of the Finance Documents.

Financing Costs	means any of the following (without double counting): <ul style="list-style-type: none"> (a) interest (including default interest), fees, commissions and any other costs or expenses payable under the Senior Finance Documents; (b) any amounts payable by the Borrower representing Increased Costs, Tax Payments, stamp duty, registration or other similar tax or indemnities payable to the Senior Finance Parties under the Senior Finance Documents; (c) any Hedging Costs; and (d) any Tax in respect of any of the above, all, including Linkage Differentials, but excluding, for the avoidance of doubt, any payments under the Equity Documents.
Financing Principal	means principal amounts (including capitalized interest) payable by the Borrower under this Agreement, including Linkage Differentials.
First Forecast	means the Forecast derived from running the Financial Model on Financial Close.
First Mandatory Drawdown Bond Rate	[***]
First Mandatory Drawdown Request	means the Drawdown Request referred to in Clause 5.1(d) of this Agreement.
First Mandatory Drawdown Trigger Event	means as defined in Clause 5.1(d) of this Agreement.
First Repayment Date	means the date on which the first Repayment Instalment is paid pursuant to Clause 6.1(b) of this Agreement.
Fixed Charge	means the fixed charge agreement to be entered into between the Borrower and the Security Agent.
Floating Charge	means the floating charge agreement to be entered into between the Borrower and the Security Agent.
Force Majeure Event	means an event of force majeure as defined in the Project Documents and the PUA Rules.

Forecast	means the results of running the Financial Model on the basis of values for the Assumptions determined in accordance with this Agreement.
Forecast Funding Shortfall	means at any time, that the Projected Project Costs, exceed the Available Funding at that time, or (if the context so requires), the amount, if any, by which the Projected Project Costs, exceed the Available Funding as at that time.
GAAP	means in relation to a person and a jurisdiction, the requirements and practices of the law of that jurisdiction relating to the preparation of financial statements for that person including IFRS.
Gas Reserve Account	means the account designated as such under the terms of the Accounts Schedule.
Gas Resale Agreement	means as defined in Clause 17.4(b) of this Agreement.
Gas Supplier	means Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Isramco Negev 2 Limited Partnership, Avner Oil Exploration Limited Partnership and Dor Gas Exploration Limited Partnership and/or any of their assignees or transferees under the Gas Supply Agreement.
Gas Supply Agreement	means the agreement dated January 25, 2012, as amended on October 16, 2012, and as may be further amended from time to time, between the Gas Supplier and the Borrower, for the supply of gas.
Gas Transportation Agreement	means the agreement dated July 11, 2007 and as amended on June 7, 2013 and March 31, 2015 between the Gas Transporter and the Borrower for the transport of gas to the Project.
Gas Transporter	means Israel Natural Gas Lines Company Ltd.
Good Industry Practice	means the exercise of the degree of skill, care and operating practice which would reasonably and ordinarily be expected from a skilled and experienced Person engaged in the same type of undertaking as the Borrower under the same or similar circumstances.
Government	means the Government of Israel.

Government Authority

means any of the Government and/or governmental department, ministry, cabinet, commission, board, bureau, agency, tribunal, regulatory authority, instrumentality, judicial legislative or administrative body or entity, domestic or foreign, regional, provincial or local, having or exercising jurisdiction over the matter or matters in question, including the PUA and the Minister.

Gross Revenues

means in relation to any period (without counting any item more than once), all moneys received by the Borrower in that period:

- (a) under a Project Document, any PPA or the PUA Rules;
- (b) in connection with the sale of gas by the Borrower in accordance with the Senior Finance Documents;
- (c) as Cashflow Insurance Proceeds (but only to the extent that the Borrower is (i) permitted under this Agreement to transfer such proceeds to the Proceeds Account and (ii) entitled to apply such amounts in or towards payment of Financing Costs and Financing Principal);
- (d) as a refund of Tax the payment of which was a Project Cost;
- (e) as interest actually earned on the amounts standing to the credit of any Account (other than the Distribution Account) which has been paid into such Account or amounts in excess of the Required Level which have been paid into the Proceeds Account, at the time of calculation of the Gross Revenues;
- (f) pursuant to hedging transactions entered into in accordance with the Senior Finance Documents;
- (g) with respect to the calculation of the Historic Debt Service Cover Ratio only, proceeds of Loan drawn under the Working Capital Facility; and
- (h) from any other source as shall be agreed by the Borrower and the Senior Agent,

but **excluding** any Compensation or liquidated damages pursuant to section 11.3 (Buy-Down Amount) of the EPC Contract.

Guarantee Utilisation Amount

means the total amount drawn under the Long Term Facility and/or the Standby Facility for the purpose of funding any costs specified in Clause 2.3(b) (EPC/Energy Center Undertakings) of the Equity Subscription Agreement as shall be approved by the Senior Agent, pursuant to Clause 16.3(g) of this Agreement, upon the expiration of the Warranty Period.

Guarantees Facility	means the facility referred to as such in Clause 2 (The Senior Facilities) of this Agreement.
Guarantees Reserve Account	means the account designated as such under the Accounts Schedule.
Hadera Paper	means Hadera Paper Ltd., a limited liability company incorporated under the laws of the State of Israel under certificate of incorporation number 520018383.
Hadera PPA	means the power and steam purchase agreement dated June 8, 2015, as amended on August 10, 2015 between Hadera Paper and the Borrower for the period commencing on the Commercial Operation Date.
Hedging Agreement	means any currency swap or interest rate swap in respect of foreign currencies and/or interest in form and substance satisfactory to the Senior Agent, including, any agreement in the Hedging Bank's customary form.
Hedging Cost	means any amount payable to or by the Borrower under a Hedging Agreement other than Hedging Termination Payments.
Hedging Liability	means Hedging Costs and Hedging Termination Payments.
Hedging Termination Payment	means any amount payable by the Borrower or the Hedging Bank under a Hedging Agreement, as a result of a termination or a close out of that Hedging Agreement.
Hedging Facility	means the facility referred to as such in Clause 2 (The Senior Facilities) of this Agreement.
Historic Debt Service Cover Ratio	means on any Calculation Date following twelve (12) months after the Commercial Operation Date, the Debt Service Cover Ratio for the twelve (12) months ending on that Calculation Date.

Historic Statement	means a statement, approved by the Borrower's CEO, the Borrower's CFO or any other officer of the Borrower, whose identity is approved by the Senior Agent, in the form of Schedule 12 (Form of Historic Statement) of this Agreement.
IC Power	means I.C. Power Asia Development Ltd., a limited liability company incorporated under the laws of the State of Israel under certificate of incorporation number 514374982.
IEC	means Israel Electric Company Ltd. or any entity appointed to replace IEC as System Manager or an Essential Service Provider pursuant to any Applicable Law.
IEC PPA	means the power purchase agreement to be entered into by and between the Borrower and the IEC in a form acceptable to the Senior Agent.
IFRS	means international accounting standards within the meaning of IAS Regulation 1606/2002 to the extent applicable to the relevant financial statements.
Increased Cost	<p>means:</p> <ul style="list-style-type: none"> (a) an additional or increased cost; (b) a reduction in the rate of return from the Senior Facility or on a Senior Finance Party's (or its Affiliate's) overall capital; or (c) a reduction of an amount due and payable under any Senior Finance Document; <p>which is incurred or suffered by a Senior Finance Party or any of its Affiliates but only to the extent attributable to that Senior Finance Party having entered into any Senior Finance Document or funding or performing its obligations under any Senior Finance Document.</p>
Index	means the Israeli consumer price index ("CPI") published from time to time by the Israeli Central Bureau of Statistics. If the CPI ceases to exist or becomes unavailable, the Senior Agent shall determine a substitute index for all of its customers that reasonably measures inflation in Israel. The CPI on any applicable date shall mean the effective CPI on the morning of such date.
Initial Construction Budget	<p>means the construction budget delivered by the Borrower and approved by the Senior Agent pursuant to Schedule 2 (Initial Conditions Precedent) of this Agreement, itemising on a monthly basis for the period from the Signature Date until the Construction Completion Date the following items expected to be incurred or received in that period:</p> <ul style="list-style-type: none"> (a) Capital Costs expected to be incurred; and (b) Gross Revenues (other than Gross Revenues included in the Energy Center Budget), proceeds of Loans and any other amounts expected to be received.

Initial Energy Center Budget

means the Energy Center budget delivered by the Borrower and approved by the Senior Agent pursuant to Schedule 2 (Initial Conditions Precedent) of this Agreement, itemising on a monthly basis for the period from the Signature Date until the Commercial Operation Date the following items expected to be incurred or received in that period:

- (a) Operating Costs expected to be incurred with respect to: (i) the Energy Center; and (ii) the take-or-pay obligations under the Gas Supply Agreement; and
- (b) Gross Revenues expected to be received with respect to: (i) the Energy Center and (ii) the sale of gas by the Borrower under the Bazan Agreement or if applicable, a Gas Resale Agreement.

Initial Financial Model

means the financial model in relation to the Project (in electronic form, together with a print out of summary results, initialled on the first page on behalf of the Borrower and the Senior Agent for the purposes of identification) prepared for the purposes of the Senior Finance Documents, agreed by the Borrower and the Senior Agent and audited by the Model Auditor prior to the Signature Date.

Initial Operating Budget

means the operating budget delivered by the Borrower and approved by the Senior Agent pursuant to Schedule 2 (Initial Conditions Precedent) of this Agreement, itemising on a quarterly basis for the period from the Construction Completion Date until the Final Maturity Date of the Long Term Facility the following items expected to be incurred or received in respect of the Project in that period:

- (a) Operating Costs, Financing Costs and Financing Principal expected to be incurred; and

- (b) Gross Revenues, proceeds of Loans, Equity and any other amounts expected to be received.

Initial Rating

means as defined in Clause 18.20(b) of this Agreement

Initial Shareholder

means IC Power.

Institutional Lender

means:

- (a) the Senior Lenders specified in Schedule 1 (Senior Lenders and their Commitments) of this Agreement and marked as an “Institutional Lender”; and
- (b) any Senior Lender or New Lender which is listed in sections (1)-(4) of the First Supplement to the Securities Law (excluding a Banking Corporation).

Insurance

means the contracts and policies of insurance taken out by or on behalf of the Borrower in accordance with Schedule 8 (Insurance) hereof or (to the extent of its interest) in which the Borrower has an interest (including, the Construction Phase Insurances and the Commercial Operation Phase Insurances), including all renewals thereof.

Insurance Adviser

means Marsh Israel Insurance Agency Ltd., or any other firm of insurance advisers appointed from time to time under Clause 29 (Advisers) of this Agreement to advise the Senior Finance Parties.

Insurance Proceeds

means all proceeds of Insurance payable to or for the benefit of the Borrower (whether by way of claims, return of premia, *ex gratia* settlements or otherwise).

Insurer

means any insurer under any Insurance or any reinsurer/insurance broker under the any Reinsurance.

Intellectual Property Rights

means all know how, patents, trade marks, service marks, designs, business names, topographical or similar rights, copyrights and other intellectual and industrial property rights and any interests (including by way of licence) in any of the foregoing (in each case whether registered or not and including all applications for the same).

Intercreditor Agreement	means the intercreditor agreement dated on or about the Signature Date between the Senior Finance Parties and the Issuing Bank.
Interest Due Date	means the date upon which interest on a loan is due and payable in accordance with the terms of this Agreement.
Interest Period	means each period determined hereunder by reference to which interest on a Loan or an overdue amount hereunder is calculated.
IPP	means the power plant with an anticipated net aggregate capacity as set out in the Provisional License or the Permanent License, as the case may be, and in any event, of no less than 120 MW and all associated facilities (including the facilities required for the production of steam and within the power plant), to be located at the Site and to be designed, constructed and operated as part of the Project and in accordance with the provisions of the Transaction Documents whether such IPP is considered as a co-generation power plant or as a conventional power plant in accordance with the Electricity Sector Law.
Issuing Bank	means Israel Discount Bank Ltd.
Land Lease Agreement	means the land lease agreement dated June 8, 2015 between the Borrower and the Lessor with respect to the Site, as was amended on August 10, 2015.
Legal Opinion Qualifications	means the qualifications set forth in the legal opinion provided on behalf of the Borrower referred to in section 16 (Legal Opinions) of Schedule 2 (Initial Conditions Precedent) of this Agreement.
Legal Adviser	means Erdinast, Ben Nathan, Toledano & Co. or any other law firm appointed from time to time under Clause 29 (Advisers) of this Agreement to advise the Senior Finance Parties.
Lessor	means Hadera Paper.
Lessor Direct Agreement	means the direct agreement dated on or about the Signature Date between the Borrower, the Lessor, the Security Agent and the Senior Agent.
Linkage Date	means the date upon which (i) any payment on account of Financing Principal or interest that is expressed to be linked to the Index is to be made; or (ii) any other amount that is expressed to be payable and linked to the Index in accordance with the terms of the Senior Finance Documents or is actually paid thereunder.

Linkage Differentials	means as calculated in accordance with Clause 10 (Linkage) of this Agreement.
Linked Loan	means a Loan for which the base rate is the Linked Loan Bond Rate.
LLCR or Loan Life Cover Ratio	means on any Calculation Date, the ratio of: <ul style="list-style-type: none"> (a) the NPV for that Calculation Date plus the amount (if any) standing to the credit of the Debt Service Reserve Account as at that Calculation Date; <li style="padding-left: 40px;">to (b) the aggregate of (i) the outstanding Financing Principal and (ii) any accrued but unpaid Financing Cost, as at close of business on that Calculation Date. <p>“ NPV ”, means in relation to each Calculation Period, an amount equal to the present value (the discount rate to be used for such calculation shall equal the weighted average of the interest rate applicable to Loans outstanding under the Long Term Facility pursuant to Clause 8.1 (Calculation of Interest) of this Agreement of the projected Available Cashflow by the Financial Model for the period from the Calculation Date up to and including the Final Maturity Date of the Long Term Facility.</p>
Loan	means a loan made by the Senior Lenders under any Senior Facility (including as a result of a drawing by a beneficiary on a Third Party Guarantee or a utilisation by a beneficiary of a Documentary Credit) or (if the context so requires) the Financing Principal amount outstanding for the time being of that loan.
Loan Base Index	means the Index known at the date on which a Loan is drawn.
Long Term Facility	means the facility referred to as such in Clause 2 (The Senior Facilities) of this Agreement.
Longstop Date	means the date falling thirty nine (39) months after the Signature Date, but in no event later than the due date for completing the milestone set forth in section 20.17 of the Provisional License.

LTSA	means the long term service agreement dated on or about the Signature Date between the Borrower and the LTSA Contractor.
LTSA Guarantee	means the corporate guarantee in favour of the Borrower or the Security Agent issued by the LTSA Guarantor in accordance with the LTSA.
LTSA Guarantor	means General Electric Company.
LTSA Contractor	means General Electric International, Inc., a corporation registered under the laws of the state of Delaware, United States of America, head office at 4200 Wildwood Parkway, Atlanta, Georgia, United States of America and GE Global Parts and Products GmbH, a corporation registered under the laws of Switzerland having principal office at Brown Boveri Strasse 7, 5400, Baden, Switzerland.
LTSA Contractor Direct Agreement	means the direct agreement dated on or about the Signature Date between the Borrower, the LTSA Contractor, the Senior Agent and the Security Agent.
Maintenance Reserve Account <i>or</i> MRA	means the account designated as such under the terms of the Accounts Schedule.
Major Project Party	means, any of the following entities, for as long as it has any outstanding obligations under the applicable Transaction Documents: <ul style="list-style-type: none"> (a) the EPC Contractor, each EPC Contractor Member and each EPC Contract Guarantor; (b) the Operator, each Operator Member and each O&M Contract Guarantor; (c) the LTSA Contractor and the LTSA Guarantor; (d) any Material Subcontractor; (e) the Lessor; (f) the Gas Supplier; (g) Hadera Paper; (h) the Gas Transporter; (i) each Shareholder and Equity Subordinated Lender; (j) any Person providing a guarantee of the liabilities of any Person in paragraphs (a) – (c) (other than Acceptable Banks) above; (k) any Material End User or with any obligation to supply steam; or

(l) any other Person designated as such by the Senior Agent and the Borrower.

Majority Senior Lenders

means, at any time, Senior Lenders holding in aggregate (without double counting) 66.67% or more of the total Voting Entitlements at that time of all Senior Lenders.

Make Whole Amount

means with respect to any Loan, the amount calculated on date of prepayment (the “**Prepayment Date**”) for each Senior Lender as the greater of:

- (i) zero (0); and
- (ii) the: (E) Debt Service payments under this Agreement being prepaid on the Prepayment Date (other than (A) the Debt Service with respect to the VAT Facility, the Working Capital Facility and the Guarantees Facility, (B) fees payable to a Senior Finance Party pursuant to the Senior Finance Documents and (C) amounts payable pursuant to Clauses 11.1, 12.4 and 13.1 of this Agreement, in each case to the extent that, following the prepayment, the Senior Lenders will not incur any additional costs under the aforementioned Clauses with respect to the prepaid Loans after the date of such prepayment) as of and including the Prepayment Date throughout the Final Maturity Date of the Long Term Facility, discounted by a discount rate as set forth in the formula below (the “**Make Whole NPV**”). With respect to Linked Loans only, the Make Whole NPV shall be linked to the known Index at the Prepayment Date; less (B) the outstanding amount of the Loan/s being prepaid on the Prepayment Date.

For the avoidance of doubt, the Make Whole Amount shall be calculated in accordance with the following mathematical formula, the terms of which shall prevail in case of any discrepancy with or misinterpretation of the foregoing definition.

$$MAX(0, E - B)$$

Where:

$$E = \sum_{i=1}^N \frac{PMT_i}{\left(1 + \frac{r+z}{4}\right)^{\left(\frac{t_i}{90}\right)}}$$

[***]

B = the outstanding amount of the Loans being prepaid on the Prepayment Date which with respect to Linked Loans only, shall be linked to the known Index at the Prepayment Date.

PMT i = the amount of Debt Service (other than (A) the Debt Service with respect to the VAT Facility, the Working Capital Facility and the Guarantees Facility; (B) fees payable to a Senior Finance Party pursuant to the Senior Finance Documents, and (C) amounts payable pursuant to Clauses 11.1, 12.4 and 13.1 of this Agreement, in each case to the extent that, following the prepayment, the Senior Lenders will not incur any additional costs under the aforementioned Clauses with respect to the prepaid Loan/s after the date of such prepayment) originally scheduled to be paid at period i that is being prepaid. With respect to Linked Loans only, PMT i shall be linked to the known Index at the Prepayment Date.

i = index for the Repayment Dates falling after the Prepayment Date.

t_i = the actual number of days that will elapse from the Prepayment Date until Repayment Date of period i .

r = the lower of:

- (i) the Bond Rate expressed in percentage prevailing on the Utilisation Date (yearly basis). However, if consolidation of the Loans is made pursuant to the terms of Clause 9.3 below, the Bond Rate specified above will be the weighted average of the Bond Rates of the consolidated Loans, and
- (ii) the Bond Rate corresponding to the remaining duration of the prepaid Loan on the Prepayment Date expressed in percentage, prevailing on the Prepayment Date (yearly basis).

Provided, however, that with respect to a Senior Lender that is a banking corporation with whom the risk of the Loan resides, if the amount calculated pursuant to the formula above is lower than the amount calculated under the definition of Make Whole for Financial Loss for such banking corporation, the Make Whole Amount payable to such Senior Lender shall equal such Make Whole for Financial Loss.

The Make Whole Amount shall be linked to the Index (from the date the Make Whole Amount was determined to the Prepayment Date, if applicable). In the event a prepayment is made between the 1st and the 15th of a month, before publication of the Index for the previous month, then Linkage Differentials shall be added to the Make Whole Amount as such shall be foreseen by the Senior Agent.

**Make Whole Amount
for Financial Loss**

means

(1) with respect to a Senior Lender that is a not a banking corporation:
an amount which shall be calculated in the same way as the Make Whole Amount, provided only that the Make Whole NPV applicable to Make Whole Amount for Financial Loss shall be calculated applying a discount rate as set forth in the formula below. For the avoidance of doubt, the Make Whole Amount for Financial Loss shall be calculated in accordance with the mathematical formula below, the terms of which shall prevail in case of any discrepancy with or misinterpretation of this verbal definition.

$$E = \sum_{i=1}^N \frac{PMT_i}{\left(1 + \frac{r+z}{4}\right)^{\left(\frac{t_i}{90}\right)}}$$

Where:

B, PMT_i , i and r = shall all have the meanings assigned to them in the definition of Make Whole Amount;

[***]

(2) with respect to a Senior Lender that is a banking corporation and only to the extent that the risk of any specific Loan resides with such Senior Lender:

an amount which shall be calculated in the same way as the Make Whole Amount, provided only that the Make Whole NPV applicable to Make Whole Amount for Financial Loss shall be calculated applying a discount rate as set forth in the formula below. For the avoidance of doubt, the Make Whole Amount for Financial Loss shall be calculated in accordance with the mathematical formula below, the terms of which shall prevail in case of any discrepancy with or misinterpretation of this verbal definition.

$$E = \sum_{i=1}^N \frac{PMT_i}{\left(1 + \frac{r+z}{4}\right)^{\left(\frac{t_i}{90}\right)}}$$

Where:

B, PMT_i , t_i and t_i = shall all have the meanings assigned to them in the definition of Make Whole Amount;

r = the lower of:

- (i) cost of funds expressed in percentage prevailing on the Utilisation Date (yearly basis), and
- (ii) cost of funds corresponding to the duration of the prepaid Loan on the Prepayment Date, expressed in percentage prevailing on the Prepayment Date (yearly basis).

The “cost of funds” shall be determined by such banking corporation (as applicable by it to the same type of loans and similar duration) and notified to the Borrower.

[***]

The Make Whole Amount for Financial Loss, in each of paragraphs (1) and (2) above, shall be linked to the Index. In the event a prepayment herewith is made between the 1st and the 15th of a month, before publication of the Index for the previous month, then Linkage Differentials shall be added to the Make Whole Amount for Financial Loss as such shall be foreseen by the Senior Agent.

Manager

means each of the managers listed in Schedule 11 (Managers) with respect to each Institutional Lender.

Mandatory Drawdown Request	means the First Mandatory Drawdown Request and/or the Second Mandatory Drawdown Request, as applicable.
Margin	means for each Senior Facility as set forth in Clause 8.2 (Margin) of this Agreement.
Material Adverse Effect	means a material adverse effect on: <ul style="list-style-type: none"> (a) the assets, business or financial condition of the Borrower; (b) the ability of the Borrower, any Major Project Party or IEC to perform its material obligations under any Transaction Document; (c) the validity or enforceability of any Senior Finance Document; (d) any material right or remedy of a Senior Finance Party in respect of a Senior Finance Document; (e) the validity, enforceability or priority of any security under the Security Documents; or (f) national or international financial and capital markets or national or international situation (whether monetary, economic or political), which affects the Project or the Senior Lenders' rights under this Agreement
Material End User	means an End User party to a Material PPA with a contract capacity of at least 25MW per hour.
Material PPA	means the IEC PPA, the Hadera PPA, the Short Term Hadera PPA and any other PPA with a maximum contract capacity of at least 15MW per hour or with any obligation to supply steam.
Material Subcontract	means the agreement dated January 28, 2016 between the EPC Contractor and the Material Subcontractor for the supply of the turbines to the Project.
Material Subcontractor	means the Turbine Supplier.
Minister	means the Minister of National Infrastructures, Energy and Water Resources, including anyone to whom the Minister has delegated authority.
Model Auditor	means MNS Consulting Ltd, or any other firm of model auditors as may be appointed from time to time as model auditors to the Senior Finance Parties in accordance with Clause 29 (Advisers) of this Agreement.

Modified Gas Supply Agreement	shall have the meaning set forth in Clause 18.6 (Gas Agreements) of this Agreement.
New Index	means the level of the Index whenever Linkage Differentials are calculated in accordance with Clause 0 (Linkage) of this Agreement.
NIS or New Israeli Shekels	means the lawful currency of the State of Israel.
Non Linked Loan	means a Loan for which the base rate is the Non Linked Bond Rate.
Non-Material Insurance	means any insurances required by any applicable law or prudent developer practice in respect of the Project which are not detailed in Schedule 8 (Insurance), including with respect to motor vehicle liability. Employers' liability and directors and officers' liability.
Notice to Commence	means as defined under the EPC Contract.
O&M Contract	means the operation and maintenance agreement dated on or about the Signature Date between the Borrower and the Operator.
O&M Contract Bank Guarantee	means a letter of credit or bank guarantee in favour of the Borrower or the Security Agent in accordance with the requirements of the O&M Contract.
O&M Contract Corporate Guarantee	means the corporate guarantee in favour of the Borrower or the Security Agent issued by the O&M Contract Guarantor in accordance with the O&M Contract.
O&M Contract Guarantee	means the O&M Contract Bank Guarantee and the O&M Contract Corporate Guarantee.
O&M Contract Guarantor	means IC Power.
Operating Budget	means the Initial Operating Budget or, if any subsequent operating budget has been delivered in accordance with Clause 16.5 (Budgets) of this Agreement and approved by the Senior Agent, the latest such operating budget.

Operating Costs

means all costs and expenses (a) paid; or (b) due and payable but not paid by the Borrower (without double counting), provided that such costs and expenses are included in the Operating Budget or in the Energy Center Budget, as applicable:

- (a) operating costs and expenses;
- (b) liabilities of the Borrower under the Project Documents relating to (a) the Commercial Operation Phase; (b) the Energy Center; or (c) the take-or-pay obligations under the Gas Supply Agreement;
- (c) premia on Insurances relating to the Commercial Operation Phase (other than Insurances to be effected and paid by the Operator);
- (d) maintenance expenditure in respect of the Project, including all maintenance services provided by the LTSA Contractor during the Commercial Operation Phase;
- (e) administrative, management and employee costs during the Commercial Operation Phase;
- (f) management fees payable pursuant to the O&M Contract; and
- (g) any other costs and expenses agreed by the Senior Agent and the Borrower.

but **excluding** :

- (i) Capital Costs;
- (ii) Taxes;
- (iii) Financing Principal;
- (iv) Financing Costs;
- (v) any Distribution;
- (vi) any Hedging Termination Payment; and
- (vii) depreciation, non-cash charges, reserves, amortisation of intangibles and similar book-keeping entries.

Operator

means O.P.C Operations Ltd., a limited liability company incorporated under the laws of Israel under certificate of incorporation number 515382919.

Operator Member

means IC Power.

Operator Direct Agreement

means the direct agreement dated on or about the Signature Date between the Borrower, the Operator and the Security Agent.

Organisational Documents

means, organisational or constitutional documents of any Person including, the memorandum of association, articles of association, articles of incorporation, bylaws, the shareholders' agreement, joint venture agreement and partnership agreement of such Person, as applicable.

Party	means a party to this Agreement.
Permanent License	means the permanent license (‘ <i>rishyon kavua</i> ’) to produce electricity to be issued to the Borrower by the PUA and approved by the Minister, pursuant to the provisions of the Electricity Sector Law.
Permitted Financial Indebtedness	means as specified as such in Clause 17.7(b) (Financial Indebtedness) of this Agreement.
Permitted Payments	means, for any relevant period (without double counting), all moneys: (a) paid; or (b) due and payable but not paid (or, in the case of a Forecast, projected to be payable) by the Borrower during that period as: <ul style="list-style-type: none"> (a) Capital Costs; (b) Operating Costs, including deposits into the Reserve Accounts; (c) Taxes (other than VAT); and (d) any other amount agreed by the Senior Agent and the Borrower.
Permitted Security Interest	means: <ul style="list-style-type: none"> (a) any Security Interest created under the Senior Finance Documents; (b) any lien arising by operation of law and in the ordinary course of business and not as a result of any default or omission of the Borrower; (c) any Security Interest arising out of title retention provisions in a supplier’s standard conditions of supply in respect of goods acquired by the Borrower in the ordinary course of business; and (d) any other Security Interest agreed to in writing by the Senior Agent.
Person	means any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), or Government Authority, government, state, agency, organisation or other entity whether or not having separate legal personality.

Potential Default	means an event, act or condition which would be (with the expiry of a grace period, the giving of notice or the making of any determination under the Senior Finance Documents, or any combination of them) an Event of Default.
Power Purchase Agreement or PPA	means any power purchase agreement entered into in accordance with the terms of this Agreement.
Prime Interest Rate	means the rate of debitory interest charged by the Senior Agent as a bank on revolving debitory accounts as determined from time to time by the Senior Agent.
Principal Project Party	means: <ul style="list-style-type: none"> (a) the Borrower; and (b) each Major Project Party.
Proceeds Account	means the account designated as such in the Accounts Schedule.
Project	means (i) the design, finance, construction, operation and maintenance of the IPP; (ii) the operation and maintenance of the Energy Center (for as long as the Energy Center is held by the Borrower); and (iii) the production and sale of electricity and steam pursuant to any PPA.
Project Costs	means Capital Costs and Operating Costs.
Project Documents	means each of: <ul style="list-style-type: none"> (a) the EPC Contract; (b) the O&M Contract; (c) the LTSA; (d) each Material PPA; (e) each Equity Document; (f) the Material Subcontract; (g) the Provisional License, the Permanent License and the Tariff Approval; (h) the Land Lease Agreement; (i) the Energy Center Land Lease Agreement; (j) the Gas Supply Agreement; (k) the Gas Transportation Agreement;

- (l) each Third Party Guarantee;
- (m) each Project Guarantee;
- (n) the agreement entered into in December 2016 between the Borrower and Oil Refineries Ltd ('Bazan') for the sale of gas to Bazan (the "**Bazan Agreement**") or any Gas Resale Agreement;
- (o) any guarantee given by any Person or any letters of credit issued in respect of any obligations of any Person (other than the Borrower) under the above documents; or
- (p) any other material contract or guarantee entered into by the Borrower relating to the Project and designated by the Borrower and the Senior Agent as a Project Document.

Project Facilities

means:

- (a) the IPP;
- (b) the Energy Center;
- (c) the Site and the Energy Center Site; and
- (d) the Project Works.

Project Guarantee

means each of:

- (a) the EPC Contract Guarantees;
- (b) the O&M Contract Guarantees;
- (c) the LTSA Guarantee; and
- (d) any other guarantee to be issued pursuant to a Transaction Document (other than any Third Party Guarantees).

Project Party

means a party (other than the Senior Finance Parties) to a Project Document including, each Principal Project Party and IEC.

Project Works

means the design, development and construction of the Project and any other works contemplated by the Project Documents.

Projected Average Debt Service Cover Ratio

means, on any Calculation Date, the arithmetic mean of all the Projected Debt Service Cover Ratios until the Final Maturity Date for Loans under the Long Term Facility produced by the Financial Model as part of the Forecast for that Scheduled Calculation Date.

Projected Debt Service Cover Ratio

means, on any Calculation Date, following the Commercial Operation Date, the projection of the Debt Service Cover Ratio for the next four succeeding Calculation Periods (or, if there are not four complete Calculation Periods after that Calculation Date, the number of complete Calculation Periods commencing after that Calculation Date) produced by the Financial Model as part of the Forecast for that Calculation Date.

Projected Minimum Debt Service Cover Ratio

means on any Calculation Date, the lowest of all the Projected Debt Service Cover Ratios until the Final Maturity Date for Loans under the Long Term Facility produced by the Financial Model as part of the Forecast for that Calculation Date.

Projected Project Costs

means at any time, the aggregate amount (without double counting) of:

- (a) all Project Costs, Financing Costs and Financing Principal incurred but unpaid as at that time; and
- (b) all projected and estimated Project Costs, Financing Costs and Financing Principal to be incurred on or before the then current projection of the Commercial Operation Date (which projection is approved by the Technical Adviser), as shown in the then current Construction Budget.

Provisional License

means provisional license (‘ *rishyon mutne* ’) to produce electricity number 00540413 issued to the Borrower by the PUA and signed by the Minister on October 19, 2012.

