Keystone Infra Ltd.

(formerly Keystone REIT Ltd.)

Chapter C

Financial Statements

As of 31 December 2023

This report is a translation of Keystone Infra's Hebrew-language financial statements, prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in any event of discrepancy, the Hebrew version will prevail.

Contents

[letterhead of PWC]

Independent Auditors' Report
to the Shareholders of
Keystone Infra Ltd. (formerly, Keystone REIT Ltd.)

We have audited the accompanying Statements of Financial Position of Keystone Infra Ltd. (formerly, Keystone REIT Ltd.) (the "**Company**") as of 31 December 2023 and 2022 and the statements of comprehensive income, of changes in equity, and of cash flows for each of the years in the three-year period ended 31 December 2023. The Company's board of directors (the "**Board**") and management are responsible for these Financial Statements. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards set in the Accountants Regulations (Mode of Operation of Accountants) 5733-1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2023 and 2022 and the results of its operations, the changes in its capital and its cash flows for each of the years in the three-year period ended 31 December 2023 in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

Key Audit Matters
The key audit matters specified below are those communicated or were required to be communicated to the Company's Board and that, in our professional judgment, were of most significance in the audit of the financial statements for the current period. These include, among others, any matter that: (1) relates, or may relate, to material items or disclosures in the financial statements, and (2) our discretion with respect to which was especially challenging, subjective, or complex. These matters were addressed in our audit of and opinion on the financial statements as a whole. The communication of those matters below does not alter in any way our opinion on the financial statements, taken as a whole, and we are not providing a separate opinion on those matters or the items or disclosures they related to.

Fair Value of Investments in Investees
As described in Note 3 to the financial statements, the Company qualifies as an investment entity according to IFRS 10. Consequently, investments in investees are measured at fair value through profit or loss. As of 31 December 2023, the balance of investments in companies presented at fair value through profit or loss amounts to approx. ILS 3,006,740 thousand. When assessing the fair value of investments in investees presented at fair value based on unobservable inputs (Level 3), management exercises judgment in determining the asamountptions and estimates on which the fair value is based. The fair value of these companies is assessed with the assistance of independent valuers, based on valuation techniques that are subjective in nature and incorporate various asamountptions such as: future cash flow forecasts, life expectancy of entities, multiples, standard deviations, and discount rates. Additionally, fair value can also be determined based on the price of a transaction performed close to the reporting date, similar transactions, or according to financing rounds in those investments.

We identified the main estimates used as the basis for calculating the fair value of investments in investees based on unobservable inputs (Level 3) as a key audit matter.
Auditing the fair value of investments in investees requires auditor judgment as well as knowledge and experience to examine the reasonableness of the asamountptions and data used by management and valuers in determining the fair value estimate.

The audit procedures that we performed in response to the key audit matter

- Obtaining an understanding of the data acquisition process used by the Company in calculating the fair value.
- Reviewing the Company's methodology used for determining the fair value.
- Examining the completeness and accuracy of the data used in the valuations.
- Evaluating the reasonableness of significant asamountptions used by the Company’s management in determining the fair value.
- Getting support from an independent expert economic to review the valuations.
- Examining changes in estimates and asamountptions underlying the valuation, compared to previous periods.
- Assessing the adequacy of disclosures in the financial statements.

Tel Aviv
27 March 2024

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

[Letterhead of PWC)

27 March 2024

To:

The Board of Directors of Keystone Infra Ltd.

4 Ariel Sharon, Givatayim

Dear Sir/Madam,

Re: Letter of consent in connection with the shelf prospectus of Keystone Infra Ltd. (the "Company") of May 2021

We hereby notify you that we agree to the inclusion (including by way of reference) of our reports specified below in connection with the May 2021 shelf prospectus or the shelf prospectus issued by the Company in 2024:

The auditor's report as of 27 March 2024 on the Company's financial statements as of 31 December 2023.

Sincerely,

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

Keystone Infra Ltd. (formerly, Keystone REIT Ltd.) - Statements of Financial Position

	Note	31 December 2023 (audited)	31 December 2022 (audited)
		ILS in thousands	
Assets			
Current assets			
Cash and cash equivalents	5	80,904	140,115
Accounts receivable	6	5,820	28,329
		86,724	168,444
Non-current assets			
Investments in investees and loans	7	3,006,740	2,520,417
Pledged deposit	12B	33,000	31,679
Property, plant and equipment, net		-	16
		3,039,740	2,552,112
Total Assets		**3,126,464**	**2,720,556**
Liabilities and equity			
Current liabilities			
Commercial papers and short-term loans	8	187,500	500,000
Current maturities of bonds	10	54,670	34,215
Trade and other payables	9	21,882	2,907
		264,052	537,122
Non-current liabilities			
Bonds	10	620,682	634,679
Long-term loans	10	187,500	-
Trade and other payables	7C5	6,771	6,771
Deferred taxes	11	189,348	67,754
		1,004,301	709,204
Total liabilities		1,268,353	1,246,326
Equity	13		
Share capital and premium		1,331,536	1,320,388
Proceeds on account of options		-	11,148
Share-based payment capital reserve		18,547	18,547
Retained earnings		508,028	124,147
		1,858,111	1,474,230
Total Liabilities and Equity		**3,126,464**	**2,720,556**

Date of approval of the Financial Statements by the Company's Board: 27 March 2024

Aharon Biram	Navot Bar	Rachel Segal
Chairman of the Board	CEO	Chief Financial Officer

Keystone Infra Ltd. (formerly, Keystone REIT Ltd.) - Statements of Comprehensive Income

	Note	The year ended 31 December		
		2023 (audited)	2022 (audited)	2021 (audited)
		ILS in thousands		
Revenue	7			
Net change in fair value of investments in investees measured at fair value through profit or loss, net of income from dividend, interest and loan proceeds		406,767	22,814	49,900
Income from dividend, interest and loan proceeds		251,734	197,435	55,001
Other		863	873	826
Total Revenue		**659,364**	**221,122**	**105,727**
Operational expenses				
Management fees	12	31,058	15,771	5,276
Share-based payment	13	-	6,895	6,789
Transaction costs due to acquisition of investees (primarily professional services)		1,161	8,370	3,280
Other	16	6,773	5,776	2,341
Total Expenses		**38,992**	**36,812**	**17,686**
Operating income		**620,372**	**184,310**	**88,041**
Financing income	16	6,276	3,546	117
Financing expenses	16	(61,173)	(47,671)	(8,263)
Profit before income taxes		**565,475**	**140,185**	**79,895**
Income taxes - deferred	11	121,594	45,446	17,399
Total comprehensive income attributable to the Company's shareholders		**443,881**	**94,739**	**62,496**
Basic and diluted earnings per share attributable to the Company's shareholders (in ILS)	14	**2.9**	**0.8**	**1.15**

The accompanying notes are an integral part of the Financial Statements

Keystone Infra Ltd. (formerly, Keystone REIT Ltd.) - Statements of Changes in Equity

	Attributable to the Company's shareholders				
	Share capital	Share-based payment capital reserve	Proceeds on account of options	Retained earnings	Total equity
	ILS in thousands				
Balance as of 1 January 2021	**362,380**	**4,863**	**-**	**6,912**	**374,155**
Issue of equity	556,792	-	-	-	556,792
Share-based payment	-	6,789	-	-	6,789
Proceeds on account of options	-	-	11,148	-	11,148
Income for the year	-	-	-	62,496	62,496
Balance as of 1 January 2022	**919,172**	**11,652**	**11,148**	**69,408**	**1,011,380**
Issue of equity	401,216	-	-	-	401,216
Share-based payment	-	6,895	-	-	6,895
Income for the year	-	-	-	94,739	94,739
Dividend	-	-	-	(40,000)	(40,000)
Balance as of 1 January 2023	**1,320,388**	**18,547**	**11,148**	**124,147**	**1,474,230**
Income for the year	-	-	-	443,881	443,881
Expiration of options	11,148	-	(11,148)	-	-
Dividend	-	-	-	(60,000)	(60,000)
Balance as of 31 December 2023	**1,331,536**	**18,547**	**-**	**508,028**	**1,858,111**

The accompanying notes are an integral part of the Financial Statements

Keystone Infra Ltd. (formerly, Keystone REIT Ltd.) - Statements of Cash Flow

	The year ended 31 December		
	2023	2022	2021
	(audited)	(audited)	(audited)
	ILS in thousands		
Cash flows from operating activities			
Income for the year	443,881	94,739	62,496
Adjustments required for presenting cash flows from operating activities:			
Adjustments to profit and loss items -			
Depreciation	16	14	8
Deferred taxes	121,594	45,446	17,399
Change in fair value of investments in investees	(406,767)	(22,814)	(49,900)
Income from dividend, interest and loan proceeds	(251,734)	(197,435)	(55,001)
Expenses on share-based payment	-	6,895	6,789
Financing expenses, net	54,897	44,125	8,146
	(481,994)	(123,769)	(72,559)
Changes in the Company's asset and liability items -			
Decrease (increase) in accounts receivable	22,509	(26,673)	648
Increase (decrease) in accounts payable	1,188	3,039	(2,409)
	23,697	(23,634)	(1,761)
Cash paid and received during the year by the Company for:			
Interest paid	(27,264)	(16,943)	(5,444)
Dividend, interest, and loans proceeds	251,734	197,435	55,001
	224,470	180,492	49,557
Net cash provided by operating activities	210,054	127,828	37,733

Keystone Infra Ltd. (formerly, Keystone REIT Ltd.) - Statements of Cash Flow

	The year ended 31 December		
	2023	2022	2021
	(audited)	(audited)	(audited)
	ILS in thousands		
Cash flows from investing activities			
Acquisition of investees	(79,554)	(1,565,133)	(495,257)
Disposal of investees	-	-	153,611
Creation of bank deposits	(1,321)	(2,001)	(25,427)
Acquisition of property, plant and equipment	-	(2)	(36)
Net cash used in investing activities	(80,875)	(1,567,136)	(367,109)
Cash flows from financing activities			
Proceeds from issue of shares	-	403,002	510,650
Proceeds from issue of bonds	18,080	182,000	464,400
Issue expenses	(58)	(2,325)	(9,534)
Proceeds on account of options	-	-	11,148
Short-term bank loans received	-	-	448,750
Short-term bank loans repaid	-	-	(448,750)
Issue of commercial paper	37,500	150,000	-
Loan received from an financial institution (2021 - from a bank)	187,500	350,000	20,000
Loan repaid to a financial institution (2021 - to a bank)	(350,000)	-	(150,000)
Dividend paid	(45,000)	(40,000)	-
Repayment of bonds	(36,412)	-	-
Net cash provided by financing activities	(188,390)	1,042,677	846,664
Increase (decrease) in cash and cash equivalents	(59,211)	(396,631)	517,288
Cash and cash equivalents at the beginning of the period	140,115	536,746	19,458
Cash and cash equivalents at the end of the period	**80,904**	**140,115**	**536,746**
Information about investing activities not involving cash flows:			
Declared dividend	15,000	-	-
Investment-related liabilities	-	(5,283)	5,283
Issue of equity (see Note 7B5)	-	-	50,261

The accompanying notes are an integral part of the Financial Statements

Note 1 – General

A. The Business

Keystone Infra Ltd. (the "**Company**") was incorporated in Israel on 18 February 2019 at which time it started its operations. The address of the Company's registered office is 4 Ariel Sharon St., Givatayim.

In May 2021, the Company released an initial public offering prospectus together with a listing prospectus and a shelf prospectus, and on 1 June 2021, upon completion of an initial public offering (IPO), the Company became a public company whose securities are traded on the Tel Aviv Stock Exchange Ltd. ("**TASE**").

On 23 October 2023, the Company changed its name from Keystone REIT Ltd. to Keystone Infra Ltd.

The primary objective of the Company is to generate a return for investors by means of investment in infrastructure assets, while mitigating risk by diversifying investments in different segments within the infrastructure sector, primarily in Israel. The goals of the Company are to generate a return for investors from appreciation and dividend distribution.

The Company was formed with the purpose of serving as a listed infrastructure investment fund against the background of an interministerial committee for the promotion of tradable infrastructure investment funds, aimed at expanding the funding sources available for infrastructure projects in Israel, reducing their credit costs and capital expenditure and contributing to the State's ability to implement projects of national importance.

In accordance with the Committee's report, the Company's infrastructure investments will be limited to the following segments: **Water** – production, purification and optimization, water and effluent transportation and distribution, desalination, wastewater purification and waste collection, sorting, transportation, recycling and processing (except landfilling); **communications** – construction and operation of infrastructures for telephone, internet cellular telecommunications, cables, satellite and broadcast; **transport** – road construction and operation, mass transit and transport services, sea ports, airports and parking spaces related to any of the above; **Energy** – power generation, petroleum refinement, construction and operation of electricity transmission and distribution infrastructures, fuel and natural gas products and storage facilities for fuel and natural gas products; **infrastructure projects** executed in the context of a collaboration agreement between the State and the private sector – Public-Private Partnership, PPP; and any other area defined as infrastructure by the Minister of Finance for the purpose of making such investments.

In addition, according to the recommendations of the Committee, the funds will benefit from a special tax regime; see below, under Note 11E – Taxes on Income. The Committee released its final recommendations in June 2019, but has not yet been passed as legislation.

The Company is defined as an investment entity under IFRS 10, and accordingly measures its investments at fair value; see Note 3 Below.

The Company entered into an agreement with a management company (MC) for sourcing management services, with the management fees paid to the MC calculated based on the fair value of the Company's assets. Furthermore, the MC is entitled to options for 5% of the total shares allotted in every issue, with an exercise price equal to the issue price; see Note 12A1 below.

Note 1 – General (Cont.)

Given the mechanisms currently established in the management agreement between the Company and the MC, the MC and the controlling shareholders thereof –Gil and Esther Deutsch, Aharon Naftali Biram and Navot Bar, are deemed controlling shareholders of the Company.

It is noted that while the MC continues to be deemed as the controlling shareholder of the Company, the agreement with the MC will be approved from time to time according to the law, and, *inter alia*, in accordance with the provisions of Chapter V of the Companies Law and the regulations promulgated thereunder.

B. Financial Position

1) Working capital deficit

As of 31 December 2023, the Company has a working capital deficit of approx. ILS 177 million due to the commercial paper activity of the Company in the amount of ILS 187.5 million, which are issued for a year and therefore classified as short-term. Conversely, the Company has unused lines of credit from financial institutions in the amount of ILS 187.5 million, effective until October 2025. The Company has an ongoing positive cash flows from operating activities which totaled approx. ILS 210 million in the reporting period and approx. ILS 128 million in 2022. As of reporting date, the Company's leverage ratio is approx. 31%, and after the reporting date, the Company also conducted a capital raising round in the amount of approx. ILS 176 million (for details, see Note 17 below). In view thereof, the Company's board of directors examined the Company's financial position, including the balances of the Company's readily available assets, unused lines of credit and the cash flow that the Company generated after the reporting date and which the Company is expected to generate under various scenarios and sensitivity analyses, including the preparation for exercise of the Egged partnership option, see para. 2 below, and consequently decided, in its 27 March 2024 board meeting that the Company would be able to meet its liabilities when they become due. Moreover, it is noted that, in the Company's estimation, it has the ability to tap into additional funding sources if necessary.

2) Preparation for exercise of the Egged partnership option

As specified in Note 7C9 below, the agreement for acquisition of 60% of Egged's shares included a put option to the shareholders for purchase of the rest of their shares after two and three years have passed transaction closing date. The first exercise date is expected to occur in October 2024, with the payment date for the first exercise of the option scheduled for February 2025. Assuming that the shareholders choose to exercise the option available to them, the total consideration for payment is estimated at approx. ILS 1.8 billion (the amount of the purchase is CPI-linked and interest-bearing and adjusted to the dividend distributions expected by that date). As of reporting date, the general partner of the Egged partnership is working to obtain the funding required for making the payment, similarly to the funding framework in the first acquisition of 60% of Egged's shares (bank financing, the Company's own existing capital sources, the commitment of the School and Preschool Teachers Fund to provide its share in the funding of the option). The Company does not expect to be required to raise capital in order to fund the payment of the consideration in respect of the option.

Note 1 – General (Cont.)

C. Impact of the Swords of Iron War

The Swords of Iron War in Israel began on 7 October 2023 . Consequently, a decline was demonstrated in the scale of the economic and business activities in the country, leading, *inter alia*, to the disruption of the production and supply chain, while a decrease in the volume of national transport, a shortage of manpower and a decrease in the value of financial assets and increase in the exchange rates of foreign currencies relative to the shekel, which have been mitigated as of the report release date. In addition, in February 2024, Moody’s announced the downgrading of the credit rating of the State of Israel from A1 to A2.

The activity of entities held by the Company have not been materially affected by the War. Generally, such Israeli entities are active in the infrastructure, transportation and energy sectors, which are critical infrastructures for the functioning of various systems in the economy, and they have accordingly continued to provide their services throughout the period of the military campaign. To the best of the Company's knowledge, until the date of issuing this report, the activity of entities held by the Company have mostly continued as usual and have not been materially affected by the state of the military campaign.

Below is information about the effects of the War until the date of issuing this report, as presented to the Company’s management:

The transport segment – The beginning of the War saw a decrease in the number of kilometers travelled by Egged’s service lines (in accordance with the directives of the Ministry of Transport) and the number of public transport passengers, as well as a decrease in charter bus mileage, *inter alia*, in the Drive Group. With time, the number of kilometers travelled recovered almost fully, and an increase in the number of public passengers and in charter bus mileage was observed. All of these, on a cumulative basis, have not had a material effect on the Company’s results as of this time, including, *inter alia*, in view of the temporary and partial nature of the matter.