PUA

means the Public Utilities Authority – Electricity, established under the Electricity Sector Law.

PUA Approval of Financial Close

means a PUA approval that the Borrower has complied with the conditions specified under the PUA Rules with respect to achieving Financial Close.

PUA Rules

means the standards determined by the PUA (‘ *Amot Mida* ’) and the decisions of the PUA as in effect from time to time, including the Finance Support Rules.

Ratio

means each of:

- (a) the Historic Debt Service Cover Ratio;
- (b) the Projected Debt Service Cover Ratio;

- (c) the Projected Minimum Debt Service Cover Ratio;
- (d) the Projected Average Debt Service Cover Ratio; or
- (e) the LLCR.

Recognised Development Phase Equity

means one hundred and ninety nine million and six hundred and seventy five thousands and six hundred and seven NIS (NIS 199,675,607), which represents the aggregate value recognised by the Senior Agent on the Signature Date as contributed to the Borrower by the Initial Shareholder during the period up to the Signature Date.

Recognised Equity

means the aggregate amount of (i) Recognised Development Phase Equity plus (ii) additional amounts of Equity deposited by the Initial Shareholder in any of the Accounts after the Signature Date and prior to the first Utilisation Date; plus (iii) other amounts paid by the Initial Shareholder to a third party in connection with the Project, prior to the first Utilisation Date, provided that such other amounts are recognised by the Senior Agent as Equity.

Reinsurances

means each of the reinsurances taken out or maintained (or required to be taken out or maintained) with respect to Insurances pursuant to Clause 18.19 (Insurances) and Schedule 8 (Insurances) of this Agreement.

Related Party

means each of:

- (a) a Shareholder;
- (b) any Affiliate of the Borrower or the Shareholder, including any limited partner with respect to a limited partnership (other than a Senior Finance Party);
- (c) an Equity Subordinated Lender; and
- (d) any other Person designated as such by the Senior Agent and the Borrower.

Repayment Date

means the First Repayment Date and each other date for the payment of a Repayment Instalment set out in Clause 6 (Repayment) of this Agreement, up to and including the Final Maturity Date for the Senior Facility.

Repayment Instalment

means each instalment for repayment of Financing Principal in respect of a Loan.

Repayment Schedule	means Schedule 9 (Repayment Schedule) of this Agreement.
Repeating Representations	means each of the representations set out in Clause 15 (Representations), excluding the representations set out in Clauses 15.6, 15.7(a)-(c), 15.7(e), 15.8, 15.11, 15.15(a), 15.17(d), 15.20(a), 15.21, 15.22, 15.23(a), 15.25(b) and 15.27 of this Agreement.
Required Level	means as defined in the Accounts Schedule.
Reserve Account	means the reserve accounts designated as such under the Accounts Schedule.
Reserved Discretion	means each discretion of the Borrower set out in Schedule 10 (Reserved Discretion) of this Agreement.
Scheduled Calculation Date	means: <ul style="list-style-type: none"> (a) during the Construction Phase – the last day of each Interest Period; and (b) during the Commercial Operation Phase – each Repayment Date.
Scheduled Completion Date	means the date that is thirty (30) months after the issuance of the Notice to Commence under the EPC Contract, as may be extended from time to time, subject to the prior written consent of the Senior Agent.
Second Mandatory Drawdown Bond Rate	means one hundred basis points (1.00%) more than the First Mandatory Drawdown Bond Rate.
Second Mandatory Drawdown Date	means the Utilisation Date of the amounts drawn following the Second Mandatory Drawdown Request.
Second Mandatory Drawdown Request	means the Drawdown Request referred to in Clause 5.1(e) of this Agreement.
Second Mandatory Drawdown Trigger Event	means as defined in Clause 5.1(e) of this Agreement.
Second Reconciliation Date	shall have the meaning set forth in Clause 19.3 (Distribution) of this Agreement.
Securities Law	means the Securities Law, 5728-1968 and all regulations promulgated thereunder.

Security Document

means:

- (a) the Fixed Charge;
- (b) the Floating Charge;
- (c) each Equity Pledge;
- (d) Security Interests over Lessor's rights to the Site; or
- (e) any other document evidencing or creating security over any asset of the Borrower to secure any obligation of the Borrower to a Senior Finance Party under the Senior Finance Documents.

Security Interest

means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

Senior Facility

means:

- (a) the Long Term Facility;
- (b) the Standby Facility;
- (c) the VAT Facility;
- (d) the DSRA Facility;
- (e) the Guarantees Facility;
- (f) the Working Capital Facility; and
- (g) the Hedging Facility.

Senior Facility Office

means the office(s) notified by a Senior Lender to the Senior Agent:

- (a) on or before the date it becomes a Senior Lender; or
- (b) by not less than five (5) Business Days' notice,

as the office(s) through which it will perform its obligations under the Senior Finance Documents.

Senior Finance Document

means each of:

- (a) this Agreement;
- (b) the Intercreditor Agreement;
- (c) a Security Document;
- (d) the Equity Subscription Agreement;
- (e) a Direct Agreement;
- (f) a Hedging Agreement;
- (g) a Fee Letter;
- (h) any guarantee provided to the Security Agent pursuant to the terms of the Equity Subscription Agreement;

	(i) a Transfer Certificate; and
	(j) any other document designated as such by the Senior Agent and the Borrower.
Senior Finance Party	means each of the Arrangers, each Senior Lender, the Senior Agent, the Account Bank, the Security Agent or the Hedging Bank.
Senior Lender	means: (a) an Original Senior Lender; (b) a Person to whom a Senior Lender's Commitment or its share of a Loan is transferred in accordance with this Agreement; or (c) the Hedging Bank.
Share and Facilities Purchase Agreement	means the share and facilities purchase agreement dated June 8, 2015 between Hadera Paper, the Initial Shareholder and the Borrower.
Shareholder	means: <ul style="list-style-type: none"> (a) an Initial Shareholder; or (b) a Person to whom any shares in the Borrower are transferred in accordance with this Agreement and the Equity Subscription Agreement.
Short Term Hadera PPA	means the short term power and steam purchase agreement dated June 8, 2015, as amended on August 10, 2015 between Hadera Paper and the Borrower for the period until the Commercial Operation Date.
Signature Date	means the date of this Agreement.
Site	means the site described in schedule 1 of the Land Lease Agreement.
Standby Facility	means the facility referred to as such in Clause 2 (The Senior Facilities) of the Agreement.
Supplementary Loan	means any of the final Loans under the Long Term Facility, the Standby Facility or the DSRA Facility in [***] linked to the Base Index as determined in accordance with the then current Financial Model.
Supplementary Repayment Schedule	[***]
Supply License	means the license(s) to be obtained by the Borrower for the supply of electricity (' <i>rishyon aspaka</i> ') in accordance with the Electricity Sector Law.

System Manager	means the holder of a license for system management under the Electricity Sector Law. As of the Signature Date, IEC performs the functions of the System Manager.
Tariff Approval	means as defined in the Provisional License.
Tax	means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest).
Tax Credit	has the meaning set forth in Clause 12.1 of this Agreement.
Tax Deduction	means a deduction or withholding for or on account of Tax from a payment under a Senior Finance Document.
Tax Payment	means a payment made by the Borrower to a Senior Finance Party in any way relating to a Tax Deduction or under any indemnity given by the Borrower in respect of Tax under any Senior Finance Document.
Technical Adviser	means Poyry Energy Srl or any other firm of technical advisers appointed from time to time under Clause 29 (Advisers) of this Agreement to advise the Senior Finance Parties.
Third Party Guarantees	<p>means each of the following bank guarantees required to be delivered by or on behalf of the Borrower to each of the following Persons:</p> <ul style="list-style-type: none"> (a) the PUA, as required under the Electricity Sector Law; (b) the Gas Supplier, as required under the Gas Supply Agreement; (c) during the Commercial Operation Phase, IEC, as required under the IEC PPA; and (d) during the Commercial Operation Phase, the Gas Transporter, as required under the Gas Transportation Agreement.
Total DSRA Commitments	means the aggregate amount of Commitments specified as such in Schedule 1 (Senior Lenders and Commitments) of this Agreement in respect of the DSRA Facility. The Commitments shall be linked to the Base Index and the provisions of Clause 10 (Linkage) of this Agreement shall apply hereto, <i>mutatis mutandis</i> .

**Total DSRA
Outstanding**

means at any time the aggregate of:

- (a) Financing Principal outstanding; and
- (b) any accrued but unpaid interest;

including Linkage Differentials, as applicable, under the DSRA Facility.

**Total Guarantees
Commitments**

means the aggregate amount of Commitments specified as such in Schedule 1 (Senior Lenders and Commitments) of this Agreement in respect of the Guarantees Facility. The Total Guarantees Commitments on the Signature Date (without taking into account any utilisation of Loans thereunder) shall be linked to the Base Index and the provisions of Clause 10 (Linkage) of this Agreement shall apply hereto, *mutatis mutandis* .

In the event that as a result of an increase in any index applicable to a Third Party Guarantee, the total amount of all Third Party Guarantees to be issued at such time exceeds the Total Guarantees Commitments, then: (a) the Borrower and the Senior Lenders having Commitments under the Guarantees Facility shall discuss increasing the amount of the Total Guarantees Commitments accordingly; and (b) until the Total Guarantees Commitments are increased as aforesaid, the Shareholders shall procure the replacement, reissuance, renewal or replenishment of any applicable Third Party Guarantee by a new guarantee pursuant to Clause 6.8 (Issuance of Third Party Guarantees) of the Equity Subscription Agreement.

Total Hedging Commitments

means the aggregate amount of Commitments specified as such in Schedule 1 (Senior Lenders and Commitments) of this Agreement in respect of the Hedging Facility.

**Total Long Term
Commitments**

means the aggregate amount of Commitments specified as such in Schedule 1 (Senior Lenders and Commitments) of this Agreement in respect of the Long Term Facility. The Commitments shall be linked to the Base Index and the provisions of Clause 10 (Linkage) of this Agreement shall apply hereto, *mutatis mutandis* .

It is hereby clarified that with respect to a Documentary Credit issued under the Long Term Facility, the Total Long Term Commitments shall be reduced on the date of issuance of such Documentary Credit (by the amount that may be utilised under such Documentary Credit) unless such Documentary Credit has been cancelled, in which case the Total Long Term Commitments shall be increased accordingly.

Total Long Term Outstanding

means at any time the aggregate of:

- (a) Financing Principal outstanding; and
- (b) any accrued but unpaid interest;

including Linkage Differentials, as applicable, under the Long Term Facility.

Total Outstanding

means at any time the aggregate of:

- (a) Financing Principal outstanding; and
- (b) any accrued but unpaid interest;

including Linkage Differentials, as applicable, under the Senior Facilities at that time.

Total Senior Lender Commitments

means the aggregate of following:

- (a) the Total Long Term Commitments;
- (b) the Total Standby Commitments;
- (c) the Total DSRA Commitments;
- (d) the Total Guarantees Commitments;
- (e) the Total VAT Commitments;
- (f) The Total Working Capital Commitments; and
- (g) The Total Hedging Commitments.

Total Standby Commitments

means the aggregate amount of Commitments specified as such in Schedule 1 (Senior Lenders and Commitments) of this Agreement in respect of the Standby Facility. The Commitments shall be linked to the Base Index and the provisions of Clause 10 (Linkage) of this Agreement shall apply hereto, *mutatis mutandis* .

It is hereby clarified that with respect to a Documentary Credit issued under the Standby Facility, the Total Standby Commitments shall be reduced on the date of issuance of such Documentary Credit (by the amount that may be utilised under such Documentary Credit) unless such Documentary Credit has been cancelled, in which case the Total Standby Commitments shall be increased accordingly.

In the event that the Mandatory Drawdown Trigger Event occurs, the Total Standby Commitments shall be reduced by the result of multiplying (x) the difference between the Bond Rate on the date that such calculation is made and the applicable Mandatory Drawdown Bond Rate; (y) the Duration of the Loans under the Standby Facility; and (z) the original Total Standby Commitments, provided that the Total Standby Commitments will not exceed the original Total Standby Commitments (other than as a result of linkage differentials). The abovementioned calculation shall be made on each date of a Drawdown Request for as long as the applicable Mandatory Drawdown Trigger Event continues.

Total Standby Outstanding

means at any time the aggregate of the:

- (a) Financing Principal outstanding; and
- (b) any accrued but unpaid interest;

including Linkage Differentials, as applicable, under the Standby Facility.

**Total VAT
Commitments**

means the aggregate amount of Commitments specified as such in Schedule 1 (Senior Lenders and Commitments) of this Agreement in respect of the VAT Facility. The Total VAT Commitments on the Signature Date (without taking into account any utilisation of Loans thereunder) shall be linked to the Base Index and the provisions of Clause 10 (Linkage) of this Agreement shall apply hereto, *mutatis mutandis* .

**Total Working Capital
Commitments**

means the aggregate amount of Commitments specified as such in Schedule 1 (Senior Lenders and Commitments) of this Agreement in respect of the Working Capital Facility. The Total Working Capital Commitments on the Signature Date (without taking into account any utilisation of Loans thereunder) shall be linked to the Base Index and the provisions of Clause 10 (Linkage) of this Agreement shall apply hereto, *mutatis mutandis* .

It is hereby clarified that with respect to a Documentary Credit issued under the Working Capital Facility, the Total Working Capital Commitments shall be reduced on the date of issuance of such Documentary Credit (by the amount that may be utilised under such Documentary Credit) unless such Documentary Credit has been cancelled or the Loan associated with such Documentary Credit has been repaid, in which case the Total Working Capital Commitments shall be increased accordingly.

Transaction Authorisation	means any authorisation, permit, licence, consent or approval required by any Person to hold in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Transaction Documents or to otherwise implement the Project (including for the avoidance of doubt, with respect to the Energy Center).
Transaction Document	means a Senior Finance Document or a Project Document.
Transfer Certificate	means a certificate, substantially in the form of Schedule 3 (Form of Transfer Certificate) of the Intercréditor Agreement, with such amendments as the Senior Agent may approve or reasonably require, provided that any amendments which may adversely affect the Borrower, shall be approved by the Borrower.
Turbine Supplier	means GE Energy Products France SNC, and General Electric International, INC. and/or any of their assignees or transferees under the Material Subcontract.
US	means the United States of America.
US Tax Obligor	means: <ul style="list-style-type: none"> (a) a borrower which is resident for tax purposes in the US; or (b) a Shareholder some or all of whose payments under the Senior Finance Documents are from sources within the US for US federal income tax purposes.
USD	means the lawful currency for the time being of the United States of America.
Utilisation Date	means: <ul style="list-style-type: none"> (a) in respect of a Loan, the date on which it is to be (or, as appropriate, was) made or disbursed; (b) in respect of a Documentary Credit, the date on which such Documentary Credit is issued.
Variation	means as defined in the EPC Contract.

VAT	means value added tax.
VAT Facility	means the facility referred to as such in Clause 2 (The Senior Facilities) of this Agreement.
Voting Entitlement	means: <ul style="list-style-type: none"> (a) in relation to a Senior Lender: <ul style="list-style-type: none"> (i) if there are Commitments then outstanding, its aggregate Commitments plus the aggregate of its participations in Loans (including Documentary Credits) then outstanding; or (ii) if there are no Commitments then outstanding, the aggregate of its participations in Loans (including Documentary Credits) then outstanding. (b) in relation to the Issuing Bank: <ul style="list-style-type: none"> (i) as long as its exposure under any Third Party Guarantee is fully secured by a deposit – nil; or (ii) as long as its exposure under any Third Party Guarantee is not fully secured by a deposit – the amount of its exposure. (c) in relation to the Hedging Bank (to the extent that a Hedging Agreement is entered into) <ul style="list-style-type: none"> (i) at any time prior to an Enforcement Action – nil; (ii) at any time after an Enforcement Action – the Hedging Liabilities.
Warranty Period	means as defined in the EPC Contract (but, for the avoidance of doubt, without taking into account the period included in such definition with respect to “Civil Works”).
Weighted Average Bonds Rate	means the aggregate amount of: (a) the Linked Loan Bond Rate multiplied by two thirds (2/3), <u>plus</u> (b) the Non Linked Loan Bond Rate multiplied by third (1/3).
Working Capital Facility	means the facility referred to as such in Clause 2 (The Senior Facilities) of this Agreement.

1.2. Rules of Interpretation

- (a) In this Agreement, unless the contrary intention appears, a reference to:
- (i) an “ **amendment** ” includes a supplement, novation, restatement or re-enactment and “ **amended** ” will be construed accordingly;

- (ii) the words “ **include** ”, “ **includes** ”, “ **including** ” and “ **inter alia** ” shall be deemed to be followed by the phrase “without limitation”;
 - (iii) “ **assets** ” includes present and future properties, revenues and rights of every description;
 - (iv) an “ **authorisation** ” includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
 - (v) “ **disposal** ” means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and “ **dispose** ” will be construed accordingly;
 - (vi) a “ **guarantee** ” includes any form of indemnity or other assurance against loss (including, any obligation to pay, purchase or provide funds for the purchase of any liability), and the verb “ **to guarantee** ” will be construed accordingly;
 - (vii) “ **indebtedness** ” includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
 - (viii) the term “ **best knowledge** ” shall mean both the actual knowledge of a Person and the knowledge that such Person would have had if such Person had conducted a diligent and careful enquiry into the relevant subject matter.
 - (ix) know your customer requirements are the identification checks that a Senior Finance Party requests in order to meet its obligations under any Applicable Law to identify a Person who is (or is to become) its customer;
 - (x) an Event of Default being outstanding means that it has not been remedied or waived;
 - (xi) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any secondary legislation;
 - (xii) a Clause, a sub-Clause or a Schedule is a reference to a clause or sub-clause of, or a schedule to, this Agreement;
 - (xiii) a Party or any other Person includes its successors in title, permitted assignees and permitted transferees;
 - (xiv) a Senior Finance Document or another document is a reference to that Senior Finance Document or other document as amended, novated, supplemented, extended or restated; and
 - (xv) a time of day is a reference to Tel Aviv time.
- (b) Unless the contrary intention appears, a reference to a “ **month** ” or “ **months** ” is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:
- (i) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
 - (ii) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
 - (iii) notwithstanding sub-paragraph (i), a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.

- (c) Unless expressly provided to the contrary in a Senior Finance Document, a Person who is not a party to a Senior Finance Document may not enforce any of its terms and notwithstanding any term of any Senior Finance Document, no consent of any third party is required for any variation (including any release or compromise of any liability) or termination of any Senior Finance Document.
- (d) Unless the contrary intention appears:
 - (i) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
 - (ii) a word or expression used in any other Senior Finance Document or in any notice given in connection with any Senior Finance Document has the same meaning in that Senior Finance Document or notice as in this Agreement;
 - (iii) if there is any inconsistency between this Agreement and any other Senior Finance Document this Agreement will prevail; and
 - (iv) any obligation of the Borrower or a Related Party under the Senior Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Borrower is or may be outstanding under the Senior Finance Documents.
- (e) The headings in this Agreement do not affect its interpretation.
- (f) Any reference in this Agreement to laws and regulations that apply to the Senior Finance Parties or any Affiliate thereof shall include non-binding directives of the Supervisor of Banks and/or the Commissioner (as applicable), measures taken by a Senior Finance Party or any Affiliate thereof to implement the proposals made by the Basel Committee on Bank Regulations and Supervisory Practices for the International Convergence of Capital Measurements and Capital Standards, the Proper Conduct of Banking Business Regulations, Solvency II and any single borrower (‘ *loveh boded* ’), group of borrowers (‘ *kvutzat lovim* ’), related persons (‘ *Anashim Kshurim* ’), the largest borrowers or groups of borrowers (‘ *Sikun Anafi* ’) or any other restrictions, guidelines, directives or regulations, including of the Commissioner, as may be in effect from time to time.
- (g) The Parties intend the Senior Finance Documents to constitute a mutually supporting set of agreements. For the purposes of Section 350H of the Companies Law, 5759-1999 (the “ **Companies Law** ”) and to the extent a Senior Finance Document shall be considered an “Existing Agreement” (as defined under Section 350I of the Companies Law), the Parties intend that all of the Senior Finance Documents shall be considered as a single “Existing Agreement” (as defined under Clause 350I of the Companies Law).

This Agreement shall not be interpreted against its author, but rather based on the meaning derived from the context.

1.3. Nature of a Finance Party’s Rights and Obligations

Unless all Senior Finance Parties agree otherwise:

- (a) the obligations of a Senior Finance Party under the Senior Finance Documents are several and not joint;

- (b) no Senior Finance Party is responsible for the obligations of any other Senior Finance Party under the Senior Finance Documents;
- (c) the rights of a Senior Finance Party under the Senior Finance Documents are separate and independent rights; and
- (d) a debt arising under the Senior Finance Documents to a Senior Finance Party is a separate and independent debt.

2. THE SENIOR FACILITIES

Subject to the terms of this Agreement, the Senior Lenders make available to the Borrower:

- (a) **Long Term Facility** : a term loan facility up to an aggregate Financing Principal amount not exceeding the Total Long Term Commitments;
- (b) **Standby Facility** : a term loan facility up to an aggregate Financing Principal amount not exceeding the Total Standby Commitments;
- (c) **DSRA Facility** : a term loan facility up to an aggregate Financing Principal amount not exceeding the Total DSRA Commitments;
- (d) **VAT Facility** : a revolving credit facility up to an aggregate Financing Principal amount not exceeding the Total VAT Commitments;
- (e) **Guarantees Facility** : a revolving guarantee and credit facility up to an aggregate Financing Principal amount not exceeding the Total Guarantees Commitments;
- (f) **Working Capital Facility** : a revolving credit facility up to an aggregate Financing Principal amount not exceeding the Total Working Capital Commitments; and
- (g) **Hedging Facility** : a term loan facility up to an aggregate Financing Principal amount not exceeding the Total Hedging Commitments.

3. PURPOSE

3.1 Long Term Facility

A Loan made under the Long Term Facility may only be applied in or towards (without double counting):

- (a) Capital Costs (including issuance of a Documentary Credit during the Construction Phase);
- (b) Cost Overruns in an aggregate amount not exceeding the Total Standby Facility Commitments, that have been approved by the Senior Agent and the Technical Adviser, pursuant to Clause 4.2 (Further Conditions Precedent) and Clause 18.21 (a) (Budgets) below;
- (c) any other Project Costs approved by the Senior Agent; and
- (d) payments pursuant to Clauses 19.3(c) and 19.3(d) below,

in each case (other than with respect to sub-clause (b) above) only to the extent (i) set out in the then current Construction Budget, Operating Budget or the Energy Center Budget (as applicable), and (ii) that any money standing to the credit of the Construction Account or the Proceeds Account are insufficient to meet those obligations.

3.2 **DSRA Facility**

A Loan made under the DSRA Facility may only be applied in or towards:

- (a) during the Construction Phase, following the Second Mandatory Drawdown Date, repayment in full of all Loans outstanding on the Second Mandatory Drawdown Date under the VAT Facility and payment of VAT due and payable with respect to Capital Costs; or
- (b) a deposit in the Debt Service Reserve Account up to the Required DSRA Balance.

3.3 **Standby Facility**

Each loan made under the Standby Facility may only be applied in or towards (without double counting) any purpose permitted under Clause 3.1 (Long Term Facility) above and only to the extent that the Long Term Facility has been fully utilised.

3.4 **VAT Facility**

Each Loan under the VAT Facility may only be applied in or towards payment of VAT due and payable with respect to Capital Costs.

3.5 **Guarantees Facility**

The Guarantees Facility may only be used to facilitate the issuance by the Issuing Bank of the Third Party Guarantees.

3.6 **Working Capital Facility**

Each Loan made under the Working Capital Facility may only be applied in or towards:

- (a) repayment in full of all Loans outstanding on the Commercial Operation Date under the VAT Facility; and
- (b) in the event the Total DSRA Commitments have been fully drawn following the Second Mandatory Drawdown Date, a deposit in the Debt Service Reserve Account of an amount equal to the VAT payments not yet repaid or credited on Commercial Operation Date.
- (c) funding the Borrower's working capital; issuance of Documentary Credit (following the end of the Availability Period of the Long Term Facility); and payments in relation to hedging transactions entered into by the Borrower during the Commercial Operation Phase, all in the ordinary course of business and subject to the terms of this Agreement.

3.7 Hedging Facility

Each Loan made under the Hedging Facility may only be applied in or towards payment of Hedging Termination Payments in connection with interest rate Hedging Agreements entered into by the Borrower and the Hedging Bank during the Construction Phase.

3.8 No Obligation to Monitor

No Senior Finance Party is bound to monitor or verify the application of the proceeds of any Loan.

4 CONDITIONS PRECEDENT

4.1 Initial Conditions Precedent

The obligation of the Senior Lenders to make a Senior Facility available to the Borrower is subject to the fulfilment of each of the initial conditions precedent set out in Part 1 of Schedule 2 (Initial Conditions Precedent) to the satisfaction of the Senior Agent.

4.2 Further Conditions Precedent

The obligations of each Senior Lender to participate in any Loan or in the issuance of any Documentary Credit, up to each Senior Lender's Commitments, or the obligation of the Issuing Bank to issue any Third Party Guarantee are subject to the further conditions precedent that:

- (a) on the date of the first Request, all the representations and warranties in Clause 15 (Representations) are correct and will be correct immediately after that Loan is made, and on both the date of the Drawdown Request and the Utilisation Date for a Loan or a Documentary Credit, or the date of the request to issue a Third Party Guarantee and the date of issuance thereof (as applicable), all the Repeating Representations are correct and will be correct immediately after that Loan is made, or that Documentary Credit or that Third Party Guarantee is issued;
- (b) on both the date of the Drawdown Request and the Utilisation Date for that Loan or that Documentary Credit or the date of the request to issue a Third Party Guarantee and the date of issuance thereof (as applicable), the representations and warranties made by each Major Project Party under the Senior Finance Documents to which that Major Project Party is a party are correct and will be correct immediately after that Loan is made, or that Documentary Credit or that Third Party Guarantee is issued;
- (c) on both the date of the Drawdown Request and the Utilisation Date for that Loan or that Documentary Credit or the date of the request to issue a Third Party Guarantee and the date of issuance thereof (as applicable), there is no Event of Default outstanding or Potential Default or no Default would result from that Loan, or the issuance of that Documentary Credit or that Third Party Guarantee;

- (d) the Utilisation Date for that Loan or that Documentary Credit or the date of issuance of a Third Party Guarantee (as applicable) is a Business Day during the Availability Period for the Senior Facility;
- (e) there is no impediment, restriction, limitation or prohibition under Applicable Law and/or imposed by any Government Authority as to the proposed Loan or the proposed Documentary Credit and the proposed Loan or the proposed Documentary Credit shall not result in any Senior Lender exceeding the limits under Bank of Israel guidelines and directives with respect to single borrower (' *loveh boded* '), group of borrowers (' *kvutzat lovim* '), related persons (' *Anashim Kshurim* '), the largest borrowers or groups of borrowers (' *Sikun Anafi* ') (unless any deviation from the guidelines and directives with respect to single borrower (' *loveh boded* '), group of borrowers (' *kvutzat lovim* '), related persons (' *Anashim Kshurim* '), the largest borrowers or groups of borrowers (' *Sikun Anafi* '), is caused solely and directly as a result of any extension of a new credit following the Signature Date by such Senior Lender to any of its costumers) or any other limit or limitations imposed thereunder, or under any guidelines, directives or regulations of the Supervisor of Banks and/or the Commissioner (as applicable), in each case as such guidelines, directives or regulations are implemented by any of the Senior Lenders.
- (f) the Senior Agent has confirmed that it has received payment from each Senior Lender, pursuant to its obligations herein, of that Senior Lender's share of the requested Loan;
- (g) no event, condition or circumstance shall have occurred, which has a Material Adverse Effect.
- (h) the Initial Shareholder has contributed to the Borrower the amount (and form) of Equity prescribed by the Electricity Legislation as required pursuant to the Equity Subscription Agreement;
- (i) the Finance Support Rules are in full force and effect;
- (j) no Force Majeure Event, which its consequences with respect to the Project are continuing, has occurred;
- (k) on both the date of the Drawdown Request and the Utilisation Date for any Loan or a Documentary Credit or the date of the request to issue a Third Party Guarantee and the date of issuance thereof (as applicable), no change in regulatory conditions with respect to the ability of independent power plants in the electricity sector to sell and/or produce electricity, other than those contemplated herein, has occurred, which may also apply to the Borrower in a manner which has or is likely to result in a Material Adverse Effect.
- (l) with respect to a Request (other than a Request under the Working Capital Facility) the Borrower has delivered to the Senior Agent an updated Financial Model as required pursuant to Clause 16.6 (Financial Model and Ratios) of this Agreement and Forecast, provided, however, that if, pursuant to Clause 16.6 (Financial Model and Ratios), the Borrower is not required to provide an updated Financial Model on the date of the Drawdown Request, it has delivered to the Senior Agent a Borrower's certificate, signed by two of its authorised signatories on its behalf (one of which shall be the Borrower's CFO), certifying that no event or circumstance has occurred that requires a change to the latest Financial Model which was provided to the Senior Agent (other than non-material changes);

- (m) on both the date of the Drawdown Request and the Utilisation Date for that Loan or Documentary Credit or the date of the request to issue a Third Party Guarantee and the date of issuance thereof (as applicable), each of the LLCR, the Projected Minimum Debt Service Cover Ratio and the Projected Average Debt Service Cover Ratio is at least 1.20:1;
- (n) in the event that in the opinion of the Senior Agent (following consultation with the Technical Advisor) Construction Completion Date is likely to occur on or after five (5) months after the original Scheduled Completion Date, and without derogating from the Shareholders' obligations pursuant to Clause 2.3(b)(ii) of the Equity Subscription Agreement with respect to the occurrence of a Force Majeure Event (as defined in the EPC Contract), the Parties and the Shareholders shall have agreed upon satisfactory arrangements to address the exposure to the Borrower with respect to the Project Schedule emanating from any discrepancies, in existence at such time, in the definition and conditions for recognition of an event as a "force majeure event" under the PUA Rules and the EPC Contract;
- (o) as of the date of the Drawdown Request, there is no Forecast Funding Shortfall;
- (p) a Drawdown Request has been received by the Senior Agent in accordance with this Agreement which, *inter alia* :
 - (i) specifies the amount of the requested Loan or the requested Documentary Credit (as applicable) and with respect to a Documentary Credit Request, the proposed date for the issuance of the Documentary Credit;
 - (ii) specifies the purpose(s) in or towards which the proceeds of the requested Loan or the requested Documentary Credit (as applicable) will be applied; and
 - (iii) confirms that the proceeds of the requested Loan or the requested Documentary Credit (as applicable) will only be used for the purposes permitted hereunder.
- (q) with respect to a Loan or a Documentary Credit under the Long Term Facility or under the Standby Facility, the Request:
 - (i) includes the approval of the Technical Adviser in the form set out in Schedule 5 (Form of Technical Adviser's Certificate for a Request), with such amendments as the Senior Agent may approve or require; and
 - (ii) confirms that (other than with respect to a Loan drawn following a Mandatory Drawdown Request),
 - (A) the proceeds of such Loan are required to pay amounts due, or which will become due in the next ninety (90) days, in each case in accordance with the Financial Model and the latest Construction Budget, Energy Center Budget or Operating Budget (as applicable).
 - (B) for the purpose of funding Cost Overrun, the Technical Adviser confirms to the Senior Agent in writing that:
 - (a) the Cost Overruns specified in the Drawdown Request have been, or will be, properly incurred by the Borrower in order to achieve the Construction Completion Date on or before the Scheduled Completion Date;