The energy segment – In general, the Be’er Tuvia, Ramat Hovav and Hagit power plants carried on with their normal operations. During the War and until the date of issuing this report, the plants and the infrastructure that serves them have not been physically damaged, operation scales (both ordinary operations and maintenance) have not been adversely affected, and no adverse effect on the number of personnel required for operation thereof has been recorded. The foregoing also stands as relating to the electricity production operations in Sunflower’s photovoltaic facilities in Israel.

The water segment – In general, VID’s desalinated water production facility carried on with its normal operations, despite its location in the Ashkelon area, close to the armed conflict zone. Until the date of issuing this report, the scale of operation (both ordinary operations and maintenance) have not changed significantly, nor has any adverse effect on the number of personnel required for operation thereof been recorded.

Note 1 – General (Cont.)

To date, no material effect of the War on the state of liquidity of the Company and its investee corporations has been recorded, nor on their funding sources, and since the outbreak of the War the Company has closed the taking of a line of credit as well as the raising of capital from the public. For further details with respect to the taking of the line of credit and the capital raising, see Notes 10C and 17 below.

Since uncertainty exists as to the development, extent, continuation and effects of the War as of the date of release of the report, the Company is unable to assess the future impact of the War on the results of operations, financial position, cash flows and financial soundness of the Company and the corporations it holds as a result of the War.

D. Impact of Inflation and Interest Rates

Toward the end of 2023, the global trend of price increases saw mitigation, *inter alia*, in view of economic and geopolitical events such as the Swords of Iron War, the war in Ukraine and the energy crisis. All of the foregoing led to a rise of approx. 3.3% in the inflation rate in the course of 2023, compared with a rise of approx. 5.3% in 2022. Along with the price increase, in an attempt to curb the inflation rate, central banks began raising interest rates, with the Bank of Israel raising the interest rate starting April 2022, to 4.75% as of the date of the report. As of 2024, an interest reduction trend has been observed, and as of the report release date, the Bank of Israel interest rate is 4.5%.

The Company's revenue from investment proceeds – Most of the Company's investments are protected against a rise in inflation as they include CPI-linkage mechanisms to protect the income, expenses and financing components. Some of the investments are affected positively by the rise in inflation, as their income is directly or indirectly affected by inflation, whereas expenses, including financial costs, are only partly linked to the CPI. Therefore, a rise in inflation increases the proceeds from the Company's investments.

Gain from changes in the fair value of investments – Higher interest rates affect the discount rates applied in measuring fair value of investments, and therefore, higher interest rates negatively affect the income from changes in fair value. Conversely, the Company's investments are characterized by low risk and inelastic demand because they supply basic products (water, electricity and transport), and therefore, during times of uncertainty, their appeal grows and mitigates the effect of the rise in the discount rate.

Furthermore, because the principal customers of the Company's investments are the Israeli government or government-owned companies, the credit risk of those customers is negligible, which in turn also affects the risk of the projects and the effect on the cap rates.

The project-related bank debt in respect of most of the Company's investments carries fixed interest rates throughout the lifetime of the project, and therefore the rise in the market interest rate does not affect the cost of the debt in such investments. Furthermore, for some project companies the loans are additionally linked to the CPI. Such companies benefit from a mechanism of indexation of their income component, such that in net terms, a higher CPI may even immaterially benefit them.

Note 1 – General (Cont.)

The buyer partnership in the Egged transaction has a variable-interest bank debt which amounts, as of reporting date, to approx. ILS 610 million (out of a total debt of approx. ILS 1.4 billion, with the remaining amount is CPI-linked and carry a fixed interest rate). As a consequence, the rise in the Bank of Israel interest rate and the higher inflation will lead to an increase in the partnership's financing expenses (the Company's share in the partnership is approx. 81%). Egged has filed a motion to a court for a reduction of capital, following which, if granted, Egged is expected to distribute a dividend of approx. ILS 350 million, with the partnership's share being approx. ILS 210 million, most of which is intended to be used for repayment of the variable component of the partnership's loan.

The operating costs of the Company consist primarily of management fees and transaction expenses and are not affected by higher inflation or interest rates.

The financing expenses of the Company are affected by higher inflation and Bank of Israel interest rate, as follows:

Series A Bonds bear a fixed interest rate that is linked to the Consumer Price Index (CPI) and are consequently not affected by the rise in the interest rate. However, the principal and interest on the bonds are linked to the CPI, and therefore the rise in inflation might lead to an increase in the Company's financing expenses.

Thus, for example, a 1% change in the CPI will have an effect of approx. ILS 6.8 million on the Company's annual financing expenses in respect of Series A bonds in their amount as of the date of issuing this report.

The Company has credit from financial institutions as well as (non-negotiable) commercial paper with interest at the Bank of Israel interest rate plus a margin. An increase in the interest rate in Israel might lead to an increase in the Company's financing expenses. Thus, for example, a 1% change in the Bank of Israel interest rate may have an effect of approx. ILS 3.8 million on the Company's annual financing expenses in respect of the utilization of the aforementioned line of credit as of reporting date. In view of the foregoing, the Company estimates that the effect of the inflation and interest rate in the short and medium terms is not expected to be material, but the Company is unable to assess the continued uptrend in price levels, and therefore cannot assess the long-term effect.

E. In These Financial Statements:

The Company	Keystone Infra Ltd.
Interested Party	Within the meaning thereof in paragraph 1 of the definition of Interested Party in a Corporation in Section 1 of the Securities Law, 5728-1968.
Related Parties	As defined in IAS 24.
The MC	N. K. Keystone Ltd.
Investments in Investees	Investments in investees are measured at fair value through profit or loss in accordance with the IFRS 10.

Note 2 – Significant Accounting Policies

A. Financial Statements' Presentation Basis

The Company's Financial Statements as of 31 December 2023 and 2022 and for each of the three years in the period ending 31 December 2023 comply with the International Financial Reporting Standards, which are standards and interpretations released by the International Accounting Standards Board (IASB) ("**IFRS**") and include the additional disclosure required pursuant to the Securities Regulations (Annual Financial Statements), 5770-2010.

In the context of presentation of these financial statements, it is noted as follows:

1) The financial statements were prepared on a cost basis, with the exception of investments in investees which are measured at fair value (as specified below).
2) The preparation of financial statements in accordance with IFRS requires the use of certain significant accounting estimates. Furthermore, it requires the Company's management to exercise judgment in the process of implementing its accounting policy. Note 3 provides disclosure about areas that involve significant judgment or complexity, or areas in which the assumptions and estimates have a significant effect on the financial statements. Actual results may materially differ from the estimates and assumptions used by the Company's management.
3) The Company's operating cycle period is 12 months.
4) The Company analyzes the expenses recognized in the income statement according to a classification method that is based on the nature of the expense.

B. Investment in Investees

In the Company's position, it qualifies as an Investment Entity under IFRS 10 and therefore measures its investments at fair value, as specified in Note 3 with respect to significant accounting judgments and estimates.

C. Functional Currency

Items included in the Company's financial statements are measured in the currency of the primary economic environment in which it operates (the "**Functional Currency**"). The Company's financial statements are presented in ILS, which is the Company's Functional Currency.

D. Cash and Cash Equivalents

In the cash flow statements, cash and cash equivalents include cash on hand, short-term deposits with banking corporations and other highly liquid short-term investments with original maturities of not more than three months.

E. Share Capital

Common shares of the Company are classified as share capital.

Incremental costs directly attributed to the issue of new options or shares are presented under equity as a deduction, net of tax, from issue proceeds.

Note 2 – Significant Accounting Policies (cont.)

F. Financial Liabilities

Loans and bonds are initially measured at fair value net of all attributable transaction costs. After initial recognition, they are measured at amortized cost according to the effective interest method; loans and bonds are classified under current liabilities, unless the Company has an unconditional right to defer payment thereof for at least 12 months after the end of the reporting period, in which case they are classified as non-current liabilities.

G. Current and Deferred Taxes

Tax expenses include current taxes and deferred taxes. Taxes are recognized in the income statement, with the exception of taxes related to items recorded in other comprehensive income or directly under equity, which are also recognized in other comprehensive income or equity, respectively.

The amount recognized as current taxes is calculated based on the tax laws that have been enacted or substantively enactment as of the date of the statement of financial position.

The Company recognizes deferred taxes based on the liability method, in respect of temporary differences between the amounts of the assets and liabilities in the financial statements and their tax bases. The amount of deferred taxes is determined according to the tax rates (and tax laws) that have been enacted or substantively enacted as of the date of the statement of financial position and are expected to apply when the deferred tax assets are utilized or when the deferred tax liabilities are settled.

Deferred tax assets are recognized in respect of deductible temporary differences, within the limits of the amount of the differences, where it is probable that they may be used in the future against taxable income.

H. Revenue recognition

1) Revenue from changes in the fair value of investees
   The investments of the Company in investees are presented at fair value, with changes in the fair value recognized in profit or loss. The fair value as of reporting date is determined according to an economic valuation conducted by the Company's management and/or independent external valuers. For further details, see Note 3 below.

2) Financing income
   Financing income is recognized on a periodic basis, based on the carrying amount of financial assets measured at amortized cost, according to the effective interest method.

3) Dividend income

   Dividend income is recognized where the Company's right to receive payment is established, it is probable that the financial benefits attributed to the dividend will flow to the entity and the amount of the dividend can reliably measurable.

Note 2 – Significant Accounting Policies (Cont.)

I. Earnings per Share

The calculation of basic earnings or loss per share is based, as a rule, on the profit or loss distributable to shareholders, divided by the weighted average of the number of outstanding shares during the period. When calculating diluted earnings or loss per share, the Company adjusts the profit or loss attributed to the Company's shareholders and the weighted average of the number of outstanding shares for the effects of all dilutive potential shares, as follows:

- The post-tax amount of dividends and interest recognized for the period in relation to dilutive potential shares is added to the profit or loss attributed to the Company's shareholders, and it is adjusted for any other changes in income or expenses that may derive from conversion of the dilutive potential shares.
- The weighted average of the number of additional shares that would be outstanding Assuming that all dilutive potential shares are converted is added to the weighted average of the number of outstanding shares.

Potential shares are taken into account as described, only where their effect is dilutive (reduces the earnings per share or increases the loss per share).

J. Financial Assets

1) Financial assets at amortized cost

Financial assets at amortized cost are financial assets held under a business model of holding the financial assets in order to collect contractual cash flows, and their contractual terms and conditions provide for entitlement on defined dates to cash flows that constitute only principal and interest payments in respect of the outstanding amount of the principal.

Such assets are classified as current assets, except for maturities for terms longer than 12 months after the date of the statement of financial position, which are classified as non-current assets. The Company's financial assets at amortized cost are recognized within "cash and cash equivalents", "pledged deposits" and "trade receivables" in the statement of financial position.

2) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss, which include loans and convertible loans provided to project companies that do not meet the criteria of entitlement to principal and interest payments only, are presented at fair value through profit or loss every period. They are classified as non-current assets, unless management intends to dispose of the investment therein within a period of up to 12 months after the date of the statement of financial position, or their maturity date is no later than 12 months after the date of the statement of financial position, in which case they are classified as current assets.

Note 2 – Significant Accounting Policies (Cont.)

K. Fair Value Measurement

Fair value is the market price that would be received from the sale of an asset or the price that would be paid for the transfer of a liability as of measurement date. Fair value measurement is based on the assumption that the transaction takes place in the primary market for the asset or liability, or, in the absence of such primary market – in the most beneficial market.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, in their economic best interest.

The fair value measurement of a non-financial asset takes into account the ability of a market participant to generate economic benefits by optimal use of the asset or by selling it to another market participant that would make optimal use of the asset. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities that are measured or disclosed at fair value are categorized within the fair value hierarchy, based on the lowest level of inputs which is significant to the fair value measurement as a whole:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than the quoted prices included in Level 1 which are directly or indirectly observable.

Level 3: Inputs that are not based on observable market inputs (valuation techniques without using observable market inputs).

L. Share-Based Payment

The Company implements a plan for share-based payment to the MC and its employees, which is settled by equity instruments of the Company, under which the Company receives services from the MC in consideration for equity instruments (options) of the Company, as well as to Company employees, consultants or officers. The fair value of the services received from the MC in consideration for the grant of options is recognized as an expense in the income statement. The total amount recorded as an expense is determined while accounting for the fair value of the options granted:

- Accounting for market-based performance conditions (for example, the price of the entity’s share);
- Not accounting for the effect of non-market service conditions and performance conditions (non-market vesting conditions) (for example, meeting sales and profitability targets and continued employment with the company for a specific period); and
- Accounting for the effect of any conditions other than vesting conditions.

Note 2 – Significant Accounting Policies (Cont.)

Non-market vesting conditions are included in the assumptions used for estimating the number of options that are expected to vest. The total expense is recognized during the vesting period, which is the period during which all the defined terms for the vesting of the share-based payment arrangement are required to be satisfied.

Upon exercise of the options, the Company issues new shares. Proceeds, net of directly attributable transaction costs, are recognized in share capital (nominal value) and share premium.

M. New Standards

1) Amendment to International Accounting Standard 1 – "Presentation of Financial Statements", "Classification of Liabilities as Current or Non-Current Liabilities" and "Non-Current Liabilities with Financial Covenants" (in this section: the "**Amendments to IAS 1**")

   The Amendments to IAS 1 clarify the guidelines regarding the classification of liabilities as current or non-current in the statement of financial position. The amendments clarify, *inter alia*, as follows:

   a. A liability will be classified as a non-current liability if the entity has a substantial right, at the end of the reporting period, to postpone the settlement of the liability for at least 12 months after the end of the reporting period.

   b. The right to postpone the settlement of a liability in respect of a loan agreement for at least 12 months after the end of the reporting period is at times subject to the entity's compliance with terms and conditions stipulated in the loan agreement ("**Financial Covenants**"). The classification of a liability in respect of such loan agreement as a current liability or a non-current liability will be determined only on the basis of the Financial Covenants with which the entity is required to comply on or before the end of the reporting period. Financial Covenants which the entity is required to meet after the end of the reporting period will not be taken into account in such determination.

   c. Where a liability in respect of a loan agreement with respect to which the entity is required to comply with Financial Covenants during the 12 months after the end of the reporting period is classified as a non-current liability, a disclosure will be made in the notes to allow users of the financial statements to understand the risk of the liability possibly becoming payable during the 12 months after the end of the reporting period. Among other things, disclosure will be made regarding the nature of the conditions with which the entity is required to comply, the date of examination thereof, the carrying amount of the related liabilities, and facts and circumstances that indicate that the entity may find it difficult to satisfy such conditions. Such disclosure may refer to certain actions taken by the entity in order to prevent a potential breach of the conditions as well as the fact that the entity is not complying with the conditions based on the circumstances existing at the end of the reporting period.

   d. The entity's intention regarding the exercise of an existing right to postpone the settlement of the liability for at least 12 months after the end of the reporting period is irrelevant for the purpose of classification of the liability.

Note 2 – Significant Accounting Policies (Cont.)

e. Settlement of a liability may be done by way of transfer of cash, other economic resources or equity instruments of the entity. Classification of a liability as a current liability or as a non-current liability will not be affected by an existing right of the other party to demand the settlement of the liability by the transfer of equity instruments of the entity, if such right has been classified by the entity as part of the equity.

The Amendments to IAS 1 will be applied retrospectively with respect to annual periods beginning on or after 1 January 2024. According to the provisions of the amendments, early application is possible. The Company is studying the effect of the amendment to the standard on its financial statements.

2) Amendment to International Accounting Standard 1 – Presentation of Financial Statements "Disclosure of Accounting Policies" (in this section: the "**Amendment to IAS 1**")

The Amendment to IAS 1 requires companies to disclose their material accounting policies, rather than their significant accounting policies. According to the amendment, accounting policy information is material if, when considered together with other information included in the financial statements, it can reasonably be expected to influence decisions made by the primary users of the financial statements based on such financial statements.

The Amendment to IAS 1 also clarifies that accounting policy information is likely to be material if its absence would deny users of the financial statements the ability to understand other material information in the financial statements. The amendment further clarifies that there is no need to disclose immaterial accounting policy information. However, insofar as such information is disclosed, it should not divert attention from material accounting policy information.

The Amendment to IAS 1 will be applied to annual periods beginning on or after 1 January 2023. According to the provisions of the amendment, early application is possible. The Company has applied the amendment to these financial statements.

Note 3 – Material Accounting Judgments and Estimates

Estimates and judgments are regularly examined, and are based on multiple factors, including expectations in relation to future events, which expectations are deemed reasonable, in view of the existing circumstances.

The Company makes estimates and assumptions about the future. By their nature, it is rare for the resulting accounting estimates to be identical to the actual respective results. The estimates and assumptions with significant risk for making material adjustments in the carrying amount of assets and liabilities during the subsequent financial year are specified below.

Note 3 – Material Accounting Judgments and Estimates (Cont.)

Investment Entity

The Company's position that it can be classified an investment entity is based on its judgment. In the Company's position, it qualifies as an Investment Entity under IFRS 10, as specified below, and as specified in Note 1 above, and therefore measures its investments at fair value.

Under IFRS 10, an entity is deemed an investment entity if it meets the following conditions:

a. The company obtains funds from one or more investors in order to provide them with investment management services;

b. The company commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

c. The company has more than one investment – as of reporting date the Company has investments in several different entities, and the Company continues in its efforts to examine appropriate opportunities for further investment.

d. The Company measures and evaluates the performance of all of its investments at fair value, which is a key indicator for making decisions about exit strategy.

As described above, the Company's business purpose is generating value for its investors, by capital appreciation and dividends, which is reflected in the existence of an exit strategy for capturing the appreciation of its capital investments and its investments in non-financial assets, as follows:

Investments in project companies (including companies that hold several project companies) that hold limited-term licenses/franchises (licenses/franchises are generally granted for a term ranging between 20 and 30 years) – Holding these companies until the end of the term of the license/franchise is the strategy for investments of this type. After license/franchise expiration, the Company acts to liquidate or sell of the project company. For companies holding several project companies, this applies based on last license expiration date among the licenses, but in no even longer than 25 years after acquisition date.

Investment in an infrastructure company without a license/franchise – The period of operations of a company of this type is indefinite, and the Company has thus set a period of 10 to 15 years, during which it will act to maximize the value of the investment in accordance with a development and appreciation plan and then act to dispose of the investment it in accordance with predetermined criteria.

Such investment liquidation may be carried out, *inter alia*, by any of the following means: Initial public offering; private placement; sale or distribution of the ownership rights in the investee entities to the investors.

Note 3 – Material Accounting Judgments and Estimates (Cont.)

Investment in Investees

By virtue of the Company's classification as an Investment Entity (as specified above), investments by the Company in investees are presented at fair value, with changes in fair value recognized in profit or loss.

The fair value as of reporting date is determined for investments in listed companies according to their quoted price on TASE and for investments in other companies according to an economic valuation conducted by the Company's management and/or independent external valuers.

The valuation includes the use of generally accepted valuation performance techniques and assumptions with respect to various estimates, including in connection with future cash flows, the entity's lifetime, multiples, standard deviation, discount rate, etc.

Fair value may also be determined based on the price of a comparable transaction made shortly before the reporting date, on similar transactions or according to capital raising rounds made in those investments.

Changes in fair value may result from a change in the future cash flow forecast, a change in the discount rate, and from consideringvarious risks such as credit risks and liquidity risks.

Where the Company's management estimates that the primary assumptions underlying a previous valuation have not materially changed, the fair value of the investment in the investee company is taken by a factor of the rate of return to the owners (Ke) which is taken from the previous valuation calculation, net of dividends and/or loan repayments distributed since the date of the previous valuation.

The Company records changes in fair value in the "net change in the fair value of investments in investees measured at fair value through profit or loss" item.

Note 4 – Financial Risk Management

1. Financial Risk Factors

The Company's operations may expose it to diverse financial risks, including foreign exchange rate, CPI and interest level risks. The Company's comprehensive risk management plan focuses on the fact that changes in the aforesaid risk factors are unforeseeable, with the Company striving to minimize possible adverse effects on its financial performance as a result thereof.

Risk management is conducted by the Company's CEO in accordance with the resolutions adopted from time to time by the Company's board of directors. The CEO identifies, assesses and defines the financial risks, in close collaboration with the relevant Company officers. The Board provides guidelines for the overall management of risks, as well as a policy that addresses specific areas, such as foreign exchange risks, interest rate risks, and the investment of retained earnings, if any.

Note 4 – Financial Risk Management (Cont.)

A. Foreign Exchange Risk

The Company's operations are chiefly in Israel, and most operations are consequently based on the shekel (ILS). However, the Company has immaterial overseas investments that are linked to the relevant foreign exchange rate as well as various elements of the operational structure of investees are linked to the US dollar and/or Euro and/or Zloty, and hence the Company believes it is exposed to foreign exchange risk.

B. Price Risk

The Company invests in shares and/or loans of investees, which have been classified as financial assets, measured at fair value through profit or loss. Due to such investments, the Company is subject to a price risk in respect of changes in the value of such financial assets. Furthermore, the investments entail a business and economic risk. Therefore, material changes may occur in the value of the Company's investments. For information about changes in the fair value of the Company's investments and value sensitivity analyses, see Note 7 below.

C. Liquidity Risk

The Company's investments are expected to predominately comprise investments in unlisted companies. As a result, the Company is subject to the risk that the investments will not be able to be capitalized in the short term.

The following table presents an analysis of the Company's financial liabilities, according to the remaining period until their contractual payment date as of the date of the balance sheet. The amounts presented in the table are undiscounted contractual cash flows.

As of 31 December 2023 (ILS in thousands):

	Up to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 years	5 years or more	Total
Commercial paper	187,500	-	-	-	-	187,500
Series A Bonds	54,670	54,670	91,120	91,120	400,925	692,505
Loan from financial institution	-	187,500	-	-	-	187,500
Trade and other payables	21,882	-	6,771	-	-	28,653
Total	264,052	242,170	97,891	91,120	400,925	1,096,158

Note 4 – Financial Risk Management (Cont.)

As of 31 December 2022 (ILS in thousands):

	Up to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 years	5 years or more	Total
Commercial paper	150,000	-	-	-	-	150,000
Series A Bonds	34,215	51,323	51,323	85,539	461,912	684,312
Loan from financial institution	350,000	-	-	-	-	350,000
Trade and other payables	2,907	-	-	6,771	-	9,678
Total	537,122	51,323	51,323	92,310	461,912	1,193,990

D. CPI

Various elements of the operation structure of the various projects are linked to the CPI and to other indices, and significant changes in such indices will possibly affect the Company's investments. It is noted that the Series A Bonds issued by the Company are linked to the CPI. A 1% change in the CPI will affect the Company's annual financing expenses in respect of the Series A Bonds in their amount as at the report release date by approx. ILS 6.8 million.

E. Bank of Israel Interest Rate

The Company's line of credit and the Commercial papers issued thereby bear interest at the rate of the Bank of Israel interest, and a significant change in this interest rate will possibly affect the Company's financing expenses. A 1% change in the Bank of Israel interest rate will affect the Company's annual financing expenses in respect of such used line of credit and Commercial papers as at the reporting date by approx. ILS 3.8 million.

2. Fair Value

The carrying amount of cash and cash equivalents, a pledged deposit, trade receivables, trade and other payables, a loan from an financial institution and commercial paper is consistent with or proximate to their fair value.

Series A Bonds:

	31 December	
	2023	2022
	ILS in thousands	
Carrying amount	675,352	668,894
Fair value	620,755	572,845

The fair value of Series A Bonds is based on the price on TASE on the reporting date.

Note 5 – Cash and Cash Equivalents

	31 December	
	2023	2022
	ILS in thousands	
Cash and on-call deposits	192	4,883
Short-term bank deposits	80,712	135,232
Total cash and cash equivalents	**80,904**	**140,115**

Short-term bank deposits are for periods of up to three months.

Note 6 – Trade receivables

	31 December	
	2023	2022
	ILS in thousands	
Prepaid expenses	964	762
Accounts receivable	509	27,566
Related parties	4,347	1
	5,820	**28,329**

Note 7 – Investments in Investees and Loans

A. Composition of the Investments in Companies:

Company Name	Section in Note	Original Investment Amount	Aggregate Investment Proceeds	Fair Value	Fair Value Level	Holding Rate
		Balance as of 31 December 2023				
		ILS in Thousands				
Drive Group (formerly the Operator companies)	1	69,247	38,044	104,200	Level 3	21.33%
Ashkelon Desalination Plant	2	218,660	91,000	168,000	Level 3	50%
Ramat Hovav Power Plant	3	174,641	148,038	444,179	Level 3	-
Cinturion	4	17,473	-	17,473	Level 3	30%
Sunflower Sustainable Investments	5	172,573	-	122,348	Level 1	51.85%
IPM Be'er Tuvia Power Plant	6	585,582	188,772	437,657	Level 3	32.08%
G.P. Global	6	22,309	-	28,941	Level 1	10.59%
Hagit Power Plant	7	107,596	41,450	190,391	Level 3	-
Eranovum	8	77,365	-	203,047	Level 3	42.8%
Egged partnership	9	1,053,693	-	1,290,504	Level 3	48.60%
Total Investments in investees and loans		**2,499,139**	**507,304**	**3,006,740**		

Note 7 – Investments in Investees and Loans (Cont.)

	Balance as of 31 December 2022				
Company Name	Original Investment Amount	Aggregate Investment Proceeds	Fair Value	Fair Value Level	Holding Rate
	ILS in Thousands				
Drive Group (formerly the Operator companies)	69,247	25,450	94,000	Level 3	21.33%
Ashkelon Desalination Plant	218,660	60,500	189,500	Level 3	50%
Ramat Hovav Power Plant	174,641	80,135	369,134	Level 3	-
Cinturion	17,473	-	17,473	Level 3	30%
Sunflower Sustainable Investments	151,399	-	72,616	Level 1	45.23%
IPM Be'er Tuvia Power Plant	583,314	88,622	507,595	Level 3	32.08%
G.P. Global	22,309	-	33,533	Level 1	10.59%
Hagit Power Plant	107,596	-	131,914	Level 3	-
Eranovum	41,254	-	41,254	Level 3	30%
Egged partnership	1,033,693	-	1,063,398	Level 3	48.47%
Total Investments in investees and loans	**2,419,586**	**254,707**	**2,520,417**		

Note 7 – Investments in Investees and Loans (Cont.)

B. Composition of Revenue from the Investments in investees:

	Year Ended 31 December 2023			
Company Name	Net Change in Value of the Investments Measured at Fair Value Net of Revenue from Dividend, Interest and Loan Proceeds	Revenue from Dividend, Interest and Loan Proceeds	Other Revenue	Total
	ILS in Thousands			
Drive Group (formerly the Operator companies)	10,200	11,731	863	22,794
Ashkelon Desalination Plant	(21,500)	30,500	-	9,000
Ramat Hovav Power Plant	75,042	67,903	-	142,945
Sunflower Sustainable Investments	28,558	-	-	28,558
G.P. Global	(4,592)	-	-	(4,592)
IPM Be'er Tuvia Power Plant	(72,206)	100,150	-	27,944
Hagit Power Plant	58,477	41,450	-	99,927
Eranovum	125,682	-		125,682
Egged partnership	207,106	-	-	207,106
Total	**406,767**	**251,734**	**863**	**659,364**

Note 7 – Investments in Investees and Loans (Cont.)

Company Name	Year Ended 31 December 2022 Net Change in Value of the Investments Measured at Fair Value Net of Revenue from Dividend, Interest and Loan Proceeds	Revenue from Dividend, Interest and Loan Proceeds	Other Revenue	Total
	ILS in Thousands			
Drive Group (formerly the Operator companies)	8,000	12,894	873	21,767
Ashkelon Desalination Plant	(28,000)	31,500	-	3,500
Ramat Hovav Power Plant	118,509	64,420	-	182,929
Sunflower Sustainable Investments	(59,470)	-	-	(59,470)
G.P. Global	5,471	-	-	5,471
IPM Be'er Tuvia Power Plant	(75,719)	88,621	-	12,902
Hagit Power Plant	24,318	-	-	24,318
Egged partnership	29,705	-	-	29,705
Total	**22,814**	**197,435**	**873**	**221,122**

Company Name	Year Ended 31 December 2021 Net Change in Value of the Investments Measured at Fair Value Net of Revenue from Dividend, Interest and Loan Proceeds	Revenue from Dividend, Interest and Loan Proceeds	Other Revenue	Total
	ILS in Thousands			
Drive Group (formerly the Operator companies)	(2,400)	10,285	826	8,711
Ashkelon Desalination Plant	(3,350)	29,000	-	25,650
Ramat Hovav Power Plant	75,983	15,716	-	91,699
Sunflower Sustainable Investments	(26,086)	-	-	(26,086)
G.P. Global	5,753	-	-	5,753
Total	**49,900**	**55,001**	**826**	**105,727**

Note 7 – Investments in Investees and Loans (Cont.)

C. Additional Information on investments

1) Investment in Drive Group

The Company holds 21.33% of equity interests and 19.67% of the voting rights in A. Drive Group Ltd., which holds all of the share capital of the companies: Derech Eretz Highways Management Corporation Ltd. ("**Derech Eretz**"); Hacarmel Lanes Systems & Operation Ltd.; North Road Operation & Maintenance Ltd.; 431 Ways Operation & Control Ltd.; Integrated Lanes Ltd.; Advanced Solutions - Road Systems Ltd.; Safe Way On The Roads Ltd., and A.A.C.Y. Electricity & Maintenance Services Ltd. (all of them jointly: "Drive Group"), which engage in the maintenance and operation of various transport projects in Israel, including Highway 6 and the Carmel Tunnels. The transaction was signed in 2019 and was closed in February 2020 for a consideration amount of ILS 69 million.

The original operational period for Highway 6 was until July 2029. Further to an extension of the franchise period under an agreement with the State, Derech Eretz and the franchisee signed an agreement to extend the operation and maintenance period back-to-back with the agreement between the State and the franchisee (which Derech Eretz estimates to be a period of approx. 3 years). In November 2023, all necessary approvals were received and the agreement between Derech Eretz and the franchisee for extension of the operational period took effect.

With respect to a payment evasion guarantee provided by the Company to Drive Group, see Note 12B1 below.

As of 31 December 2023, the fair value of the investment was measured through a valuation carried out by an independent external valuer from BDO Consulting Group with recognized professional qualifications and considerable experience in the infrastructures industry, using the discounted cash flow (DCF) method. The valuation was based on a forecast by the Company's management of projected revenue, expenses and investments. The operational period that was used for the valuation includes the extension of the franchise period for the franchisee under the agreement between the State and the franchisee as aforesaid.

The real discount rate used for the valuation is 10.2%. An increase of 0.5% in the discount rate would reduce the value of the investment as of the valuation date by approx. ILS 2 million, while a decrease of 0.5% in the discount rate would increase the value of the investment as of the valuation date by approx. ILS 2.6 million.

In the reporting period, a positive net change of ILS 10,200 thousand was recorded in the fair value, with ILS 21,931 thousand attributed to a positive change in the fair value adjustment according to the valuation net of ILS 11,731 thousand as a result of an adjustment for dividend revenue.

Note 7 – Investments in Investees and Loans (Cont.)

2) Investment in the Ashkelon Desalination Plant

The Company holds 50% of the issued and paid-up share capital of V.I.D. Desalination Company Ltd., which holds a franchise for the desalination plant in Ashkelon (the "Desalination Plant" or "VID"), with production capacity of approx. 120 million m^3 per year. The plant's operations began in 2005, and the franchise period is expected to end in 2027. The transaction was signed in July 2020 and closed in October 2020, after the necessary approvals were received and the transaction's closing conditions were fulfilled, in consideration of approx. ILS 219 million.

With respect to guarantees provided by the Company for the purchase transaction, see Note 12B2 below.

As of 31 December 2023, the fair value of the investment was assessed in a valuation carried out by an independent external valuer from BDO Consulting Group, with recognized professional qualifications and considerable experience in the infrastructures industry, using the free cash flow to equity (FCFE) method. The valuation was based on a forecast by the Company's management of projected revenue, expenses and investments. The operational period that was used for the valuation is until the end of H1/2027, which is the date of expiration of the franchise period, the cost of equity (K_e) used for the valuation is 8%. An increase of 0.5% in the discount rate would reduce the value of the investment as of the valuation date by approx. ILS 2 million, while a decrease of 0.5% in the discount rate would increase the value of the investment as of the valuation date by approx. ILS 1 million.

In the reporting period, a negative net change was recorded in the fair value at ILS 21,500 thousand, with the amount of ILS 9,000 thousand deriving from the fair value adjustment according to the valuation and ILS 30,500 thousand as a result of an adjustment for revenue from dividend, interest and loan proceeds.

A dispute arose between VID and the Water Desalination Administration (the "WDA") with respect to the interpretation of the provisions of the periodic audit arrangement on assessment of the variable component in the franchise agreement.

On 30 September 2021, the parties filed to the arbitrator in the case a motion for approval of a procedural arrangement with set deadlines, including preliminary discovery proceedings (general and specific) and the filing of related motions, and this is currently underway.

In the opinion of VID's management, based on its legal counsel, the likelihood of VID being required for payment for reduction of the water price for the period preceding the "notice date" (as defined in the franchise agreement) are lower than 50%. In addition, in the opinion of VID and its legal counsel, VID has solid claims as to why it should not be required to pay for the reduction of the water price also in respect of the remainder of the franchise period.

On 15 December 2022, a letter was received from the WDA regarding its decision to perform a unilateral reduction despite the pending arbitration proceeding. This demand was accompanied by a calculation specifying the material amounts that are allegedly due, and which VID and its counsel dispute.

Note 7 – Investments in Investees and Loans (Cont.)

Based on the calculation it presented, WDA is seeking to deduct ILS 5 million from every bimonthly invoice that was paid to the franchisee from the 1-2/2023 billing. On 10 January 2023, the arbitrator's decision was issued, approving the performance of the deduction by WDA, based on the contractual offsetting right, although the arbitrator clarified that this decision states no position on the actual arbitration proceeding, and that it relates solely to the State's contractual right to perform a deduction. The proceeding began with the examinations stage.

Recently, a settlement is being negotiated between VID and the State in lieu of the arbitration, in which the parties agreed to freeze the arbitration and the offsetting until further notice. As of the date of the financial statements, the main principles of the settlement have been agreed upon and VID's management estimates that it is more likely than not that a settlement will be reached with no need for the continued the arbitration.

In the settlement agreement that is being put together it was agreed that the State will retain the amounts it offset in 2023 and but will perform no further offsetting. The balance of the settlement amount will be offset against the water price paid to VID in the period between December 2025 and the end of the franchise period. It was further agreed that the State will be given an option to extend the term of the franchise agreement at a reduced price for additional periods of 4.5 months each, by prior notice of at least six months before the end of the current term of the agreement, and thereafter by prior notice of approx. 4 months.

VID recorded in its financial statements for 2023 a provision that reflects its share in the settlement arrangement, attributed to the period from 2013 until the end of 2023. The remaining settlement amounts will be recorded in the financial statements until the end of the franchise period. It is the Company's position that the franchisee has an indemnity right against the operator and that the Company has a right for a certain indemnity from the sellers of VID's shares upon fulfillment of the conditions in the agreement. The settlement arrangement was reflected in the Company's valuation.