- (b) such Cost Overruns are not part of the price set out in the EPC Contract (taking into account any savings); and
 - (c) at such time, no additional Cost Overruns are expected to occur (i) in excess of the Available Funding, or (ii) other than Cost Overruns which, the Shareholders have undertaken to fund by additional Equity contributions and provided guarantees for such undertaking, all in form and substance satisfactory to the Senior Agent, are expected to occur.
- (C) for any purpose set out in paragraphs (i) or (ii) of Clause 2.3(b) (EPC/Energy Center Undertakings) of the Equity Subscription Agreement, the Borrower confirms to the Senior Agent in writing that the proceeds of such Loan shall be used to pay any liabilities of the Borrower in connection with such purpose (without specifying the actual amounts associated with such purposes).
- (f) [***]
 - (s) with respect to a Loan or a Documentary Credit under the Long Term Facility, or a Loan under the DSRA Facility, on the date of the Drawdown Request, the ratio of:
 - (x) the aggregate amount of (a) Equity contributed to the Construction Account or the DSRA (as applicable) prior to the drawing of a requested Loan plus (b) Recognised Development Phase Equity, to
 - (y) the aggregate amount of (a) the Total Long Term Outstanding plus (b) the Total Long Term Commitments, plus (c) the Total DSRA Commitments plus (d) the Total DSRA Outstanding,
 would not, immediately following the drawing of the requested Loan or the issuance of the requested Documentary Credit, be less than, 20:80;
 - (t) with respect to a Loan under the DSRA Facility (other than with respect to a Loan drawn following the Second Mandatory Drawdown Request), all outstanding Loans under the VAT Facility have been repaid in full;
 - (u) with respect to the issuance of a Documentary Credit under the Long Term Facility, the Standby Facility or the Working Capital Facility, (i) the Technical Adviser has approved the Documentary Credit Request; and (ii) the amount of such Documentary Credit does not, and would not, immediately following the utilisation of the requested Documentary Credit, exceed the Total Long Term Commitments, the Total Standby Commitments or the Total Working Capital Commitments, as applicable.
 - (v) with respect to a Loan or a Documentary Credit under the Standby Facility:
 - (i) the ratio of (x) the aggregate amount of additional Equity contributed by the Shareholders with respect to the Standby Facility to the Construction Account or the Proceeds Account (as applicable) prior to the drawing of the requested Loan to (y) the Total Standby Outstanding, would not, immediately following the drawing of the requested Loan, be less than, 25:75;

- (ii) there are no amounts standing to the credit of any Account (not including the Reserve Accounts) which in accordance with the terms of the Accounts Schedule are available for funding the purposes specified in the Drawdown Request; and
- (iii) the Long Term Facility has been utilised in full;
- (w) with respect to a Loan under the VAT Facility – the Borrower has delivered satisfactory evidence to the Senior Agent that the Borrower is obligated to pay VAT in the amount of the requested Loan within ninety (90) days following the proposed Utilisation Date;
- (x) with respect to a Loan under the Hedging Facility, the ratio of (x) the aggregate amount of additional Equity contributed by the Shareholders with respect to the Hedging Facility to the Construction Account or the Proceeds Account (as applicable) in connection with the Hedging Termination Payments prior to the drawing of the requested Loan to (y) the Total Hedging Outstanding, would not, immediately following the drawing of the requested Loan, be less than 20:80;
- (y) with respect to the issuance, replenishment or renewal of a Third Party Guarantee:
 - (i) (A) either all conditions precedent to the first Utilisation under the Long Term Facility have been fulfilled to the full satisfaction of the Senior Agent or waived or the First Utilisation under the Long Term Facility has occurred, or (B) otherwise, each of the Senior Agent and the Issuing Bank approves the issuance of such Third Party Guarantee, provided that with respect to this paragraph (B) the aggregate amount of (i) the Third Party Guarantees issued by the Issuing Bank plus (ii) the higher of (x) ten percent (10%) of the overall amount (in NIS) under any Hedging Agreement, and (y) the aggregate amount of mark-to-market of all Hedging Agreement in effect, shall not exceed thirty eight million NIS (NIS 38,000,000);
 - (ii) the term of the requested Third Party Guarantee will not exceed the Availability Period with respect to the Guarantees Facility;
 - (iii) the Issuing Bank has agreed to the form of the requested Third Party Guarantee;
 - (iv) the total amount of all issued and outstanding (i.e. not forfeited and replenished or otherwise cancelled) Third Party Guarantees does not exceed the Total Guarantees Commitments at such time;
 - (v) the Borrower is required to provide the Third Party Guarantee to the relevant Person within fourteen (14) Business Days following the proposed date of issuance of such Third Party Guarantee;
 - (vi) the amount standing to the credit of the Guarantees Reserve Account is not less than the Required Guarantees Balance; and
 - (vii) in addition, in case of replenishment, renewal or re-issuance of a Third Party Guarantee:
 - (A) the Loans made by virtue of a drawing by the beneficiary under a Third Party Guarantee have been repaid in full or the Shareholders have provided an irrevocable and unconditional bank guarantee issued by an Acceptable Bank in form acceptable to both the Senior Agent and the Issuing Bank in an amount equal to the amount drawn by the beneficiary under that Third Party Guarantee; and

- (B) the total number of replenishments of the Third Party Guarantees does not exceed twelve (12);
 - (C) the Borrower may not request to replenish any Third Party Guarantee more than one (1) time during any calendar year; and
 - (D) in the case of re-issuance of a Third Party Guarantee, the Borrower returns the original Third Party Guarantee to the Issuing Bank concurrently with the delivery of the new Third Party Guarantee; and
- (z) with respect to a Loan or a Documentary Credit under the Long Term Facility, the Standby Facility, the DSRA Facility or the Hedging Facility, the Borrower has submitted a Request according to which two thirds (2/3) of the Requested Loan shall be drawn as a Linked Loan and the remaining one third (1/3) of the Requested Loan shall be drawn as a Non-Linked Loan.

4.3 **Calculation of Equity**

Amounts paid by a Shareholder pursuant to Clauses 2.3 (Shareholders' Obligations), 2.4 (Guarantees Facility Amount) and 2.6 (Supplemental Contributions in respect of Equity Cure Rights) of the Equity Subscription Agreement and net overall operating revenues received by the Borrower with respect to the operation of the Energy Center during the Construction Phase or the take-or-pay obligations under the Gas Supply Agreement during the Construction Phase, shall not be taken into account as Equity for the purposes of calculation of the 80:20 or 75:25 gearing (as applicable) under this Clause 4 (Conditions Precedent) during the Construction Phase, and for the purpose of reconciliation pursuant to Clause 19.3 (Distributions) below.

4.4 **Waiver**

The Senior Agent shall be entitled to waive any of the Conditions Precedent set out in Clause 4.1 (Initial Conditions Precedent) or Clause 4.2 (Further Conditions Precedent), either with or without imposing any conditions thereto.

4.5 **Longstop for First Utilisation Date**

In the event that the first Utilisation Date under the Long Term Facility has not occurred by the date that is nine (9) months from the Signature Date, then the Senior Agent shall be entitled to terminate this Agreement and no Party shall have any claim and/or demand in that respect against any other Party, except for the Senior Finance Parties' entitlement to receive payments from the Borrower in respect of fees payable to such Senior Finance Party pursuant to the terms of the Senior Finance Documents, Adviser's fees, commissions and indemnities to the extent payable in accordance with the terms hereof.

5 UTILISATION

5.1 Giving of Drawdown Requests

- (a) Subject to the other provisions of this Agreement, the Borrower may borrow a Loan by giving to the Senior Agent a duly completed Drawdown Request.
- (b) Unless the Senior Agent otherwise agrees, the latest time for receipt of: (i) a duly completed Drawdown Request (other than Documentary Credit Request) is 11.00 a.m. at least ten (10) Business Days, before the proposed Utilisation Date; or (ii) a duly completed Documentary Credit Request is 11.00 a.m., at least twenty one (21) days prior to the proposed date for the issuance of the Documentary Credit.
- (c) Each Drawdown Request is irrevocable.
- (d) Notwithstanding anything to the contrary herein, in the event that the Weighted Average Bonds Rate reaches the First Mandatory Drawdown Bond Rate (such event, the “**First Mandatory Drawdown Trigger Event**”):
 - (i) unless agreed otherwise by the Senior Agent and the Borrower, the Borrower shall, within three (3) Business Days of the First Mandatory Drawdown Trigger Event, either:
 - (A) submit a Drawdown Request with respect to the aggregate amount of (a) the Total Long Term Commitments plus (b) the Total Standby Commitments expected at such time to be drawn up to the Commercial Operation Date in accordance with the latest Financial Model; less (c) seventy million NIS (NIS 70,000,000) linked to the Base Index, or
 - (B) inform the Senior Agent that it plans to enter into interest rate Hedging Agreements in relation to the aggregate amount of: (a) the Total Long Term Commitments; plus (b) the Total Standby Commitments expected at such time to be drawn up to the Commercial Operation Date in accordance with the latest Financial Model, plus (c) the Total DSRA Commitments less the Supplementary Loans.
 - (iii) in the event that within seven (7) Business Days of the First Mandatory Drawdown Trigger Event, the Borrower does not submit a Drawdown Request referred to in paragraph (ii)(A) above and the Borrower has not entered into interest rate Hedging Agreements referred to in paragraph (ii)(B) above which are satisfactory to the Senior Agent, the Borrower shall be deemed to have submitted a Drawdown Request to the Senior Agent as referred to in paragraph (ii)(A) above.
- (e) Notwithstanding anything to the contrary herein, upon the earlier of the date upon which (i) the Weighted Average Bonds Rate reaches the Second Mandatory Drawdown Bond Rate or (ii) any of the LLCR, the Project Minimum Debt Service Cover Ratio or the Projected Average Debt Service Cover Ratio is less than 1.35:1.00 (any such event, the “**Second Mandatory Drawdown Trigger Event**”), then:
 - (i) unless agreed otherwise by the Senior Agent and the Borrower, the Borrower shall, within three (3) Business Days of the Second Mandatory Drawdown Trigger Event, either:
 - (A) submit a Drawdown Request with respect to the aggregate amount of (a) the Total Long Term Commitments; plus (b) the Total Standby Commitments expected to be drawn until the Commercial Operation Date in accordance with the latest Financial Model, plus (c) the Total DSRA Commitments, or

- (B) inform the Senior Agent that it plans to enter into interest rate Hedging Agreements in relation to the aggregate amount of: (a) the Total Long Term Commitments; plus (b) the Total Standby Commitments expected to be drawn until the Commercial Operation Date in accordance with the latest Financial Model, plus (c) the Total DSRA Commitments.
- (ii) in the event that within seven (7) Business Days of the Second Mandatory Drawdown Trigger Event, the Borrower does not submit a Drawdown Request referred to in paragraph (ii)(A) above and the Borrower has not entered into interest rate hedging arrangements referred to in paragraph (ii)(B) above which are satisfactory to the Senior Agent, the Borrower shall be deemed to have submitted a Drawdown Request to the Senior Agent as referred to in paragraph (ii)(A) above.
- (f) There shall not be more than one Drawdown Request in any ninety (90) days' period for any Loan under the Long Term Facility (other than with respect to any Mandatory Drawdown Request).
- (g) Only one Loan under each Senior Facility may be requested in each Drawdown Request.

5.2 Advance of a Loan

- (a) The Senior Agent shall, if satisfied that a Request meets the requirements of this Agreement (including those specified in Clause 4.2 (Further Conditions Precedent)) approve such Request. If the Senior Agent is not satisfied, it shall notify the Borrower, as soon as possible, and in any event no later than (i) with respect to Requests under the Long Term Facility and the Standby Facility, seven (7) Business Days and (ii) with respect to Requests under all other Senior Facilities, three (3) Business Days, in each case from the submission of a Request, of its rejection of the Request or the need to re-submit or amend the Request.
- (b) The Senior Agent shall notify each Senior Lender having Commitments in the relevant Senior Facility of the details of the requested Loan and the amount of its share in that Loan.
- (c) The amount of each Senior Lender's share of the Loan will be the proportion of the Loan which its Senior Facility Commitment bears to the Total Senior Lender Commitments for that Senior Facility on the proposed Utilisation Date.
- (d) No Senior Lender is obliged to participate in a Loan if as a result:
 - (i) its share in the Loans would exceed its relevant Senior Facility Commitment; or
 - (ii) the Loans would exceed the applicable Total Senior Lender Commitments.
- (e) If the conditions set out in this Agreement have been met, each Senior Lender must make its share (if any) in the Loan available to the Senior Agent for the Borrower through its Senior Facility Office by not later than 13.00 on the Utilisation Date.

- (f) All Loans shall be advanced in NIS.
- (g) All Loans shall be advanced on a Business Day, other than on a Friday.
- (h) No Disbursement Request (as defined in the Accounts Schedule) may be submitted with respect to the proceeds of a Loan until the Business Day following the Utilisation Date of such Loan.

5.3 **Documentary Credit and Third Party Guarantees**

- (a) Issuance of a Documentary Credit or a Third Party Guarantee. If the Senior Agent approves the Documentary Credit Request or the issuance, renewal or replenishment of a Third Party Guarantee, as applicable, pursuant to the terms of this Agreement, it shall notify the Borrower, the Issuing Bank and the Senior Lenders having commitments in the Long Term Facility, the Standby Facility, the Working Capital Facility or the Guarantees Facility, as applicable. Within seven (7) Business Days of such notice, the Issuing Bank shall issue the relevant Documentary Credit or the relevant Third Party Guarantee (as applicable).
- (b) Utilisation of a Documentary Credit. If the beneficiary of a Documentary Credit issues a demand (including any supporting documents satisfactory to the Issuing Bank) for payment thereunder, the Issuing Bank shall, within three (3) Business Days of receipt of such documents and approval of the Technical Adviser, notify the Senior Agent of the amount of such drawdown under the Long Term Facility, the Standby Facility or the Working Capital Facility (as applicable) and the Senior Agent shall immediately be entitled to require each of the Senior Lenders having commitments under the applicable Senior Facility, to pay its share of the amount of the Documentary Credit. Such amounts shall be paid to the Issuing Bank and shall be deemed a Loan under the applicable Senior Facility.
- (c) Drawing Under a Third Party Guarantee. If the beneficiary of any Third Party Guarantee issues a demand for payment thereunder:
 - (i) the Issuing Bank shall notify the Senior Agent within two (2) Business Days of receipt of the demand for payment under such Third Party Guarantee;
 - (ii) the issuing Bank shall be entitled to request that the Senior Agent instructs the Account Bank to transfer the amount deposited in Guarantees Reserve Account to the Issuing Bank; and
 - (iii) the amount paid by the Issuing Bank to the beneficiary under such Third Party Guarantee, minus any amount recovered by it from the Guarantees Reserve Account, shall be deemed a Loan under the Guarantees Facility which shall be payable in full by the Final Maturity Date of such Loan.

6 REPAYMENT

6.1 Repayment of the Long Term Facility, the Standby Facility and the DSRA Facility

- (a) The Borrower must repay the Loans under the Long Term Facility, the Standby Facility and the DSRA Facility:
 - (i) with respect to Loans (other than Supplementary Loans), in instalments by repaying on each Repayment Date an amount equal to the percentage set opposite that Repayment Date in the Repayment Schedule of the amount of all such Loans outstanding as at the close of business on the last day of the applicable Availability Period.
 - (ii) with respect to Supplementary Loans, in instalments by repaying on each Repayment Date an amount equal to the percentage set opposite that Repayment Date pursuant to the Supplementary Repayment Schedule, of the amount of all such Loans outstanding as at the close of business on the last day of the applicable Availability Period.
- (b) In the event that the Commercial Operation Date occurs:
 - (i) during the first forty five (45) days' period of an Interest Period, the first Repayment Instalment shall be paid on the last day of the immediate succeeding Interest Period (e.g., if the Commercial Operation Date occurs on January 3, the first Repayment Instalment shall be paid on June 25); or
 - (ii) during the remaining period of an Interest Period not referred to in paragraph (i) above, the first Repayment Instalment shall be paid on the last day of the second succeeding Interest Period (e.g., if the Commercial Operation Date occurs on March 3, the first Repayment Instalment shall be paid on September 25).

6.2 Repayment of the Hedging Facility

The Borrower must repay a Loan under the Hedging Facility, in instalments by repaying on each Repayment Date, an amount equal to the percentage set opposite that Repayment Date in the Hedging Repayment Schedule, of the amount of such Loan.

“Hedging Repayment Schedule” shall mean a repayment schedule based on the Repayment Schedule and the Supplementary Repayment Schedule with the following adjustments: (i) the first repayment date under such repayment schedule is the immediate succeeding Repayment Date after the drawing of such Loan, and (ii) each percentage set opposite each Repayment Date shall be increased (to the extent required) on a pro-rata basis such that the aggregate amount of the percentages set opposite such Repayment Dates in the Hedging Repayment Schedule shall equal one hundred percent (100%).

6.3 Repayment of the VAT Facility

The Borrower must repay each Loan under the VAT Facility in a single payment by no later than the Final Maturity Date for such Loan.

6.4 Repayment of Loans under the Guarantees Facility

In any event of a drawing under a Third Party Guarantee, the Loan constituted by such drawing shall be repaid in full:

- (a) by the Shareholders, pursuant to Clause 2.4(a)(i) (Repayment of Loans outstanding under the Guarantees Facility) of the Equity Subscription Agreement, or
- (b) to the extent the Shareholders have provided to the Issuing Bank an irrevocable and unconditional bank guarantee pursuant to Clause 2.4(a)(ii) (Repayment of Loans outstanding under the Guarantees Facility) of the Equity Subscription Agreement, on a full cash sweep basis pursuant to the Order of Payment under the Accounts Schedule, and in no event later than the Final Maturity Date for Loans under the Guarantees Facility.

6.5 Repayment of the Working Capital Facility

The Borrower must repay each Loan under the Working Capital Facility in a single payment by no later than the Final Maturity Date for such Loan.

6.6 Re-borrowing

- (a) Amounts repaid by the Borrower with respect to the Long Term Facility, the Standby Facility, the DSRA Facility or the Hedging Facility may not subsequently be re-borrowed.
- (b) Amounts repaid by the Borrower with respect to the VAT Facility, the Guarantees Facility or the Working Capital Facility may be re-borrowed upon repayment and satisfaction of the conditions precedent for drawing under such Senior Facilities.

6.7 Final Maturity Date

Without limiting this Clause 6 (Repayment), any Loans outstanding on the Final Maturity Date of that Senior Facility must be repaid in full on the applicable Final Maturity Date.

7 PREPAYMENT AND CANCELLATION

7.1 Voluntary Prepayment

- (a) Subject to the other terms of this Agreement and without derogating from sub-Clause (e) below, the Borrower may, by giving not less than thirty (30) Business Days prior notice to the Senior Agent (the “ **Prepayment Notice** ”), prepay any Loan (as applicable), in whole or in part, provided that it first demonstrates to the satisfaction of the Senior Agent that:
 - (i) no Forecast Funding Shortfall would result, if it were to be tested immediately following the prepayment;
 - (ii) no Financial Indebtedness, other than Permitted Financial Indebtedness under Clause 17.7(b)(ii) below, is incurred in order to fund such prepayment;
 - (iii) all Projected Project Costs can be paid in full as they fall due; and
 - (iv) the prepayment will not result in the occurrence of a Default.

- (b) The Prepayment Notice shall specify (i) the Business Day on which prepayment is to be made, and (ii) the Financing Principal and interest amount to be prepaid. The Senior Agent shall promptly deliver a copy of any prepayment notice to the Senior Lenders.
- (c) Any such prepayment (other than prepayment of Loans under the VAT Facility or the Working Capital Facility) shall be made together with the Make Whole Amount or the Make Whole Amount for Financial Loss, as applicable, as set out in Clause 7.9 (Compensation for Prepayment) below.
- (d) A prepayment of a Loan under the Long Term Facility, the Standby Facility, the DSRA Facility and the Hedging Facility in part must be in a minimum amount of ten million NIS (NIS 10,000,000) or, if less, the remaining amount of the Loans and made on a date upon which Financing Principal and/or interest is payable.
- (e) The Borrower may voluntarily prepay any Loan in full, without demonstrating compliance with the requirements specified in sub-Clause (a) above, if, simultaneously with that prepayment, all outstanding Loans are prepaid in full and the Total Senior Lender Commitments are cancelled in full and provided that the Borrower pays the Make Whole Amount or the Make Whole Amount for Financial Loss, as applicable, as set out in sub-Clause (c) above.
- (f) A pro rata share of the Hedging Liabilities will be paid upon the performance of any voluntary prepayment under this Agreement.

7.2 **Mandatory Prepayment and Cancellation – Illegality**

If it becomes unlawful in any applicable jurisdiction for a Senior Lender or the Issuing Bank to perform any of its obligations under a Senior Finance Document or to fund or maintain its participation in any Loan or to issue a Third Party Guarantee (including where such performance, funding, issuance or maintenance become in breach of Bank of Israel Proper Conduct of Banking Business Regulations or breach of the guidelines or regulations of the Commissioner):

- (a) that Senior Lender shall promptly notify the Borrower and the Senior Agent upon becoming aware of the unlawfulness;
- (b) the Commitments of that Senior Lender will be immediately cancelled;
- (c) the Borrower must repay or prepay that Senior Lender's participation in each Loan made to the Borrower on the last day of the current Interest Period of that Loan or, if earlier, the date specified by the Senior Lender in the notice delivered to the Senior Agent (being no earlier than the last day of any applicable grace period allowed by Applicable Law);
- (d) any such prepayment shall be made with the Make Whole Amount or the Make Whole Amount for Financial Loss, as applicable, as set out in Clause (ii) (Compensation for Prepayment) below and all Hedging Termination Payments (if applicable) as of such date; and
- (e) with respect to the Guarantees Facility or a Third Party Guarantee, the Borrower shall promptly (and in any event prior to such illegality entering into effect) procure the replacement of the relevant Third Party Guarantee by a new guarantee in accordance with the relevant Project Document or any Applicable Law pursuant to which the Third Party Guarantee was issued and return the original Third Party Guarantee to the Issuing Bank

7.3 **Mandatory Prepayment – Compensation and Liquidated Damages**

In the event that the Borrower receives:

- (a) liquidated damages pursuant to Sections 8.4 (Liquidated Damages for Delay) and 11.3 (Buy-Down Amount) of the EPC Contract; or
- (b) any Compensation,

the Borrower shall use such amounts to prepay the Loans outstanding under the Senior Facilities (or the applicable part thereof). Any such prepayment shall be made with the Make Whole Amount as set out in Clause (ii) (Compensation for Prepayment) below. A pro rata share of the Hedging Liabilities will be paid upon prepayment pursuant to this Clause 7.3.

7.4 **Mandatory Prepayment – Modified Gas Supply Agreement**

If, by the date of expiry or termination of the original Gas Supply Agreement, the Borrower has not entered into a Modified Gas Supply Agreement as approved by the Senior Agent in accordance with the terms set out in Clause 18.6 (Gas Agreement), the Borrower must prepay all Loans outstanding under the Senior Facilities and close out all Hedging Agreements. Any such prepayment shall be made with the Make Whole Amount as set out in Clause (ii) (Compensation for Prepayment) below and all Hedging Termination Payments as of such date.

7.5 **Automatic Cancellation**

- (a) Each Commitment of each Senior Lender will be automatically cancelled at the close of business on the last day of the applicable Availability Period.
- (b) In the event that the Borrower has not entered into an Hedging Agreement with respect to the interest rate exposure during the Construction Phase, the Total Hedging Commitments will be automatically cancelled on the Commercial Operation Date.

7.6 **Voluntary Cancellation**

- (a) Subject to the other terms of this Clause 7.6 (Voluntary Cancellation) and the other terms of this Agreement, the Borrower may, by giving not less than thirty (30) days' prior notice to the Senior Agent, cancel the amount of the Total Senior Lender Commitments, in whole or in part.
- (b) Partial cancellation of the Total Senior Lender Commitments must be in a minimum amount of ten million NIS (NIS 10,000,000) linked to the Base Index.
- (c) The Borrower may not cancel any amount of the Total Senior Lender Commitments with respect to a Senior Facility if, as a result of such cancellation, a Drawdown Request issued by the Borrower would result in there being insufficient Total Senior Lender Commitments to provide the requested Loan under that Senior Facility.

- (d) The Borrower may not voluntarily cancel any of the Total Senior Lender Commitments unless (1) the Technical Adviser has certified that the Borrower has sufficient funds to complete the IPP by no later than the Scheduled Completion Date and (2) it first demonstrates to the satisfaction of the Senior Agent that the following cumulative conditions have been met:
- (i) no Forecast Funding Shortfall (as certified by the Technical Adviser) would result, if it were to be tested immediately following the cancellation;
 - (ii) the cancellation will not result in the occurrence of a Default;
 - (iii) no Financial Indebtedness other than Permitted Financial Indebtedness under Clause 17.7(b)(ii) below, is incurred in order to fund such cancellation; and
- (e) with respect to the cancellation of any amount of the Total Guarantees Commitments (or the replacement of an issued but undrawn Third Party Guarantee) the Borrower demonstrates to the full satisfaction of the Senior Agent that it is either no longer required to provide the relevant Third Party Guarantee or the Shareholders have provided the relevant guarantee without recourse to or in any way relying on any of the assets of the Borrower (except, for the avoidance of doubt, reliance on distributions and dividends).
- (f) The Borrower may not voluntarily cancel any of the Total Standby Commitments, the Total VAT Commitments, the Total DSRA Commitments, the Total Guarantees Commitments or the Total Hedging Commitments without the prior approval of the Senior Agent, and with respect to the Total Guarantees Commitments or the Total Hedging Commitments without also the prior approval of the Issuing Bank or the Hedging Bank, respectively.
- (g) Subject to the other terms of this Clause 7.6 (Voluntary Cancellation), the Borrower may cancel the Total Guarantees Commitments, the Total Working Capital Commitments and the Total Hedging Commitments, each, in whole or in part, without cancelling the Total Long Term Commitments and the Total Standby Commitments.
- (h) A voluntary cancellation of the entire Total Long Term Commitments shall result in the automatic cancellation of the entire Total Senior Lender Commitments.
- (i) In the event that the Borrower cancels any part of the Total Senior Lender Commitments under this Clause 7.6 (Voluntary Cancellation), it shall pay a cancellation fee [***] of the cancelled Commitments for any amount cancelled, other than in the event that the cancellation is due to:
- (i) a reduction in the Capital Costs of the Project;
 - (ii) to the extent that any applicable Ratio is equal or less than 1.25:1, an additional contribution of equity by the Shareholders, that increases such applicable Ratio up to 1.30:1 (it is clarified that this sub-clause does not apply to contribution of additional equity that results in an increase of such applicable Ratio above 1.30:1); or
 - (iii) with respect to the Total Long Term Commitments, the Total Standby Commitments or the Total DSRA Commitments, the Commercial Operation Date has occurred.

7.7 Application of Prepayments and Cancellations

- (a) Any prepayment of Loans (other than Loans under the Working Capital Facility) must be applied on a *pro rata* basis against the remaining repayment instalments of the Loans outstanding under the Senior Facilities.
- (b) Any cancellation of the Total Senior Lender Commitments and or any prepayment of the Total Outstandings (other than under Clause 7.2 (Mandatory Prepayment and Cancellation - Illegality) and Clause 7.8 (Prepayment and Cancellation of Single Senior Lender)) must be applied in cancellation of the Total Senior Lender Commitments under the Senior Facilities, *pro rata* , until cancelled in full or the prepayment of the Total Outstandings and the Hedging Liabilities, *pro rata* , until prepaid in full.
- (c) All prepayments or cancellations in respect of a Senior Facility (other than under Clause 7.2 (Mandatory Prepayment and Cancellation - Illegality) and Clause 7.8 (Prepayment and Cancellation of Single Senior Lender)) shall be applied *pro rata* amongst all the Senior Lenders in respect of that Senior Facility.

7.8 Prepayment and Cancellation of Single Senior Lender

- (a) If:
 - (i) the Borrower elects to pay a Senior Lender following a Market Disruption pursuant to Clause 11 (Market Disruption) below;
 - (ii) the Borrower is required to pay to a Senior Lender a Tax Payment pursuant to Clause 12 (Taxes) below; or
 - (iii) the Borrower is required to pay to a Senior Lender an Increased Cost pursuant to Clause 13 (Increased Costs) below;the Borrower may, while the requirement continues, give notice to the Senior Agent requesting prepayment and cancellation in respect of that Senior Lender.
- (b) After notification under sub-Clause (a) above and subject to the terms of this Agreement:
 - (i) the Borrower must repay or prepay that Senior Lender's share in each Loan on the date specified in sub-Clause (c) below;
 - (ii) the Commitments of that Senior Lender will be immediately cancelled; and
 - (iii) the Senior Agent shall cooperate with the Borrower in order to assist the Borrower in its efforts to replace that Senior Lender with a new lender (if applicable), provided that such new lender satisfies the
 - (iv) conditions to be a Senior Lender as specified in Clause 6.1 (Transfers
 - (v) by Senior Lenders) of the Intercreditor Agreement.
- (c) The date for repayment or prepayment of a Senior Lender's share in a Loan will be:
 - (i) the last day of the current Interest Period for that Loan; or
 - (ii) if earlier, the date specified by the Borrower in its notification.

7.9 Compensation for Prepayment

- (a) Other than as expressly set out in this Agreement, where all or any part of a Loan (other than Loans made under the VAT Facility or the Working Capital Facility) or any other amount due hereunder is paid by the Borrower on a day other than on the due date for that Loan or unpaid sum, the Borrower shall pay each Senior Lender the Make Whole Amount.

- (b) Notwithstanding sub-clause (a) above, where the Borrower has made a voluntary prepayment of the Guarantee Utilisation Amount, in whole or in part, or a mandatory prepayment under Clause 7.2 (Mandatory Prepayment and Cancellation – Illegality) or Clause 7.3 (Mandatory Prepayment – Compensation and Liquidated Damages) or a prepayment pursuant to Clause 7.8 (Prepayment and Cancellation of Single Senior Lender), the Borrower shall be required to pay only the Make Whole Amount for Financial Loss.

7.10 Miscellaneous Provisions

- (a) Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and amounts of the Total Senior Lender Commitments being cancelled. The Senior Agent must notify the Senior Lenders promptly of receipt of any such notice and provide them with a copy of such notice.
- (b) All prepayments of a Loan under this Agreement must be made together with:
 - (i) accrued interest on the amount prepaid;
 - (ii) Linkage Differentials; and
 - (iii) any amounts payable under:
 - (A) Clause 25.2 (Other Indemnities);
 - (B) any Make Whole Amount or the Make Whole Amount for Financial Loss, as applicable,.
- (c) No amounts of the Total Senior Lender Commitments cancelled under this Agreement may subsequently be reinstated.

8 INTEREST

8.1 Calculation of Interest

- (a) The rate of interest on each Loan (other than a Loan under the VAT Facility, the Guarantees Facility or the Working Capital Facility) is the percentage rate per annum equal to the Bond Rate plus the Margin.
- (b) The rate of interest on each Loan under the VAT Facility, the Guarantees Facility or the Working Capital Facility is the percentage rate per annum equal to the Prime Interest Rate plus the Margin.
- (c) Notwithstanding the provisions of sub-Clauses (a) and (b) above, unless the directives of the Bank of Israel require otherwise, the rate of interest with respect to any Loan shall not be less than zero (0).

8.2 **Margin**

[***]

8.3 **Payment of Interest**

Except where it is provided to the contrary in this Agreement, the Borrower must pay accrued interest (together with Linkage Differentials thereon, where applicable) on each Loan made to it on the last day of each Interest Period.

8.4 **Capitalisation of Interest**

- (a) Notwithstanding Clause 8.3 (Payment of Interest), until the First Repayment Date interest on each such Loan under the Long Term Facility, the Standby Facility, the DSRA Facility and the Hedging Facility (together with Linkage Differentials thereon, where applicable) shall be capitalised on the last date of each relevant Interest Period and shall be added to the Financing Principal amount of such Loans.
- (b) Interest capitalised under this Clause 8.4 (Capitalisation of Interest) shall accrue Linkage Differentials, where applicable, and interest at the interest rate or rates applicable to the Loan in respect of which that interest would have otherwise been payable.