3) Investment in the Ramat Hovav Power Plant

The Ramat Hovav Power Plant is an active plant for power generation, located near Neot Hovav industrial zone, with five combined cycle production units (each including gas turbines and a steam turbine) (units 3, 4, 5, 8 and 9), and another four open cycle gas turbines (1, 2, 6 and 7), with a total capacity of 1,194.5 MW. The plant was acquired from IEC as part of the privatization of the generation segment, and it holds a generation license for conventional-technology power plants for a period of 15 years for units 1-5 and 20 years for units 6-9, all from 3 December 2020, which is the date the license was granted. The Ramat Hovav Power Plant Limited Partnership (the "Ramat Hovav Partnership") won a tender for the purchase of the plant in June 2020, and completed the purchase in practice on 3 December 2020.

Note 7 – Investments in Investees and Loans (Cont.)

On 25 November 2020, the Keystone Fund - Ramat Hovav Partnership Limited Partnership (a partnership whose general partner is a company wholly owned by the Company and whose limited partner is the Company, hereinafter: the "Keystone Ramat Hovav Partnership") and corporations from the Menora Mivtachim Group ("Menora") (together with the Keystone Ramat Hovav Partnership: the "**Lenders**"), signed a (partially convertible) loan agreement with Edeltech Hovav Management Limited Partnership (the "Interim Partnership"), which holds 50% of the interests in the Ramat Hovav Partnership and in the general partner of the Ramat Hovav Partnership, for the partial financing of the Interim Partnership's share in the equity required to be provided by the Interim Partnership for the financing of the purchase of the Ramat Hovav Power Plant.

The Lenders provided the Interim Partnership with a loan of approx. ILS 265 million, with the share of the Keystone Ramat Hovav Partnership in the loan totaling approx. ILS 175 million. Part of the loan provided by the Keystone Ramat Hovav Partnership (approx. ILS 103 million) is convertible into interests of the Interim Partnership's limited partner (the "**Convertible Loan**") and the balance thereof (approx. ILS 72 million) is not convertible (the "**Non-Convertible Loan**"). In March 2024, conversion of the Convertible Loan into 32.665% of the equity interests in the Interim Partnership, constituting (indirectly) approx. 16.33% of the plant, was completed.

The loans will be repaid to the Keystone Ramat Hovav Partnership as follows:

The Convertible Loan (by the conversion date) – all of the amounts that the Interim Partnership is entitled to receive from the Ramat Hovav Partnership will be transferred by the Ramat Hovav Partnership to a designated account of the Interim Partnership (the "**Designated Account**"), which was pledged in favor of the Lenders. In any distribution, an amount equal to 49% of the amounts deposited into the Designated Account will be transferred to the Lenders (33% of the amounts to the Keystone Ramat Hovav Partnership and 16% to Menora), as payment on account of the Convertible Loan (without derogating from the conversion right as aforesaid). After conversion of the Convertible Loan, this amount will constitute an equity distribution of the interests of the Keystone Ramat Hovav Partnership as limited partner of the Interim Partnership. These payments will hereinafter be referred to as: the "Equity Distributions to the Lenders". The agreement determined that the balance of the Convertible Loan will be repaid in December 2035, if it is not converted before that. The Interim Partnership is not entitled to prepay the loan principal, other than by its conversion into rights to the Interim Partnership.

The Non-Convertible Loan – The Non-Convertible Loan will be repaid to the Keystone Ramat Hovav Partnership according to the payment schedule determined between the parties from the money remaining in the Designated Account. The loan is repayable over a period of 15 years according to a Spitzer quarterly payment schedule. The loan is linked to the CPI and bears annual interest rate of 5-6%. If, on any payment date, the balance of the amounts in the Designated Account is lower than the amount scheduled for repayment on such date according to the payment schedule, the deficient amount will be deferred to the following payment date and interest will be added thereto from its due date ("**Deferred Amounts**").

Note 7 – Investments in Investees and Loans (Cont.)

The Interim Partnership will be entitled to prepay the Non-Convertible Loan together with the outstanding interest accrued on the loan principal as of that date, and together with a prepayment fee.

Insofar as money remains in the Designated Account after performance of the payments and the distributions as aforesaid, the balance of the funds will be divided between the Lenders and Edeltech, according to the mechanisms set forth in the agreement.

As of 31 December 2023, the fair value of the Convertible Loan and the Non-Convertible Loan was assessed in a valuation carried out by an independent external valuer from BDO Consulting Group, with recognized professional qualifications and considerable experience in the infrastructures industry. The valuation for the Convertible Loan component was carried out using the free cash flow to equity (FCFE) method. The valuation was based on a forecast by the Company's management of the projected revenue, expenses and investments. The operational period that was used for the valuation is according to the license periods of the power plants' various units, which are between 15 and 20 years. At the end of the term of the project it was assumed that the plant will be left with a scrap value. The cost of equity (K_e) used for the valuation is 9.75%. An increase of 0.5% in the discount rate would reduce the value of the investment as of the valuation date by approx. ILS 14.6 million, while a decrease of 0.5% in the discount rate would increase the value of the investment as of the valuation date by approx. ILS 15.4 million.

The valuation of the Non-Convertible Loan was assessed using the DCF method with a normative discount factor, according to the loan's implied rating, according to the terms and conditions of the loan on the date it was received. The discount factor used for the valuation is 8.35%. An increase of 0.5% in the discount factor would reduce the value of the investment as of the valuation date by approx. ILS 0.4 million, while a decrease of 0.5% in the discount factor would increase the value of the investment as of the valuation date by approx. ILS 0.4 million.

The valuation is attached to the Company's financial statements as of 31 December 2023. In the reporting period, a positive net change of ILS 75,042 thousand was recorded in the fair value, with the amount of ILS 142,945 thousand deriving from a positive change in respect of the fair value adjustment according to the valuation net of ILS 67,903 thousand as a result of an adjustment for revenue from dividend, interest and loan proceeds. The increase in value is mainly derived from an increase in the number of generation hours as a result of a larger-than-planned work regime and from the effect of a rise in the CPI to which revenue are linked.

<u>Purchase tax</u>

The Ramat Hovav Partnership holds discounted leasehold rights in two parcels with a total area of approx. 41,000 sqm, for a lease term ending in February 2058. With respect to an additional area of approx. 89,000 sqm, and although the Ramat Hovav Partnership holds a "confirmation of rights" document that was issued by the ILA confirming that the partnership holds discounted leasehold rights in relation thereto for a lease term ending in November 2069, the partnership has not signed the lease agreement with the ILA due to disputes between the partnership and the ILA, including with respect to the duration of the lease period.

Note 7 – Investments in Investees and Loans (Cont.)

According to a financial specification received by the Ramat Hovav Partnership in November 2020, the partnership was required to pay the ILA permit fees of approx. ILS 218 million plus VAT (the Company's indirect share is approx. ILS 36 million). To enable the closing on time of the transaction for the purchase of the power plant, and according to the administrative objection procedure set forth in the ILA rules, the Ramat Hovav Partnership paid the ILA 75% of the amount required by the latter, and provided the ILA with a bank guarantee for the remaining 25%. The Ramat Hovav Partnership disputes the amount of the permit fees demanded by the ILA, including the amount that was paid thereby. In March 2021, the Ramat Hovav Partnership filed its legal claims against the assessment on which the ILA's demand was based.

In February 2022, the Ramat Hovav Partnership filed an appraisal-based administrative objection, contesting the amount of the permit fees with a counter assessment to the one on which the ILA demand was based, and as of reporting date, the ILA's response has not yet been received. In addition, in August 2021, the Ramat Hovav Partnership filed an administrative objection regarding the development expenses, and in November 2021 the ILA gave a laconic response to the administrative objection regarding the development expenses, without addressing the claims at all. Consequently, the Ramat Hovav Partnership applied to the ILA requesting a pertinent response, but no such response has yet been received. The parties are negotiating with the aim of attempting to find an agreed solution to obviate the continuation of the proceedings. In the estimation of the Ramat Hovav Partnership, and based on its legal counsel, due to the early stages of the proceeding, it is not possible at this stage to assess the outcome of the proceedings against the ILA and the amount of the permit fees that will be eventually ruled.

Shortly after the closing of the transaction for the purchase of the plant from the IEC, the Ramat Hovav Partnership submitted to the land taxation authorities a report on the value of the land to apply with respect to the agreement with the IEC, based on a self-assessment, at approx. ILS 17.3 million. In March 2021, the land taxation authorities issued a best-of-judgment purchase tax assessment in connection with the acquisition of the plant by the partnership for approx. ILS 262 million as of 10 June 2020, which is linked to the CPI and bears interest (the Company's indirect share is approx. ILS 43 million), against which the Ramat Hovav Partnership filed an administrative objection to the purchase tax assessment. In December 2022, the administrative objection filed by the Ramat Hovav Partnership was dismissed and the purchase tax according to the Tax Authority remained at approx. ILS 262 million (nominal). In June 2023, the Ramat Hovav Partnership filed an administrative appeal to a court against the decision on this administrative objection. A response on behalf of the Tax Authority is scheduled to be filed by 31 March 2024. A pretrial was scheduled for 16 May 2024. According to a legal opinion that was received, and based on the assessment of the Ramat Hovav Partnership's management, the partnership did not record in its financial statements for 2023 a provision above the self-assessment that was paid thereby.

Note 7 – Investments in Investees and Loans (Cont.)

In the event that the Ramat Hovav Partnership's administrative objection in connection with the permit fees is not granted and it is required to pay the ILA permit fees above the amount paid thereby as aforesaid, or in the event that the partnership's claims in connection with the purchase tax are not accepted, and it is required to pay purchase tax above the amount paid, the costs of the project will increase accordingly, and the owners have undertaken, subject to the provisions of the financing documents, to provide the Ramat Hovav Partnership with the amounts required (the Company's share of the said amounts is approx. 16%).

<u>Filter house fire</u>

In July 2022, a fire broke out in a filter house which caused the shutting down of turbines 8 and 9 at the power plant. The turbines were gradually returned to service in Q1/2023. The incident was covered by the partnership's insurance policy, which also covers loss of profits, subject to the terms and conditions of the policy and subject to the deductibles.

4) Investment in Cinturion

As of reporting date, the Company holds approx. 30% of the shares of Cinturion Corp. Ltd. ("Cinturion"), a company that was incorporated in Bermuda and is engaged in planning, development and rollout of a submarine and on-land fiber optic network over approx. 20,000 km, to connect Israel westward to Europe and eastward up to India, through Gulf and Middle Eastern countries. Construction cost is approx. $1,100 million, which is planned to be funded mostly through financing from international banks and from presale of fibers, and will include an extensive rollout of dark fiber technology. As of reporting date, the project is still at the preliminary stage, with the commercial operation of the project scheduled for Q4/2027. As of reporting date, Cinturion has entered into landing party agreements and indefeasible right of use (IRU) contracts with several international telecommunications providers along the project's route enabling Cinturion to roll out, operate and maintain the system. Cinturion is working on completing the entire set of agreements that are required as aforesaid along the length of the fiber throughout the project's route.

The original investment agreement for the acquisition of 25% of the company's shares was signed in December 2020 and amended in October 2021, reducing total investment to $7.65 million (compared to $8.5 million in the original agreement) and the milestones were also updated, including setting milestones, and that non-achievement of them by December 2021 entitle the Company to another 3% of Cinturion's shares.

In November 2021, the Company invested an additional approx. $0.3 million in exchange for its holding share being increased by another 2%

As of reporting date, the Company has invested a total of approx. $5.5 million.

According to the arrangement signed between the Company and Cinturion on 27 February 2023, it was agreed that the Company had satisfied all preconditions to make investments in Cinturion, and therefore does not need to invest any additional amount beyond what it had already invested.

Note 7 – Investments in Investees and Loans (Cont.)

The said agreement further determined that insofar as Cinturion meets the undertakings agreed between the parties, the Company will take action to transfer its holdings in the company to a foreign subsidiary, wholly owned by the Company, and will bear the tax implications and costs entailed thereby up to the amount of $2.4 million.

The Company's management estimates that the investment cost reflects the fair value of the investment as of reporting date.

5) Investment in Sunflower

The Company holds approx. 51.85% of the issued and paid-up share capital of Sunflower Sustainable Investments Ltd. ("Sunflower"), a public company whose shares are traded on TASE, as follows.

In March 2021, an agreement was signed for the acquisition of Sunflower's shares, which was closed in April 2021, from Gil Deutsch and Aharon Naftali Biram directly or indirectly through companies controlled by them (who are, indirectly through companies controlled by them, controlling shareholders of the Company and the MC) (in this section: the "Controlling Shareholders") and from several other sellers (the Controlling Shareholders and the other parties will hereinafter be referred to in this section as: the "Sellers"). As of the date of this report, the Company is the controlling shareholder of Sunflower.

Concurrently, Leumi Partners Ltd. ("**Leumi Partners**", and together with the Company: the "**Buyers**") also signed the same agreement for the acquisition of 20% of Sunflower's shares from the same Sellers, according to the same value.

Sunflower's value for purposes of the transaction was set at ILS 335 million, and the Company's share is approx. ILS 151 million.

The share acquisition agreement provides for a mechanism for additional cash consideration to be paid by Keystone and Leumi Partners (each one of the Buyers will pay proportionally to its holding) conditioned that money is received from an arbitration proceeding against the Kingdom of Spain (the "Lawsuit in Spain") in which Sunflower has 50% of the rights, and according to the brackets specified below, based on the net amount collected from the Lawsuit in Spain: (a) up to ILS 10 million net collection – 100% of the amount; (b) ILS 10-25 million – 80% of the amount; (c) ILS 25-40 million – 60% of the amount; (d) ILS 40-55 million – 40% of the amount; (e) in respect of a net collection amount above ILS 55 million, the Sellers will not be entitled to additional consideration, and the payment will be made to each seller in respect of its share in the holdings in Sunflower immediately prior to the sale.

The commitment to pay the additional consideration will expire 60 months after closing date (25 April 2021), subject to the relevant buyer still holding any number of Sunflower shares on the date the funds are received in practice.

In June 2021, Sunflower reported that a judgment had been received in the Lawsuit in Spain in the amount total of €47.3 million, with the tribunal in the proceeding ordering the Kingdom of Spain to pay the plaintiffs an additional amount of approx. €1.5 million for trial costs and legal fees. In February 2022, a motion was filed for enforcement of the arbitration award in Israel. As of reporting date, no date has yet been scheduled for a hearing on the motion.

Note 7 – Investments in Investees and Loans (Cont.)

In addition, in November 2023, Sunflower reported that it had received the decision of the International Arbitration Institute, whereby the Spanish government's motion to cancel the arbitration award was denied, and Sunflower, together with Shikun & Binui, are entitled to the said full compensation, to be divided between them in equal shares.

Sunflower further reported that insofar as the Kingdom of Spain does not pay the amounts awarded at its own initiative, Sunflower will take action to enforce the arbitration award against the Kingdom of Spain by legal enforcement measures. To the best of Sunflower's knowledge, the enforcement proceeding may be complex and costly, and there is no certainty as to the prospects, amounts or timing of any amount collected (if any). The Company recorded a liability for the said additional consideration, which liability was calculated by weighting the probability of collection of the relevant amount from the Kingdom of Spain in the period set forth in the agreement, at approx. ILS 6.8 million, which amount is recorded in the long-term liability of the Company.

Concurrently with the signing of the share acquisition agreement, the Company signed a letter of consents in favor of Leumi Partners, whose main principles are: (1) the granting of a right to Leumi Partners to determine the identity of one of the directors appointed by the Company to Sunflower's board of directors; (2) tag-along right arrangements in the case of the sale of Sunflower shares, so long as the Company meets the Control Threshold (as defined below); (3) so long as the Company holds shares of Sunflower that confer 30% or more of the voting rights therein, or is the largest shareholder of Sunflower (the "Control Threshold"), the Company and corporations controlled thereby will not invest in or finance operations in the renewable energy industry (production of thermo-solar, PV or wind energy and facilities for storing energy from such sources), in Israel or worldwide, other than through Sunflower. According to this commitment, on 30 September 2021, the Company transferred to Sunflower its holdings in Helios Renewable Energy 1, Limited Partnership ("Helios"), which holds several corporations that own photovoltaic facilities for generation of approx. 30.8 MW of electricity, in consideration for an amount equal to the acquisition price plus the related costs incurred by the Company in connection with the transaction.

In the reporting period, the Company acquired shares of Sunflower for approx. ILS 21.1 million, approx. ILS 11.1 million in the context of a rights offering performed by Sunflower in March 2023 and the balance of approx. ILS 10 million in the context of 2 irrevocable plans adopted by the Company for the acquisition of Sunflower shares. As of reporting date, the Company holds approx. 51.85% of Sunflower's shares.

In 2022 and 2023, the consideration to which electricity producers were entitled for electricity they generated and sold in the wholesale market "Black Electricity was restricted in Poland, but from 1 January 2024, the restriction expired, and since this date the consideration for the Black Electricity is as agreed between Sunflower and the company purchasing the electricity therefrom. The current contractual price is more than 70% higher than the expired cap price.

Note 7 – Investments in Investees and Loans (Cont.)

On 28 January 2024, Sunflower announced the closing of a transaction for the acquisition of rooftop solar projects in Israel with a total capacity of approx. 13 MW, between a subsidiary thereof and E.D.I. Energy Ltd. and subsidiaries owned thereby. As consideration, Sunflower's subsidiary will pay approx. ILS 8 million (most of which will be deemed a shareholder loan of the Company to the subsidiary) and will also allot to the Sellers shares of the subsidiary at a rate of approx. 25% of the issued and paid-up share capital of the subsidiary.

On 28 December 2023, Sunflower announced that it had engaged in a non-binding MOU with Lahav L.R. Real Estate Ltd. and Lahav Green Energy Ltd., and is engaged in the fields of renewable green energy and waste ("Lahav Energy"), for the acquisition of all of the share capital of Lahav Energy in exchange for the allotment of Sunflower shares to the shareholders of Lahav Energy. There is no certainty regarding the signing of a detailed agreement between the parties, the date of signing or the terms and conditions of the agreement.

On 1 February 2024, Sunflower announced that a subsidiary of Sunflower had engaged with Mivne Real Estate (K.D) Ltd. in an agreement for the sale of 101 photovoltaic facilities on roofs with a total capacity of approx. 5 MW, including all of the rights in connection therewith, in consideration for approx. $78 million plus lawful VAT. In Sunflower's estimation, upon the closing of the transaction it is expected to recognize a capital gain of ILS 17 million. On 12 March 2024, Sunflower reported that the transaction was closed.

As of 31 December 2023, the fair value of Sunflower was determined according to its quoted price on TASE.

For details regarding a shareholder's motion for approval of a derivative suit against the Company, the Company's MC, the MC's controlling shareholders and officers and directors of the Company, see Note 12C.

6) Investment in IPM Be'er Tuvia Power Plant

The IPM Be'er Tuvia Power Plant is an active power plant for the production of electricity which operates using combined cycle technology (CCGT) of gas and steam turbines with an installed capacity of 451 MW (in this section: the "**Power Plant**" or "**IPM Be'er Tuvia**"). The Power Plant launched commercial operations in February 2021 after the Minister of Energy granted it on 10 February 2021, according to the Electricity Authority's decision, a production license and a supply license for a period of 20 years. Most of the Power Plant's output (85%) is sold to the national electricity grid and the remainder to private consumers. In addition, in July 2022, the Minister of Energy granted IPM Be'er Tuvia a license to supply electricity without means of production ("Virtual License"). As of reporting date, the Company holds approx. 34.3% of the issued and paid-up share capital of IPM Be'er Tuvia Ltd. through holdings of 10.66% of the issued and paid-up share capital of GP Global Power Ltd. ("**Global**"), 50% of the issued and paid-up share capital of I.P.M. Holdings 2016 Ltd. ("**IPM**") and approx. 12.69% of the issued and paid-up share capital of Triple-M Power Plants Ltd. ("**Triple-M**") (all on a fully diluted basis).

Note 7 – Investments in Investees and Loans (Cont.)

The cost of the Company's investment in the Power Plant, including the purchase of loans provided by Phoenix to Global and A.Y.A. Paris (for the provision of their share in the equity in the plant) ("**Loan to Global and A.Y.A. Paris**"), which was made in 2021 and 2022 in the context of the agreements that were signed with Phoenix Insurance Co. Ltd. and Phoenix Excellence Pension and Provident Fund Ltd. ("**Phoenix**"), with Leumi Partners and with Noy 2 Infrastructure & Energy Investments, Limited Partnership ("**Noy**"), totals approx. ILS 605 million, of which ILS 226 million was paid in 2021 and the balance in 2022.

In June 2019 to February 2021, Global and A.Y.A. Paris paid amounts on account of the loan which, according to Phoenix and the Company, were payments other than according to the provisions of the loan agreement. In view of the disputes, the parties conducted a mediation proceeding. A mediation arrangement was signed between A.Y.A. Paris and the Company. Global filed an action against the Company and entities in this context (in which no remedies were sought against the Company), as specified in Note 12C below.

As of 31 December 2023, the Company performed a valuation to estimate the fair value of the investment in IPM. The valuation was made by an independent outside valuer from S.C.A Economic Advisory Ltd. The valuation was performed using the DCF method.

The valuation was based on a forecast by IPM and the Company's management of the projected revenue, expenses and investments. The operational period that was used for the valuation is 20 years, according to the term of the Power Plant's license. At the end of the term of the project, it was assumed that the plant will be left with a scrap value. The Required Return on Equity (R_e) used for the valuation is 9.2%. An increase of 0.5% in the discount rate would reduce the value of the investment as of valuation date by approx. ILS 16.5 million, while a decrease of 0.5% in the discount rate would increase the value of the investment as of valuation date by approx. ILS 18.1 million.

The fair value of the Loan to Global and A.Y.A. Paris as of 31 December 2023 was assessed using the DCF method with a normative discount factor, according to the loan's implied rating, according to the terms and conditions of the loan on the date of the valuation. The discount factor used for the valuation is 7.3%. An increase of 0.5% in the discount factor would reduce the value of the investment as of the valuation date by approx. ILS 0.5 million, while a decrease of 0.5% in the discount factor would increase the value of the investment as of the valuation date by approx. ILS 0.5 million.

The valuation (for the Company's investment in IPM and the Loan to Global and A.Y.A. Paris) is attached to the Company's financial statements as of 31 December 2023. In the reporting period, a negative net change was recognized at fair value of ILS 72,206 thousand, with the amount of ILS 27,944 thousand deriving from the fair value adjustment according to the valuation and ILS 100,150 thousand as a result of an adjustment for revenue from dividend, interest and loan proceeds.

For information about a lawsuit and a motion for approval thereof as a derivative suit against the Company and a discovery motion regarding approval of the transaction for the acquisition of the IPM Be'er Tuvia Power Plant, see Note 12C below.

Note 7 – Investments in Investees and Loans (Cont.)

7) Investment in the Hagit (East) Power Plant

The "Hagit (East)" power plant is a power plant located in the north of Israel, on a site with an area of approx. 170,000 sqm. The plant has 6 natural gas-powered production units with an aggregate generation capacity of approx. 660 MW. The plant has 6 generation licenses (one for each generation unit), and a power purchase agreement (PPA) with system operator Noga for a period of 15 years. The plant is an infrastructure junction for high-voltage (KV161) and extra high-voltage (KV400) electricity grids and gas pipelines.

In the context of the purchase of the plant, rights were also purchased for additional land with an area of approx. 36,000 sqm, designated for a power plant, for future development of the plant. 30,000 sqm of the said land are vacant and the remainder is used for water facilities of the IEC (vacating the area will require the construction of substitute water facilities).

On 16 November 2021, Keystone Fund - Partnership Asset Management Corporation Limited Partnership (a partnership whose general partner is a company wholly owned by the Company and whose limited partner is the Company), the Company (collectively: the "**Keystone Hagit Partnership**") and corporations from the Menora Mivtachim Group ("**Menora**") (together with the Keystone Hagit Partnership: the "**Lenders**") signed an investment and loan agreement (as amended on 9 December 2021 and 25 May 2022) with limited partnerships wholly owned and controlled by the Edeltech Group (the "**Borrower**") (the "**Hagit Investment and Loan Agreement**") for the partial financing of the equity required by the Edeltech Group for the acquisition of the rights in the "Hagit (East)" power plant by a limited partnership held in equal shares by the Edeltech Group and the Shikun & Binui Group (the "**Hagit Partnership**"), following the Hagit Partnership's winning a tender for the acquisition of rights in the said power plant, and for financial closing for financing of the senior debt in connection with the purchase of the power plant.

On 1 June 2022, the Hagit Partnership completed the acquisition of the rights in the Hagit power plant, including the acquisition of the ownership rights in the plant's land from the Israel Electric Corp. Ltd. in consideration for a total of ILS 1.6 billion.

According to the Hagit Investment and Loan Agreement, Edeltech Group will hold its interests in the Hagit Partnership through the Borrower. Upon the closing of the transaction, the Lenders provided the borrowers with 3 loans totaling approx. ILS 170 million, with the Company's share in the said amount being approx. ILS 108 million (i.e., two-thirds of the loan), comprising a convertible loan of approx. ILS 54 million and non-convertible loans of approx. ILS 54 million. The loans are linked to the index and bear interest at an annual rate ranging between 4.5-5.5%.

Part of the loans is expected to be converted into an investment of 49% in the equity of the project partnership (the "Convertible Loan") on the date of completion of an internal transfer within the Edeltech Group of the interests in the plant partnership, against conversion of the said loan into equity, the Company will be allotted approx. 33% of the project partnership's equity (reflecting indirect holdings of 16.33% of the interests in the equity of the Hagit power plant partnership).

Note 7 – Investments in Investees and Loans (Cont.)

After balance sheet date, approval was received from the Electricity Authority for performance of the conversion. It is noted that conversion of the loan is subject to obtaining approval from the Competition Authority, which as of the present time has not yet been received.

The loans will be repaid as follows:

The Convertible Loan (until conversion date) – all of the amounts that the Borrower is entitled to receive from the Hagit Partnership will be transferred by the Hagit Partnership to a designated account of the Borrower (the "Designated Account"), which was pledged in favor of the Lenders. Each quarter, an amount equal to approx. 49% of the amounts deposited into the Designated Account will be transferred to the Lenders (33% of the amounts to the Keystone Hagit Partnership and 16% to Menora), as payment on account of the Convertible Loan (without derogating from the conversion right as aforesaid). After conversion of the Convertible Loan, this amount will constitute an equity distribution in respect of the interests of the Keystone Hagit Partnership as limited partner of the Borrower.

The non-convertible loans – the non-convertible loans will be repaid according to the payment schedules determined between the parties from the money remaining in the Designated Account. The loan will be repaid over a period of 15 years according to a Spitzer quarterly payment schedule. The loan bears CPI-linked interest at an annual rate of between 4.5% and 5.5%. Where, on any payment date, the balance of the amounts in the Designated Account is lower than the amount scheduled for repayment on such date according to the payment schedule, the deficient amount will be deferred to the following payment date and interest will be added thereto from its due date ("Deferred Amounts"). The Borrower will be entitled to prepay the non-convertible loans together with the interest accrued on the loan principal and not yet repaid by such date, and together with a prepayment fee. The terms and conditions of these loans include a "cash sweep" mechanism for accelerated repayment of the loans from the Borrower's profits, under the conditions determined in the agreement.

To secure repayment of the loans, pledges in favor of Keystone and Menora were placed *inter alia* on the interests in the project partnership, including the general partner's shares therein, all of its rights to receive money from the plant partnership and the project partnership's account, and additional collateral of Edeltech, external to the Hagit plant, was also provided for some of the loans.

In September 2022, the Hagit Partnership received a purchase tax assessment, in connection with the purchase of the project, at approx. ILS 98 million (out of which approx. ILS 12 million was paid according to a self-assessment submitted by the partnership). The Company's indirect share in the assessment amount (net of the self-assessment that was already paid) is approx. ILS 1 million. The Hagit Partnership filed an administrative objection to the purchase tax assessment, which was mostly dismissed (the Company's share in the payment is not in a material amount). The Hagit Partnership intends to file an administrative appeal against dismissal of the administrative objection.

Note 7 – Investments in Investees and Loans (Cont.)

According to a legal opinion that the Hagit Partnership received from its legal advisors on the issue, it is more likely than not that, should the dispute between the parties regarding the assessment be referred to a court, the fundamental legal position taken by the Hagit Partnership in its reports to the land taxation authorities will be accepted. Therefore, the Hagit Partnership's financial statements and the valuation did not include a provision above the self-assessment that was paid.

As of 31 December 2023, the fair value of the investment was assessed in a valuation carried out by an independent external valuer from BDO Consulting Group, with recognized professional qualifications and considerable experience in the infrastructures industry. The valuation as of 31 December 2023 for the Convertible Loan component was carried out using the free cash flow to equity (FCFE) method. The valuation was based on a forecast by the Company's management of projected revenue, expenses and investments. The operational period that was used for the valuation is according to the license periods of the power plants' various units, which are between 15 and 20 years, while at the end of the term of the project it was assumed that the plant will be left with a scrap value. The cost of equity (K_e) used for the valuation is 11%. An increase of 0.5% in the discount rate would reduce the value of the investment as of the valuation date by approx. ILS 4.4 million, while a decrease of 0.5% in the discount rate would increase the value of the investment as of the valuation date by approx. ILS 4.6 million.

The fair value of the non-convertible loans as of 31 December 2023 was assessed using the DCF method with a normative discount factor, according to the loans' implied rating, based on the terms and conditions of the loans on the date it was received. The discount factor used for the valuation is 8%-9.38%. An increase of 0.5% in the discount factor would reduce the value of the loans as of the valuation date by approx. ILS 0.4 million, while a decrease of 0.5% in the discount factor would increase the value of the loans as of the valuation date by approx. ILS 0.4 million.

In the reporting period, a positive net change was recorded in the fair value in the amount of ILS 58,477 thousand, with the amount of ILS 99,927 thousand deriving from a positive change in respect of the fair value adjustment according to the valuation net of ILS 41,450 thousand as a result of an adjustment for revenue from dividend, interest and loan proceeds. The increase in value mainly derives from an increase in the number of generation hours as a result of a larger-than-planned work regime in the forecast years and H2/2023, which resulted in a high cash balance as of 1 January 2024.

8) Investment in Eranovum

Eranovum e-Mobility, S.L ("**Eranovum**") was incorporated in 2021 and is engaged in the installation of EV charging stations in urban areas in Spain. In 2023, Eranovum began operating in France (through the acquisition of a local company) and in Belgium, through a subsidiary held together with a local developer. In addition, in 2023, Eranovum began working on developing independent capabilities for power generation from renewable sources to supply the charging stations it operates.

Note 7 – Investments in Investees and Loans (Cont.)

On 16 March 2022, the Company entered into a share acquisition and investment agreement with Eranovum, under which the Company invested approx. €11.5 million in exchange for the allotment of 30% of Eranovum's capital on the acquisition date. The agreement also conferred on the Company, upon fulfillment of a condition set forth in the agreement, an option for the investment of an additional amount of €15 million in exchange for the allotment of an additional 19% of Eranovum's capital, which was gradually exercised during 2023, such that as of reporting date, the Company has invested €9 million and holds approx. 42.8% of Eranovum.

In January 2024, the Company invested €6 million, and as of the date of issuing this report, it holds approx. 49% of Eranovum. Concurrently with the investment agreement, an agreement was also signed between the shareholders to establish the contractual relationship between the Company, Eranovum's founders and Eranovum.

In April 2023, Eranovum signed a non-binding LOI with a European investment body that specializes in investments in green energy and related infrastructures (the "Investor"), for investing in Eranovum (the "Transaction"). The negotiations between the parties were halted, and as of reporting date, Eranovum is working on increasing its financing sources through raising debt and equity. In the reporting period, a positive total net change was recorded in the fair value at ILS 125,682 thousand deriving from the fair value adjustment according to the external valuations that were carried out as of 31 March 2023 and 30 September 2023 (as specified below) and from an update to the fair value of the investment based on the projected yield for the owners (as determined in the valuation as of 30 September 2023), in respect of the period from 30 September 2023 to 31 December 2023.

As of 30 September 2023, the fair value of the investment was assessed by an independent external valuer from BDO Consulting Group, with recognized professional qualifications and considerable experience in the infrastructures industry. The valuation was performed using the DCF method for the investment in the shares and the B&S model for the option conferred on the Company under the agreement. The valuation was based on a multi-year forecast received from Eranovum's management until 2034, and thereafter a representative year was ased, from which a terminal value was derived.

The discount rate that was used to measure the fair value of the investment in the shares is 18.75%. An increase of 0.5% in the discount rate would reduce the value of the investment as of reporting date by approx. ILS 17 million, and a decrease of 0.5% in the discount rate would increase the value of the investment as of reporting date by approx. ILS 19 million. The fair value of the investment according to the valuation, including the fair value of Keystone's option to increase the equity interest (including amounts paid in 2023 in respect of such option) is ILS 203,047 thousand.

9) Investment in the Egged partnership

a. Egged is the largest public transport company in Israel. It was founded in 1951 as a cooperative society, and in July 2019, after a corporate restructuring, became a limited liability company with approx. 1,300 shareholders. Egged's main activity is the provision of bus-based public transport operation services in Israel, according to an operation agreement signed in 2018 with the State of Israel.

Note 7 – Investments in Investees and Loans (Cont.)

In the reporting date, Egged operates and maintains its own bus fleet, and also provides bus maintenance and repair services to external customers. The maintenance activity in Israel is carried out through 16 repair shops and 5 service stations located throughout Israel. Egged also operates a procurement system for purchasing replacement parts which includes, *inter alia*, the import of such bus parts. In addition, Egged operates public transport in the Netherlands and Poland (through companies it wholly owns (indirectly).

In the past, Egged participated, and it is also exploring future participation in public transport tenders in other countries in Europe. Egged, through a wholly-owned subsidiary, also operates charted bus and tourism industries in Israel. A subsidiary of Egged (in which Egged has an indirect 51% stake) was selected as operator in a tender of NTA – Metropolitan Mass Transit System Ltd. ("**NTA**") for the operation and maintenance of the Tel Aviv light rail's red line. The operation period is 10 years from the date of "full operation", subject to NTA's right to extend the agreement by 6 additional years. Egged also has a portfolio of real properties, including properties under ownership or long-term leasehold, that are located throughout Israel, including in major cities such as Jerusalem, Haifa, Ashdod and Holon, with a land area of approx. 400 thousand sqm. Some of the real properties are used by Egged mainly for the public transport activity in Israel. A non-material portion of Egged's real properties is leased under a free lease to third parties, and part is development real estate.

b. On 6 June 2022, Keystone Fund – Egged Partnership, Limited Partnership, of which a wholly owned subsidiary of the Company is the general partner, and of which the Company (approx. 81%) and school and preschool teachers study funds (approx. 19%) are limited partners (the "**Buyer Partnership**"), signed an agreement for the acquisition of 60% of Egged's shares and the granting of a put option to the shareholders for the acquisition of their remaining shares two and three years after the date of the closing of the transaction (see Note 1B above regarding the preparations by the Company and the Buyer Partnership for exercise of the option).

On 3 October 2022 (the "**Closing Date**"), the Buyer Partnership completed the acquisition of Egged shares as aforesaid in consideration for ILS 2,961 million, subject to adjustments determined in the agreement. On 23 March 2023, the final consideration amount was determined after adjustments of approx. ILS 2,981 million.