8.5 **Interest on Overdue Amounts**

- (a) If the Borrower fails to pay any amount payable by it to a Senior Finance Party under the Senior Finance Documents, it must immediately on demand by the Senior Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.
- (b) Interest on an overdue amount is payable at a rate determined by the Senior Agent to be three hundred and fifteen basis points (3.15%) per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan.
- (c) Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of Interest Period but will remain immediately due and payable.

9 **INTEREST PERIODS**

9.1 **Interest Periods**

- (a) The Interest Period for any Loan under the Senior Facilities (other than the VAT Facility and the Working Capital Facility) will, subject to the other provisions of this Clause 9.1, be three (3) months. The first Interest Period for each Loan shall commence on the Utilisation Date for such Loan and shall end on the first to occur of March 25, June 25, September 25 and December 25 of such calendar year. Each subsequent Interest Period shall commence on the expiry of the previous Interest Period. If a Loan is advanced on a date that is less than one (1) month prior to the commencement of the next Interest Period, interest will be calculated on such Loan on a daily basis until the end of the next Interest Period and shall be added to the Financing Principal amount of the Loan in question on last day of the next Interest Period.

- (b) The Interest Period for any Loan under the VAT Facility or the Working Capital Facility will, subject to the other provisions of this Clause, be one (1) month.
- (c) If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

9.2 **No Overrunning the Final Maturity Date**

If an Interest Period would otherwise overrun the Final Maturity Date applicable to that Senior Facility, it will be shortened so that it ends on the Final Maturity Date of such Facility.

9.3 **Other Adjustments**

The Senior Agent and the Borrower may enter into such other arrangements as they may agree for the adjustment of terms and the consolidation and/or splitting of Loans. Notwithstanding the foregoing, the Senior Agent shall be entitled to consolidate the Loans made under the Senior Facilities and to make such other adjustments (including making adjustments to repayment schedule), in order to facilitate the efficient administration of the Loans or to accord with current market practice, provided that, in each case, such adjustments do not adversely affect the Borrower. The interest rate on a consolidated loan shall be equal to the weighted average of the interest rates on the Loans being consolidated.

10 **LINKAGE**

The Linked Loans under the Long Term Facility, the Standby Facility, the DSRA Facility and the Hedging Facility and all interest thereon and any other amount required to be linked to the Index under the Senior Finance Documents shall be linked to the Index in accordance with the following:

- (a) If on any Linkage Date or any date when a calculation is to be made in accordance with the provisions of a Senior Finance Documents, the New Index shall have risen in comparison to the Base Index or, with respect to a Linked Loan, the Loan Base Index, the Borrower shall make all payments to the Senior Agent on such date (whether in respect of Financing Principal, interest or any other amount payable in NIS hereunder), duly multiplied by the New Index and divided by the Base Index or the Loan Base Index, as applicable. If on any Linkage Date the New Index shall not have risen or shall have fallen in comparison to the Base Index or the Loan Base Index, as applicable, the Borrower shall effect payment in full of all such amounts payable hereunder at their stated values, without any reduction.
- (b) If the Index due to be published preceding any such date, shall not be published for any reason, then until the Index is published, the “ **New Index** ” with respect to any payment made on such date, shall mean, the last published Index.

- (c) If it transpires that the New Index which shall have been published shall have risen in comparison to the Index which served as a provisional basis for making the aforesaid payments, then the Borrower shall pay to the Senior Lenders the resulting differentials within five (5) Business Days from the date of publication of the New Index.
- (d) Conversely, if it transpires that the New Index which shall have been published late, shall have fallen in comparison to the Index which served as a provisional basis for making the aforesaid payments, then the Senior Lenders shall pay to the Borrower the resulting differentials by way of set-off against the next payment from the Borrower to the Senior Lenders. Notwithstanding the above, for the purposes of calculating any such differentials, the New Index taken into account shall not fall below the Base Index or the Loan Base Index, as applicable.

11 MARKET DISRUPTION

11.1 Market Disruption Event

In this Clause, each of the following events is a “ **Market Disruption Event** ”:

- (a) the Senior Agent is unable to determine the applicable rate of Interest, or otherwise determines that adequate and fair means do not exist for ascertaining the same; or
- (b) the Senior Agent receives by close of business on the date that is five (5) Business Days before the proposed Utilisation Date of the applicable Loan notification from one or more of the Senior Lenders required to participate in that Loan that:
 - (i) the cost to it of obtaining matching deposits for the relevant period would be in excess of one hundred and fifty basis points (1.50%) per annum (the “ **Market Disruption Threshold** ”) above the Bond Rate;
 - (ii) matching deposits for the relevant period will not be available to it in the ordinary course of business to fund its participation in that Loan; or
 - (iii) there shall be no objective possibility for such Senior Lender to finance itself in respect of any particular Loan about to be made.

The Senior Agent must promptly notify the Borrower and the Senior Lenders of a Market Disruption Event.

11.2 Alternative Basis of Interest or Funding

- (a) If a Market Disruption Event set out in sub-clause 11.1(b)(i) above occurs, the following rate of interest shall be applied to each affected Loan:
 - (i) If the Market Disruption Threshold is equal to or greater than one hundred and fifty basis points (1.50%) per annum, but less than or equal to two hundred basis points (2.00%) per annum, then the Margin shall be increased by seventy five basis points (0.75%) per annum; or
 - (ii) If the Market Disruption Threshold is greater than two hundred basis points (2.00%) per annum, then the Margin shall be increased by the full amount of the increase in cost for obtaining matching deposits.

- (b) If any other Market Disruption Event occurs and the Senior Agent, any affected Senior Lender or the Borrower so requires, the Borrower and the Senior Agent with consultation with the Senior Lender affected by the market disruption (the “ **Affected Senior Lender** ”), must enter into negotiations for a period of not more than thirty (30) days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and such alternative basis shall be binding on the Affected Senior Lender.
- (c) In the event that no alternative basis is agreed pursuant to sub-clause (b) above, such Loan will not be made, and the Senior Agent shall be entitled to require, or the Borrower shall be entitled to elect to make, the immediate repayment of the outstanding balance of any or all Loans made by the Affected Senior Lender in accordance with Clause 7.2 (Mandatory Prepayment and Cancellation - Illegality) above and all Total Senior Lenders Commitments of the Affected Senior Lender(s) shall be cancelled immediately. The Borrower shall be entitled to fund such prepayment and cancellation by an alternative lender in accordance with the procedure set forth in Clause 28.4 (Replacement of a Defaulting Senior Finance Party).
- (d) To the extent that the alternative basis for the Loan made under this Clause is a short-term Loan, upon returning to normal market conditions which allow the return to the provisions of this Agreement, the Borrower shall resume drawings under the relevant Senior Facility (which Loan shall be used, *inter alia* , to prepay the short term Loan made under this Clause 11 (Market Disruption)), under the terms of this Agreement, and such Loans shall be continued for an Interest Period expiring on the next Interest Due Date which would have applied if these provisions of this Clause 11 (Market Disruption) had not been operating.

12 TAXES

12.1 General

In this Clause 12 (Taxes), “ **Tax Credit** ” means a credit against any Tax or any relief or remission for Tax (or its repayment).

12.2 Tax Gross-up

- (a) The Borrower must make all payments to be made by it to a Senior Finance Party under the Senior Finance Documents without any Tax Deduction, unless a Tax Deduction is required by law. Any Tax Deduction will be made within the time allowed by law.
- (b) If the Borrower or the Senior Agent is aware that the Borrower must make a Tax Deduction (or that there is a change in the calculation, rate or the basis of a Tax Deduction), it must promptly notify the affected Parties.
- (c) If a Tax Deduction is required by law to be made by the Borrower or the Senior Agent, the amount of the payment due from the Borrower will be increased to an amount which (after making the Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.
- (d) Within thirty (30) days of making either a Tax Deduction or a payment required in connection with a Tax Deduction, the Borrower must deliver to the Senior Agent evidence that the Tax Deduction has been made or paid to the relevant taxing authority.

12.3 **FATCA Deduction**

A Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Borrower and the other Senior Finance Parties.

12.4 **Tax Indemnity**

- (a) Except as provided below, the Borrower must indemnify a Senior Finance Party against any loss or liability which that Senior Finance Party determines will be or has been suffered (directly or indirectly) by that Senior Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Senior Finance Document.
- (b) Sub-Clause (a) above does not apply to any Tax assessed on a Senior Finance Party under the laws of the jurisdiction in which:
 - (i) that Senior Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Senior Finance Party is treated as resident for tax purposes; or
 - (ii) that Senior Finance Party's Senior Facility Office is located in respect of amounts received or receivable in that jurisdiction;if that Tax is imposed on or calculated by reference to the net income received or receivable by that Senior Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Senior Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.
- (c) A Senior Finance Party making, or intending to make, a claim under sub-Clause (a) above must promptly notify the Borrower of the event which will give, or has given, rise to the claim.

12.5 **Tax Credit**

If the Borrower makes a Tax Payment and:

- (a) the relevant Senior Finance Party determines that a Tax Credit is directly attributable to that Tax Payment;
- (b) there is no legal impediment to receiving such Tax Credit; and
- (c) the relevant Senior Finance Party has used and retained that Tax Credit,

the relevant Senior Finance Party must pay the Borrower an amount equal to that Tax Credit, provided that such payment will leave that Senior Finance Party (after such payment) in the same after-tax position as it would have been in if the Tax Payment had not been required to be made by the Borrower.

12.6 **Stamp Taxes**

The Borrower must pay and indemnify each Senior Finance Party against any stamp duty, stamp duty land tax, registration or other similar Tax payable in connection with the entry into, performance or enforcement of any Senior Finance Document, except for any such Tax payable in connection with the entry into a Transfer Certificate.

12.7 VAT

- (a) Any amount payable under a Senior Finance Document by the Borrower is exclusive of any VAT or any other Tax of a similar nature which might be chargeable in connection with that amount. If any such Tax is chargeable, the Borrower must pay to the Senior Finance Party (in addition to and at the same time as paying that amount) an amount equal to the amount of that Tax.
- (b) Where a Senior Finance Document requires a Party to reimburse a Senior Finance Party for any costs or expenses, that Party must also at the same time pay and indemnify that Senior Finance Party against all value added tax or any other Tax of a similar nature incurred by that Senior Finance Party in respect of those costs or expenses, against delivery of the VAT invoice with respect thereto.

12.8 Section 9(2) of the Income Tax Ordinance

To the extent that

- (a) a Senior Finance Party was entitled to an exemption from income tax on income received by such Senior Finance Party from the Borrower pursuant to Section 9(2) of the Income Tax Ordinance [New Version], 5721-1961; and
- (b) with respect to any payment made by the Borrower hereunder, such Senior Finance Party ceased to be entitled to such exemption due solely to changes in the ownership of the Borrower;

then the Borrower shall forthwith on demand, indemnify each such Senior Finance Party against any additional Tax payable by that Senior Finance Party as a result of the said exemption from income tax ceasing to apply. Such indemnity shall be by way of grossing up of the Tax payable and the provisions of Clause 12.3 (Tax Indemnity) above shall apply.

13 INCREASED COSTS

13.1 Increased Costs

Except as provided below in this Clause, the Borrower must pay to a Senior Finance Party the amount of any Increased Cost incurred or payable by that Senior Finance Party or any of its Affiliates as a result of:

- (a) after the Signature Date, the introduction of, or any change in, or any change in the interpretation by a Government Entity (including any court), administration or application of, any law or regulation; or
- (b) compliance with any law or regulation made after the Signature Date.

Payment of Increased Costs pursuant to this Clause 13.1 (Increased Costs) shall be made within 30 (thirty) days of a demand of the Senior Agent to make such payment, unless the law or regulation (including, change in interpretation with respect thereto) referred to in sub-Clauses (a) or (b) above specifically sets a later date for such payment, in which case the payment shall be made by such later date.

13.2 Exceptions

The Borrower need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- (a) compensated for, or would have been compensated for, under another Clause but for an exception to that Clause; or
- (b) attributable to a Senior Finance Party or its Affiliate wilfully failing to comply with any law or regulation; or
- (c) applicable to borrowers similarly situated to the Borrower, but such Senior Finance Party decides to impose such Increased Cost only on the Borrower (unless such Increased Cost was specifically required to be imposed pursuant to Applicable Law).

13.3 Claims

A Senior Finance Party intending to make a claim for an Increased Cost must notify the Senior Agent of the circumstances giving rise to and the amount of the claim following which the Senior Agent will promptly notify the Borrower.

14 MITIGATION

14.1 Mitigation

- (a) Each Senior Finance Party shall take all reasonable steps to mitigate any circumstances which arise and which result or would result in any Tax Payment or Increased Costs in connection with the Senior Finance Documents. The foregoing does not in any way limit the obligations of the Borrower under the Senior Finance Documents.
- (b) The Borrower must indemnify each Senior Finance Party for all costs and expenses reasonably incurred by that Senior Finance Party as a result of any step taken by it under this Clause.
- (c) A Senior Finance Party is not obliged to take any step under this Clause, if, in the opinion of that Senior Finance Party (acting reasonably), to do so might be prejudicial to it.

14.2 Conduct of Business by a Senior Finance Party

Without derogating from Clause 14.1 (Mitigation), no term of this Agreement will interfere, limit or derogate, in any way, from the right of any Senior Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Senior Finance Party to investigate or claim any credit, relief, remission or repayment available to it in respect of Tax or the extent, order and manner of any claim or disclose any information relating to its affairs or any computation in respect of Tax.

15 REPRESENTATIONS

15.1 Representations

The representations and warranties set out in this Clause 15 (Representations) are made by the Borrower to each Senior Finance Party.

15.2 Status

It is a limited liability company, duly incorporated and validly existing under the laws of Israel.

15.3 Powers and Authority

- (a) It has the corporate power to:
 - (i) enter into, perform and deliver, and has taken all necessary action to authorise the entry into, performance and delivery of, the Transaction Documents to which it is a party and the transactions contemplated by those Transaction Documents; and
 - (ii) own its assets and carry out the Project.
- (b) No limit on its powers will be exceeded as a result of the borrowing, grant of security or giving of guarantees or indemnities contemplated by the Transaction Documents to which it is a party.

15.4 Legal Validity

- (a) Each Transaction Document is legally binding, valid and (subject to the Legal Opinion Qualifications) enforceable according to its terms.
- (b) Each Transaction Document to which a Principal Project Party is a party is in the proper form for its enforcement by that party in accordance with its terms in the courts of Israel.
- (c) Each Transaction Document is in full force and effect.

15.5 Non-Conflict

The entry into and performance by it of, and the transactions contemplated by, the Transaction Documents to which it is a party do not and will not conflict with:

- (a) any Applicable Law applicable to the Project, the Borrower or any of its assets;
- (b) its Organisational Documents;
- (c) any Transaction Authorisation; or
- (d) any document which is binding upon it or any of its assets or constitute a default or termination event (however described) under any such document.

15.6 No Default

- (a) No Default is outstanding or will result from the execution of, or the performance of any transaction contemplated by, any Transaction Document.
- (b) There is no outstanding breach by the Borrower of any term of any Transaction Document to which it is a party and no Person has disputed, repudiated or disclaimed liability under any Transaction Document to which it is a party or evidenced an intention to do so.
- (c) No other event is outstanding which constitutes (or, with the expiry of a grace period, the giving of notice, the making of any determination or any combination of the foregoing, would constitute) a default or termination event (however described) under any document which is binding on it or any of its assets to an extent or in a manner which has or is reasonably likely to have a Material Adverse Effect.

- (d) To the best of its knowledge, no Project Party is in breach of the terms of any Transaction Document to which that Project Party is a party, its Organisational Documents, or any Transaction Authorisation.

15.7 **Transaction Authorisations**

- (a) All Transaction Authorisations required by each Project Party are listed in Schedule 13 (Transaction Authorisations) of this Agreement as updated in accordance with Clause 17.1(b) below.
- (b) All Transaction Authorisations have been obtained or effected and are in full force and effect or will be obtained or effected and will be in full force and effect on the date they are required, in each case, without any conditions or requirements which the Borrower or, to the best of its knowledge, the applicable Project Party, does not reasonably expect to be able to satisfy.
- (c) It, or to the best of its knowledge, the applicable Project Party, is in full compliance in all material respects with the terms of each Transaction Authorisation.
- (d) To the best of its knowledge:
- (i) there is no reason why any Transaction Authorisation will not be obtained or effected by the time it is required, including any permits required to connect to the IEC's Electricity Network;
 - (ii) no steps to revoke, cancel, challenge or annul any Transaction Authorisation have been taken;
 - (iii) there is no reason why any Transaction Authorisation will not be renewed when it expires without the imposition of any new restriction or condition; or
 - (iv) there is no reason why the Permanent License will not be obtained on substantially the same terms as the Provisional License.
- (e) The Project, if constructed and operated in accordance with the plans and specifications therefor and the Project Documents, will conform to and comply with all covenants, conditions, restrictions and reservations in the Transaction Authorisations, the Transaction Documents applicable thereto and all Applicable Laws.

15.8 **Insolvency**

- (a) No:
- (i) action, legal proceeding or other procedure or step described in sub-Clause (a) of Clause 20.7 (Insolvency Proceedings); or
 - (ii) creditors' process described in Clause 20.8 (Creditors' Process);
- has been taken or is threatened in relation to it nor, to the best of its knowledge, has been taken or is threatened in relation to any Major Project Party.
- (b) None of the circumstances described in Clause 20.6 (Insolvency) applies to it, nor, to the best of its knowledge, to any Major Project Party.

15.9 Financial Statements

- (a) Its audited annual financial statements most recently delivered to the Senior Agent (which, at the Signature Date, are the financial statements delivered to the Senior Agent in accordance with Schedule 2 (Initial Conditions Precedent):
 - (i) have been prepared in accordance with GAAP consistently applied (including the treatment of the Project as a “financial asset”) and give true and fair view of its financial condition as at the date to which they were drawn up;
 - (ii) have been audited by the Auditors; and
 - (iii) contain no form of qualification of any kind by the Auditors as to the true and fair view of its financial condition;except, in each case, as disclosed to the contrary in the financial statements.
- (b) There has been no material adverse change in its financial condition since the date on which the financial statements were drawn up.

15.10 Budgets, Calculation of Ratios and Financial Model

- (a) The Assumptions and any estimates made by the Borrower and supplied to the Senior Agent for the purposes of preparing any Forecast or Historic Statement (in each case whether draft or otherwise), the Financial Model or the revised Financial Model or any Budget were determined in good faith by the Borrower after due and careful enquiry and represent the genuine views of the Borrower, it being recognised that forecasts by their nature are uncertain.
- (b) Each of the Financial Model, the revised Financial Model and each Forecast, Budget and Historic Statement (in each case whether draft or otherwise) as at the date delivered by the Borrower:
 - (i) other than in respect of any estimate, was true and accurate in all material respects;
 - (ii) was prepared in good faith and with due care on the basis of recent historical information and assumptions believed by it to be reasonable;
 - (iii) was consistent with the Transaction Documents and takes into account all Applicable Laws and Tax treatment;
 - (iv) reasonably represented the Borrower’s expectations in relation to the matters covered in those documents
 - (v) has been, other than as expressly disclosed to the Senior Agent in writing as of the date on which such document is dated, prepared in accordance with GAAP; and
 - (vi) with respect to each Historic Statement, has been approved by the Borrower’s CEO, the Borrower’s CFO or any other officer of the Borrower whose identity is approved by the Senior Agent in accordance with the form of Schedule 12 (Form of Historic Statement).
- (c) To the best of its knowledge, there is no information which, if disclosed, would make any of the Financial Model, the current Budget, the current Forecast or calculation of any Ratio untrue or misleading in any material respect.

- (d) Each current Budget specifies (at the date of delivery to the Senior Agent) all material costs and expenses incurred or to be incurred during the period to which it relates and is based on reasonable assumptions made in good faith and represents the Borrower's view as to costs and expenses anticipated by it to be incurred:
 - (i) in order to achieve the Construction Completion Date by the Scheduled Completion Date; and
 - (ii) after the Construction Completion Date, during the period to which it relates;in a manner consistent with the Transaction Documents.
- (e) There is no defect in the Financial Model which would materially affect the computation of the financial projections and projected cash flows as required by and in accordance with the Senior Finance Documents.
- (f) The arithmetic and methodology of all calculations contained in the Financial Model are correct and in keeping with best professional practice of similarly situated companies in all material respects.
- (g) The Senior Finance Parties have full authority to use the Financial Model for the purposes contemplated by the Senior Finance Documents.

15.11 **Litigation**

- (a) No litigation, arbitration or administrative proceedings, Environmental Claim or injunction, writ, restricting order or order of any nature are current or have been issued or, to its knowledge, pending or threatened against the Borrower.
- (b) To the best of its knowledge and belief, no litigation, arbitration or administrative proceedings, Environmental Claim or injunction, writ, restricting order or order of any nature are current or have been issued or, to its knowledge, pending or threatened against any person (other than the Borrower), which have, or, if adversely determined, are reasonably likely to have, a Material Adverse Effect.

15.12 **Environmental Law**

- (a) It is in compliance with Clause 17.10 (Environmental matters) and to the best of its knowledge no circumstances have occurred which would prevent such compliance in a manner or to an extent which has or is reasonably likely to have a Material Adverse Effect.
- (b) No Environmental Claim has been commenced or (to the best of its knowledge) is threatened against any Principal Project Party where that claim has or is reasonably likely, if determined against that Principal Project Party, to have a Material Adverse Effect.
- (c) The cost to it of compliance with Environmental Laws (including Environmental Approvals) is (to the best of its knowledge) adequately provided for in the Financial Model and the cost of compliance with the recommendations contained in the Technical Adviser's report referred to in paragraph 12(a) of Schedule 2 (Initial Conditions Precedent) is adequately provided for in the Financial Model.

15.13 Utility Availability

Subject only to payment of costs contemplated in the Construction Budget, all services, materials, utilities, transportation, facilities and infrastructure reasonably necessary for the design and construction of the Project are available for use at the Site or will be available (and, in respect of the start-up and maintenance of the Project or any part thereof are so available but only as of the date that they are so required to be available under the terms of the Transaction Documents) and arrangements reflected accurately in the Construction Budget on reasonable terms have been made for the provision of such services, materials, utilities, transportation, facilities and infrastructure and connection to the IEC's Electricity Network and supply of steam.

15.14 Ownership of Assets

- (a) It has:
- (i) freedom and access to use the Site and/or the Energy Center Site, and in accordance with the terms of the Land Lease Agreement and/or the Energy Center Land Lease Agreement;
 - (ii) good title to, or freedom to use under any applicable laws, any assets (including intellectual property rights) necessary, customary or desirable to implement the Project in accordance with the Transaction Documents;
 - (iii) good and marketable title to all the assets reflected in its latest audited financial statements; and
 - (iv) access to the Site and the Energy Center Site (for so long as the Energy Center is held by the Borrower), any buildings or fixtures on the Site and/or the Energy Center Site (for so long as the Energy Center is held by the Borrower), and all easements, wayleaves and other rights necessary in order to implement the Project in accordance with the Transaction Documents;
- in each case on the terms set out in the Project Documents and free from Security Interests (other than any Permitted Security Interests), restrictions and onerous covenants.
- (b) The Borrower has paid all due payments, fees, levies, duties and the like for all of the above purposes.
- (c) It is the sole legal and beneficial owner of the assets over which it purports to grant a Security Interest pursuant to the Security Documents.
- (d) The Project, including all materials, services, equipment and other parts of the Project Works and Project Facilities, is free and clear of all claims, Security Interests (other than Permitted Security Interests), encumbrances in the nature of mechanics, labour or material men's liens, possessory liens and "moral rights".

15.15 No Other Business

- (a) Except as expressly contemplated by the Transaction Documents and any ancillary or related activities, it has not traded or carried on any business since August 10, 2015 and, to the best of the Borrower's knowledge, since the date of its incorporation.

- (b) Except as may arise under the Transaction Documents, it does not have and has not had any assets or actual or contingent liabilities or commitments.
- (c) It does not own or hold any equity interest or equivalent interest in any other Person.

15.16 Ranking of Security

Each Security Document is legal, valid and enforceable in accordance with any Applicable Law and creates first priority security interests of the types described, over the assets referred to, in such Security Document, and those assets are not subject to any prior or *pari passu* Security Interest.

15.17 Project and Transaction Documents

- (a) Each copy of a Project Document delivered to the Senior Agent under this Agreement is true and complete and there is no other agreement or document in connection with, or arrangements which amend, supplement or affect any Project Document.
- (b) The Project Documents include all agreements required for the design, construction, ownership (to the extent relevant), use and maintenance of the Project as contemplated by the Transaction Documents.
- (c) To the best of its knowledge, there is no event or circumstance that is reasonably likely to prevent the achievement of Construction Completion Date by the Scheduled Completion Date and within the Construction Budget.
- (d) There is no dispute in connection with any Project Document which, if adversely determined, would, or would be reasonably likely to have a Material Adverse Effect.
- (e) It is not a party to any material agreement other than the Transaction Documents.
- (f) It has not granted the issuer of any Project Guarantee any recourse to its assets and to the best of its knowledge, none of the issuers of such Project Guarantees have relied on the assets or credit of the Borrower in any way in connection with the Project Guarantees.
- (g) The scope of the Project Documents is sufficient to provide the Borrower with all the required services, materials, utilities, facilities or infrastructure for the design, construction and operation of the IPP, including producing through the use of natural gas, electricity and steam in the quantities envisaged in the Initial Financial Model and contemplated in the Project Documents and any PPA during the Commercial Operation Phase.

15.18 Ownership

- (a) No Shareholder or other Person has any right to call for the issue or transfer of any share capital or loan stock in the Borrower other than in accordance with the Equity Documents or the Security Documents.
- (b) The shares in the capital of the Borrower are fully paid.

- (c) Subject to the Security Documents, the Initial Shareholder is the legal and beneficial owner of all of the share capital of the Borrower, in each case, free from any Security Interests.
- (d) The authorised share capital in the Borrower is 51,000 ordinary shares, par value NIS 1 per share, 1,000 of which are held by the Initial Shareholder.
- (e) The Borrower does not have outstanding any securities convertible into or exchangeable for its share capital or any options, warrants or other rights to acquire share capital or securities convertible or exchangeable into its share capital, or any agreements, arrangements or understandings providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, its share capital or to other instruments which entitle the holder to influence the operations of the Borrower.

15.19 **Financial Indebtedness**

- (a) The Borrower does not have any Financial Indebtedness of any kind or nature, save for as permitted pursuant to Clause 17.7 (Financial Indebtedness) below.
- (b) The Financial Indebtedness of the Borrower pursuant to the Senior Finance Documents constitutes direct, unconditional, and general obligations of the Borrower and ranks, not less than *pari passu* as to priority of payment to all other Financial Indebtedness of the Borrower except for obligations mandatorily preferred by law applying to companies generally.

15.20 **Taxes**

- (a) All amounts payable by it under the Senior Finance Documents may be made without any Tax Deduction (except with respect to any tax obligations of the Senior Finance Parties, if applicable).
- (b) No claims are being, nor, to the best of its knowledge, might reasonably be expected to be, asserted against it with respect to Taxes.
- (c) All Tax reports and returns required to be filed by or on behalf of it have been filed when due.
- (d) All Taxes required to be paid by or on behalf of it have been paid within the applicable time limit, except any Tax being contested in good faith and by appropriate means and where the Borrower has set aside an adequate reserve for payment of that Tax.

15.21 **No Filing or Stamp Duties**

Except for registration with, and registration fees payable to, the Companies Registry and the Pledges Registry and Land Registry in respect of each of the Charges and the Equity Pledges, it is not necessary that the Senior Finance Documents be filed, recorded or enrolled with any court or other authority in Israel and no stamp or registration duty or similar Tax or charge is payable in Israel in respect of any Transaction Document or any transaction contemplated by any Transaction Document.

15.22 **No Force Majeure**

No Force Majeure Event or any other event of force majeure as defined or contemplated in any other Project Document has occurred and is continuing.

15.23 Intellectual Property Rights

- (a) It has all of the Intellectual Property Rights (including software licences, software licence agreements and software maintenance agreements) necessary for the construction, operation and maintenance of the Project and in order to comply with its obligations under the Transaction Documents free from all Security Interests other than Permitted Security Interests.
- (b) It does not have any material Intellectual Property Rights which are capable of being the subject of a Security Interest in favour of the Security Agent.

15.24 No Immunity

- (a) The execution by it of each Transaction Document constitutes, and the exercise by it of its rights and performance of its obligations under each Transaction Document will constitute, private and commercial acts performed for private and commercial purposes.
- (b) It will not be entitled to claim immunity from suit, execution, attachment or other legal process in any proceedings taken in Israel in relation to any Transaction Document.

15.25 Insurances

- (a) All Insurances or Reinsurances which are required to be maintained or effected pursuant to the Transaction Documents and Applicable Law are in full force and effect. All premia or other payments with respect to such Insurances or Reinsurances have been paid in full when due and all other terms of such Insurance or Reinsurances have been complied with.
- (b) No event or circumstance has occurred, nor has there been any omission to disclose or misrepresentation of a material fact or breach of any warranty or condition precedent, whereby any Insurance or Reinsurance may be rendered void or voidable or suspended, impaired or defeated in whole or in part.

15.26 Information

- (a) Without derogating from sub-Clause (c) below, any information provided to the Senior Finance Parties in connection with the Transaction Documents and the Project: (i) is true, complete and accurate in all material respects at the time it was given or made; (ii) does not omit anything which could make the information untrue, inaccurate or misleading in any material respect.
- (b) There are no facts or circumstances or any other information which could make the information provided to the Senior Finance Parties incomplete, untrue, inaccurate or misleading in any material respect.
- (c) All opinions, projections, forecasts or expressions of intention contained in the information and the assumptions on which they are based have been arrived at after due and careful enquiry and consideration and are believed to be reasonable by the Borrower as at the date they were given or made, it being understood that forecasts by their nature are uncertain.

15.27 Information provided to the Arranger

- (a) The Borrower has no possession of any material information in connection with the Senior Facilities or the Project, which was not made available to the Arrangers.
- (b) The Parties agree that the documents listed in Schedule 19 (List of Documents provided to the Arranger) have been delivered by the Borrower to the Arrangers in connection with the Senior Facilities or the Project.

15.28 Times for Making Representations

- (a) Each of the representations set out in this Clause 15 (Representations) are made by the Borrower on the Signature Date, on Financial Close and on the date of the first Request.
- (b) Each of the Repeating Representations is deemed to be repeated by the Borrower on the date of the giving of each Drawdown Request, on each Utilisation Date, on the date of each Disbursement Request and on the first day of each Interest Period.
- (c) When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

16 INFORMATION COVENANTS

16.1 Financial Statements

The Borrower must supply to the Senior Agent, who in turn will distribute to all the Senior Lenders,

- (a) its audited annual financial statements for each of its financial years within ninety (90) days of the end of its financial year and its reviewed quarterly financial statements within sixty (60) days of the end of the relevant financial period; and
- (b) the audited consolidated financial statements of:
 - (i) each Major Project Party listed in paragraphs (a), (b), (e), (g), (i) and (j) of the definition of “Major Project Party”,
 - (ii) any other Major Project Party, for as long as such financial statements are publicly available,

for each of the financial years subsequent to the financial year with respect to which financial statements were delivered pursuant to Schedule 2 (Initial Conditions Precedent) within ninety (90) days of the end of the relevant financial period.

16.2 Form of Financial Statements

- (a) The Borrower must ensure that its financial statements:
 - (i) give (if audited) a true and fair view of, or (if unaudited) fairly represents the financial condition (consolidated or otherwise) of the Borrower as at the date to which those financial statements were drawn up; and
 - (ii) have been prepared in accordance with GAAP.

- (b) The Borrower must notify the Senior Agent of any proposed change to the manner in which its financial statements are prepared and to explain, to the full satisfaction of the Senior Agent, such change, including its ramifications with respect to the Financial Model or the Project. It being clarified that the Borrower shall not be entitled to voluntarily adopt any such change (unless required to be adopted in order to comply with GAAP) without the prior written consent of the Senior Agent, not to be withheld unless such change may adversely affect the Project.
- (c) If requested by the Senior Agent, the Borrower must supply to the Senior Agent:
 - (i) a full description of any change notified under paragraph (b) above; and
 - (ii) sufficient information to enable the Senior Finance Parties to make a reasonable comparison between the financial position shown by the set of financial statements prepared on the changed basis and its most recent audited financial statements delivered to the Senior Agent under this Agreement.

16.3 Information Requirements During the Construction Phase

- (a) The Borrower must supply to the Senior Agent, who in turn will distribute copies to all Senior Lenders and the Technical Adviser, monthly progress reports in relation to the construction of the Project in respect of each monthly period up to and including the monthly period commencing on the Commercial Operation Date, or, upon the occurrence of special circumstances (in the opinion of the Senior Agent) with respect to any other period, in a form acceptable to the Senior Agent and the Technical Adviser, which shall include details of, without limitation:
 - (i) the extent to which the Construction Budget has been complied with in that period and, where it has not been complied with, reasons for such non-compliance;
 - (ii) any event of which it is aware which may delay the Construction Schedule, the Scheduled Completion Date, or the date of issuance of the Permanent License or the Supply License and the anticipated duration of any such delay;
 - (iii) details of actual expenditure in comparison to the Construction Budget both in real and nominal terms, and actual performance in comparison to the timetable and milestones set out in the EPC Contract; and
 - (iv) any material event, issuance of Variation or material changes in the scope of the Project.
- (b) The information referred to in sub-Clause (a) above must be supplied by the Borrower as soon as it is available and in any case within twenty five (25) days of the end of the relevant monthly period.
- (c) The Borrower must promptly notify the Senior Agent of:
 - (i) any breach (or attempted breach) of Site or Project safety or security which has or is reasonably likely to have a Material Adverse Effect;
 - (ii) any material claim it may have under any indemnity or provision for liquidated damages under the EPC Contract or any material claim made by the EPC Contractor;

- (iii) any change of work which the Borrower wishes to request or agree to or which is mandatory under the EPC Contract and which is likely to increase the Lump Sum Price (as defined in the EPC Contract), extend the Scheduled Completion Date or change the milestones set out in the Construction Schedule;
 - (iv) any actual or proposed change to the milestones set out in the Construction Schedule or the Scheduled Completion Date, including any actual or proposed change to the timetable in the EPC Contract which would result in a change to the Scheduled Completion Date;
 - (v) any Cost Overrun;
 - (vi) receipt of any copies of all reports and notices provided by or to the EPC Contractor pursuant to the EPC Contract, other than notices which are of an administrative nature;
 - (vii) the satisfaction of any conditions to commencement or takeover of the Project Works;
 - (viii) any material breach of a Project Document;
 - (ix) any material claim from IEC, the PUA, Hadera Paper, the Gas Supplier or the Gas Transporter; and
 - (x) any other matter that may be material to the completion of the Project Works.
- (d) The Borrower must supply to the Senior Agent, who in turn will distribute copies to all the Senior Lenders and the Technical Adviser:
- (i) a cashflow statement for each calendar month showing performance against budget, and performance against the previous month, in each case, in relation to the Energy Center (for so long as the Energy Center is held by the Borrower) and the take-or pay obligations under the Gas Supply Agreement and in a form acceptable to the Senior Agent; and
 - (ii) details of the extent to which the Energy Center Budget has been complied with in that period and, where it has not been complied with, reasons for such non-compliance.
- (e) The information referred to in sub-Clause (d) above must be supplied by the Borrower within twenty five (25) days of the end of each calendar month or calendar year, as applicable.
- (f) On a weekly basis, the Borrower shall deliver to the Senior Agent a calculation of the Bond Rate in a form attached hereto as Schedule 20 (Bond Rate Calculation) (however, non compliance with this sub-clause (f) will not constitute a Default).
- (g) (i) By the end of each calendar year; (ii) on the Second Reconciliation Date, and (iii) on the last day of the Warranty Period, the Borrower shall deliver to the Senior Agent, for its approval, a statement by the Borrower's CEO or the Borrower's CFO detailing the total amount of Loans which have been applied for the purposes set forth in paragraphs (i) and/or (ii) of Clause 2.3 (EPC/Energy Center Undertakings) of the Equity Subscription Agreement.

16.4 Information Requirements During the Commercial Operation Phase

- (a) The Borrower must supply to the Senior Agent, who in turn will distribute copies to all the Senior Lenders, and the Technical Adviser:
 - (i) an operating report for each calendar quarter in a form attached hereto as Schedule 15 (Form of Operating Report), which shall include details of:
 - (A) the actual amounts of electricity supplied to IEC and End Users (compared to the corresponding calendar quarter in the previous year);
 - (B) the actual expenditure in comparison to the Operating Budget in nominal terms;
 - (C) operating hours, availability and efficiency of the IPP;
 - (D) gas consumption, electricity and steam sales during the preceding calendar quarter and the preceding twelve (12) months period and a comparison between the applicable periods, and with respect to a calendar quarter, the equivalent quarter during the previous calendar year;
 - (E) electricity consumption of the IPP;
 - (F) electricity sales during peak, shoulder and off-peak hours;
 - (G) any fines paid by the Borrower to the PUA or an Essential Service Provider (as that term is defined under the Electricity Sector Law) in accordance with the PUA Rules and consumption details of the End Users; and
 - (H) the performance of the IPP in comparison to the performance guaranteed values under the EPC Contract and the O&M Contract, including an explanation as to the differences, if any, between actual performance and guaranteed performance and a copy of any material information, communication and documentation with respect to the O&M Services.
 - (ii) a cashflow statement for each calendar year showing performance against budget, and performance against the previous year, in a form acceptable to the Senior Agent.
 - (iii) details of the extent to which the Operating Budget has been complied with in that period and, where it has not been complied with, reasons for such non-compliance;
 - (iv) a copy of any material information, communication and documentation, with respect to the O&M Services.
- (b) The information referred to in sub-Clause (a) above must be supplied by the Borrower as soon as it is available and in the case of each operating report and cash flow statement, within sixty (60) days of the end of each calendar quarter or calendar year, as applicable.
- (c) The Borrower must promptly notify the Senior Agent of:
 - (i) any breach (or attempted breach) of Site or Project safety or security which has or is reasonably likely to have a Material Adverse Effect;
 - (ii) any material event, Variation or material changes in the scope of the Project;

- (iii) any material breaches of the Project Documents;
- (iv) any material claim it may have under any indemnity or provisions for liquidated damages under the O&M Contract or any material claim by the Operator; and
- (v) notwithstanding any other provision to the contrary, any material claim from IEC, the PUA, Hadera Paper, any End Users pursuant to a Material PPA, the Gas Supplier or the Gas Transporter.

16.5 Budgets

- (a) The Borrower must supply to the Senior Agent, who in turn will distribute to all the Senior Lenders, and the Technical Adviser:
 - (i) as soon as the same is available and in any event by the date falling fifteen (15) days before the end of (A) the six (6) month period following the Signature Date and (B) each subsequent six (6) month period up to the Commercial Operation Date, a draft Construction Budget following the form of the Initial Construction Budget;
 - (ii) as soon as the same is available and in any event by the date falling fifteen (15) days before the end of (A) the six (6) month period following the Signature Date and (B) each subsequent six (6) month period up to the Commercial Operation Date, a draft Energy Center Budget following the form of the Initial Energy Center Budget; and
 - (iii) as soon as the same is available and in any event by each of (A) the earlier of (i) the Commercial Operation Date; and (ii) the date upon which the Borrower expects a deviation of more than ten percent (10%) in the aggregate from the Initial Operating Budget and (B) on 1 December of each year, a draft Operating Budget following the form of the Initial Operating Budget for the next twelve (12) month period.

in each case to be agreed in accordance with this Clause 16.5.

- (b) Following receipt of a draft Budget pursuant to this Clause 16.5, the Senior Agent shall distribute to the Senior Lenders a report, which will be prepared by the Technical Adviser, commenting on the technical costs and aspects of the draft Budget and recommending amendments (if any) to be made.
- (c) The Senior Agent must, within thirty (30) days of receipt of any draft Budget and following consultation with the Technical Adviser, notify the Borrower whether or not it approves the draft Budget.
- (d) If requested by the Senior Agent, the Borrower must enter into discussions with the Senior Agent and the Technical Adviser for as long as is necessary with a view to agreeing any draft Budget and until agreement is reached the previous Budget will continue to apply. If, within thirty (30) days from the date on which any change is proposed, no agreement has been reached the provisions of Clause 16.6(c) shall apply here *mutatis mutandis*.
- (e) The Borrower shall not make any amendment to any Budget without the prior approval of the Senior Agent.
- (f) In the absence of agreement regarding an amendment to a Budget, the Borrower may only make payments in respect of Project Costs (A) in accordance with the then current Construction Budget, the then current Energy Center Budget or subject to Clause 18.21 (Budgets), the then current Operating Budget (as the case may be) or (B) to the extent required under the Project Documents.

- (g) If an amendment to a Budget is approved by the Senior Agent (pursuant to sub-Clause (e) above) it will then be deemed the Construction Budget, the Energy Center Budget, the Operating Budget or the Financial Model (as the case may be) for the purposes of the Senior Finance Documents.

16.6 Financial Model and Ratios

(a) Submission of Updated Financial Model

Commencing on the first Utilisation Date and until all of the obligations of the Borrower under the Senior Finance Documents have been discharged in full, the Borrower shall supply to the Senior Agent an updated Financial Model, no later than: (i) during the Construction Phase, the date falling twenty one (21) Business Days prior to the end of each two quarter period; (ii) during the Commercial Operation Phase, the date upon which the Borrower is required to deliver its quarterly financial statements with respect to the second quarter and the fourth quarter pursuant to this Agreement.

(b) Disagreements

- (i) In case the Senior Agent disagrees with an updated Financial Model or a calculation of the Ratios submitted by the Borrower, it shall so notify the Borrower, and the Senior Agent and the Borrower will consult, in good faith, and use all reasonable endeavours resolve the disagreement as soon as practicable.
- (ii) If the Senior Agent and the Borrower are unable to agree on any updated Financial Model or calculation of the Ratios by the relevant Calculation Date, then for the purposes of the Senior Finance Documents, the updated Financial Model or the calculation or the Ratios, as the case may be, shall be determined by the Senior Agent.

(c) Changes to the Assumptions in the Financial Model

- (i) The Borrower (in order for it to be able to provide the representation set out in Clause 15.10(c) above) and the Senior Agent may each make proposals for changes to the Financial Model which they believe in good faith are necessary for producing more accurate calculations or projections, including following the occurrence of any event which affects the assumptions forming part of the Financial Model.
- (ii) Any proposal made under this sub-Clause must be accompanied by reasons for that proposal.
- (iii) If the Senior Agent and the Borrower are unable to agree on any change referred to above within thirty (30) days from the date on which the change is proposed, then, for the purposes of the Senior Finance Documents, the matter shall be referred to an expert, whose determination will be final. The expert will be a major accountancy or consultancy firm, nominated by the Borrower and agreed by the Senior Agent, or failing agreement within five (5) days of the identity of a person to be the expert, nominated (on the application of either party) by the Appointing Body.

in this Clause, the “ **Appointing Body** ” means:

- (a) in relation to economic assumptions, the Institute of Certified Public Accountants in Israel;
- (b) in relation to technical assumptions, the Association of Engineers, Architects and Graduates in Technological Sciences in Israel; and
- (c) in relation to regulatory assumptions and other matters not referred to in paragraphs (a) and (b) above, the chairman of the Israel Bar Association.

(d) Ratios

(i) The Borrower must supply to the Senior Agent, who will in turn distribute to all the Senior Lenders, the following Ratios:

(A) during the Construction Phase, prior to each drawdown:

- a. the LLCR;
- b. the Projected Average Debt Service Cover Ratio; and
- c. the Projected Minimum Debt Service Cover Ratio.

(B) during the Commercial Operation Phase, on the date of the delivery of each of the financial statements:

- a. the Historic Debt Service Cover Ratio as of the date of such financial statements;
- b. the Projected Debt Service Cover Ratio as of the date of such financial statements;
- c. the Projected Average Debt Service Cover Ratio;
- d. the Projected Minimum Debt Service Cover Ratio; and
- e. the LLCR.

(ii) The Senior Agent may request that an additional calculation of the Ratios will be prepared and submitted to it if it reasonably believes that:

(A) such calculation will demonstrate that an Event of Default is outstanding;

(B) if the Borrower has requested a waiver under a Senior Finance Document, and such waiver (if granted) may adversely affect a Ratio; or

(C) there has been a material change in one of the assumptions forming part of the Financial Model since the last Calculation Date.

16.7 Project Documents

- (a) Without derogating from the provisions of Schedule 10 (Reserved Discretions), the Borrower must promptly notify the Senior Agent if any of the following events occurs under or in relation to any Project Document:
- (i) any event which, the Borrower reasonably believes, may entitle any party to terminate or suspend any Project Document and/or a right granted to the Borrower pursuant thereto;
 - (ii) any actual, proposed or threatened suspension of the works conducted by a Party to a Project Document;
 - (iii) any actual, proposed or threatened claim in writing delivered to the Borrower by a party thereto for any liquidated or other damages or other compensation under or in respect of a Project Document in an amount in excess of two hundred and fifty thousands NIS (NIS 250,000) or its equivalent;
 - (iv) promptly upon becoming aware of any indemnities or damages (including liquidated damages) claimed or paid under a Project Document, any claims under a Project Guarantee or any events giving rise to any claims under a Project Document, details of the same;
 - (v) any notice of default or termination of a Project Document;
 - (vi) any actual or proposed extra Project Works or change to the specification of the IPP or to the Borrower's construction or operating requirements requested or required;
 - (vii) promptly on becoming aware of them, details of any proposal for an amendment or waiver of a Project Document; or
 - (viii) any actual or proposed adjustment to any prices, indices or other variables, or any payment, under any Project Document.
- (b) The Borrower must provide the Senior Agent with any further information and copy documentation in connection with any event mentioned in this Clause and in Clause 16.8 (Power Purchase Agreements and Steam Sale Agreement) below as the Senior Agent may reasonably require.
- (c) The Borrower must provide the Senior Agent with a copy of each material report under any Project Document and/or any PPA at the same time such report is provided to a party thereto.

16.8 Power Purchase Agreements and Steam Sale Agreement

Without derogating from the provisions of Schedule 10 (Reserved Discretions) or the generality of the provisions of Clause 16.7 (Project Documents), the Borrower must promptly notify the Senior Agent if any of the following events occurs under or in relation to any PPA:

- (a) with respect only to any Material PPA - any reduction of more than five percent (5%) from such End User's actual consumption during the corresponding three (3) month period during the preceding year of the quantities of electricity or steam purchased by a party thereto for a period of at least three consecutive (3) months (including anticipated reduction to the extent such has been notified to the Borrower) other than a reduction in the ordinary course of business of such party which was not a result of such party's financial difficulties, reduction and/or change in such party's operations;

- (b) the exercising of any right to increase quantities of electricity or steam purchased, if applicable.

16.9 **Information – Miscellaneous**

The Borrower must supply to the Senior Agent, who will in turn distribute to all the Senior Lenders:

- (a) promptly upon becoming aware of them, details of any litigation, arbitration, administrative proceedings or Environmental Claim which are current, threatened or pending and which have or might, if adversely determined, have a Material Adverse Effect;
- (b) promptly on request, such further information regarding the financial condition, assets and operations of the Borrower or, to the extent available to the Borrower, any other Major Project Party or any End User to a Material PPA, as the Senior Agent may reasonably request;
- (c) promptly upon becoming aware of them, details of any event which has or may have a Material Adverse Effect or details of any circumstances or any other information that makes the information provided to the Senior Finance Parties by the Borrower under the Transaction Documents incomplete, untrue, inaccurate or misleading in any material respect;
- (d) as soon as they are available, copies of all material documents and other material communications and information given or received by it under any Project Document or in relation to the Project Works, including details pertaining to Force Majeure Events, claims, notices of defects, payment of claims, payment of liquidated damages, notices of disputes, termination notices, material defects in the Project, anticipated delays and copies of all Transaction Authorisation;
- (e) upon the request of the Senior Agent, any information available to the Borrower, as may be required by a Senior Lender in order to comply with regulatory requirements to which it is subject;
- (f) promptly upon becoming aware of them, details of any claim made under any Insurance or Reinsurance where the claim is for a sum in excess of two hundred and fifty thousands NIS (NIS 250,000) or its equivalent (before deductibles) or where the amount of the claim when aggregated with all other amounts claimed under any Insurance or Reinsurance during the previous six (6) months exceeds four hundred thousands NIS (NIS 400,000) or its equivalent;
- (g) promptly upon becoming aware of them, details of any proposal for an amendment or waiver of a Project Document;
- (h) promptly upon becoming aware of them, details of any damage to, or destruction of, any assets in the Project or the Project Facilities, where the cost of repair or re-instatement is likely to exceed two hundred and fifty thousand NIS (NIS 250,000) or its equivalent;

- (i) promptly upon becoming aware of any material defects in the Project Works identified by it, the EPC Contractor or the Operator, details of the same;
- (j) if requested by the Senior Agent, copies of all Transaction Authorisations obtained by it;
- (k) promptly upon becoming aware of them, details of any:
 - (i) reason why any Transaction Authorisation will not be obtained or effected by the time it is required;
 - (ii) steps to revoke or cancel any Transaction Authorisation; or
 - (iii) reason why any Transaction Authorisation will not be renewed when it expires without the imposition of any new restriction or condition; and
- (l) copies of all material documents and other material communication between a Government Entity and the Borrower.

16.10 **Notification of Default**

- (a) The Borrower must notify the Senior Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- (b) Promptly upon request by the Senior Agent, the Borrower must supply to the Senior Agent a Borrower's certificate, signed by two of its authorised signatories, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it. A request sent to the Borrower pursuant to this sub-clause (b) shall specify the reasons for which the Senior Agent believes that a Default has occurred or is outstanding.

16.11 **Forecast Funding Shortfall**

The Borrower must, on each date that it delivers a Drawdown Request, deliver to the Senior Agent a Borrower's certificate signed by two of its authorised signatories (one of which shall be the Borrower's CFO), certifying that there is no Forecast Funding Shortfall existing at the time.

16.12 **Year End**

The Borrower must not change its financial year end from being 31 December.

16.13 **Know Your Customer Requirements**

- (a) The Borrower must promptly on the request of any Senior Finance Party supply to that Senior Finance Party any documentation or other evidence which is reasonably requested by that Senior Finance Party (whether for itself, on behalf of any Senior Finance Party or any prospective new Senior Lender) to enable a Senior Finance Party or prospective new Senior Lender to carry out and be satisfied with the results of all applicable "know your customer" requirements in relation to the Borrower and each Shareholder and in order to enable a Senior Finance Party to verify that no event of illegality pursuant to Clause 7.2 (Mandatory Prepayment and Cancellation - Illegality) of this Agreement has occurred.

- (b) Each Senior Finance Party must promptly on the request of the Senior Agent supply to the Senior Agent any documentation or other evidence which is reasonably required by the Senior Agent to carry out and be satisfied with the results of all applicable “know your customer” requirements.

16.14 FATCA Information

- (a) Subject to sub-Clause (c) below, each Party shall, prior to Financial Close and within fifteen (15) Business Days of a reasonable request by another Party:
 - (i) confirm to that other Party whether it is:
 - (A) a FATCA Exempt Party; or
 - (B) not a FATCA Exempt Party
 - (ii) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party’s compliance with FATCA;
 - (iii) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party’s compliance with any other law, regulation, or exchange of information regime.
- (b) If a Party confirms to another Party pursuant to sub-Clause (a)(i) above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- (c) sub-Clause (a) above shall not oblige any Senior Finance Party to do anything, and sub-Clause (a)(iii) above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
 - (i) any Applicable Law;
 - (ii) any fiduciary duty; or
 - (iii) any duty of confidentiality.
- (d) If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with sub-Clause (a)(i) or (ii) above (including, for the avoidance of doubt, where sub-Clause (c) above applies), then such Party shall be treated for the purposes of the Senior Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.
- (e) Where a Borrower is not a US Tax Obligor, the date of a request from the Agent, supply to the Senior Agent:
 - (i) a withholding certificate on Form W-8, Form W-9 or any other relevant form; or
 - (ii) any withholding statement or other document, authorisation or waiver as the Senior Agent may require to certify or establish the status of such Senior Lender under FATCA or that other Applicable Law.

- (f) The Senior Agent shall provide any withholding certificate, withholding statement, document, authorisation or waiver it receives from a Senior Lender pursuant to sub-Clause (e) above to the Borrower.
- (g) If any withholding certificate, withholding statement, document, authorisation or waiver provided to the Senior Agent by a Senior Lender pursuant to paragraph (e) above is or becomes materially inaccurate or incomplete, that Senior Lender shall promptly update it and provide such updated withholding certificate, withholding statement, document, authorisation or waiver to the Senior Agent unless it is unlawful for the Senior Lender to do so (in which case the Senior Lender shall promptly notify the Senior Agent). The Senior Agent shall provide any such updated withholding certificate, withholding statement, document, authorisation or waiver to the Borrower.
- (h) The Senior Agent may rely on any withholding certificate, withholding statement, document, authorisation or waiver it receives from a Senior Lender pursuant to paragraph (e) or (g) above without further verification. The Senior Agent shall not be liable for any action taken by it under or in connection with paragraph (e), (f) or (g) above.

16.15 **Information to the Registry Office**

To the extent requested by the Senior Agent or a Senior Lender, the Borrower shall, within 3 (three) Business Days of receipt of such request, deliver to Fair Spread Ltd. (or to any substitute entity that was appointed as a registry office for the purposes of the Institutional Entity Circular No. 22-9-2013 issued by the Commissioner on December 30, 2013), any specific information requested by the Senior Agent or a Senior Lender in connection with the aforementioned Institutional Entity Circular. It is hereby clarified that failure of the Borrower to comply with this Clause 16.15 will not constitute a Default.

17 **GENERAL COVENANTS**

17.1 **Authorisations**

- (a) The Borrower must promptly obtain, maintain and comply with the terms of its Transactions Authorisations in accordance with the list set forth in Schedule 13 (Transactions Authorisations) at such times in order to implement the Project in accordance with the Project Schedule.
- (b) In the event that following the Signature Date, an additional Transaction Authorisation is required and such Transaction Authorisation is not included in Schedule 13 (Transactions Authorisations), Schedule 13 (Transactions Authorisations) shall be updated to include such Transaction Authorisation and the Borrower shall be obligated to obtain such Transaction Authorisation by no later than the last day permitted for such obtainment under Applicable Law and all provisions of this Agreement with respect to Transaction Authorisations shall apply with respect to such new Transaction Authorisation as of such date.

17.2 Compliance with Laws

The Borrower must comply with all Applicable Laws in all material respects.

17.3 Ranking

- (a) The Borrower must ensure that its payment obligations under the Senior Finance Documents rank in priority to all of its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.
- (b) The Borrower must ensure that the Security Interests created in favour of the Senior Lenders are maintained as first ranking Security Interests until the Final Discharge Date.

17.4 Negative Pledge

- (a) The Borrower must not create or allow to exist any Security Interest on any of its assets other than a Permitted Security Interest.
- (b) The Borrower must not:
 - (i) sell, transfer or otherwise dispose of any of its assets on terms where it is or may be leased to or re-acquired or acquired by it or any of its Affiliates, other than the sale of gas during the Construction Phase, pursuant to the Bazan Agreement or, if the Bazan Agreement is terminated, any other agreement for the supply of gas by the Borrower that meets each of the following conditions:
 - (A) the Senior Agent approves in writing and in advance the entry into such agreement;
 - (B) the take-or-pay obligations of the off-taker under such agreement, together with quantities of gas required for the operation of the Energy Center (for so long as the Energy Center is held by the Borrower) and purchased by the Borrower in connection therewith, are at least equal to the take-or-pay obligations of the Borrower under the Gas Supply Agreement during the Construction Phase;
 - (C) the price of gas sold by the Borrower under such agreement is not lower than the contract price (as defined in the Gas Supply Agreement); and
 - (D) the entry into such agreement does not result in any losses incurred by the Borrower(an agreement that meets all foregoing conditions, a “**Gas Resale Agreement**”).
 - (ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
 - (iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
 - (iv) enter into any other preferential arrangement having a similar effect.

17.5 Existence

- (a) The Borrower shall at all times preserve and maintain in full force and effect:
 - (i) its existence as a company with limited liability under Applicable Law;
 - (ii) all of its powers, rights, privileges and franchises necessary for the development, construction, operation and maintenance of the Project; and
 - (iii) good and marketable title to its properties and assets (subject to Permitted Security Interests).
- (b) The Borrower shall at all times engage, either directly or indirectly through a management services agreement, such personnel as are required for the performance of its obligations, including a CEO and CFO (or, in each case, their equivalents). The Borrower shall promptly notify the Senior Agent of any changes to the senior management of the Borrower.
- (c) The Borrower must not carry on any business other than the Project.
- (d) The Borrower must not make any changes to its Organisational Documents without the prior consent of the Senior Agent.
- (e) The Borrower shall not: (i) grant any of its officers or directors exemption from their responsibility, (ii) indemnify or undertake to indemnify them, or (iii) insure their responsibility of any of its officers and directors, pursuant to section 11 (exemption, indemnification and insurance) of the Borrower's articles of association without the prior consent of the Senior Agent.
- (f) The Borrower must not enter into any amalgamation, demerger, merger or reconstruction.
- (g) Other than as permitted under the Accounts Schedule, the Borrower must not:
 - (i) make any acquisition or invest in any business, shares, securities or other investments; or
 - (ii) have or acquire any subsidiaries or any equity in any other Person.

17.6 Disposals

- (a) Except as provided below, the Borrower must not, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets, other than Authorised Investments.
- (b) Sub-Clause (a) above does not apply to any disposal:
 - (i) of worn, damaged or obsolete parts of the Project which are replaced in accordance with Good Industry Practice;
 - (ii) required or expressly permitted under the Senior Finance Documents;
 - (iii) required under any PPA or the Electricity Legislation;
 - (iv) of assets in exchange for other assets comparable or superior as to type, value and quality;
 - (v) the sale of gas during the Construction Phase, pursuant to the Bazan Agreement or a Gas Resale Agreement;
 - (vi) on arm's length terms where the consideration (when aggregated with the consideration of any other disposal similarly allowed under this sub-clause (vi)) does not exceed three million NIS (NIS 3,000,000) or its equivalent linked to the Base Index; or
 - (vii) made with the prior written consent of the Senior Agent.

17.7 **Financial Indebtedness**

- (a) Except as provided below the Borrower must not incur any Financial Indebtedness.
- (b) Sub-Clause (a) above does not apply to the following permitted Financial Indebtedness (“ **Permitted Financial Indebtedness** ”):
 - (i) any Financial Indebtedness incurred under the Senior Finance Documents;
 - (ii) any Equity Subordinated Loan and/or other capital investment instruments to the extent such instruments are approved by the Senior Agent and considered Financial Indebtedness and contain subordination provisions in form and substance acceptable to the Senior Agent;
 - (iii) any Financial Indebtedness to the IEC under the Finance Support Rules;
 - (iv) any Financial Indebtedness approved by the Senior Agent; and
 - (v) any Financial Indebtedness referred to in paragraph (g) of the definition of Financial Indebtedness, which does not exceed in the aggregate an amount of three million NIS (NIS 3,000,000) linked to the Base Index.

17.8 **Environmental Matters**

- (a) The Borrower must ensure that it is, and has been, in compliance in all material respects with all Environmental Law and Environmental Approvals applicable to it.
- (b) The Borrower must promptly upon becoming aware notify the Senior Agent of:
 - (i) any Environmental Claim current, or to its knowledge, pending or threatened;
 - (ii) any circumstances reasonably likely to result in an Environmental Claim; or
 - (iii) any suspension, revocation or modification of any Environmental Approval.

17.9 **Loans**

The Borrower must not be the creditor in respect of any Financial Indebtedness other than any credit provided in accordance with the Project Documents or approved by the Senior Agent.

17.10 **Guarantees**

The Borrower must not incur or allow to be outstanding any guarantee by it in respect of the liabilities of any Person, other than (i) Third Party Guarantees issued pursuant to this Agreement and (ii) Letters of Credit issued pursuant to this Agreement.

17.11 **Security Interests**

- (a) The Borrower shall maintain all Security Interests created under the Security Documents in favour of the Security Agent and/or the Senior Agent for the benefit of the Senior Lenders and will effect all registrations relating thereto.

- (b) The Borrower must not, and must use reasonable efforts to ensure that each Shareholder does not, take any action or step or fail to take any action or step which would result in the Security Agent being unable to appoint a receiver of the Borrower under any Security Document.
- (c) The Borrower shall, no later than fourteen (14) days following the execution of any Project Document executed after the Signature Date, file or record any amendment to the Fixed Charge to reflect any such Project Document, as part of the Fixed Charge, with any public registry required by Applicable Law. Any such amendment and/or supplement to the Fixed Charge will be provided for the approval of the Senior Agent prior to its registration.
- (d) The Borrower shall deliver duly executed acknowledgements of the notices of assignment of the Borrower's rights and interests in any Project Document referred to in sub-Clause (c) above, in form and substance satisfactory to the Senior Agent within such period as set forth in the Fixed Charge.
- (e) In the event that the Applicable Law is changed or amended (i) to require registration of the Security Interests in different or additional registrations, or (ii) to allow to pledge any right, title and interest in and to any property of the Borrower which is not pledged under the Charge due to any impediment, the Borrower undertakes and commits to register the Security Interests or pledge the Borrower's property, to the full satisfaction of the Security Agent.
- (f) The Borrower shall, no later than fourteen (14) days following each calendar quarter end, file or record an amendment to the Fixed Charge to reflect any Power Purchase Agreement (other than a Material PPA, in which case Sub-clause (c) shall apply) entered into during the preceding calendar quarter with any public registry required by Applicable Law. Any such amendment and/or supplement to the Fixed Charge will be provided for the approval of the Senior Agent prior to its registration. Notwithstanding the foregoing, the Senior Agent shall be entitled to require the Borrower to file or record an amendment to the Fixed Charge to reflect any Power Purchase Agreement referred to in this Sub-clause with any public registry required by Applicable Law on a date earlier than the abovementioned date.

17.12 Intellectual Property Rights

The Borrower must:

- (a) procure that all Intellectual Property Rights which are necessary from time to time for the Project and in order for it to comply with its obligations under the Transaction Documents are in full force and effect on or before the date they are so required (including by making all necessary registrations and paying any necessary fees, registration taxes and other similar amounts) free from all Security Interests other than Permitted Security Interests;
- (b) promptly upon the written request of the Senior Agent provide to it (or, if so requested by it in writing, to the Technical Adviser) copies of all such licenses, agreements and other documents satisfactory to the Senior Agent evidencing that those Intellectual Property Rights referenced in sub-clause (a) above are in full force and effect;

- (c) take such steps as are reasonably necessary (including the institutions of legal proceedings) to prevent third parties from infringing those Intellectual Property Rights;
- (d) not, without the prior written consent of the Senior Agent:
 - (i) sell, transfer, license or otherwise dispose of all or any part of those Intellectual Property Rights referenced in clause (a) above; or
 - (ii) permit any Intellectual Property Right which is registered to be abandoned or cancelled, to lapse or to be liable to any claim of abandonment for non use or otherwise so long as such Intellectual Property Right continues to be useful in the business of the Borrower;
- (e) take all reasonable steps (subject to applicable law) to grant a first ranking Security Interest over any of its Intellectual Property Rights which may become capable of being secured in favour of the Senior Finance Parties, as soon as practicable following such event; and
- (f) if requested to do so by the Security Agent, make entries in any public register of the Intellectual Property Rights referred to in paragraph (e) above which either record the existence of the Security Document creating the Security Interest referred to in paragraph (e) above or the restrictions on disposal effected by that Security Document.