The Buyer Partnership financed the payment on Closing Date through equity provided to it by the partnership's limited partners at ILS 1,265 million and through bank financing of approx. ILS 1,400 million, as specified below. An additional amount of ILS 296 million (which constitutes an indemnity fund according to the terms and conditions of the agreement) will be paid by the Buyer Partnership, net of amounts that may be due to the buyer (if any) within a period of up to 3 years from Closing Date, plus CPI-linked interest of 1%-2% which will be added to the of the indemnity fund. The Company's share in the partnership's equity on Closing Date was an investment of approx. ILS 1,022 million, and including the foregoing adjustment of ILS 20 million and costs capitalized to the investment – approx. ILS 1,054 million. Upon the closing of the transaction by the Buyer Partnership, the Company holds approx. 49% of Egged's shares.

Note 7 – Investments in Investees and Loans (Cont.)

As part of the share acquisition transaction, the following agreements were also signed:

A **limited partnership agreement** between a wholly-owned subsidiary of the Company as general partner, the Company as limited partner and school and preschool teachers study funds as an additional limited partner.

This agreement establishes, *inter alia*, the contribution of each one of the limited partners to the equity required by the Keystone partnership for the acquisition of Egged shares, and further establishes the Company's commitment to guarantee the Egged partnership's obligations under the acquisition agreement. The right of the general partner of the Egged Partnership to make a capital call from its limited partners was assigned and pledge to Egged and representatives of the sellers

A **financing agreement** between the Buyer Partnership and a banking consortium, under which loans equal to approx. 50% of the consideration, and up to a cap of ILS 1,440 million, will be provided against a first-degree, unlimited pledge on all of Egged's shares and the means of control therein held by the Buyer Partnership, on the Buyer Partnership's rights in the agreement for the acquisition of Egged's shares, on the Buyer Partnership's rights in a bank account and on the Buyer Partnership's rights under the partnership agreement; a first-degree, unlimited pledge on the rights of the general partner of the Buyer Partnership and a letter of undertaking from the general partner; letters of undertaking and subordination from the limited partners.

On 3 October 2022, the banking consortium provided the financing to the Buyer Partnership at ILS 1,400 million, as follows:

A current loan with a principal amount of ILS 910 million. Approx. ILS 817 million bears fixed interest at an annual rate of 3.2%, linked to the CPI, and approx. ILS 93 million bears the Prime interest rate plus a margin of 1.23%. The current loan principal will be repaid in semiannual installments until December 2029, according to a payment schedule agreed upon between the parties. The term of the loan is approx. 5 years.

A bullet loan with a principal amount of ILS 490 million, bearing variable interest at Prime plus a margin of 1.59% per annum. The loan principal will be repaid in a single installment 7.5 years after the date of provision of the loan (subject to prepayment mechanisms set forth in the agreement).

The interest on the loans will be paid in semiannual installments from December 2023 until the final maturity date of each one of the loans.

The agreement determines standard financial covenants, with failure to comply constitutes a breach of the agreement and grounds for acceleration, as well as standard loan agreement acceleration grounds.

Note 7 – Investments in Investees and Loans (Cont.)

c. On 4 June 2023, the Company announced that Egged had filed a motion to a court to approve a distribution of ILS 500 million, pursuant to Section 303 of the Companies Law, 5759-1999, as a distribution that does not meet the profit test but does meet the solvency test. On 12 February 2024, an agreed notice of Egged and the Ministry of Transportation was filed to the court, according to which Egged agreed to reduce the requested distribution amount to ILS 350 million, and that the Ministry of Transportation was withdrawing its objection to the motion. On 15 February 2024, a court hearing was held on the motion and the parties are awaiting the court's judgment.

   Insofar as the distribution is approved, Egged is expected to distribute an ILS 350 million dividend, with the partnership’s share being ILS 210 million, which will be used to pay the variable component of the loan in the partnership. In December 2023, Egged distributed to its shareholders approx. ILS 109 million, and the dividend received by the Buyer Partnership was used for the partnerships debt repayment.

d. In June 2023, Egged Holdings Ltd., a company wholly owned by Egged, won a competitive process for the operation of service lines in the Jerusalem Ring Cluster West (the “Cluster”), for a period of 10 years with a service capacity of 15.2 million km per year according to the base map and with a minimum fleet of 300 buses. In September 2023, an agreement was signed for the operation of the Cluster between Egged (through Egged Jerusalem Ring Ltd., a wholly-owned (indirectly) subsidiary SPV) and the Ministry of Transportation. Operation of the Cluster will be carried out in two stages: stage A – from April 2024, and stage B – from March 2025 (or earlier, if brought forward in agreement with the Ministry of Transportation). For purposes of financing the operation of the Cluster, Egged Jerusalem Ring engaged in January 2024 with a banking corporation in an agreement for non-recourse financing intended to finance procurement of the buses and other investments required according to the terms and conditions of the tender.

   The win is included in the Company’s valuation, on the basis of which the fair value was recognized.

e. As part of offering Series 1bonds (the “Bonds”), by way of a private placement to accredited investors that was performed on 14 August 2023 by Egged, it received orders of approx. ILS 1,030 million. Accordingly, Egged decided to set the overall amount of the issue at approx. ILS 495 million. On 19 July 2023, the Bonds were rated ilAA- by the rating agency S&P Maalot, and Egged was rated ilA+ with a stable outlook. The Bond principal will be repaid in annual installments until 31 December 2029 (duration – 3.8 years), and bears fixed annual interest at a rate of 3.64% (subject to the option of adjusting the interest rate in the event of an IPO, non-compliance with a financial covenant, a downgrade, or arrears interest in the case of delinquencies). The principal and the interest are linked to the CPI.

Note 7 – Investments in Investees and Loans (Cont.)

The Bonds are secured by a single, fixed unlimited first-degree charge on a certain number of Egged buses, and *inter alia* also on the proceeds deriving from their sale, as well as on any revenue and returns generated by, or associated to them, with the exception of revenue from the Company's operations under the operations agreement and/or for operating activities in respect of transporting passengers, as well as on Egged's rights to receive other additional income (such as: compensation and/or indemnity and/or insurance proceeds for theft and/or loss of the vehicles).

The terms and conditions of the Bonds include a commitment to comply with financial covenants, a list of acceleration-triggering events, and restrictions on distributions in defined cases. The Bonds may be prepaid at Egged's initiative, under certain terms and conditions. In August 2023, Tevel (a second-tier subsidiary owned by Egged – 51%) began operating the red line of the Tel Aviv light rail.

f. In October 2023, a court dismissed without prejudice an action and a motion for class certification that was filed against Egged by three litigants, who were previously members of the Egged cooperative society, in which they challenged the share allotment that was performed at the time of Egged's restructuring. The action was dismissed *inter alia* because it does not qualifies as a class action, and the petitioners in the motion were charged to pay legal costs to Egged. On 6 December 2023, an appeal was filed to the Supreme Court against the District Court's decision.

g. In the reporting period, a positive total net change was recorded in the fair value in the amount of ILS 207,106 thousand, deriving from the fair value adjustment according to the external valuation as of 30 June 2023 (as specified below) and from an update to the fair value of the investment based on the projected yield for the owners (as determined in the valuation that was attached to the Company's statements as of 30 June 2023) in respect of the period from 30 June to 31 December 2023.

As of 30 June 2023, the fair value of the investment was assessed in a valuation carried out by an independent outside valuer from BDO Consulting Group, with recognized professional qualifications and considerable experience in the infrastructures industry. The valuation was performed using the asset value method, which is based on a valuation of Egged using the DCF method, net of debt in Egged and in the Egged partnership. The valuation was based on a forecast by the Company's management and Egged's management of the projected revenue, expenses and investments, the number of kilometers that will be travelled, the rate of departing from public transport clusters and winning of tenders. The period that was used for the valuation is mainly based on the period of the operational agreement with the State according to the periods of the license and/or contracts in the various activities, and Assuming a gradual departure from clusters and winning of future tenders. After 2035, continued operation was assumed according to a representative year from which a terminal value was derived. The discount rates used for measuring the fair value of the various activities (WACC) are: Egged standalone – 8.25% and 9.75% for a representative year, Egged Heseim 12.25%, EBS 7% and 8.5% for a representative year, and Mobilis 12% and 14.5% for a representative year.

Note 7 – Investments in Investees and Loans (Cont.)

h. Material legal proceedings against Egged:

On 2 October 2022, the National Labor Court approved a settlement agreement between Egged and the Pension Fund of Egged Employees Ltd. (under special administration) in the context of a claim filed by the pension fund ("**PFE**" and the "**PFE Claim**", as the case may be) against Egged, according to which Egged will pay PFE, against final dismissal of the PFE Claim, the amount of ILS 618 million plus interest, payable in installments over four years. In October 2022, approx. ILS 100.6 million was paid. The remainder will be paid in 4 nominal annual installments of ILS 129.5 million, from September 2023, plus interest. On 29 September 2023, Egged paid PFE the second installment and prepaid part of the outstanding principal, which amount together to amountILS 259 million, plus interest accrued until that payment date. The outstanding principal (ILS 259 million plus interest) will be paid in 3 equal nominal annual installments, from September 2024, plus interest.

On 8 December 2022, a lawsuit and a motion for class certification was filed against Egged with the Tel Aviv District Court (the "Action") by three litigants, who were previously members of the Egged cooperative society (the "Cooperative Society") before it was restructured into a private company. The Action asserted, *inter alia*, that the Cooperative Society (and Egged as its successor) was a trustee for the society's members who retired from the society prior to the date of restructuring (the "Class Members"), and had breached its duty of loyalty towards those retirees by failing to allot Egged shares to all Class Members with the same terms and conditions as those allotted to persons who were members of the society on the date of Egged's transformation from a cooperative society to a company. Alternatively, the Action asserted that the society breached the duty of loyalty to its members, and following the restructuring, the Egged company must bear the consequences of the breach. In October 2023, the Action was summarily dismissed without prejudice, *inter alia* because it does not qualify as a class action. On 6 December 2023, an appeal was filed with the Supreme Court against the District Court's decision.

The remedy sought in the Action is, *inter alia*, the allotment of 100 Egged shares to each of the Class Members and requiring Egged to redeem these shares, or alternatively pay financial damages of approx. ILS 4.145 million to each of the Class Members. In view of the petitioners' claim for lack of information and documents, they state in the certification motion that at this stage they are unable to determine the size of the class or the amount of the damage. However, they assume that the financial damage is at least in the said amount. In the estimation of Egged's counsel, the chances of the appeal being granted are low.

Several claims, class actions and class certification motions have been filed against Egged on various issues. In the estimation of Egged's management, the likelihood of the claims being accepted are low and/or the prospects of the motion and the action in respect thereof cannot be gauged and/or according to opinions of Egged's legal advisors, non-material provisions have been made to reflect the risk.

Note 7 – Investments in Investees and Loans (Cont.)

See Note 12C2 below for a motion to discover regarding approval of a transaction for the acquisition of Egged shares.

See Note 12B3 below for information regarding a guarantee provided by the Company in the context of the Egged transaction.

Note 8 – Short-Term Credit

A. Composition

As of 31 December 2023

	Principal amount (ILS in thousands)	Interest rate
Commercial paper (CP) Series A	110,000	Bank of Israel interest rate plus 0.65%
Commercial paper (CP) Series B	77,500	Bank of Israel interest rate plus 0.6%

As of 31 December 2022

	Principal amount (ILS in thousands)	Interest rate
Credit from financial institutions of the Harel Group	350,000	Bank of Israel interest rate plus 2.8%
Commercial paper (CP) Series A	150,000	Bank of Israel interest rate plus 0.65%

B. Further Details

Commercial paper (CP) Series A (unlisted in TASE)

Issue Date: December 2022

Credit Amount: ILS 110,000 thousand as of 31 December 2023, and ILS 150,000 thousand as of 31 December 2022

Note 8 – Short-Term Credit (Cont.)

Remarks / Additional Material Terms			
Interest and linkage terms	**Repayment dates**	**Collaterals and pledges**	**Further details**
Bank of Israel interest rate plus a margin of 0.65% per year.	A one-year term, which can be extended by additional one-year periods, up to a total 5 years from initial issue date, at the discretion of the Company and with the consent of the investors. Either the purchasers or the Company may shorten the term of the CP by providing 7 business days' prior written notice.	No assets have been pledged to secure the CP.	Grounds for immediate repayment have been established, as is customary in agreements of this type. No financial covenants have been set.

Commercial paper (CP) Series B (unlisted in TASE)

Issue Date: March 2023

Credit Amount: ILS 77,500 thousand as of 31 December 2023

Remarks / Additional Material Terms			
Interest and linkage terms	**Repayment dates**	**Collaterals and pledges**	**Further details**
Bank of Israel interest rate plus a margin of 0.6% per year.	A one-year term, which can be extended for additional one-year periods, up to a total of 5 years from the initial issue date, at the discretion of the Company and with the consent of the investors. Either the purchasers or the Company may shorten the term of the CP by providing 7 business days' prior written notice.	No assets have been pledged to secure the CP.	Grounds for immediate repayment have been established, as is customary in agreements of this type. No financial covenants have been set.

Note 8 – Short-Term Credit (Cont.)

<u>Credit from Harel – as of 31 December 2022</u>

Date of establishment of facility: October 2021

Credit Amount: ILS 350,000 thousand out of a total facility of ILS 500,000 thousand

Date of facility maturity: The facility was repaid in October 2023.

Remarks / Additional Materia			
Interest and linkage terms	**Repayment dates**	**Securities and collateral**	**Further details**
Bank of Israel interest rate plus a margin of 2.8% per year. Additional interest of 0.6% applies to ILS 150 million out of the facility. Additional interest of 1%-2% in case of non-compliance with financial covenants.	Revolving credit for a period of 6 months. At any time the Company may convert the facility into a long-term loan for a period of up to 36 months from the date of signing the agreement (October 2021). The loans will be repaid in a single instalment on the final maturity date of each loan. For an additional ILS 150 million, the Company may make early repayment at any time without a fee or penalty.	The first degree and unlimited pledge in favor of the lenders on the following assets: all of the Company's interests (under the Ramat Hovav loan agreement, Sunflower shares, Global shares, its holdings and rights in the IPM Be'er-Tuvia project, and its interests in the Phoenix loan. The Company may replace or add collaterals, provided that it maintains an LTV ratio not exceeding 50%. Additionally, the proceeds payable to the Company from the pledged assets will be deposited into a bank account pledged in favor of the lenders.	The agreement established financial covenants. Non-compliance will constitute a violation of the agreement and grounds for cancellation of the facility and the immediate repayment of loans drawn thereunder, as well as a liability to minimum liquidity, as follows: LTV ratio not exceeding 65%, equity of at least ILS 350 million, equity-to-assets ratio not less than 20%, and net debt to EBITDA ratio not less than 12. As of reporting date, the Company is in compliance with the covenants.

Note 9 – Trade and Other Payables

	31 December	
	2023	2023
	ILS in thousands	
Liabilities to suppliers	93	587
Government institutions	106	840
Dividend payable	15,000	-
Expenses payable (primarily interest payable)	6,682	1,480
Related parties	1	-
	21,882	**2,907**

Note 10 – Non-Current Liabilities

A. Composition

<u>**As of 31 December 2023**</u>

	Par Value	Interest Rate and Linkage Mechanism	Balance
	ILS in thousands	%	ILS in thousands
Series A Bonds – see Section B below	670,000	Fixed annual interest at the rate of 0.75%, linked to the CPI	675,352
Credit from financial institutions from the Menora, Ayalon and Shlomo Group – see Section C below	-	Bank of Israel interest rate plus 3.61%	187,500

<u>**As of 31 December 2022**</u>

	Par Value	Interest Rate and Linkage Mechanism	Balance
	ILS in thousands	%	ILS in thousands
Series A Bonds – see Section B below	650,000	Fixed annual interest at the rate of 0.75%, linked to the CPI	668,894

B. Series A Bonds

Issue date of the bonds: On 5 December 2021 – ILS 450 million par value, on 12 July 2022 – expansion of ILS 200 million par value, on 20 December 2023 – another expansion of ILS 20 million par value.

Par value of the bonds (ILS in thousands): 670,000, including the expansions.

Note 10 – Non-Current Liabilities (Cont.)

Date of Issue of the Bonds	Par Value of the Bonds	Notes/Additional Material Terms and Conditions			
		Interest and Indexation Terms	Maturities	Collateral and Security Interests	Financial Covenants
5 December 2021 and expansions in July 2022 and in December 2023.	670,000	Fixed annual interest at the rate of 0.75% (linked to the CPI). Payable twice a year on 30 June and 31 December in each of the years 2022 to 2031 (inclusive).	The principal of the Series A Bonds will be repaid in 9 annual payments, with the first payment paid on 31 December 2023 and representing 5% of the par value of the bonds. The next two payments will be made on 31 December of each of 2024 and 2025, such that each of the two payments represents 7.5% of the par value of the bonds, four additional payments will be paid on 31 December of each of the years 2026 to 2029, such that each of those four payments represents 12.5% of the par value of the bonds, and two additional payments will be paid on 31 December of each of 2030 and 2031, such that each of such two payments represent 15% of the par value of the bonds.	The bonds are not secured by any charge or other collateral. Under the deed of trust, the Company undertook that as of the deed signing date and for as long as the bonds is not repaid in full, it will not create a general floating charge on all its existing and future assets and rights in favor of any third party, unless certain conditions are satisfied as specified in Section 4.6.2 of the deed of trust.	Equity covenant: The Company's total equity will not be less than ILS 430 million. Debt-to-total assets ratio covenant: The ratio between net financial debt and total assets will not exceed 57.5%. NAV covenant: The fair value of the Company's assets, net of the Company's liabilities according to their carrying amount as presented in the Company's last financial statements (either audited or reviewed, as applicable) will be no less than ILS 430 million. Equity-to-total assets ratio covenant: The ratio between the Company's equity and the Company's total assets, as appearing in the Company's financial statements, will not be less than 22.5%. As of reporting date, the Company complies with the covenants specified in the deed of trust.

Note 10 – Non-Current Liabilities (Cont.)