18 PROJECT COVENANTS

18.1 Capital Expenditures

The Borrower must not incur any capital expenditure, other than:

- (i) in accordance with the then current Budget; or
- (ii) Cost Overruns:
 - (A) which the Borrower funds using proceeds of a drawdown under the Long Term Facility or the Standby Facility, made in accordance with the terms of this Agreement; or
 - (B) funded by Equity contributions of the Shareholders.

18.2 Project Works

- (a) The Borrower must ensure that:
 - (i) the Project Works are performed and completed in accordance with the Project Documents, Applicable Law, all Transaction Authorisations and the appropriate industry standards; and
 - (ii) the Commercial Operation Date occurs by no later than the Longstop Date.
- (b) Without derogating from the generality of Clause 18.24 (Reserved Discretions) below, the Borrower:
 - (i) must not, without the prior consent of the Senior Agent, agree to the issue of, or the deferral of the issue of, any "Final Acceptance Certificate", "Final Payment Certificate", "Taking-Over Certificate", "Actual Project Acceptance Certificate" (or similar document) under the EPC Contract.

- (ii) must not implement or agree to any extra Project Works without the prior written approval of the Senior Agent (acting in consultation with the Technical Adviser); or
 - (iii) may not initiate or approve a Variation (as defined in the EPC Contract) without the prior written approval of the Senior Agent.
- (c) The Borrower must not:
- (i) claim, or agree to the grant of, any extension of time for completion of the Project in circumstances where any Transaction Document or Applicable Law provide for financial compensation for costs or lost revenues of the Borrower during the period of delay to such completion unless at the same time it claims or agrees to that financial compensation in the full amount to which it would be entitled; or
 - (ii) settle any arbitration or other dispute in relation to any such claim;
- in either case without the prior written consent of the Senior Agent.
- (d) Confirmation by the EPC Contractor of an absence of any claims against the Borrower (the “**EPC Confirmation**”):
- (i) As of the Commercial Operation Date, the Borrower shall provide the Senior Agent, from time to time, with an update on the process of obtaining the EPC Confirmation.
 - (ii) The Borrower shall use its best efforts to procure that by the date that is three (3) years from the Longstop Date, the EPC Contractor shall provide the Borrower with the EPC Confirmation.
 - (iii) If the costs of obtaining the EPC Confirmation do not exceed one million USD (USD 1,000,000), the Borrower, if so instructed by the Senior Agent, shall pay such costs and obtain the EPC Confirmation.

18.3 **Operation and Maintenance**

- (a) The Borrower must:
- (i) diligently operate and maintain, or ensure the diligent operation and maintenance of, the Project, in a safe, efficient and business-like manner and in accordance with the Project Documents, Applicable Law, all Transaction Authorisations and Good Industry Practice;
 - (ii) not terminate the appointment of the Operator as the operator of the Project, unless a replacement has been appointed whose identity and terms of appointment are acceptable to the Senior Agent;
 - (iii) not terminate the appointment of the LTSA Contractor as the long term service contractor of the Project, unless a replacement has been appointed whose identity and terms of appointment are acceptable to the Senior Agent;
 - (iv) not enter into any agreement under which the Borrower may incur Operating Costs unless on arm’s-length terms; and
 - (v) notify at least ten (10) Business Days in advance, to the Senior Agent of the performance by the Operator or the LTSA Contractor of any major or material maintenance activities with respect to the IPP or the Energy Center.

- (b) The Borrower must not use, maintain, operate or occupy or allow the use, maintenance, operation or occupancy of any portion of the Site or the Project in any manner:
 - (i) which constitutes, or may be reasonably likely to constitute, a breach of the Land Lease Agreement or the Energy Center Land Lease Agreement;
 - (ii) which may make void, voidable, liable to cancellation or materially increase the premium of any of the Insurances; or
 - (iii) otherwise than for the intended purpose thereof in accordance with the Transaction Documents.

18.4 Power to Remedy

- (a) If the Borrower does not comply with:
 - (i) Clause 18.2 (Project Works); or
 - (ii) Clause 18.3 (Operation and Maintenance);and such non-compliance is material and is continuing five (5) days after the earlier of the Senior Agent giving notice and the Borrower becoming aware of such non-compliance, the Borrower must allow the Senior Agent, its agents and contractors to enter the Project Facilities and to do anything necessary to remedy the failure to comply with Clause 18.2 (Project Works) or Clause 18.3 (Operation and Maintenance).
- (b) Nothing done by the Senior Agent or its agents or contractors pursuant to this sub-Clause will in any way prejudice any right of a Senior Finance Party under the Senior Finance Documents or operate as a waiver of that right without the prior consent of all the Senior Lenders.
- (c) The Borrower must indemnify and keep the Senior Agent indemnified against any loss or liability incurred by the Senior Agent in connection with this Clause, other than any loss or liability incurred by the Senior Agent as a result of the Senior Agent's bad faith or willful misconduct.

18.5 Project Documents - General

- (a) The Borrower must exercise its rights and comply with its obligations under each Project Document to which it is a party in a proper and timely manner consistent with the Borrower's obligations under the Senior Finance Documents and the provisions of Schedule 10 (Reserved Discretions).
- (b) The Borrower must not agree to:
 - (i) amend or waive;
 - (ii) assign or transfer; or
 - (iii) terminate, suspend or abandon,all or any part of a Project Document, in each case without the consent of the Senior Agent.

18.6 Gas Agreements

- (a) The Borrower shall use its best efforts to procure the supply of gas in accordance with the Gas Supply Agreement, the Gas Transportation Agreement, any other relevant Project Document or Transaction Authorisations, Applicable Law and Good Industry Practice.

- (b) The Borrower shall not be entitled to enter into any agreement or undertaking for the sale of gas without the prior written consent of the Senior Agent. The Senior Agent hereby approves the Bazan Agreement.
- (c) The Parties acknowledge that the existing Gas Supply Agreement does not provide the entire gas quantities required for the Project until the end of the Commercial Operation Phase. Therefore, the Parties agree as follows:
 - (i) subject to the prior written consent of the Senior Agent, the Borrower shall enter into an agreement with the Gas Supplier for the supply of the entire gas quantities required for the Project until, at least, the Final Maturity Date with respect to the Long Term Facility (“**Modified Gas Supply Agreement**”). The Senior Agent hereby agrees that it will not withhold its consent to the entry into such agreement based solely on the argument that the supply of gas for the period commencing on the expiration date of the existing Gas Supply Agreement, will be on an interruptible basis (i.e, a gas supply agreement that does not include a firm commitment of the Gas Supplier to provide all quantities of gas required at any given time).
 - (ii) the Borrower shall maintain a Gas Reserve Account pursuant to provisions of the Accounts Schedule.

18.7 **Power Purchase Agreements**

- (a) The Borrower may not enter into any Power Purchase Agreement other than in accordance with the terms of this Agreement.
- (b) Subject to sub-clause (c) below, the aggregate commitment of the Borrower to supply capacity pursuant to the PPAs (including the rights, if any, of any End User to request any increase of the capacity sold to it by the Borrower), other than PPAs the term of which do not exceed one (1) year, shall not exceed, at any time, one hundred and forty three percent (143%) of the net electrical output prescribed under the Permanent License.
- (c) Notwithstanding sub-clause (b) above, in the event that the amounts payable by the Borrower to any other Person in connection with the sale or consumption of energy in excess of the net electrical output prescribed under the Permanent License, on any calendar year, exceeds one million USD (USD 1,000,000), or its equivalent, the Borrower shall promptly notify the Senior Agent and shall act in accordance with any instructions given by it, including in respect of termination of PPAs in excess of the net electrical output prescribed under the Permanent License.

- (d) The Borrower must ensure that:
- (i) No PPA shall contain restrictions on delivery of information pertaining to the End User or in connection with such PPA to the Senior Finance Parties or to any Person on their behalf (including potential Senior Lenders and rating agencies);
 - (ii) with respect to any PPA entered into after the date of this Agreement, it shall deliver to the Senior Agent, within ten (10) Business Days of signature thereof, a notice of assignment in the form of Schedule 18 (Notice of Assignment) hereto duly executed by the Borrower and acknowledged by the End User under such PPA;
 - (iii) the term of each PPA (other than PPA referred to in sub-clause (e)(i) below) is at least five (5) years (provided, however, that this condition shall not be required as long as the aggregate capacity commitment of PPAs with term of at least (5) years exceeds at such time, fifty percent (50%) of the aggregate commitment of the Borrower to supply capacity to End Users under the PPAs in effect at any given time, other than the IEC PPA);
 - (iv) each PPA includes the right of assignment of such PPA to the Senior Lenders without the prior approval of the applicable End User;
 - (v) in events of (i) shortage of natural gas; (ii) force majeure (however defined); (iii) an instruction of IEC to the Borrower not to generate; or (iv) maintenance by IEC of the grid connection of the IPP, the End User shall not be entitled to a discount or to the supply of electricity;
 - (vi) By no later than twenty one (21) days after the end of each calendar quarter, the Borrower shall deliver to the Senior Agent (a) a copy of each PPA entered into during the immediately preceding quarter; and (b) the following reports, in form and substance satisfactory to the Senior Agent:
 - (1) breakdown of all the PPAs signed, renewed amended or terminated during that Quarter;
 - (2) confirmation regarding such PPAs, that the provisions of such PPAs conform to the requirements of this Clause 18.7 (Power Purchase Agreements);
 - (3) consumption data report on a cumulative basis with respect to such calendar quarter; and
 - (4) changes in the End Users or projected changes in the consumption of the current End Users.
- (e) Without derogating from the foregoing in this Clause 18.7 (Power Purchase Agreements):
- (1) subject to paragraph (2) below, any PPA which includes a commitment to supply capacity (including the rights, if any, of any End User to request any increase of the capacity sold to it by the Borrower) of up to (and not including) 5MW (up to (and not including) 25MW in the aggregate of all such PPAs) shall not require the prior approval of the Senior Agent; and

- (2) any PPA which includes a commitment to supply capacity (including the rights, if any, of any End User to request any increase of the capacity sold to it by the Borrower): (a) of up to (and not including) 5MW individually and to which paragraph (1) above does not apply; or (b) which is at least 5MW but up to (and not including) 15MW, shall not require the prior approval of the Senior Agent, subject to the following conditions:
- (A) any PPA will include the Borrower's right of early termination in case the "Average Generation Component" (as defined in the PUA Rules) decreases below twenty one (21) Agorot per KWh linked to the Base Index.
 - (B) with respect to any PPA entered into prior to the Commercial Operation Date, any obligation of the Borrower to compensate the End User for a delay in the scheduled date for sale of electricity under such PPA shall not exceed the net discount rate for sale of electricity as set out in such PPA during the period of delay.
 - (C) with respect to any PPA entered into between the Borrower and any of its Related Parties, any discount granted to the End User with respect to the "Generation Component" (as defined in the PUA Rules) shall be subject to the approval of the Senior Agent; provided that, for the purpose of this sub-clause (D), "Related Parties" shall be limited solely to the entities Controlled directly or indirectly by the ultimate material individual owner of the Initial Shareholder as of the Signature Date.
 - (D) the Borrower may commit to certain availability requirements with respect of the supply of electricity, provided that, it is expressly clarified that circumstances of (i) shortage of natural gas; (ii) an event of force majeure (however defined); (iii) an instruction of IEC to the Borrower not to generate; or (iv) maintenance by IEC of the grid connection of the IPP, shall not be deemed under such PPA as the Borrower's unavailability.
 - (E) the End User under such PPA undertakes to pay: (i) the TAOZ Tariff, as any IEC customer, for any capacity it consumes in excess of the maximum capacity commitment under that PPA; and (ii) those fees, costs actual fines and other payments imposed by the PUA and/or IEC in respect of any electricity the End User consumes in excess of the maximum capacity commitment under that PPA.
 - (F) in addition to the delivery to the Senior Agent of a duly executed notice of assignment, as required pursuant to Clause 18.7 (d) (ii), above, each such PPA will contain provisions for the benefit of the Senior Lenders substantially in the form attached hereto as Schedule 17 (Form of Provisions to be included in Certain PPAs).

- (f) Without derogating from any other obligation of the Borrower with respect to Material PPA pursuant to the terms of this Agreement, each Material PPA shall be subject to the prior approval of the Senior Agent (including without limitation, with respect to any discount granted to the End User under such Material PPA with respect to the “Generation Component” (as defined in the PUA Rules)). In addition, the Borrower must not change or terminate any Material PPA, other than administrative and non-material modifications, without the prior consent of the Senior Agent.
- (g) Without prejudice to the generality of the foregoing:
- (1) the Borrower shall comply in all material respects with all terms of the PPAs and, with respect to Material PPAs, shall exercise its rights thereunder if requested to do so by the Senior Agent.
 - (2) the Borrower must promptly notify the Senior Agent if any of the following events occurs under or in relation to any Material PPA:
 - (i) any material disagreement or any event which may entitle either party to terminate or suspend any of the Borrower’s rights;
 - (ii) any actual, proposed or threatened deduction from, or suspension of, payments by the End User party to such Material PPA;
 - (iii) any actual, proposed or threatened claim by a party thereto for any liquidated or other damages or other compensation;
 - (iv) any notice of non-extension, exercise of early termination option, default or termination of the relevant PPA; and
 - (v) any reduction of the quantities of electricity other than a reduction in the ordinary course of business of the End User.
- (h) The Borrower must supply the Senior Agent with any further information and documentation in connection with any event mentioned in paragraph (g)(2) as the Senior Agent may reasonably require.

18.8 Cogeneration Production Unit

In the event the IPP ceases to comply with the terms of the definition of “Cogeneration Production Unit”, under the Electricity Sector Regulations (Cogeneration) 2004, the Borrower:

- (a) shall promptly notify the Senior Agent of such circumstances and its best estimation of the period during which the IPP shall not be considered a “Cogeneration Production Unit” (“יחידת ייצור בקוגנרציה”), under the Electricity Sector Regulations (Cogeneration) 2004;
- (b) shall provide the Senior Agent with drafts of updated Budgets, Forecasts, Ratios and Financial Model in accordance with the provisions of Clause 16.5 (Budgets) and 16.6 (Financial Model and Ratios).

18.9 Energy Center

- (a) No later than six (6) months prior to the anticipated Commercial Operation Date and provided that the Energy Center is held by the Borrower, the Borrower shall provide to the Senior Agent a Borrower's statement signed by the Borrower's CEO or the Borrower's CFO or any other officer of the Borrower whose identity is approved by the Senior Agent, with respect to the anticipated uses of the Energy Center during the Commercial Operation Phase; The Borrower further acknowledges that the Senior Agent is entitled to request Adviser(s) to prepare and submit report(s) relating to technical and/or other aspects of the Energy Center. The Borrower undertakes to fully cooperate with such Adviser(s) and the Senior Agent in connection with the delivery of such report(s) to the Senior Agent no later than six (6) months prior to the anticipated Commercial Operation Date.
- (b) Without derogating from the provisions of Schedule 10 (Reserved Discretions), the Borrower shall not (i) send to Hadera Paper a notice of default under the Short Term Hadera PPA; or (ii) terminate the Short Term Hadera PPA, without the prior approval of the Senior Agent.

18.10 Material Contracts

- (a) The Borrower must not enter into any material contract other than the Transaction Documents without the prior consent of the Senior Agent.
- (b) The Borrower must:
 - (i) exercise its rights and comply with its obligations under each Project Document to which it is a party; and
 - (ii) ensure (so far as this is within its control) that each other party to a Project Document exercises its rights and complies with its obligations under that Project Document;
- (c) in a proper and timely manner consistent with the Borrower's obligations under the Senior Finance Documents.
- (d) The Borrower must ensure that each material contract it enters into after the Signature Date is capable of being made subject to a Security Interest in favour of the Senior Finance Parties.
- (e) The Borrower must not agree to amend, waive, assign, transfer, terminate (other than by expiry of its term), suspend or abandon all or any part of a Project Document without the prior written approval of the Senior Agent.

18.11 Litigation

- (a) In any arbitration, claim, suit, litigation, violation, investigation or other action by or before any Government Authority or any other Person involving the Borrower or the Project, the Borrower will make all filings and responses in a timely manner, pursue all remedies and appeals, defend its rights and properties with diligence and take all lawful action to avoid anything which has had or is reasonably likely to have a Material Adverse Effect.
- (b) In any action, claim, arbitration or other proceeding commenced or levied against the Borrower or by the Borrower under any Project Document, the Borrower shall notify the Senior Agent about such proceedings, shall defend its rights and properties vigorously and shall keep the Senior Agent apprised of all material events in such proceeding. Any settlement or compromise of any such proceeding in an amount that exceeds two hundred fifty thousand NIS (NIS 250,000) (and with respect to any settlement or compromise with a Related Party, one hundred thousand NIS (NIS 100,000)) shall be subject to the prior written consent of the Senior Agent.

18.12 Force Majeure

If the Borrower is entitled to claim the occurrence of Force Majeure Event under any Project Document (or under the Electricity Legislation) or to approve the occurrence of such a Force Majeure Event claimed by a party to such Project Document, the Borrower shall (i) not be entitled to exercise such right without the consent of the Senior Agent, and (ii) must exercise such right, if instructed to do so by the Senior Agent.

18.13 Electricity Legislation

Without derogating from Clause 17.1 (Compliance with Laws) above, the Borrower:

- (a) shall comply with all material terms of the Electricity Legislation and any PPA;
- (b) shall comply with all terms of the Provisional License, the Permanent License, the Supply License and the Energy Center Licenses;
- (c) shall comply with the conditions set out in the Electricity Legislation and shall not take or fail to take any action that could result in the Borrower, the Project or the Senior Finance Parties not being entitled to any of the rights and benefits set out therein;

shall, prior to the submission of the Borrower's application for the Permanent License and/or the Supply License, provide the Senior Agent with a draft of the application for such license, together with the Borrower's draft application for the approval of the Minister to apply the Fixed Charge and the Floating Charge to such licenses or, if relevant, for the creation of new Security Interests over the Permanent License and/or the Supply License in form and substance satisfactory to the Senior Agent, based on the Security Documents (the "**Application**"). After receipt of the Senior Agent's approval for the Application, the Borrower shall submit the Application and use its best efforts to procure that the approval of the Minister as set out above shall be issued simultaneously with the issuance of the Permanent License and the Supply License.

18.14 Hadera Paper

In the event that any of the followings occurs with respect to Hadera Paper:

- (a) the ratio of the current assets to the current liabilities of Hadera Paper according to the most recent consolidated quarterly unaudited financial statements or the consolidated annual audited financial statements ('*yahas shotef*') is less than 1:00:1; or
- (b) the ratio of the net financial debt to the consolidated balance sheet according to the most recent consolidated quarterly unaudited financial statements is above forty percent (40%),

the Borrower, at the request of the Senior Agent, shall arrange a meeting between the Senior Lenders and the authorized representatives of Hadera Paper to discuss the ramifications of such circumstances with respect to the Project.

18.15 Accounts

- (a) The Borrower must maintain and operate all Accounts in accordance with the provisions of the Accounts Schedule and this Agreement.
- (b) The Borrower must not open or maintain any accounts other than the Accounts.

18.16 Treasury Transactions

- (a) The Borrower must not enter into any derivative transaction protecting against or benefiting from fluctuations in any rate, price or other risk, other than the Hedging Agreements in accordance with the terms and requirements approved by the Hedging Bank and, provided further, that if such Hedging Agreement is secured by the Hedging Facility, (i) either all conditions precedent to the first Utilisation under the Long Term Facility have been fulfilled to the full satisfaction of the Senior Agent or waived or the First Utilisation under the Long Term Facility has occurred, or (ii) otherwise approved in writing by the Senior Agent, provided that with respect to this paragraph (ii), the aggregate amount of (A) the Third Party Guarantees issued by the Issuing Bank plus (B) the higher of (x) 10% of the overall amount (in NIS) under any Hedging Agreement, and (y) the aggregate amount of mark-to-market of all Hedging Agreement in effect, shall not exceed thirty eight million NIS (NIS 38,000,000).
- (b) The Borrower shall not terminate, vary or cancel any Hedging Agreement or any of the arrangements contained therein without the consent of the Senior Agent (acting on the instructions of the Majority Senior Lenders).

18.17 Tax Affairs

The Borrower must:

- (a) promptly file all Tax reports and returns required to be filed by it in any jurisdiction;
- (b) promptly pay all Taxes or, if any Tax is being contested in good faith and by appropriate means, ensure an adequate reserve is set aside for payment of that Tax;
- (c) arrange its Tax affairs in such a manner to maximise any relevant relief and allowance in respect of any Tax;
- (d) apply all tax credits, losses, reliefs or allowances in the manner and to the extent taken into account in any Forecast; and
- (e) not surrender or dispose of any tax credit, loss, relief or allowance available to and usable by it without the prior written consent of the Senior Agent.

18.18 Inspection

- (a) In this sub-Clause:
 - (i) “ **Attendee** ” means the Senior Agent or the Technical Adviser; and
 - (ii) “ **Tests on Completion** ” means the “Acceptance Tests” required pursuant to the EPC Contract.

- (b) The Borrower must give reasonable prior notice to each Attendee of any:
 - (i) meeting with a Project Party at which any material issue will be discussed and any monthly progress meeting with the EPC Contractor, the Operator or the LTSA Contractor;
 - (ii) meeting between the Borrower and IEC and/or the PUA at which any material issue in relation to the Project will be discussed; and
 - (iii) in the case of the Technical Adviser, Test on Completion (in which case the Borrower shall give 14 days' prior notice of any Test on Completion).
- (c) Each Attendee may:
 - (i) Participate and make representations at any meeting referred to in sub-clause (b) above, provided that it uses reasonable efforts to coordinate in advance with the Borrower, including to raise any issues in advance that it is aware of and that it desires to discuss at such meeting;
 - (ii) participate, in the case of the Technical Adviser, in any Tests on Completion; and
 - (iii) request to receive a copy of the minutes (if any) of any meeting referred to in sub-clause (b) above and the results of any Tests on Completion.
- (d) The Borrower must:
 - (i) ensure that the Senior Agent and each Adviser are given access to inspect the Project and any records of the Project (including all drawings and specifications), during normal business hours, provided that as long as no Event of Default has occurred, such access shall be given in coordination with the Borrower (other than, upon the occurrence and during the continuation of an Event of Default, in the event that such coordination is impractical under the circumstances), and to take copies of any documents inspected, provided that the Borrower shall not be required to grant to an Attendee any right of access to the Project or the Project Facilities which is more extensive than the equivalent rights of access granted to the Borrower under the Project Documents, and
 - (ii) maintain up-to-date statutory books, books of account, bank statements and other records of the Borrower in accordance with good business practice and all applicable laws.
- (e) In the event that the Borrower is required to obtain an approval of an Attendee with respect to any Test on Completion, the grant of such approval shall not be unreasonably withheld, conditioned or delayed.
- (f) No act by the Senior Agent or any Adviser, its respective officers, employees or agents, in accordance with this provision, will excuse the Borrower from its obligations under the Senior Finance Documents.

18.19 Insurances

The Borrower must comply with Schedule 8 (Insurance) of this Agreement.

18.20 Syndication and Rating

- (a) The Borrower shall reasonably cooperate with the Senior Lenders with respect to the provision of information reasonably required with respect to an assignment of Senior Lender Commitments or Loans, including by providing such information as may be required by the Senior Lenders in connection with the assignment of the Senior Lender Commitments or Loan, the preparation of the information and making members of staff of the Borrower available to meet and make presentations to potential lenders.
- (b) Prior to the date that is one hundred and eighty (180) days after the first Utilisation Date, the Borrower must obtain a credit rating of its long-term secured indebtedness from either (i) Standard & Poor's Maalot – The Israel Securities Rating Company Ltd. or (ii) Midroog Ltd., (the “ **Initial Rating** ”) and, in either case, the Borrower shall maintain a credit rating of its long term secured indebtedness in effect until the Final Discharge Date.

18.21 Budgets

The Borrower may not incur any cost or expense in connection with the Project not anticipated in the then current Budget, provided that:

- (a) with respect to the Construction Budget or the Energy Center Budget, Cost Overruns approved by the Senior Agent and the Technical Adviser shall be permitted;
- (b) with respect to any unplanned maintenance required with respect to the Powertrain of the IPP (as defined below), the Borrower may expend up to one million and five hundred thousand USD (USD 1,500,000) during any given year without the prior consent of the Senior Agent or the Technical Adviser; provided that (a) any such expenditures are ultimately paid to a third party contractor which is not a Related Party, and (b) the Senior Agent (following consultation with the Technical Adviser) approves such expenditures within six (6) weeks of any such expenditures; and
- (c) with respect to the Operating Budget, a deviation of up to an amount in the aggregate of up to ten percent (10%) in any line item shall be permitted, without, for the avoidance doubt, any approval from the Senior Agent or the Technical Adviser.

The “ **Powertrain of the IPP** ” includes the two gas turbines and one steam turbine of the IPP, together with each of the turbines' respective generators including the critical auxiliary systems related thereto.

18.22 Direct Agreements

The Borrower must ensure that, upon the request of the Senior Agent, each party to a Project Document that is entered into after the Signature Date enters into a Direct Agreement with the Senior Agent in relation to that Project Document in form and substance satisfactory to the Senior Agent.

18.23 Project Guarantees

- (a) The Borrower must procure the issuance and maintenance of each Project Guarantee and each Documentary Credit in accordance with this Agreement and the relevant Transaction Document.

- (b) The Borrower must ensure that the Project Guarantees which are bank guarantees are issued by banks or financial institutions which are Acceptable Banks at the time of issuance. If the issuer of any such Project Guarantee ceases to be an Acceptable Bank, the Borrower must procure that the relevant Project Guarantee is replaced by one issued by an Acceptable Bank forthwith in accordance with the terms of the relevant Transaction Document.
- (c) The Borrower must not (and must procure that each other Major Project Party does not) take any steps to enjoin or otherwise restrain:
 - (i) any issuer of Project Guarantee, from paying any Senior Finance Party in accordance with the terms of that Project Guarantee;
 - (ii) any Senior Finance Party, from taking any steps which may be a precondition to obtaining payment in accordance with the terms of any Project Guarantee; or
 - (iii) any Senior Finance Party, from using the money received by it under the terms of any Project Guarantee in accordance with the Senior Finance Documents.
- (d) The Borrower must assign each Project Guarantee in favour of the Security Agent and procure the delivery to the Security Agent of the original of each Project Guarantee promptly upon its issuance and in any event, by no later than the date (if any) specified in the relevant Transaction Document.
- (e) At the request of the Borrower, the Senior Agent or the Security Agent shall exercise the rights under each Project Guarantee.

18.24 **Reserved Discretions**

The Borrower must exercise the Reserved Discretions in accordance with Schedule 10 (Reserved Discretions).

19 **SHAREHOLDERS RELATED COVENANTS**

19.1 **Share Capital**

- (a) Except as provided below, the Borrower must not:
 - (i) issue any options, warrants or other rights to subscribe, purchase or acquire any share capital of the Borrower or securities convertible into or exchangeable for its share capital;
 - (ii) alter any rights attaching to its issued shares as at the Signature Date;
 - (iii) issue any voting capital or any other instrument which provides the entity holding such instrument with any influence over the Borrower and/or right for any distributions in respect of capital (of whatever kind) from the Borrower; or
 - (iv) grant or create any rights or options to participate directly or indirectly in its revenues or profits.
- (b) Paragraph (a) does not apply to any shares issued in accordance with the Equity Subscription Agreement.

- (c) The Borrower must ensure that it has sufficient authorised, unissued share capital to issue shares when subscribed for by the Shareholders under the Equity Subscription Agreement.
- (d) Other than pursuant to the Equity Subscription Agreement, the Borrower must not permit or consent to any transfer of shares of the Borrower without the prior consent of the Senior Agent.
- (e) If as a result of any contemplated transfer of shares of the Borrower (directly or indirectly), the tax exemption specified in Clause 9(2) of the Income Tax Ordinance (New Version) 5721-1961 will not apply to certain Senior Finance Parties, the Senior Agent shall be entitled not to consent to such transfer.

19.2 Arrangements with Related Parties

The Borrower must not enter into any transaction, agreement or arrangement with a Related Party other than:

- (a) as expressly contemplated by the Transaction Documents;
- (b) a PPA with an entity Controlled directly or indirectly by the ultimate material individual owner of the Initial Shareholder as of the Signature Date (in which case Clause 18.7 shall apply); or
- (c) with the prior written consent of the Senior Agent.

19.3 Distributions

- (a) The Borrower must not make any Distribution unless all of the following conditions have been met:
 - (i) the Actual Completion Date has occurred;
 - (ii) at least three (3) Repayment Instalments have been paid;
 - (iii) at least twelve (12) months have elapsed since the Commercial Operation Date.
 - (iv) there is no Event of Default outstanding or Potential Default (or no Default would result from the payment or transfer);
 - (v) [***]
 - (vi) the DSRA is fully funded and all other Reserve Accounts are funded to their Required Level;
 - (vii) Distribution is made after the most recent second quarter or annual financial statements of the Borrower, which, as confirmed by an auditor, use the proper base data for the calculation of the historic Ratio specified in paragraph (v) of this sub-Clause and the distributed amounts do not exceed the amount of cash and cash equivalents pursuant to such financial statements;
 - (viii) the Senior Agent has received from the Borrower an Historic Statement;
 - (ix) subject to paragraph (vi) above, after the Distribution there is at least NIS twelve million NIS (NIS 12,000,000) (linked to the Base Index) standing to the credit of the Proceeds Account (not taking into consideration amounts standing to the credit of the Proceeds Account but which are payable to IEC as set forth in paragraph (xi) below);

- (x) the amount of the Distribution is transferred to the Distribution Account after all Repayment Instalments which were due on the most recent Repayment Date have been paid in full;
 - (xi) a calculation of the amounts due from, and payable (in accordance with its payment terms) to, IEC (including any fine imposed by IEC) has been made (calculated as of the most recent Calculation Date) to the satisfaction of the Senior Agent;
 - (xii) the Borrower has entered into a Modified Gas Supply Agreement as approved by the Senior Agent in accordance with Clause 18.6(b) (Gas Agreements) above;
 - (xiii) the Borrower has delivered to the Senior Agent a Borrower's certificate, signed by two of its authorised signatories (one of whom shall be the Borrower's CFO), certifying that the Distribution is in compliance with Applicable Laws, including the required Equity ('*hon atzmi* ') prescribed by the Electricity Legislation;
 - (xiv) on each Scheduled Calculation Date of any calendar year, the Borrower has demonstrated to the Senior Agent that it has sufficient funds to meet any Take-or-Pay payments under the Gas Supply Agreement which are payable by the Borrower until the next Scheduled Calculation Date;
 - (xv) no Force Majeure Event, which its consequences with respect to the Project are continuing, has occurred.
 - (xvi) in the event the IPP ceases to comply with the terms of the definition of "Cogeneration Production Unit" under the Electricity Sector Regulations (Cogeneration) 2004, the Borrower has demonstrated to the full satisfaction of the Senior Agent that it has sufficient funds to meet any payments due to IEC or the PUA as a result of its failure to comply with the terms of the definition of "Cogeneration Production Unit"; and
 - (xvii) there are no more than two (2) Distributions in a twelve (12) month period.
- (b) Without limiting sub-Clause (a) above, the Senior Agent shall, upon
- (i) receipt of a written request from the Borrower, in which the Borrower shall confirm that the conditions specified in paragraphs (i) through (xvii) of sub-Clause (a) above have been satisfied; and
 - (ii) if indeed all of the conditions specified in paragraphs (i) through (xvii) of sub-Clause (a) above are satisfied with respect to a Calculation Date;

confirm to the Account Bank in writing the amount which the Senior Agent determines as the amount of the Distribution that could have been made as of such Calculation Date in accordance with the Senior Finance Documents.