Series A Bonds were initially issued without discount, and thus, Series A Bonds outstanding on the eve of the allotment ["ערב ההקצאה" – לא ברור לאיזו הקצאה הכוונה, במיוחד לאור השימוש בלשון הווה ("נסחרות") וההתייחסות לפני (וכנראה גם אחרי) להנפקת האג"ח הראשונית] were traded without discount. The financing proceeds totaled ILS 464.4 million, and net of transaction costs – ILS 459 million. The bonds offered as part of the private placement expansion were issued at a price lower than the adjusted value of the outstanding Series A Bonds, and they were consequently issued at a discount of 11.69%, the financing proceeds totaled ILS 182 million, and net of transaction costs – ILS 181.4 million. On 14 December 2023, the Board of the Company approved another expansion of Series A by a par value of ILS 20 million. The bonds were issued with a 17.4% discount. The financing proceeds totaled ILS 18.1 million, and net of transaction costs – ILS 18 million.

The Company received the Tax Authority's confirmation that, for the purpose of withholding tax from the discount, Series A Bonds will be assigned a uniform discount rate according to a weighted discount rate of 3.59%. The discount calculation was made in accordance with Section 2.6 of the deed of trust of Series A Bonds.

On 22 November 2023, Standard & Poor's Maalot ("**Maalot**") reaffirmed the Company's rating of ilA/Stable and the Company's Series A Bonds were also rated by Maalot and assigned the rating of 'ilA+'. In addition, Maalot assigned a short-term issuer rating of 'ilA-1' to the Company's CP.

C. Credit from Financial institutions of the Menora, Ayalon and Shlomo Groups

Date of provision of the line of credit: October and November 2023.

Amount of the credit: ILS 187,500 thousand out of an aggregate line of credit totaling ILS 375,000 thousand.

Note 10 – Non-Current Liabilities (Cont.)

Notes/Additional Material Terms and Conditions			
Interest and Indexation Terms	Payment Due Dates	Collateral and Security Interests	Financial Covenants
Bank of Israel interest rate plus a margin at the rate of 3.61% per annum.	Any loan to be taken out of the line of credit will be provided for a term of 6/12 months, per the Company's request. The principal of every loan will be repaid in one installment, at the final due date of such loan. The Company has the right to prepay the loans, subject to the following conditions: (a) For each of the loans, early repayment cannot be made more than once a month; (b) prepayment will not be less than ILS 10 million; (c) if 3 months have not yet elapsed since the provision of the loan, an early repayment fee will apply at an amount equal to the product of multiplication of (a) the amount of the principal of the loan being repaid; (b) 1%.	A first-degree, unlimited charge in favor of the lenders on the following assets: All rights of the Company and corporations controlled by it under the Ramat Hovav loan agreement, the Hagit loan agreement, its rights to receive funds due to it from the Drive Group ("**Operator**") and from VID, its rights in 431 Ways (a company of the Drive Group). A first-degree, unlimited charge on the account in which the funds to be received in respect of the aforesaid assets will be deposited. First-degree, unlimited fixed charge and collateral assignment on the share of Sunflower.	The line of credit agreement includes causes for acceleration as is standard in line of credit agreements, primarily in relation to the Company and to corporations included in the collateral, and some in relation to additional corporations of the Group (mainly Egged), including the filing of an indictment against the Company, any of the corporations included in the collateral or against an officer of any of them, either within or outside their capacity as officers, but provided that the continued lending under such indictment will lead to regulatory or legal incompliance by the lenders; adverse material changes (including in licenses and permits); arbitration, claim, investigation, legal proceedings etc. that constitute a material adverse effect; as well as cross-default (an aggregate amount of debt, separately for each corporation among the Company and the corporations included in the collateral, of ILS 100 million or more; for the material corporations of the Group – a debt to the bondholders or other debt of ILS 500 million or more).

Note 11 – Taxes on Income

A. Corporate Taxation in Israel:

1) Measurement of results for tax purposes
   The Company's results for tax purposes in Israel are measured in nominal ILS values.

2) Tax rates
   The Company's income in Israel is subject to the regular corporate tax rate.
   The corporate tax rate applicable to the Company in Israel is 23%.

B. Carryforward losses

Deferred tax assets related to carryforward losses are recognized to the extent that the related tax benefit is expected to be utilized against future taxable income.

The balances of carryforward losses for which no deferred taxes were recognized as of 31 December 2022 and 2023 amount to approx. ILS 18,043 thousand and ILS 98,982 thousand, respectively. The Company does not recognize deferred taxes for these loss balances as their exercise is not expected in the foreseeable future.

C. Tax Assessments

The Company was incorporated in 2019 and therefore has not yet been assessed for income tax.

D. Value-added tax

The Company is a VAT authorized dealer.

E. A Tax Arrangement under the Report of the Committee for the Promotion Tradable Infrastructure Investment Funds (legislation not yet completed)

The report its published, as detailed in Note 1A above, the Committee recommended to apply a unique tax regime to infrastructure investment funds, based on a direct taxation model. According to this model, the taxable income of an infrastructure investment fund that is distributed to the shareholders of the fund will be considered the taxable income of the shareholders of the fund. Additionally, the tax liability will be created at the time of actual distribution to shareholders, and at that time, TASE members will also withhold tax. Any income not distributed as dividends within the period set in the Committee's recommendations will be subject to tax according to the regular two-stage taxation model applicable to companies. Exceptions were also set, such as a 70% tax rate in certain cases. It should be clarified that the Committee's recommendations have not yet been enacted and therefore the arrangement does not yet apply to the Company.

Note 11 – Income Taxes (cont.)

F. Deferred Taxes

The composition:

	Net change in fair value of investments in Investees measured at fair value through profit and loss	Total
	ILS in thousands	
Balance as of 1 January 2023	67,754	67,754
Changes carried to profit and loss	121,594	121,594
Balance as of 31 December 2023	**189,348**	**189,348**

G. Statutory Tax

	The year ended 31 December 2023		
	2023	2022	2021
	ILS in thousands		
Profit (loss) before income taxes	565,475	140,185	79,895
Statutory tax rate	23.0%	23.0%	23.0%
Tax calculated at statutory tax rate	130,059	32,243	18,376
Increase (decrease) in tax losses for which deferred taxes were not recognized during the period	18,616	4,073	(486)
Expenses, amortizations and other adjustments for tax purposes	(27,081)	9,130	(491)
Income taxes	**121,594**	**45,446**	**17,399**

Note 12 – Engagements and Contingent Liabilities

A. Engagements:

1) Management agreement

On 12 September 2019, the Company entered into a management agreement with the MC the principles of which are as follows:

a. The MC will make available to the Company management services that include the following services:

   1. Identification of investments for the Company, examination of their economic feasibility and conduct negotiations for entry into investment agreements.
   2. Management of investment disposals.
   3. Provision of economic and financial advice for the performance of investments by the Company.
   4. Advice to the Company in connection with entry into investment agreements and other agreements related to the Company's investments.
   5. Support, oversight and management of the Company's investments and reporting on the condition of investments.
   6. Support and handling of agreements for the sale or disposal of investments made by the Company.
   7. Advice and assistance to the Company with respect to capital raising and debt financing.

   The management services will be provided by anyone on behalf of the MC, and particularly by persons appointed thereby as directors of the Company, Chairman of the Board, CEO of the Company, CFO and General Counsel of the Company.

b. The MC itself will bear the following costs at its own expense:

   1. Costs of engagement of the employees and service providers retained thereby;
   2. Costs of the offices of the MC;
   3. Costs of capital raising prior to the listing of the Company's shares on "**TASE**
   4. Costs of communications and information technology (IT) services, with the exception of costs deriving from the Company being a public fund;
   5. Insofar as the Company's formation expenses (as defined in the management agreement) exceed ILS 2 million, the MC itself will bear, at its own expense, the costs exceeding such amount, with the exception of capital raising costs in the context of the public offering.

Note 12 – Engagements and Contingent Liabilities (Cont.)

It is clarified that the MC will not bear the costs of engagement of outside consultants, service providers and contractors (such as lawyers, accountants, financial consultants, brokers, etc.) entailed in the performance of transactions or in the examination of transactions for the Company. Such costs will be imposed on the Company and paid thereby directly to the consultants, service providers and contractors.

c. The term of the management agreement:

1. The management agreement entered into effect on 18 February 2019 and will remain effective until the date occurring seven years after the date of listing of the Company's shares on TASE (the "**Initial Term of the Agreement**").

2. After the end of the Initial Term of the Agreement, the Company may extend the term of the management agreement, on the same terms and conditions, by additional periods of up to seven years each, by giving written notice to the MC at least 6 months before the end of the term of the management agreement. In this regard, it is clarified that as long as the MC is defined as a controlling shareholder of the Company, the agreement with the MC will be approved in accordance with the law from time to time, *inter alia* in accordance with the Companies Regulations (Relaxations for Transactions with Interested Parties), 5760-2000.

3. The management agreement specifies a list of agreed-upon events in which each of the parties may terminate the agreement without any prior notice and without any liability to pay consideration in respect of a prior notice period.

4. In addition to the foregoing, the MC may terminate the agreement in the event of: (a) Adverse change in the terms and conditions of the engagement with it, during the 12-month period following the date of the adverse change in the terms and conditions; (b) The Company will not qualify for tax benefits given to infrastructure investment funds (the "**Regulation**"), at any time starting 6 months after the date on which such provisions are put in place.

5. Furthermore, the management agreement sets forth provisions in relation to a case where, at any time when the agreement comes to an end, the agreement is not renewed for an additional 7-year period including: a prior notice provision (during which the MC is entitled to all the payments and rights due thereto under the agreement, but does not provide actual management services to the Company, unless and to the extent that the Board so requests, a 50% reduction of the exercise price of the options and the MC's right to receive compensation from the Company.

Note 12 – Engagements and Contingent Liabilities (Cont.)

6. In the event of appointment of a Company CEO who was not recommended by the MC before the lapse of 14 years from the date of the Company's Public Offering, the MC will be entitled to such payments as specified in Section 5 above, as if a resolution has been adopted not to extend the term of the management agreement with the MC before the lapse of 14 years from the date of the Public Offering. In this section, "**Public Offering**" – The listing of the Company's shares on TASE, regardless of whether it is done simultaneously with the issue of Company shares to the public or done by way of listing only.
7. In the event of appointment of a Company CEO who was not recommended by the MC at any time, the Company will bear the costs of employment of the CEO. Such costs will not be deducted from the management fees to be paid to the MC under the agreement but rather be additional thereto.

d. Consideration:

1. In consideration for the management services, the Company will pay annual management fees to be derived from the value of the Company's assets as presented in the accounts, including cash and cash equivalents, calculated on a periodic basis, in accordance with the balance of assets included in the most recently released (audited or reviewed) financial statements of the Company for the same period, at an annual rate of 1%, plus V.A.T.
2. In this respect, it is clarified that insofar as any asset is not presented in the Company's statement of financial position at fair value, but the notes to the financial statements do present the fair value of the asset, the value of such asset will be calculated according to the fair value as presented in such notes. To the extent that the notes to the financial statements do not present the fair value of the asset either, the Company and the MC will make, in agreement, the required adjustments in the management fee calculation in order to lead to an economic result that is identical or proximate as possible to the calculation made in a case where the financial statements specify the fair value of the asset. In the event of disagreement between the parties, the parties will defer to an agreed accounting arbiter whose decision will be binding on the parties.
3. The aforementioned management fees will be paid in advance to the MC every quarter, by the 5th day of the first month of every such quarter, calculated according to a rate of 1% divided by four and according to the Company's assets as presented in the most recent audited or reviewed financial statements of the Company.
4. Furthermore, in any case where the Company allots shares, either in the context of a public offering or a private placement, the Company allots to the MC, without any further consideration, options that are exercisable, in whole or in part, at any time during a seven-year period from allotment date, to purchase Company shares, at a rate equal to 5% (five percent) of the total shares allotted in the allotment. Subject to such adjustments as specified in the agreement, every option is exercisable into one share of the Company.

Note 12 – Engagements and Contingent Liabilities (Cont.)

The exercise price of such options is the same price as specified in such private placement, or in a public offering, the price specified in the immediate report released by the Company in connection with the results of the offering and will in no case fall below the amount to be determined by TASE or another authority as the minimum price for the exercise of any option into an underlying share.

Upon exercise of the options, the underlying shares granted will be equal in rights to the common shares of the Company and entitle the MC to all the rights conferred upon holders of common shares of the Company.

The conversion of options into Company shares will be carried out according to the “net exercise by shares” (cashless) method.

5. As to key personnel, it was agreed that Mr. Navot Bar, would serve through a company he controls as a full-time (100%) CEO of the Company , and Mr. Roni Biram would serve through a company he controls as Chairman of the Board of the Company at 40% of full-time employment, for minimum terms of engagement, during which the key personnel may not terminate their agreements without prior notice at least 6 months in advance.

6. The management agreement further stipulates that during the term of the agreement and for six months after the date on which it expires, the MC and its controlling shareholders (only insofar as the controlling shareholders themselves provide the Company with management services under the agreement), will not compete, either directly or indirectly, with the Company in its line of business. Notwithstanding the aforesaid, in a case where the MC gives notice of termination of the agreement (as specified above) or in a case where the Company chooses not to extend the term of the agreement, an additional six-month period after the date on which the agreement comes to an end will not be required. For the purpose of this section, the Company's line of business is the investment in assets in the Infrastructure Sector (as defined in the Regulation) in Israel at amount exceeding ILS 30 million per investment.

   Notwithstanding the foregoing, in a case where the Company, through its competent organs (a resolution by the audit committee approved by the Board), decides not to partake in or declines a business opportunity or an offer made thereto (the “**Offer**”), the MC or any of its controlling shareholders may, either directly or indirectly, accept the Offer. The provision of this section will apply to the controlling shareholders of the MC and to corporations of which they alone are controlling shareholders (i.e., this provision will not apply to corporations of which the controlling shareholders of the MC are controlling shareholders together with others). The management agreement does not include a mechanism of periodic reporting to the Company by the MC's controlling shareholders regarding their investments in the Infrastructure Sector as noted.

Note 12 – Engagements and Contingent Liabilities (Cont.)

7. To the extent that anyone on behalf of the MC receives payment or compensation for serving as a director in corporations held by the Company, such payments and compensation will belong to the MC (over and above the management fee).

2) Additional agreements in connection with the Company's investments – See Note 7.

B. Guarantees:

1) Drive Group guarantee

As part of the acquisition process, the Company provided a guarantee in favor of the franchisee to cover a payment evasion guarantee of the Road 6 operator (the guarantee covers under-collection due to payment evasion in excess of a rate determined by agreement, if any), which was endorsed in favor of the security agent (the representative of the lenders of the project franchisee) to ensure collection by Road 6in an amount that may not exceed U.S. $10 million per year. The guarantee was provided by all Road 6 shareholders jointly and severally, and it is effective from the date of provision thereof to the end of the term of the franchise and will be renewed in any case in which it is enforced.

The Road 6 operator pays its shareholders a fee at the rate of 5% of the amount of the guarantee they provide to the franchisee in respect of a payment evasion guarantee. The fee is linked to changes in road traffic volumes.

2) Desalination Plant guarantees

Under the franchise agreement, VID was required to provide an operation guarantee for the duration of the term of operation of the Desalination Plant in Ashkelon and until the end of the term of the agreement. For its share in the operation guarantee, the Company has provided, as of reporting date, guarantees of approx. ILS 15 million in favor of the State. Furthermore, in July 2023 (4 years prior to the end of the term of the agreement), VID was required to provide the State with a final inspection guarantee in the amount of approx. ILS 63 million (approx. ILS 47.5 million, linked to the CPI as of the beginning of the operating period), which is effective for 12 months as of the end of the term of commercial operation (the "**Final Inspection Guarantee**"). The Company's share is 50% of the amount of the Final Inspection Guarantee, i.e., approx. ILS 32 million, including indexation, as of reporting date. In addition, the Company provided a bank guarantee to the bank financing the Desalination Plant in respect of debt service funds in the amount of approx. ILS 18 million. In January 2024, the lenders'approval was received for gradual reduction of the bank guarantees, such that they will be reduced by 50% after repayment of the debt (principal and interest) in January 2024 and a second reduction of the entire outstanding guarantee in October 2024.

3) Guarantees in the context of the Egged transaction

In the context of the Egged transaction, the Company provided a letter of guarantee in favor of the lending bank, which is limited to an amount of ILS 30 million. Furthermore, the Company granted a letter of guarantee to secure its obligations under the Egged share acquisition agreement, which is effective until the sale option of the Egged shareholders comes to an end.

Note 12 – Engagements and Contingent Liabilities (Cont.)

4) As collateral for the provision of the bank guarantees, the Company has bank deposits that are pledged to the bank. As of 31 December 2023, the amount of the pledged deposits totals approx. ILS 33 million.

C. Pending suits:

1) In August 2022, a suit was brought to the Tel Aviv-Yafo District Court by a shareholder of the Company, along with a motion for certification thereof as a derivative suit, against the Company, the Company's MC, the controlling shareholders of the MC and officers and directors of the Company, raising various claims in connection with the approval of the transaction for acquisition of the Sunflower shares by the Company, alleging it was a transaction in which the controlling shareholders of the Company had a personal interest, and in connection with a transaction for acquisition of shares (indirectly) of IPM Be'er Tuvia Ltd. In addition, remedies are sought for the recovery of monies allegedly paid in excess and profit claimed by the shareholder to have been gained by the respondents therefrom. A trial hearing was held on1 April 2023. Given the preliminary stage of the proceedings, the prospects of the certification motion and the suit and the extent of the exposure in respect thereof cannot be estimated at this point.

2) On 30 January 2023, a motion for discovery and inspection of documents under Section 198A of the Companies Law was filed with the Tel Aviv-Yafo District Court by a shareholder of the Company, against the Company and the MC, prior to the filing of a motion to certify a derivative suit. The petition revolves around the petitioner's claim that the MC, a controlling shareholder and officer of the Company, as well as the controlling shareholders of the MC, have a personal interest both in the Company's capital raising and debt financing and in investment transactions made by the Company, which is based on the management agreement entered between the Company and the MC. The petitioner alleges that since the MC and its controlling shareholders have a conflict of interest with respect to raising/financing rounds and investments, the approval of raising/financing rounds and investments is subject to the provisions of the Companies Law that pertain to the approval of transactions with Interested Parties (and in particular, the raising/financing rounds – to the extent amounting to an irregular transaction – and the investments are subject to approval by the general meeting of the shareholders of the Company), preventing the MC and its controlling shareholders to be in a conflict of interest, and to fully disclose such conflicts of interest. In his petition, the petitioner challenges two specific transactions that were made by the Company: The transactions for acquisition of the IPM Be'er Tuvia Power Plant and for acquisition of the Egged shares. Given the preliminary stage of the proceedings, the prospects thereof cannot be estimated at this point.

Note 12 – Engagements and Contingent Liabilities (Cont.)

3) On 4 December 2023, G. P. Global Power Ltd. ("**Global**") brought a declaratory suit with the Tel Aviv-Yafo District Court (Economic Department) against Alon Blue Square Israel Ltd. and CR Eco Holdings Ltd. (jointly: "**Blue Square and CR Eco**") (which are Global shareholders), and against the Company, seeking to declare that Blue Square and CRHoldings, jointly, have a negative personal interest in the engagement discussed at Global's general meeting of 8 March 2023, in relation to the mediator's recommendation pertaining to a loan agreement that had been signed between Global and the Phoenix Pension and Provident Fund Ltd. ("**Phoenix**"), into whose shoes the Company stepped, and therefore the votes of Blue Square and CR Eco when voting at the meeting are not to be counted, thereby leading to approval of the mediator's recommendation in relation to the said loan agreement. On 20 March 2024 a court hearing was held, after which and per its recommendation, Global was sent to reconsider the phrasing of the sought remedies, so that they are focused on the negative personal interest, and to reach an agreed procedural framework also in relation to the proceeding specified in Note 12C(4) below. Given the preliminary stage of the proceedings, the prospects thereof cannot be estimated at this point. No pecuniary remedies are sought against the Company in the context of this suit.

4) On 18 February 2024, a motion for certification of a derivative suit under Section 198 of the Companies Law, 5759-1999 was brought with the Tel Aviv-Yafo District Court (Economic Department) against Global and the Company. The suit was brought by Blue Square and CR Eco. In essence, Blue Square and CR Eco argue that Phoenix's claims in relation to the loan agreement signed between Global and itself, whereby the transfer of payments by Global to Phoenix did not constitute due settlement of the loan, are absurd and contradict the loan agreement, and that Global should have sued Phoenix to declare that the amount of the loan was reduced considering all the payments that Global had transferred to Phoenix, only Global failed do to so because Phoenix was also financing Mr. Ben Shach (who is supposedly the controlling shareholder thereof). In this context, the petitioners argue that the Company's stepping into Phoenix's shoes changed nothing. On 20 March 2024, a hearing was held and it was determine that the parties would attempt to reach a procedural framework together with the motion specified in Note 12C(3) above. Given the preliminary stage of the proceedings, the prospects thereof cannot be estimated at this point.

5) On 23 February 2024, Alma Infrastructure KD Ltd. ("**Alma**") filed a declaratory suit and a motion for provisional remedies with the Tel Aviv-Yafo District Court (Economic Department) against Triple-M Power Plants Ltd. ("**Triple**"), I.P.M. Holdings 2016n Ltd. ("**IPMH**"), the Company and Alon Blue Square Israel Ltd. ("**Blue Square**"). Alma argues, in a nutshell, that despite the fact that under a shareholders' agreement (as per its position) (the "**2017 Agreement**") it is allegedly entitled to appoint a director of Triple, it has been denied such right by IPMH, jointly with the Company. Therefore, Alma moves for (a) an order compelling Triple to refrain from holding the general meeting on the agenda of is an amendment to the articles of association; (b) an order compelling the Company and IPMH to vote against the change in the articles of association at the meeting; (c) an order compelling approval of the appointment of Ms. Estrella Cohen as director; and (d) transfer to the petitioner of a list of all the resolutions adopted by Triple's board of directors since 8 August 2023.

Note 12 – Engagements and Contingent Liabilities (Cont.)

On 25 February 2024, Blue Square filed a declaratory suit and a motion for preliminary remedies with the Tel Aviv-Yafo District Court (Economic Department) against Triple, the Company and Alma. Blue square argues, in a nutshell, that the motion is intended to prevent a supposedly illicit attempt by IPMH to cause the adoption of new articles of association for Triple, in such manner as constituting a breach of its obligations under the 2017 Agreement. Therefore, Blue Square moves for (a) issue of an order that prevents the convening of the shareholders meeting summoned for 5 March 2024; (b) in the alternative, an order compelling IPMH to vote against adoption of the articles of association; and (c) issue of a provisional declaratory remedy whereby IPMH is obligated to act in accordance with the provisions of the 2017 Agreement.

On 12 March 2024, the Company replied to both motions arguing, in a nutshell, that: (a) The articles of association of a company prevail over any document external thereto, even if signed by all the shareholders; (b) the 2017 Agreement on which the petitioners rely is an agreement that was signed for a specific purpose in the past, when only 80% of the shareholders had provided funding and guarantees for Triple's operations, and the other 20% of the shareholders at that time refrained from doing so. Such purpose has long been irrelevant. For years, all the shareholders have been partaking in the funding of Triple's operations, and what's more – its financing agreements at present (2024) are completely different; (c) the 2017 Agreement has turned into a dead letter, Triple has neither ratified nor adopted it, and Triple and the shareholders, including the petitioners themselves, have acted in contrast with its provisions and without regardfor its existence over time, including in relation to various payments thereunder or the significance of the right of refusal stipulated therein in respect of Triple's real property; and (d) even if the 2017 Agreement were effective (and it is not); and even if there was call for enforcing it on the parties thereto (and there is none), it does not grant the petitioners what they claim it does – a 'veto right' on any change in the articles of association. On 20 March 2024, a hearing on the motions was held, and the parties were sent to discuss amongst themselves and try to reach mutual agreements that would obviate the proceedings, with no preliminary remedy nor provisional remedy being issued in the matter. Given the preliminary stage of the proceedings, the prospects of Alma's suit and Blue Square's suit cannot be estimated at this point, but it is noted, with due caution, that no pecuniary remedies are sought against the Company in the context of this suit.

Note 13 – Capital Reserve and Retained Earnings

A. Composition of the Share Capital:

	Balance as of 31 December 2023	
	Registered	Issued and paid-up
	Number of shares (in thousands)	
Common shares of par value 0.1 NIS each	1,000,000,000	152,497,683

	31 December 2022	
	Number of shares (in thousands)	
Common shares of par value 0.1 NIS each	1,000,000,000	152,497,683

B. Equity Issues During the reporting periods

	Shares		ILS in thousands	
Date	Allocated Shares	Cumulative Balance	Consideration for Shares	Cumulative Consideration
Private Placements:	45,917,012	45,917,012	465,098	465,098
Public Offerings:				
Year 2021	46,428,571	92,345,583	470,000	935,098
Year 2022	60,152,100	152,497,683	403,002	1,338,100

Issues in 2022:

Equity Raising by way of Rights Offering – On 4 July 2022, the Company published a shelf offering report for an equity issue by way of a rights offering in the amount of ILS 462 million. In the rights offering, the Company's shareholders and holders of Series A warrants were offered units of rights, whereby each holder of rights-eligible securities who on the record date held 50 common shares of the Company or 50 Series 1 warrants, was entitled to purchase one unit of rights consisting of 33 common shares of the Company of par value ILS 0.1 each for ILS 6.7 per share, totaling 221.1 per rights-unit. The benefit component in the rights offering, based on the share price on the day prior to publication of the report, was approx. 3.56%. On 26 July 2022, the Company completed the rights issue, receiving exercise notices for the purchase of 45,108,509 common shares of par value ILS 0.1 each. The total consideration from the rights issue amounted to approx. ILS 302.2 million.

As part of the rights offering, controlling shareholders of the Company exercised rights amounting to approx. ILS 24.5 million and also purchased additional rights during the trading day, exercising them for additional approx. ILS 100 million.

Equity Raising by Non-Uniform Offering – On 27 July 2022, the Company published a shelf offering report for a non-uniform offering of up to 15,043,591 common shares of the Company of par value ILS 0.1 each at a price of ILS 6.7 per share. On the same day, the Company completed the issue, in which 15,043,591 new shares were issued, raising a total amount of approx. ILS 100.8 million.

There were no financing rounds in 2023.

Note 13 – Capital Reserve and Retained Earnings (Cont.)

For information regarding the financing round that took place on 13 February 2024, after the balance sheet date, see Note 17.

C. Series 1 Warrants

On 11 May 2023, 12,250,000 of the Company's Series 1 Warrants expired.

D. Series 2 Warrants

For information regarding the issue of the Company's Series 2 Warrants on 13 February 2024, after the balance sheet date, see Note 17.

E. Options to the MC

According to the management agreement between the Company and the MC, during every issue, the MC is granted with non-marketable options amounting to 5% of the total shares granted in such issue, at an exercise price equal to the issue price, adjusted for dividends. The options will be valid for 7 years from the date of issue, see also Note 12 above.

In 2022, the Company granted the MC 3,007,605 options.

The options constitute 5% of the common share capital issued at each of the times, and they are exercisable into one common share at the issue price through a net exercise mechanism ("Cashless"). The exercise price of the options granted in 2022 will be set at ILS 8 per share, following the MC's notice that such exercise price will be ILS 8 per share, despite the management agreement specifying that the exercise price should be the issue price, i.e., ILS 6.7 per share.

In 2023, there were no financing rounds by the Company, and accordingly no options were granted to the MC. For information regarding the issue of non-marketable options on 15 March 2024, after the balance sheet date, see Note 17.

The fair value of the options is estimated by an independent external valuer using the B&S model, as follows:

Grant Date	Amount	Fair Value (ILS in Thousands) (**)	Exercise Price (*)	Option Term	Volatility	Risk-Free Interest
February 2019	1,500,000	4,100	10	7 years	25%	0.54%
December 2020	302,500	763	10.31	7 years	22%	0.51%
April 2021 (for 2 grants)	493,350	1,260	10.42	7 years	22%	0.77%
June 2021	571,429	1,536	10.5	7 years	22%	0.92%
December 2021	1,750,000	3,993	10	7 years	23%	0.73%
July 2022	3,007,605	6,895	(*)6.7	6.92 years	23%	2.7%
	7,624,884	18,547				

(*) Original exercise price, subject to adjustments for any dividend distributions in accordance with the management agreement.

(**) The fair value measurement is based on the issue price of the shares for which the options were granted.

Note 13 – Capital Reserve and Retained Earnings (Cont.)

F. Dividend:

Below are the details of dividend distributions made by the Company from 1 January 2022 until the report publication date:

Distribution Year	Distribution Amount (ILS in Thousands)	Payment Date
2022	40,000	28.4.2022
2023	10,000	2.2.2023
2023	10,000	23.4.2023
2023	10,000	3.7.2023
2023	15,000	9.10.2023
***2024**	15,000	15.1.2024

*On 15 January 2024, the Company distributed a total dividend of ILS 15 million. On 27 March 2024, concurrently with the approval of the financial statements for the year 2023, the Company's Board approved an additional dividend distribution of approx. ILS 18.5 million.

In 2023, the Company's Board approved a dividend policy for the Company, and transition to a quarterly distribution each year, such that the Company will distribute dividends in January, April, July, and October each year, subject to legal and business considerations. It is emphasized that, in any event, the dividend amount will be assessed on an annual basis to ensure that it is not less than the minimum amounts required by the Company's dividend policy as stipulated in its articles of association (50% of the taxable income each year, excluding capital gains from the sale of infrastructure assets, and not exceeding the cash flow from the assets held by the Company during that period, net of its expenses).

For the dividend policy approved after the reporting date, see Note 17 below.

Note 14 – Earnings per Share

A. Basic

The basic earnings per share is calculated by dividing the earnings attributable to the shareholders of the Company by the weighted average number of common shares issued.

	The year ended 31 December 31 December		
	2023	2022	2021
	ILS in thousands		
Earnings attributable to the shareholders of the Company	443,881	94,739	62,496
Weighted average number of common shares issued	152,497,683	123,153,876	54,273,336
Basic earnings per share (ILS)	**2.9**	**0.8**	**1.15**

B. Diluted

The diluted earnings per share is calculated by adjusting the weighted average number of outstanding common shares to include all potentially-dilutive common shares. As of reporting date, the Company has one category of potentially-dilutive common shares: non-marketable options. The assumption in the calculation of diluted earnings is that with respect to share options, a calculation is made to determine the number of shares that could have been purchased at fair value (determined as the annual average market price of the Company's shares) with the monetary value of the options, in accordance with the terms of the options not-yet exercised. The number of shares thus calculated is compared to the number of shares that would have been issued Assuming the exercise of the options.

In 2023, the diluted earnings per share is identical to the basic earnings per share as the impact of the options is anti-dilutive and therefore, they were not taken into account.

Note 15 – Balances and transactions with Interested and Related Parties

A. Transactions with Interested Parties and Related Parties

	The year ended 31 December		
	2023	2022	2021
	ILS in thousands		
Management fees	31,058	15,771	5,276
Share-based payment	-	6,895	6,789
Trade receivables due to affiliates	4,347	1	272
Undertaking for additional consideration - Sunflower	6,771	6,771	6,771

(*) In 2023 and 2022, the MC received from Sunflower, a company controlled by the Company, an additional amount of ILS 540 thousand for the CEO's service as Chairman of the Board of Directors at Sunflower.

B. Compensation and Benefits to Interested Parties and Related Parties for Interested Parties Employed by the MC

	The year ended 31 December		
	2023	2022	2021
	ILS in thousands		
Salary to an interested party employed by the MC	3,840	3,840	3,290

C. Options to the MC

In accordance with the terms and conditions of the management agreement, the Company allocated to the MC non-marketable options amounting to 5% of the total shares issued at each issue date, with each option exercisable into one common share. For details about the options allocated in 2021, 2022, and 2023, see Note 13E above. For details about options allocated after balance sheet date, see Note 17 below.

D. Financing Rounds

For details about the Company's share allocation in 2021 to the controlling shareholders Roni Biram and Gil Deutsch (including through companies under their control) as part of the Sunflower share acquisition transaction, see also Note 7 above. For details regarding the participation of controlling shareholders in the Company's financing rounds, see Note 13B above and Note 17 below.

Note 16 – Further Details on the Items in the Statements of Comprehensive Income (Loss)

	The year ended 31 December		
	2023	2022	2021
	ILS in thousands		
A. Other expenses			
Professional services	5,488	4,605	1,950
Advertising and public relations	537	553	186
Office expenses	621	431	167
Miscellaneous expenses	127	187	38
	6,773	**5,776**	**2,341**
B. Financing income			
Interest income from deposits	6,276	3,546	117
	6,276	**3,546**	**117**
C. Financing expenses			
Financing expenses for short-term credit	9,110	453	-
Financing expenses for long-term credit	18,624	12,670	5,097
Fees for the provision of credit and guarantee	3,126	1,638	2,973
Bond linkage gains and losses	22,363	28,067	-
Interest on bonds	7,842	4,839	141
Other	108	4	52
	61,173	**47,671**	**8,263**

Note 17 – Subsequent Events

Capital raising

On 12 February 2024, the Company completed a capital raising round by way of public offering of shares of the Company and Series 2 Warrants exercisable into common shares of the Company, with each warrant exercisable into one common share (the "**Warrants**"), from the day of listing thereof on TASE to the last date for exercise thereof on 11 February 2026 (inclusive), against cash payment of the strike price of ILS 6.1 (non-indexed), as specified in a shelf offering report.

Under the shelf offering report, the Company offered the public up to 40,000,000 of its common shares of ILS 0.1 par value each, along with up to 20,000,000 Warrants.

The shares and the Warrants were offered in 400,000 units, each consisting of 100 common shares and 50 Warrants, with the price per unit determined by a bidding process. The unit price determined by the tender was ILS 510 and subscriptions for acquisition of 345,562 units were received thereunder. Given the foregoing, the Company issued a total of 34,556,200 common shares and 17,278,100 Warrants.

Total issue proceeds amounted to approx. ILS 176 million, of which total proceeds from the controlling shareholders of the Company are approx. ILS 78 million.

In accordance with the management agreement between the Company and the MC, whereby in a case where the Company allots shares, it will allot to the MC, without any additional consideration, options that are exercisable into shares of the Company, the Company allotted 1,149,648 non-marketable options to the MC and 578,162 non-marketable options to the employees of the MC.

Dividend

1) On 15 January 2024, the Company carried out a dividend distribution in the total amount of ILS 15 million, which was paid on 15 January 2024.

2) On 27 March 2024, concurrently with the approval of the financial statements for 2023, the Board of the Company approved another dividend distribution in the total amount of approx. ILS 18.5 million. Furthermore, that same day, the Board confirmed that the Company intended to pay three additional dividends, in July 2024, October 2024 and January 2025, at a rate of approx. 1% of the Company's equity as of the date of approving the financial statements underlying such distribution, with the quarterly amount as of reporting date being approx. ILS 18.5 million and in no event can be lower than the amounts warranted by the dividend distribution policy set forth in the Company's articles of association, which would be examined on an annual basis. It is emphasized that the Company is not committed to carry out distributions in such amounts and at such times as mentioned above, and that the distributions (if and to the extent performed), their timing and their amounts will be approved and carried out only subject to and in accordance with additional Board resolutions that may be adopted in the future, in accordance with the provisions of the law and the Company's articles of association, prior to the actual performance of each and every distribution.