(c) Notwithstanding sub-Clause (a) above, upon the first Utilisation date under the Long Term Facility, to the extent that the ratio of (x) Equity to (y) the aggregate amount of (i) the Total Long Term Commitments plus (ii) the amount of the Loans under the Long Term Facility plus (iii) the Total DSRA Commitments exceeds 20:80, the Borrower shall be entitled to make a payment to the Shareholders in an amount by which such ratio is exceeded (the “ **First Reconciliation Amount** ”) subject only to (i) compliance with Applicable Law and (ii) there being no Default outstanding at such time. The Senior Agent shall confirm to the Account Bank in writing the First Reconciliation Amount.

(d) Notwithstanding sub-Clause (a) above, upon the Second Reconciliation Date, to the extent that the ratio of (x) Equity to (y) the aggregate amount of (i) the Total Outstanding (other than with respect to the Working Capital Facility) and (ii) the Total VAT Commitments (calculated as of the Second Reconciliation Date) exceeds 20:80, the Borrower shall be entitled, subject to providing a confirmation signed by the Borrower’s CEO or the Borrower’s CFO that no additional Requests will be submitted for Loans under the Long Term Facility, the DSRA Facility or the Standby Facility, to make a payment to the Shareholders in an amount by which such ratio is exceeded provided that the Total Outstanding immediately following such payment shall not exceed eighty percent (80%) of the aggregate amount of (x) Equity and (y) the Total Outstanding immediately prior to making such payment (the “ **Second Reconciliation Amount** ”) subject only to (i) compliance with Applicable Law, and (ii) there being no Event of Default outstanding at such time. The Senior Agent shall confirm to the Account Bank in writing the Second Reconciliation Amount.

“ **Second Reconciliation Date** ” shall mean the earlier of (i) fifteen (15) days following Commercial Operation Date, or (ii) the later of (a) the last day of the Availability Period of the Standby Facility or (b) the last day of the Availability Period of the Long Term Facility.

(e) Payments under sub-Clause (c) and (d) above may be made in any way permitted under the Electricity Legislation.

20 DEFAULT

20.1 Events of Default

Each of the events set out in Clauses 20.2 (Non-Payment) to 20.26 (Material Adverse Effect) is an Event of Default.

20.2 Non-Payment

A Principal Project Party does not pay on the due date any amount payable by it under the Senior Finance Documents in the manner required under the Senior Finance Documents, unless the non-payment is remedied within five (5) Business Days of the due date.

20.3 Breach of Other Obligations

(a) The Borrower does not comply with any term of Clause 17.4 (Negative Pledge), 17.5 (Existence), 17.6 (Disposals), 17.7 (Financial Indebtedness), 17.9 (Loans), 17.11 (Security Interests), 18.16 (Treasury Transactions), 18.20 (Insurances), 18.20 (Syndication and Rating), 18.21 (Budgets), 18.24 (Project Guarantees); 19.1 (Share Capital) or 19.3 (Distributions).

- (b) If the Borrower or any Shareholder does not comply with any term of the Equity Subscription Agreement.
- (c) A Principal Project Party does not comply with any other term of the Senior Finance Documents not already referred to in this Clause 20, unless the non-compliance:
 - (i) is capable of remedy, and
 - (ii) is remedied or waived within the shorter of fourteen (14) days and any grace period provided under the applicable Senior Finance Document of the earlier of the Senior Agent giving notice and the relevant party becoming aware of such non-compliance.
- (d) The IEC does not comply with the terms of the form of confirmation executed by the IEC pursuant to the terms of the Fixed Charge, unless the non-compliance:
 - (i) is capable of remedy; and
 - (ii) is remedied within five (5) days of the Senior Agent giving notice to the IEC of the non-compliance.

20.4 **Misrepresentation**

A representation made or repeated by a Principal Project Party in any document delivered by or on behalf of such Principal Project Party under any Senior Finance Document (other than such documents set forth in Clause 20.12 (Project Documents and Direct Agreement) below, in respect of which, Clause 20.12 (Project Documents and Direct Agreement) applies) is incorrect in any material respect when made or deemed to be repeated, unless the circumstances giving rise to the misrepresentation:

- (a) are capable of remedy; and
- (b) are remedied or waived within fourteen (14) days - with respect to the Borrower or any entity listed under paragraph (i) to the definition of Major Project Party, or forty five (45) days – with respect to any other Principal Project Party, of the earlier of the Senior Agent giving notice and the relevant party becoming aware of the misrepresentation.

20.5 **Cross-Default**

Except as provided below, any of the following occurs in respect of a Principal Project Party:

- (a) any of its Financial Indebtedness, is not paid when due: (i) after expiry of any originally applicable grace period, or (ii) with respect to any Major Project Party– any grace period extended by the applicable financing sources to such Major Project Party;
- (b) any of its Financial Indebtedness:
 - (i) becomes prematurely due and payable; or

(ii) is placed on demand;

in each case, as a result of an event of default (howsoever described); or

(c) any commitment for its Financial indebtedness is cancelled or suspended as a result of an event of default (howsoever described);

An Event of Default shall only occur under this Clause 20.5 with respect to a Major Project Party, if, (i) in the opinion of the Senior Agent, the events set forth in sub-clauses (a) to (c) above, have an adverse effect on the ability of such Person to perform its obligations with respect to the Project and the estimated value of such unperformed obligations exceeds one hundred thousand USD (USD 100,000), and (ii) with respect to a Major Project Party listed in paragraphs (c), (f) and (h) of the definition of “Major Project Party”, the Borrower does not replace such Major Project Party with an entity satisfactory to the Senior Agent and does not enter into arrangements with such substitute entity satisfactory to the Senior Agent within ninety (90) days of the occurrence of the events set forth in sub-clauses (i) to (iii) above.

20.6 **Insolvency**

(a) Except as provided below, any of the following occurs in respect of a Principal Project Party:

(i) it is, or is deemed for the purposes of any law to be, unable to pay its debts as they fall due or insolvent;

(ii) it admits its inability to pay its debts as they fall due;

(iii) it announces an intention to suspend making payment on any of its Financial Indebtedness due to actual or anticipated financial difficulties;

(iv) by reason of actual or anticipated financial difficulties, it begins negotiations with any creditor for the rescheduling of its Financial Indebtedness; or

(v) a moratorium is declared in respect of its indebtedness;

(b) If a moratorium occurs pursuant to sub-clause (a)(v) above, the ending of a moratorium will not remedy any other outstanding Event of Default under this Agreement.

(c) An Event of Default shall only occur under this Clause 20.6 with respect to a Major Project Party listed in paragraphs (c), (f) and (h) of the definition of “Major Project Party”, if the Borrower does not replace such Major Project Party with an entity satisfactory to the Senior Agent and does not enter into arrangements with such substitute entity satisfactory to the Senior Agent, within ninety (90) days of the occurrence of any of the events set forth in sub-clause (a) above;

20.7 **Insolvency Proceedings**

(a) Except as provided below, any of the following occurs in respect of the Principal Project Party:

(i) any step is taken with a view to a moratorium or a debt restructuring with respect to a Financial Indebtedness (by reason of actual or anticipated financial difficulties) with any of its creditors;

- (ii) a meeting of its shareholders, directors or other officers is convened for the purpose of considering any resolution, to petition for or to file documents with a court or any registrar for its winding-up, administration or dissolution or any such resolution is passed (including on a temporary basis);
 - (iii) any Person presents a petition, or files documents with a court or any registrar for its winding-up, administration or dissolution (including on a temporary basis);
 - (iv) an order for its winding-up, administration or dissolution is made (including on a temporary basis);
 - (v) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrator or similar officer is appointed in respect of it or any of its material assets (including on a temporary basis);
 - (vi) its partners, shareholders, directors or other officers request the appointment of, or give notice of their intention to appoint a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer (including on a temporary basis); or
 - (vii) any other analogous step or procedure is taken in any jurisdiction.
- (b) Sub-clause (a) above does not apply:
- (i) to any step or procedure which is taken with the consent of the Senior Agent; or
 - (ii) with respect to a Major Project Party, a petition for winding-up, administration or dissolution presented by any third party, or a shareholder request to convene a meeting as described in sub-clause (a)(ii) above, which:
 - (A) is frivolous or vexatious; or
 - (B) is being contested in good faith and with due diligence and in the opinion of the Senior Agent, such petition does not affect the ability of such Major Project Party to perform its obligations with respect to the Project and the estimated value of such unperformed obligations exceeds one hundred thousand USD (USD100,000); and
 - (C) in each case, is discharged or struck out within ninety (90) days.
- (c) An Event of Default shall only occur under this Clause 20.7 with respect to a Major Project Party listed in paragraphs (c), (f) and (h) of the definition of “Major Project Party”, if the Borrower does not replace such Major Project Party with an entity satisfactory to the Senior Agent and does not enter into arrangements satisfactory to the Senior Agent with such substitute entity, within ninety (90) days of the taking or occurrence of any of the steps or procedures referred to in sub-clause (a) above.

20.8 Creditors’ Process

Any attachment, sequestration, distress, execution or analogous event affects any asset(s) of the Borrower, or material asset(s) of a Major Project Party provided that,

- (a) with respect to any Major Project Party, such action is not discharged within forty-five (45) days or such longer period as permitted in the discretion of the Senior Agent; and
- (b) with respect to a Major Project Party listed in paragraphs (c), (f) and (h) of the definition of “Major Project Party”, the Borrower does not replace such Major Project Party with an entity satisfactory to the Senior Agent and does not enter into arrangements with such substitute entity satisfactory to the Senior Agent, within ninety (90) days of the taking of such action.

20.9 Cessation of Business

- (a) Except as provided in sub-clause (b) below, a Principal Project Party ceases, or threatens to cease, to carry on business.
- (b) An Event of Default shall only occur under this Clause 20.9, with respect to a Major Project Party listed in paragraphs (c), (f) and (h) of the definition of “Major Project Party”, if the Borrower does not replace such Major Project Party with an entity satisfactory to the Senior Agent and does not enter into arrangements with such substitute entity satisfactory to the Senior Agent, within ninety (90) days of the occurrence of any of the events set forth in sub-clause (a) above.

20.10 Effectiveness of Transaction Documents

- (a) It is or becomes unlawful for any Person (other than a Senior Finance Party) to perform any of its material obligations under the Transaction Documents.
- (b) Any part of a Transaction Document (other than immaterial provisions) is or becomes or is alleged by any party to be invalid, illegal, ineffective, not binding or unenforceable in accordance with its written terms for any reason, provided that with respect to Power Purchase Agreements (other than Material PPAs), in the opinion of the Senior Agent this has, or would reasonably likely to result in, a Material Adverse Effect, and provided that the circumstances referred to in this sub-clause (b) with respect to the Bazan Agreement will not constitute an Event of Default, if, within forty five (45) days of the occurrence of such circumstances, the Borrower enters into a Gas Resale Agreement in accordance with this Agreement.
- (c) A Security Document does not create the security it purports to create or is otherwise ineffective, unenforceable, invalid, or illegal, or the ranking or priority of such Security Document is affected, or any party thereto shall so asserts in writing.
- (d) Any party (other than a Senior Finance Party) to a Transaction Document repudiates or rescinds a Transaction Document, disclaims a liability under any Transaction Document or evidences an intention to repudiate or rescind a Transaction Document or disclaim a liability under any Transaction Document.
- (e) Any provision of a Transaction Document is amended or waived, assigned or transferred without the prior consent of the Senior Agent (including where such amendment, waiver, assignment or transfer is required under or pursuant to any Applicable Law).

20.11 Transaction Authorisations

Any material Transaction Authorisation obtained (or, with respect to sub-clause (b) below - required) by the Borrower, the EPC Contractor, the Operator, any Shareholder or any guarantor of any such entities:

- (a) is modified or amended in any material respect without the prior consent of the Senior Agent;
- (b) is not obtained or effected by the time it is required;
- (c) is revoked or cancelled or otherwise ceases to be in full force and effect;
- (d) is not renewed or is renewed on less favourable terms;
- (e) is suspended; or
- (f) is otherwise breached.

20.12 Project Documents and Direct Agreement

- (a) In this sub-Clause, “ **Project Party** ” means any party (other than the Senior Finance Parties) to a Project Document.
- (b) A material representation or warranty given by any Project Party under any Project Document or Direct Agreement is incorrect.
- (c) Any Project Party is in material default under any Project Document or Direct Agreement and such default has not been cured with the expiry of a grace period under the relevant Project Document.
- (d) Any:
 - (i) Project Document or Direct Agreement is terminated, cancelled or suspended, or becomes capable of being terminated, cancelled or suspended; or
 - (ii) A Project Party issues a notice of termination of that Project Document;in each case otherwise than by reason of full performance of the agreement or expiry of its term.

20.13 Organisational Documents

Without the prior consent of the Senior Agent, any change is made to the Borrower’s Organisational Documents.

20.14 Completion

- (a) The Commercial Operation Date does not occur on or before the Longstop Date.
- (b) By the date that is three (3) years from the Longstop Date, any of the Transaction Authorizations required by Applicable Law to be obtained for the completion and operation of the Project has not been obtained or is not in full force and effect.
- (c) There is a Forecast Funding Shortfall at any time prior to the Commercial Operation Date and the Borrower has not demonstrated to the satisfaction of the Senior Agent by fourteen (14) Business Days after the earlier of: (i) Senior Agent or the Technical Adviser notifying the Borrower and (ii) the Borrower first becoming aware of the existence of such Forecast Funding Shortfall, that such shortfall will be remedied within five (5) Business Days of the occurrence of the same.

- (d) The Senior Agent concludes (following consultation with the Technical Adviser) that there is no reasonable prospect of the Commercial Operation Date occurring on or before the Longstop Date.
- (e) The Borrower or the EPC Contractor fails to implement diligently any course of action detailed in a Remedial Plan (as defined in the EPC Contract) or in an acceleration plan approved by the Borrower and the Senior Agent pursuant to the EPC Contract.
- (f) The Borrower agrees to any extra Project Works without the prior approval of the Senior Agent.

20.15 Abandonment

The Borrower, the EPC Contractor or the Operator abandons all or a material part of the Project Facilities unless such abandonment is a result of a Force Majeure Event, in which case Clause 20.21 (Force Majeure) shall apply. The Borrower or the EPC Contractor will be deemed to have abandoned the Project Facilities if they fail to perform a significant part of the operations at the Project Facilities or if no significant work or service is performed or provided by it for a continuous period in excess of forty five (45) days other than (a) during a period of scheduled cessation of operations or (b) as approved by the Senior Agent.

20.16 Project Events

- (a) Prior to the Construction Completion Date, the Project Works are suspended for a continuous period in excess of forty five (45) days, other than (i) during a period of scheduled cessation of the Project Works, or (ii) as approved by the Senior Agent, or (iii) as result of a Force Majeure Event, in which case Clause 20.21 (Force Majeure) shall apply.
- (b) Following the Construction Completion Date, the Project Facilities are shutdown for consecutive periods in aggregate in excess of sixty (60) days in any twelve (12) months period, other than (i) during a period of scheduled cessation of operations or (ii) as approved by the Senior Agent or (iii) as result of a Force Majeure Event, in which case Clause 20.21 (Force Majeure) shall apply.
- (c) The Borrower, the EPC Contractor, the Operator or the LTSA Contractor, as applicable, shall cease to have:
 - (i) the right to use the Site under, and in accordance with the terms of, the Land Lease Agreement or, for so long as the Energy Center is held by the Borrower, the right to use the Energy Center Site under and in accordance with the terms of the Energy Center Land Lease Agreement;
 - (ii) good title to, or freedom to use under any Applicable Laws, any other assets (including, but not limited to, intellectual property rights) necessary, customary or desirable to implement the Project in accordance with the Transaction Documents,

- (iii) good and marketable title to all assets reflected in its latest audited financial statement, and
 - (iv) any easement, wayleaves or other rights necessary, in order to implement the Project in accordance with the Transaction Documents;
- in each case free from Security Interests (other than any Permitted Security Interest), restrictions and onerous covenants.
- (d) Any Person (including any Government Authority) shall have initiated any action, suit or proceeding with respect to the Borrower's right, title and interest in and to the Project.
 - (e) The Electricity Legislation is amended in a manner which in the opinion of the Senior Agent has or would be likely to result in a Material Adverse Effect.
 - (f) At any time the Finance Support Rules are no longer in effect with respect to the Borrower or the Senior Finance Parties, and no similar rules satisfactory to the Senior Agent are in place.

20.17 IEC

Any of the following:

- (a) IEC fails to pay, for two (2) consecutive months, the amounts due to the Borrower in accordance with the Permanent License, the Tariff Approval and the IEC PPA;
- (b) IEC ceases to be an Essential Service Provider;
- (c) A material claim in relation to the Project is filed against IEC;
- (d) An attachment of an asset of IEC, which, in the opinion of the Senior Agent, has or is reasonably likely to have a Material Adverse Effect;
- (e) An event of default however so described occurs under any document evidencing or securing or relating to Financial Indebtedness of IEC, which, in the opinion of the Senior Agent, has or is reasonably likely to have a Material Adverse Effect;
- (f) Any of the circumstances set out in Clause 20.6 (Insolvency) has occurred in relation to IEC;
- (g) IEC suspends making payments on all or any class of its indebtedness or announces an intention to do so, or otherwise admits its inability or unwillingness to pay its Financial Indebtedness as it falls due (other than unwillingness to pay indebtedness arising solely as a result of a dispute in respect of such indebtedness, which dispute is being actively contested by appropriate proceedings).

None of the circumstances or events under this Clause 20.17 (IEC) will constitute an Event of Default herein if (a) a successor Essential Service Provider is appointed to replace the IEC, and (b) such successor assumes all obligations of IEC towards the Borrower to the full satisfaction of the Senior Agent.

To the extent the terms set out in sub-clause (a) and (b) above have been met, this Clause 20.17 (IEC) shall apply with respect to the successor as if references to IEC herein were references to the successor.

20.18 Government Action

Any of the following:

- (a) Any part of the Borrower's undertaking, rights and obligations or any of its assets or its business or operations, including any part of the Project Facilities, is seized, nationalised, confiscated or requisitioned.
- (b) Any part of the Borrower's rights under the Transaction Documents is forfeited, suspended or otherwise abrogated by any Government Authority.
- (c) All or any part of the Shareholders' share in the Borrower's share in any of the Shareholders are seized, expropriated, nationalized, acquired, confiscated, requisitioned or administered.
- (d) There is any other intervention in the Project, analogous to that referred to in sub-Clauses (a) to (c) above by or on behalf of any Government Authority.

20.19 Litigation

Any litigation, arbitration or administrative proceedings, Environmental Claim or injunction, writ, restricting order or order of any nature are current or have been issued or, to its knowledge, pending or threatened against any Project Party which have or, if adversely determined, are reasonably likely to have a Material Adverse Effect.

20.20 Event of Loss

There occurs an Event of Loss, provided however that no Event of Default will occur under this Clause 20.20 (Event of Loss) if, within five (5) Business Days of the occurrence of an Event of Loss, (i) the Borrower receives, by way of Equity Subordinated Loan, such cash proceeds as are sufficient, in the opinion of the Senior Agent, or (ii) the Borrower demonstrates to the full satisfaction of the Senior Agent that there are sufficient other funds available, in each case, to repair or reinstate the assets damaged and destroyed and to compensate for all consequences of the Event of Loss.

20.21 Force Majeure

There occurs a Force Majeure Event, which entitles a Person to terminate a Project Document.

20.22 Insurance

- (a) Any
 - (i) Insurance, Reinsurance or any other insurance required to be effected (and not waived) under any Transaction Document:
 - (a) is not, or ceases to be, in full force and effect;
 - (b) is repudiated, avoided or suspended (in each case to any extent); or
 - (ii) Any Insurer is entitled to avoid, repudiate or suspend (in each case to any extent) or otherwise reduce its liability under the policy relating to any Insurance, Reinsurance or other insurance required to be effected under any Transaction Document,

unless with respect to Non-Material Insurances only, the Borrower procures a substitute Insurance and Reinsurance, if applicable, within five (5) Business Days of the occurrence of the circumstances set out in sub-clauses (a) or (b) above to the full satisfaction of the Senior Agent.

- (b) Any of the circumstances or events set out in Clauses 20.6(a) (Insolvency), 20.7(a) (Insolvency Proceedings), 20.8 (Creditors' Process) or 20.9(a) (Cessation of Business) has occurred with respect to an Insurer as if it were a Major Project Party pursuant to such provisions, unless within three (3) Business Days of the Borrower becoming aware of the occurrence of such circumstances or events, the Borrower procures, with respect to the Insurance or Reinsurance provided by such Insurer, a substitute Insurance or Reinsurance with an Insurer, whose identity is approved by the Senior Agent (such Senior Agent's response to be provided by the Senior Agent immediately upon Borrower's request).

20.23 Ratios

- (a) The Projected Minimum Debt Service Cover Ratio in respect of any Calculation Date during the Commercial Operation Phase is less than [***].
- (b) The Projected Average Debt Service Cover Ratio in respect of any Calculation Date during the Commercial Operation Phase is less than [***].
- (c) The LLCR in respect of any Calculation Date during the Commercial Operation Phase is less than [***].
- (d) The Borrower fails to maintain the Reserve Accounts at the Required Level in compliance with the provisions of this Agreement, provided, however, that failure to maintain the DSRA at the Required DSRA Balance which is due solely to the pro rata distribution of funds set forth in sub-clause (11) of the Order of Payments (i.e., the amount available for distribution of funds for the purposes set forth in sub-clause (11) of the Order of Payments is higher than the amount required to maintain the DSRA at the Required DSRA Balance) shall not, by itself, constitute a Default or an Event of Default.

It being understood that the Borrower shall be entitled to cure the events specified in sub-clauses (a) to (c) above by procuring that its Shareholders contribute amounts to the Borrower in accordance with the provisions set out below (the "**Equity Cure Right**"):

- (a) if the Borrower wishes to exercise the Equity Cure Right in respect of a Calculation Date, it shall procure that, on or before the date falling ten (10) days after such Calculation Date, the Borrower receives an amount (the "**Cure Amount**") of cash proceeds of a new Equity Subordinated Loan and the Cure Amount shall be deemed to be added to the Available Cashflow for the relevant Calculation Date.
- (b) If the Borrower exercises its Equity Cure Right, the Projected Minimum Debt Service Cover Ratio, Projected Average Debt Service Cover Ratio and/or the LLCR (as applicable) shall be recalculated accordingly in respect of the relevant Calculation Date, and, if on such basis, each of the Projected Minimum Debt Service Cover Ratio, Projected Average Debt Service Cover Ratio and/or the LLCR (as applicable) is at least [***], any breach of the same in respect of the relevant Calculation Date shall be deemed to have been remedied.

(c) [***]

20.24 Ownership of the Borrower

- (a) A Shareholder disposes of any of its shares or other interests in the Borrower other than in accordance with the Equity Subscription Agreement.
- (b) The Borrower issues any share capital or other securities without the prior written consent of the Senior Agent.

20.25 Hadera Paper

Notwithstanding anything to the contrary in this Clause 20 (Default), any of the following occurs in respect of Hadera Paper:

- (a) any of the circumstances or events set out in Clauses 20.5 (Cross Default), 20.6 (Insolvency), 20.7 (Insolvency Proceedings), 20.8 (Creditors' Process), 20.9 (Cessation of Business) or 20.12 (Project Documents and Direct Agreements) has occurred;
- (b) a "going concern warning" (' *Azharat Esek Hai* ') was included in the most recent financial statements of Hadera Paper;
- (c) the credit rating of Hadera Paper by Maalot is below "BBB" or its equivalent rating by Midroog;
- (d) the quarterly EBITDA for any three fiscal quarters during any fiscal year according to the most recent financial statements of Hadera Paper is below zero;
- (e) the ratio of equity to the total assets reflected on the consolidated balance sheet of Hadera Paper (the " **Hadera Asset Coverage Ratio** "), according to the most recent consolidated quarterly unaudited financial statements or the consolidated annual audited financial statements (' *yahas hon le'maazan* ') is below twenty percent (20%) and either the (x) Projected ADSCR or (y) the Historic ADSCR is less than 1.30:1; or
- (f) the equity of Hadera Paper according to the most recent consolidated quarterly unaudited financial statements or the consolidated annual audited financial statements, is less than four hundred million New Israeli Shekels (NIS 400,000,000),

provided that an Event of Default shall only occur under this Clause 20.25 (Hadera Paper) if within fourteen (14) days of the occurrence of any of the aforementioned events or circumstances, the Borrower: (a) does not demonstrate to the full satisfaction of the Senior Agent that its rights to use the Site in accordance with the terms of the Land Lease Agreement and the Security Interests with respect thereof, are not prejudiced due to such events, and (b) does not provide the Senior Agent with an updated Financial Model assuming that the Borrower does not sell electricity and steam to Hadera Paper, and showing that each of the Ratios is above 1.10:1.

The provisions of Clause 16.6 (Financial Model and Ratios) shall apply hereto, *mutatis mutandis* , provided however that a referral of any disagreement between the Senior Agent and the Borrower to an expert shall only apply with respect to assumptions that are not related in any way to the assumption that the Borrower does not sell electricity and steam to Hadera Paper. Otherwise, the final determination of the Senior Agent shall be binding.

20.26 **Material End User**

Notwithstanding anything to the contrary in this Clause 20 (Default), any of the circumstances or events set out in Clauses 20.5 (Cross Default), 20.6 (Insolvency), 20.7 (Insolvency Proceedings), 20.8 (Creditors' Process), 20.9 (Cessation of Business) or 20.12 (Project Documents and Direct Agreements) occurs with respect to a Material End User (other than Hadera Paper), provided that within fourteen (14) days of the occurrence of any of the aforementioned events or circumstances, the Borrower does not provide the Senior Agent with an updated Financial Model, assuming that the Borrower does not sell electricity to such Material End User and showing that each of the Ratios is above 1.10:1.

The provisions of Clause 16.6 (Financial Model and Ratios) shall apply hereto, *mutatis mutandis*, provided however that a referral of any disagreement between the Senior Agent and the Borrower to an expert shall only apply with respect to assumptions that are not related in any way to the assumption that the Borrower does not sell electricity to such Material End User. Otherwise, the final determination of the Senior Agent shall be binding.

20.27 **Material Adverse Effect**

Any event or series of events occurs, which, in the opinion of the Senior Agent, has or is reasonably likely to have a Material Adverse Effect.

20.28 **Enforcement Action**

- (a) Without derogating from any rights of the Senior Finance Parties pursuant to the Senior Finance Documents or Applicable Law, if an Event of Default is outstanding or, with respect to sub-clause (ix) a Default is outstanding, the Senior Agent may, and must if so instructed by the Majority Senior Lenders:
- (i) give notice that an Event of Default is outstanding;
 - (ii) by notice to the Borrower cancel all or part of the Total Senior Lender Commitments under a Senior Facility or all of them;
 - (iii) instruct the Borrower to exercise any right under any Project Document;
 - (iv) commence legal proceedings against the Borrower in connection with any Senior Finance Document or entry into any creditors' arrangement or other similar arrangement or rescheduling of debt with the Borrower (or the creditors of the Borrower);
 - (v) exercise any right of appointment of any "additional obligor" or any other substituting entity under any Project Document or Direct Agreement;
 - (vi) exercise any right of indemnity against the Borrower in connection with the Senior Finance Documents;
 - (vii) exercise any right to terminate any Senior Finance Document;
 - (viii) by notice to the Borrower declare that all or part of any amounts outstanding under the Senior Finance Documents are:
 - (A) immediately due and payable; and
 - (B) payable on demand by the Senior Agent;

- (ix) give notice to the Account Bank that a Default has occurred and give any directions (or instruct the Security Agent to give any directions) to the Account Bank that the Senior Agent or the Security Agent may give under this Agreement;
- (x) give notice to the Hedging Bank that an Event of Default has occurred and require the Borrower or the Hedging Bank to terminate any Hedging Agreement.
- (xi) draw upon the Equity Guarantees, if applicable; or
- (xii) give notice to the Borrower that security constituted by the Security Documents, or any of them, is enforceable and exercise (or instruct the Security Agent to exercise) any rights available from time to time under the Security Documents and the Direct Agreements (including any substitution or step-in rights).

Any such notice or instruction will take effect in accordance with its terms.

- (b) If an event or occurrence constitutes an Event of Default under more than one of the provisions of this Clause 20 (Default), the Senior Agent on behalf of the Senior Lenders, may during the continuance of such Event of Default take all actions and remedies provided hereunder upon expiration of the shortest grace period, if any, applicable to such Event of Default.
- (c) Notwithstanding anything to the contrary in this Clause 20 (Default), if an Event of Default has occurred and the Senior Agent is of the opinion that a delay in taking any action which would be permitted upon the expiry of a grace period otherwise applicable to such Event of Default, may prejudice the ability of the Senior Finance Parties to exercise their rights under any Senior Finance Documents, or prejudice their ability to receive full payment in accordance with the terms of the Senior Finance Documents (including by realisation of the Security Interest), declare that with respect of such Event of Default the grace period is deemed to have expired.

20.29 Automatic Acceleration and Cancellation

At the Time of Acceleration (unless otherwise agreed by the Senior Agent):

- (a) all Senior Commitments shall be automatically and immediately terminated without any declaration, presentment, demand, protest or notice or any act of any kind by any Senior Lender whatsoever; and
- (b) the entire amount of the Loans, together with accrued interest, Linkage Differentials, Make Whole Amount, and all other amounts accrued or payable under the respective Senior Finance Documents, shall be deemed to become immediately due and payable without any declaration, presentment, demand, protest or notice or any act of any kind by any Senior Lender whatsoever.

In this Clause 20.29 (Automatic Acceleration and Cancellation) “**Time of Acceleration**” means the earlier of the time of the occurrence of any Event of Default under any of Clauses 20.6 (Insolvency) to Clause 20.8 (Creditors’ Process) (inclusive) with respect to the Borrower or any of its assets.

20.30 Co-operation

If an Event of Default is outstanding the Borrower must, on the request of the Senior Agent:

- (a) supply to the Senior Agent a copy of any as built drawings then in its possession showing all alterations made since the commencement of operation of the Project;
- (b) supply to the Senior Agent a copy of any operation and maintenance manuals or similar documents for the Project then in its possession; and
- (c) co-operate fully with the Senior Agent, any Adviser and any operator of the Project Facilities in order to achieve (if necessary) a smooth transfer of the operation of the Project.

20.31 No Independent Action

No Senior Finance Party may, except with the prior written consent of the Senior Agent:

- (a) enforce or require the Senior Agent or the Security Agent to enforce any Security Interest created or evidenced by any Security Document or taken any step under a Direct Agreement;
- (b) sue for or institute any creditor's process in respect of any obligation (whether or not for the payment of money) owing to it in respect of any Senior Finance Document;
- (c) take any step for the winding-up, administration of or dissolution of, or any insolvency proceeding, or for a voluntary arrangement, scheme of arrangement or other analogous step in relation to the Borrower or apply for any order for an injunction or specific performance in respect of the Borrower in relation to any Senior Finance Document;
- (d) cancel or suspend any amount of the Total Senior Lender Commitments; or
- (e) terminate any Hedging Agreement unless instructed to do so by the Senior Agent.

It is hereby clarified, that the foregoing shall not derogate from the rights of any Senior Lender, the Issuing Bank or the Hedging Bank as set out in clauses 2.6(c) (Debt Service Reserve Account and Guarantees Account) and 3.8 (Hedging Bank) of the Intercreditor Agreement

20.32 No Liability

No Senior Finance Party shall be liable for any failure to enforce or to maximise the proceeds of any enforcement of the Security Interests.

21 THE ADMINISTRATIVE PARTIES

21.1 Acknowledgment of the Intercreditor Agreement

The Borrower confirms that it has read the Intercreditor agreement and it fully understands, acknowledges and agrees to the provisions thereof. The Parties undertake not to amend sub-clauses (a), (f) or (g) of clause 2.13 (Resignation), clause 3.6 (Quorum at Lenders Meetings), clause 5 (Amendments and Waivers), clause 6.1 (Transfers by Senior Lenders) or clause 6.2(c) of the Intercreditor Agreement, without the prior consent of the Borrower.

21.2 Appointment and Duties of the Administrative Parties

For the avoidance of doubt, the Borrower shall have no claims, rights or remedies against the Administrative Parties with respect to the exercise of their rights or performance of their obligations in accordance with the terms of the Senior Finance Documents, including where such exercise is not in accordance with the PUA Rules.

21.3 No Fiduciary Duties

The Borrower acknowledges that nothing in the Senior Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other Person.

21.4 Exclusion of Liability

The Borrower may not take any proceedings against any officer, employee or agent of an Administrative Party in respect of any claim it might have against the Administrative Party or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Senior Finance Document. Any officer, employee or agent of an Administrative Party may rely on this Clause and enforce its terms.

21.5 Information

- (a) The Borrower irrevocably authorises each Administrative Party to disclose to the other Senior Finance Parties any information which received by it.
- (b) The Borrower irrevocably authorises each Administrative Party to disclose to the other Senior Finance Parties any information received by it in its capacity as such or which it is required to disclose to the other Senior Finance Parties pursuant to the terms of Applicable Law (including Institutional Entity Circular No. 23-9-2015 issued by the Commissioner on May 11, 2015).

21.6 Resignation

Without derogating from the Clause 2.13 (Resignation) of the Intercreditor Agreement, the Borrower must, and must procure that each Shareholder will, at the Borrower's cost, take any action and enter into and deliver any document which is required by the Security Agent to ensure that a Security Document provides for effective and perfected Security Interests in favour of any successor Security Agent. During the term of this Agreement, the Borrower shall bear the costs incurred in connection with any action referred to in this sub-clause (f), not to exceed an aggregate amount of fifteen thousand New Israeli Shekels (NIS 15,000) linked to the Base Index, on two occurrences during the term of the Senior Facilities Agreement.

22 RESERVED

23 EVIDENCE AND CALCULATIONS

23.1 Accounts

Accounts maintained by a Senior Finance Party in connection with this Agreement are *prima facie* evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

23.2 Certificates and Determinations

Any certification or determination by a Senior Finance Party of a rate or amount under the Senior Finance Documents will be *prima facie* evidence of the matters to which it relates.

23.3 Calculations

Any interest or fee accruing under a Senior Finance Document accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of three hundred and sixty-five (365) days or otherwise, depending on what the Senior Agent determines is market practice.

24 FEES

24.1 Senior Agent Fee

The Borrower must pay to the Senior Agent an agency fee and certain other costs and expenses in the manner agreed in the Fee Letter between the Borrower and the Senior Agent.

24.2 Up-front Fee

[***]

24.3 Arrangers Fee

The Borrower must pay the Arrangers a fee in the manner agreed in the Fee Letter between the Arrangers and the Borrower.

24.4 Security Agent Fee

The Borrower must pay the Security Agent a fee in the manner agreed in the Fee Letter between the Security Agent and the Borrower.

24.5 Account Bank Fee

The Borrower must pay the Account Bank a fee in the manner agreed in the Fee Letter between the Account Bank and the Borrower.

24.6 Issuing Bank Fees

The Borrower must pay to the Issuing Bank fees in the manner agreed in the Fee Letter between the Issuing Bank and the Borrower.

24.7 Commitment Fee

(b) [***]

(c) Commitment fees are payable quarterly in arrears on the first Business Day following the end of each calendar quarter.

- (d) Accrued commitment fees are also payable to the Senior Agent on the date on which the Commitment under a Senior Facility is cancelled in full. If this Agreement is terminated prior to the First Utilisation, accrued commitment fee will be payable by the Initial Shareholder.

25 INDEMNITIES

25.1 Currency Indemnity

- (a) The Borrower must, as an independent obligation, indemnify each Senior Finance Party against any loss or liability which that Senior Finance Party incurs as a consequence of:
- (i) that Senior Finance Party receiving an amount in respect of the Borrower's liability under the Senior Finance Documents; or
 - (ii) that liability being converted into a claim, proof, judgment or order;
- in a currency other than the currency in which the amount is expressed to be payable under the relevant Senior Finance Document.
- (b) Unless otherwise required by Applicable Law, the Borrower waives any right it may have in any jurisdiction to pay any amount under the Senior Finance Documents in a currency other than that in which it is expressed to be payable.

25.2 Other Indemnities

- (a) The Borrower must indemnify each Senior Finance Party against any loss or liability which that Senior Finance Party incurs as a consequence of:
- (i) the occurrence of any Event of Default;
 - (ii) any failure by the Borrower to pay any amount due under a Senior Finance Document on its due date, including any resulting from any distribution or redistribution of any amount among the Senior Lenders under this Agreement;
 - (iii) other than by reason of negligence or default by that Senior Finance Party, a Loan not being made after a Drawdown Request has been delivered for that Loan;
 - (iv) a Loan (or part of a Loan) not being prepaid in accordance with a Senior Finance Documents; or
- The Borrower's liability in each case includes any loss or expense on account of funds borrowed, contracted for, or utilised to fund any amount payable under any Senior Finance Document or any Loan.
- (b) A Senior Finance Party shall, as soon as reasonably practicable after receiving claim by a third party in respect of which that Senior Finance Party claims an indemnity under sub-Clause (a) above, give notice of that third party claim to the Borrower.
- (c) The Borrower must indemnify each Agent (no later than seven (7) Business Days from the date of receipt of a detailed demand) against any loss or liability incurred by that Agent as a result of:
- (i) investigating any event which that Agent reasonably believes to be a Default, it being clarified that an appointment of an Adviser in connection with the aforesaid (to the extent applicable) shall be subject to Clause 29 (Advisers); or

(ii) acting or relying on any notice by the Borrower which that Agent reasonably believes to be genuine, correct and appropriately authorised.

(d) The Borrower must indemnify each Senior Finance Party against any loss or liability incurred by that Senior Finance Party as a result of any actual or alleged breach of any Environmental Law by any Person in relation to the Project.

26 EXPENSES

26.1 Initial Costs

The Borrower shall be responsible for paying the costs and expenses of the Advisers in connection with the negotiation and execution of the Senior Finance Documents, as approved in advance by the Borrower. The Borrower must, within thirty (30) days of written demand, pay to each Administrative Party the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Senior Finance Documents, provided in each case that such costs and expenses have been approved in advance by the Borrower (acting reasonably).

26.2 Subsequent Costs

The Borrower must pay to each Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

- (a) the negotiation, preparation, printing and execution of any Senior Finance Document (other than a Transfer Certificate) executed after the Signature Date; and
- (b) any amendment, waiver or consent requested by or on behalf of the Borrower or specifically allowed by this Agreement, it being clarified that an appointment of an Adviser in connection with the aforesaid (to the extent applicable) shall be subject to Clause 29 (Advisers).

26.3 Enforcement Costs

The Borrower must pay to each Senior Finance Party the amount of all costs and expenses (including legal fees, expenses of legal advisers and any VAT or similar tax) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Senior Finance Document.

27 AMENDMENTS AND WAIVERS

27.1 Procedure

- (a) Except as provided in Clause 27 (Amendments and Waivers) any term of the Senior Finance Documents may be amended or waived with the agreement of the Borrower and the Majority Senior Lenders.

Notwithstanding the foregoing, (i) subject to Clause 21.1 (Acknowledgement of the Intercreditor Agreement) above, any term of the Intercreditor Agreement may be amended or waived without the consent of the Borrower; (ii) any term of the Hedging Agreement may be amended or waived with the approval of the Borrower, the Hedging Bank and the Majority Senior Lenders; and (iii) the Senior Agent may effect (a) administrative amendments or waivers and (b) amendments to Schedule 1 (Senior Lenders and their Commitments) of this Agreement, pursuant to Clause 28 (Changes to the Parties) without the consent of the Borrower, and in each case without the consent of the Majority Lenders.

- (b) The Senior Agent may effect, on behalf of the Senior Finance Parties, an amendment or waiver of any Senior Finance Document to which the Borrower and the relevant Senior Finance Parties have agreed in accordance with this Clause.
- (c) The Senior Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-Clause (b) above. Any such amendment or waiver is binding on all the Parties.
- (d) The share in any Loan, undrawn Commitment or Commitment of any Senior Lender which does not reply to a request for consent under a Senior Finance Document within fifteen (15) Business Days (or such longer period as the Borrower and the Senior Agent may agree) after receipt of a request from the Senior Agent will be excluded for the purpose of determining whether the required proportion of Senior Lenders have agreed.
- (e) In ascertaining the Majority Senior Lenders or whether any given percentage (including, for unanimity) of the Total Senior Lender Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Senior Finance Documents, a Defaulting Lender's Commitment and share in any outstanding Loans will be reduced to zero.

27.2 **Waivers and Remedies Cumulative**

The rights of each Senior Finance Party under the Senior Finance Documents:

- (a) may be exercised as often as necessary;
- (b) are cumulative and not exclusive of its rights under Applicable Law; and
- (c) may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

28 **CHANGES TO THE PARTIES**

28.1 **Assignments and Transfers by the Borrower**

The Borrower may not assign or transfer any of its rights or obligations under the Senior Finance Documents without the prior consent of all the Senior Lenders.

28.2 **Transfers by Senior Lenders**

A Senior Lender may assign or transfer all or any of its rights, benefits and obligations under the Senior Finance Documents pursuant to clause 6 (Changes to the Parties) of the Intercreditor Agreement.

28.3 Resulting Increased Costs and Tax Payments

If:

- (a) a Senior Lender assigns or transfers any of its rights and obligations under the Senior Finance Documents or changes its Facility Office; and
- (b) as a result of circumstances existing at the date the assignment or transfer occurs, the Borrower would be obliged to pay a Tax Payment or an Increased Cost;

then the Borrower need only pay that Tax Payment or Increased Cost to the same extent that it would have been obliged to if no assignment, transfer or change had occurred.

28.4 Replacement of a Defaulting Senior Finance Party

- (a) If a Senior Lender has become a Defaulting Lender, each other Senior Lender shall be entitled to advance the Defaulting Lender's participation in any Loan and shall provide notice to the Senior Agent of its intention to do so within ten (10) days of receipt of the notice specified in Clause 2.9(b)(iii) (The Administrative Parties) of the Intercreditor Agreement), in which case the Senior Agent, the Borrower and the Defaulting Lender must transfer the Defaulting Lender's remaining Commitments under this Agreement *pro rata* to each other Finance Party that has notified the Borrower and the Senior Agent that it wishes to accept the transfer of that Defaulting Lender's rights and assume that Defaulting Lender's obligations with respect to the remaining Commitments under this Agreement (each such Finance Party being a "**Replacement Lender**").
- (b) In the event that no such notice is provided within the ten-day period specified in sub-Clause 28.4(a), the Borrower shall be entitled, for a period of 45 days from receipt of the notice specified in in Clause 2.9(b)(iii) (The Administrative Parties) of the Intercreditor Agreement, to replace that Defaulting Lender by requiring that Defaulting Lender to (and that Defaulting Lender must) transfer in accordance with this Agreement all (and not part only) of its rights and obligations under this Agreement to a new lender (a "**New Replacement Lender**") selected by the Borrower, and which satisfies the conditions required to be a Senior Lender specified in Clause 6.1 (Transfers by Senior Lenders) of the Intercreditor Agreement. The Senior Agent shall cooperate with the Borrower in order to assist the Borrower in its efforts to find a New Replacement Lender.
- (c) Prior to the replacement of a Defaulting Lender under this Clause, no Senior Lender shall be obligated to advance its share of any Loan. Any amounts advanced by the Senior Lenders to the Senior Agent in respect of a Loan which have not been made available to the Borrower in circumstances where there is a Defaulting Lender in respect of that Loan, shall be reimbursed by the Senior Agent to that Senior Lender.
- (d) Any transfer of rights and obligations of a Defaulting Lender under this Clause is subject to the following conditions:
 - (i) the purchase price payable pro rata by the New Replacement Lender to the Defaulting Lender at the time of the transfer is equal to the outstanding principal amount of that Defaulting Lender's participation in the outstanding Loans and all accrued interest and other amounts payable in relation to that Commitment under the Finance Documents;

- (ii) neither the Senior Agent nor the Defaulting Lender will have any obligation to the Borrower to find a Replacement Lender or a New Replacement Lender;
- (iii) the transfer must take place on the last day of the next Interest Period immediately following the end of the period of time referred to in sub-Clause (b) above; and
- (iv) in no event will the Defaulting Lender be required to pay or surrender to a Replacement Lender or the New Replacement Lender any of the fees received by the Defaulting Lender under the Finance Documents in connection with events occurring prior to the transfer of Commitments of the Defaulting Lender to the New Replacement Lender pursuant to the provisions of this Clause 28 and clause 6 (Changes to the Parties) of the Intercreditor Agreement.

29 ADVISERS

- (a) Subject to sub-clause (b) below, the Senior Agent may:
 - (i) appoint additional advisers to act on behalf of the Senior Finance Parties in relation to the Project; and
 - (ii) if any Adviser resigns or its appointment otherwise ceases or is terminated, appoint a replacement Adviser.
- (b) Prior to the appointment of an adviser pursuant to sub-clause (a) above, the Senior Agent is required to: (i) provide to the Borrower a list of three (unless if not possible, then two) Persons acceptable to it as being appointed as an adviser in the subject matter, and (ii) the Borrower will have a reasonable opportunity to discuss with the proposed advisers the terms of their employment. The foregoing shall not apply: (i) if, in the opinion of the Senior Agent, the appointment of any adviser pursuant to sub-clause (a) above is a matter of urgency, (ii) if such appointment is required in connection with circumstances in which the Senior Agent believes that a Default has occurred or is outstanding, or (iii) reasons of confidentiality justify such appointment to be made without the Borrower being involved.
- (c) Without derogating from the generality of sub-clause (a) above, the Senior Agent shall appoint advisers for the purpose of examining from time to time and at least once every year the effectiveness of the Security Interests granted pursuant to the Security Documents and, to the extent necessary (if requested by any Senior Lender), examining the assets pledged under the Security Documents.
- (d) Without derogating from sub-clauses (a)-(c), the Borrower must pay to the Senior Agent the amount of all costs and expenses (including legal fees) reasonably incurred by the Senior Agent in connection with any appointment under this Clause.
- (e) The Borrower must co-operate in good faith with each Adviser. If the Borrower is required to supply any information to the Senior Agent under this Agreement and the Senior Agent so requests, the Borrower must supply a copy of that information to each Adviser.

(f) The Borrower must pay the amount of all fees, costs and expenses (including any value added tax) payable to any Adviser.

30 DISCLOSURE OF INFORMATION

30.1 Confidentiality

- (a) Each Senior Finance Party must keep confidential any information supplied to it by or on behalf of the Borrower, another Senior Finance Party or a Major Project Party in connection with the Transaction Documents. However, a Senior Finance Party is entitled to disclose information:
- (i) which is publicly available, other than as a result of a breach by that Senior Finance Party of this Clause;
 - (ii) in connection with any legal, arbitration, regulatory or administrative proceedings that require the disclosure of such information;
 - (iii) if required to do so under any Applicable Law;
 - (iv) to a Government Authority that require the disclosure of such information;
 - (v) to its professional advisers (provided that they are subject to confidentiality obligations as set out in this clause);
 - (vi) to the extent allowed under sub-Clause (b) below; or
 - (vii) with the agreement of the Borrower in its sole discretion.
- (b) A Senior Finance Party may disclose to (i) an Administrative Party hereunder or to another Senior Finance Party; or (ii) an Affiliate or any Person with whom it may enter, or has entered into, any kind of transfer, participation or other agreement in relation to this Agreement or a Senior Facility (a “ **Participant** ”):
- (i) a copy of any Transaction Document;
 - (ii) any information which that Senior Finance Party has acquired under or in connection with any Transaction Document;
 - (iii) any information relevant to that Senior Finance Party that it is required to disclose, and to the extent so required, by the Institutional Entities Circular 2015-9-23 issued by the Commissioner based on the recommendations of the Goldschmidt Committee.
- However, before a Participant may receive any confidential information, it must agree in writing with the relevant Senior Finance Party to keep that information confidential on the terms of sub-Clause (a) above.
- (c) The provisions of this Clause 30 (Disclosure of Information) shall not apply to:
- (i) any information already known to any recipient, other than by reason of a breach by such recipient of this Clause 30 (Disclosure of Information), which such recipient would otherwise be free to disclose;
 - (ii) any information subsequently received by any recipient, other than by reason of a breach by such recipient of this Clause 30 (Disclosure of Information), which the recipient would otherwise be free to disclose;

- (iii) any information which is or becomes public knowledge, other than by reason of a breach by such recipient of this Clause 30 (Disclosure of Information); or
 - (iv) any information disclosed by any Principal Project Party, IEC, or anyone on their behalf to a third party without breaching any obligations of confidentiality by such entity.
- (d) This Clause 30 (Disclosure of Information) supersedes any previous confidentiality undertaking given by a Senior Finance Party in connection with this Agreement prior to it becoming a Party.

30.2 Use of Websites for Delivery of Information

- (a) The Borrower may satisfy its obligations under the Senior Finance Documents to deliver any information to the other Senior Finance Parties by posting such information onto a secured electronic website designated for such purpose by the Senior Agent (the “ **Designated Website** ”). Nothing in this Clause 30.2 shall derogate from the right of any Administrative Party to deliver information by any other mean it is entitled to use pursuant to the Senior Finance Documents.
- (b) The Senior Agent shall notify the other Senior Finance Parties of the address details of the Designated Website and any relevant password specifications to access it.
- (c) The Senior Agent may permit, at its sole discretion: (a) the access of the Borrower to the Designated Website; (b) the Borrower to satisfy its obligations to deliver information to the Senior Lender pursuant to the Senior Finance Documents (whether in general or in a specific instance), by posting, or causing to be posted, such information onto the Designated Website directly.
- (d) At any time, the Senior Agent may, at its sole discretion, revoke or temporarily suspend the Borrower’s access to the Designated Website and/or limit its access only to certain information posted onto the Designated Website or parts thereof.
- (e) by giving the Senior Lenders an advance notice, the Senior Agent may replace the Designated Website from time to time. In addition, the Senior Agent may, at any time, cease to use the Designated Website and alternatively to provide information to the Senior Lenders in any other mean of communication permitted under the Senior Finance Documents.
- (f) The Senior Agent may notify the Senior Lenders through the Designated Website system that: (i) information has recently been added to the information posted onto the Designated Website; or (ii) the information posted onto the Designated Website has recently been changed, such notice may be sent automatically or otherwise.
- (g) Unless the access to the Designated Website has been denied as a result of technical failure, the information posted onto the Designated Website shall be deemed delivered to the Senior Lender in accordance with the Senior Finance Documents as of the time of delivery of notification as set out in paragraph (f) above. Each Senior Lender must notify the Senior Agent in any case where it became aware of a technical failure which denies its access to the Designated Website. If such technical failure lasted longer than three (3) Business Days the Senior Agent shall inform the same to the other Senior Lenders and deliver the information the access thereto is denied, by any means of communication it is entitled to under the Senior Finance Documents. It is clarified that as long as no Senior Lender notified the Senior Agent of any technical failure which denied its access to the Designated Website, the information posted onto the Designated Website shall be deemed received by the Senior Lenders in accordance with the Senior Finance Documents upon the lapse of two (2) Business Days.

- (h) The Borrower represents and warrants that it is aware that the Designated Website is provided by a third party service provider and that no Senior Finance Party has any control over the Designated Website or responsible for it, including for any damage, loss and/or expense incurred by the Borrower or any third party in connection with the information posted onto the Designated Website or delivered therefrom, from whatever reason not controlled by the Senior Agent and the Senior Lenders. The Borrower may not raise any claim, complaint and /or demand against any Senior Finance Party in connection with the Designated Website, including with respect to the information posted onto the Designated Website, receipt of information therefrom, confidentiality of the information and the protection thereof.
- (i) Without derogating from the foregoing, the Senior Lenders and the Borrower confirm and acknowledge that due to maintenance work, the Designated Website may from time to time be unavailable for several hours.
- (j) The Borrower shall bear all costs in connection with the Designated Website. The Senior Agent shall deliver to the Borrower the payment charges and/or tax invoices issued from time to time by the provider of the Designated Website (the “ **Information Costs** ”) and the Borrower shall pay such Information Costs on the dates specified for payment. Without derogating from any other right the Senior Lenders have under this Agreement, in any case where the Borrower fails to fulfil its obligation to pay the Information Costs, the Senior Agent shall be entitled to charge the Borrower’s Accounts with respect of the Information Costs.

31 PAYMENTS

31.1 Place

Subject to sub-Clause (b) below, unless this Agreement specifies that payments under a Senior Finance Document are to be made in another manner, all payments by a Party (other than the Senior Agent) under the Senior Finance Documents must be made to the Senior Agent at such office or bank as it may notify to that Party for this purpose by not less than five (5) Business Days’ prior notice.

31.2 Funds

Payments under the Senior Finance Documents to an Agent must be made for value on the due date at such times and in such funds as that Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place for payment.

31.3 Currency

Unless specifically determined otherwise, the amounts payable under the Senior Finance Documents are payable in NIS.

31.4 Distributions to Senior Finance Parties

Distributions to the Senior Finance Parties shall be made in accordance with Clause 7.1 (Distributions to Senior Finance Parties) of the Intercreditor Agreement.

31.5 No Set-off or Counterclaim

- (a) All payments by the Senior Finance Parties to the Senior Agent shall be made without set-off or counterclaim.
- (b) All payments made by the Borrower under the Senior Finance Documents must be made without set-off or counterclaim.

31.6 Business Days

- (a) If a payment under the Senior Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Senior Agent determines is market practice.
- (b) During any extension of the due date for payment of any Financing Principal under a Senior Finance Document interest is payable on that Financing Principal at the rate payable on the original due date.

31.7 Timing of Payments

If a Senior Finance Document does not provide for when a particular payment is due, that payment will be due within three (3) Business Days of demand by the relevant Senior Finance Party.

32 RESERVED

33 SET-OFF

- (a) Subject to any restriction in this Agreement, a Senior Finance Party may set-off any matured obligation owed to it by the Borrower under the Senior Finance Documents (to the extent beneficially owned by that Senior Finance Party) against any obligation (whether or not matured) owed by that Senior Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Senior Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.
- (b) Unless an Event of Default is outstanding, a Senior Finance Party must give notice to the Borrower before exercising any right of set-off under sub-Clause (a) above.

34 SEVERABILITY

If a term of a Senior Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that will not affect:

- (a) the legality, validity or enforceability in that jurisdiction of any other term of the Senior Finance Documents; or
- (b) the legality, validity or enforceability in other jurisdictions of that or any other term of the Senior Finance Documents.

35 COUNTERPARTS

Each Senior Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Senior Finance Document.

36 NOTICES

36.1 In writing

- (a) Any communication in connection with a Senior Finance Document must be in writing and, unless otherwise stated, may be given:
 - (i) in person, by post, fax, e-mail or any other electronic communication approved by the Senior Agent; or
 - (ii) if between the Senior Agent and a Senior Lender, and the Senior Agent and the Senior Lender agree, by e-mail or any other electronic communication.
- (b) For the purpose of the Senior Finance Documents, an electronic communication will be treated as being in writing.
- (c) Unless it is agreed to the contrary, any consent or agreement required under a Senior Finance Document must be given in writing.

36.2 Contact Details

- (a) Except as provided below, the contact details of each Party for all communications in connection with the Senior Finance Documents are those notified by that Party for this purpose to the Senior Agent on or before the date it becomes a Party.
- (b) The contact details of the Borrower for this purpose are:

Giora Almogy or Hadar Levin
OPC Rotem
Ha'Tichon Tower
19 HaArbaa St. P.O.B. 20709
Tel Aviv 61204 Israel
HadarL@opcrotem.com
GioraA@opcrotem.com

- (c) The contact details of the Senior Agent, Account Bank, the Hedging Bank and Issuing Bank for this purpose are:

Noam Schweitzer and Yagel Zilka
Israel Discount Bank Ltd
Yehuda Halevy 23, Tel Aviv, Israel
Noam.schweitzer@dbank.co.il
Yagel.Zilka@dbank.co.il

- (d) The contact details of the Security Agent for this purpose are:

Noam Schweitzer and Yagel Zilka
Israel Discount Bank Ltd
Yehuda Halevy 23, Tel Aviv, Israel
Noam.schweitzer@dbank.co.il
Yagel.Zilka@dbank.co.il

- (e) The contact details of the Original Senior Lenders for this purpose are set out in Schedule 1 (Senior Lenders and Their Commitments).
- (f) Any Party may change its contact details by giving five (5) Business Days' notice to the Senior Agent or (in the case of the Senior Agent) to the other Parties.
- (g) Where a Party nominates a particular department or officer to receive a communication, such communication will not be effective if it fails to specify that department or officer.

36.3 Effectiveness

- (a) Except as provided below, any communication in connection with a Senior Finance Document will be deemed to be given as follows:
- (i) if delivered in person or by post, at the time of delivery; and
 - (ii) if by fax, when received in legible form.
- (b) A communication given under sub-Clause (a) above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.
- (c) A communication to the Senior Agent will only be effective on actual receipt by it.

36.4 The Borrower

All formal communication under the Senior Finance Documents to or from the Borrower must be sent through the Senior Agent.

37 SURVIVAL

All indemnities set forth in any of the Senior Finance Documents shall survive the execution and delivery of each such Senior Finance Document, any cancellation or termination of any of the Commitments, the termination of any Senior Finance Document, the making and repayment of the Loans or the rights and obligations of any Senior Finance Party under any Senior Finance Document.

38 GOVERNING LAW AND JURISDICTION

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by the laws of the State of Israel. Each Party hereby irrevocably agrees that the competent courts of Tel-Aviv-Jaffa shall have sole and exclusive jurisdiction in connection with any dispute arising out of or in connection with any Senior Finance Document and that no other courts shall have jurisdiction regarding such matters.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

IN WITNESS THEREOF THE PARTIES AFFIX THEIR SIGNATURES:

Advanced Integrated Energy Ltd.,
as Borrower

By:



By:

Israel Discount Bank Ltd.,
as Arranger

By:

/s/ Noam Schweitzer

By:

/s/ Michal Kaspi Shapiro

Israel Discount Bank Ltd.,
as Senior Agent

By:

/s/ Noam Schweitzer

By:

/s/ Michal Kaspi Shapiro

Israel Discount Bank Ltd.,
as Security Agent

By:

/s/ Noam Schweitzer

By:

/s/ Michal Kaspi Shapiro

Israel Discount Bank Ltd.,
as Account Bank

By:

/s/ Noam Schweitzer

By:

/s/ Michal Kaspi Shapiro

Israel Discount Bank Ltd.,
as Issuing Bank

By:

/s/ Noam Schweitzer

By:

/s/ Michal Kaspi Shapiro

Israel Discount Bank Ltd.,
as Hedging Bank

By:

/s/ Noam Schweitzer

By:

/s/ Michal Kaspi Shapiro

Israel Discount Bank Ltd.,
as Senior Lender

By:

/s/ Noam Schweitzer

By:

/s/ Michal Kaspi Shapiro

Harel Insurance Company Ltd.,
as Arranger

By: /s/ Amir Hessel

By: /s/ Itzik Tawil

סל אשראי לא סחיר שקלי שותפות מוגבלת
(`Non-Traded Credit Basket – NIS -
Limited Partnership`),
as Senior Lender

By: /s/ Amir Hessel

By: /s/ Itzik Tawil

Harel Insurance Company Ltd.,
as Senior Lender

By: /s/ Amir Hessel

By: /s/ Itzik Tawil

סל אשראי לא סחיר צמוד מדד שותפות מוגבלת
(`Non-Traded Credit Basket – CPI-
Limited Partnership`),
as Senior Lender

By: /s/ Amir Hessel

By: /s/ Itzik Tawil

Entity Name	Jurisdiction of Incorporation	Name(s) Under Which it Does Business
I.C. Power Asia Development Ltd.	Israel	IC Power Asia Development Ltd.
IC Power Ltd.	Singapore	IC Power Ltd.
IC Power Distribution Holdings Pte. Ltd.	Singapore	IC Power Distribution Holdings Pte. Ltd.
Inkia Energy Ltd.	Bermuda	Inkia Energy Ltd.
OPC Energy Ltd.	Israel	OPC Energy Ltd.
OPC Rotem Ltd.	Israel	OPC Rotem Ltd.
OPC Hadera Ltd.	Israel	OPC Hadera Ltd.
A.G.S. Rotem Ltd.	Israel	A.G.S. Rotem Ltd.
OPC Operations Ltd.	Israel	OPC Operations Ltd.
OPC Solar (General Partner) Ltd.	Israel	OPC Solar (General Partner) Ltd.
Quantum (2007) LLC	USA	Quantum (2007) LLC
I.C. Green Energy Ltd.	Israel	IC Green Energy Ltd.
Primus Green Energy Inc.	USA	Primus Green Energy Inc.
Kenon TJ Holdings Pte. Ltd.	Singapore	Kenon TJ Holdings Pte. Ltd.
Kenon UK Services Ltd.	United Kingdom	Kenon UK Services Ltd.
Tzomet Energy Ltd.	Israel	Tzomet Energy Ltd.

Certification of the Chief Executive Officer

I, Robert L. Rosen, certify that:

1. I have reviewed this annual report on Form 20-F of Kenon Holdings Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 8, 2019

By: /s/ Robert L. Rosen
Name: Robert L. Rosen
Title: Chief Executive Officer

Certification of the Chief Financial Officer

I, Mark Hasson , certify that:

1. I have reviewed this annual report on Form 20-F of Kenon Holdings Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 8, 2019

By: /s/ Mark Hasson

Name: Mark Hasson

Title: Chief Financial Officer

Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 20-F (the "Report") of Kenon Holdings Ltd. (the "Company") for the fiscal year ended December 31, 2018 as filed with the U.S. Securities and Exchange Commission (the "SEC") on the date hereof, Robert L. Rosen, as Chief Executive Officer of the Company and Mark Hasson, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert L. Rosen

Name: Robert L. Rosen

Title: Chief Executive Officer

Date: April 8, 2019

/s/ Mark Hasson

Name: Mark Hasson

Title: Chief Financial Officer

Date: April 8, 2019

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934.



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Kenon Holdings Ltd.:

We consent to the incorporation by reference in the registration statement on form S-8 (No. 333-201716) of Kenon Holdings Ltd. of our reports dated April 8, 2019 with respect to the consolidated statements of financial position of Kenon Holdings Ltd. as at December 31, 2018 and 2017, and the related consolidated statements of profit and loss, other comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the “consolidated financial statements”), and the effectiveness of internal control over financial reporting as of December 31, 2018, which reports appear in the December 31, 2018 annual report on Form 20-F of Kenon Holdings Ltd.

Sincerely,

/s/ KPMG LLP

KPMG LLP

Publi c A cc ountants and

Chart e red A cc ountants

Singapore

April 8, 2019



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statement on Form S-8 (No. 333-201716) of Kenon Holdings Ltd. of our report dated March 29, 2018, appearing in the 2018 annual report on Form 20-F of Kenon Holdings Ltd., relating to the Combined Financial Statements of Distribuidora de Electricidad de Occidente, S.A. ("DEOCSA") and Distribuidora de Electricidad de Oriente, S.A. ("DEORSA") as of December 31, 2017 and 2016 and for each of the two years then ended (such Combined Financial Statements are not separately presented in Kenon Holdings Ltd.'s annual report on Form 20-F), which report expresses an unqualified opinion and includes an explanatory paragraph referring to the recoverability of a tax receivable derived from the claim with the Guatemalan Tax Authority (Superintendencia de Administración Tributaria).

/s/ Deloitte, Inc.

April 8, 2019
Panama City, Republic of Panama
