



The National Coal Supply Corporation Ltd.

Annual Report 2016
For the year ended December 31, 2016

The National Coal Supply Corporation Ltd.

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For the year ended December 31, 2016

Management

Moshe Bornstein
President and CEO

Barak Silverstein
Head of Finance Division

Paz Oref
Head of Shipping Division

Anna Yadgarov
Head of Commerce Division

Merav Shapira
Corporate Secretary

Board of Directors

Ofer Bloch
Oren Helman
Ephraim Osher
Masha Aloni
Michal Yogav-Azulay

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The National Coal Supply Corporation Ltd.

**Financial Statements
As of December 31, 2016**

The National Coal Supply Corporation Ltd.

Financial Statements as of December 31, 2016

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Auditors' Report to the Shareholders of The National Coal Supply Corporation Ltd.

In accordance with the Government Companies Regulations (Additional Reports on the Effectiveness of Internal Control of Financial Reporting), 2007

We have audited the internal control of financial reporting in the National Coal Supply Corporation Ltd. ("the Company") as of December 31, 2016, based on the criteria set forth in the Committee of Sponsoring Organizations of the Treadway Commission's ("COSO") Internal Control - Integrated Framework publication. The Company's Board of Directors and Management are responsible for establishing effective internal control of financial reporting and for their assessment concerning the effectiveness of internal control of financial reporting, included in the attached Board of Directors' and Management's Report Concerning Internal Control of Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the U.S. Public Company Accounting Oversight Board ("PCAOB") for auditing internal control of financial reporting, as these were adopted by the Institute of Certified Public Accountants in Israel. According to these standards, we are required to plan and execute the audit so as to achieve reasonable assurance of the implementation, in all material aspects, of effective internal control of financial reporting. Our audit included obtaining familiarization with internal control of financial reporting, assessing the risk for material weaknesses and examining and assessing the effectiveness of the planning and implementation of internal control based on the assessed risk. Our audit also included the implementation of other procedures deemed necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion. We believe that our audit provides a reasonable basis for our opinion.

Internal control of financial reporting in government companies is a process designed to provide reasonable assurance concerning the reliability of financial reporting and the preparation of financial statements for external purposes, in keeping with International Financial Reporting Standards ("IFRSs"), the Securities Regulations (Annual Financial Statements), 2010, and the directives of the Government Companies Authority. Internal control of financial reporting in government companies includes those policies and procedures which: (1) pertain to reasonably-detailed record-keeping, which accurately and adequately reflects transactions and transfers involving company assets (including transfer of ownership from the company); (2) provide reasonable assurance that transactions are properly recorded so as to allow preparation of financial statements in keeping with IFRS, the Securities Regulations (Annual Financial Statements), 2010, and the directives of the Government Companies Authority, and that cash inflows and outflows are only made according to the permissions set forth by the company's board of directors and management and subject to the approval of State authorities as mandated by law; and (3) provide reasonable assurance concerning the prevention or timely disclosure of unauthorized acquisition, use or transfer (including transfer of ownership) of company assets, which may materially affect the financial statements.

Due to inherent limitations, internal control of financial reporting may fail to prevent or uncover misstatement. Furthermore, forward-looking conclusions based on present assessments of effectiveness are subject to risk that controls may become inadequate due to changing circumstances, or that that implementation of policies or procedures may be adversely affected.

In our opinion, the Company has implemented, in all material aspects, effective internal control of financial reporting as of December 31, 2016, based on the criteria set forth in the COSO Internal Control - Integrated Framework publication.

We also audited, according to generally accepted auditing standards in Israel, the Company's financial statements as of December 31, 2016, and for the year then ended, and our report of March 7, 2017, includes an unqualified opinion for those financial statements.

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Chaikin Cohen Rubin & Co. *Certified*
Public Accountants (Isr.)

Tel Aviv, March 7, 2016

Auditor's Report

To the Shareholders of The National Coal Supply Corporation Ltd.

We have audited the accompanying statements of financial position of the National Coal Supply Corporation Ltd. ("Company" or "NCSC") as of December 31, 2016 and 2015, its statements of income, comprehensive income, statements of changes in shareholder equity, and statements of cash flows for each of the three years in the period ended December 31, 2016. The Company's Board of Directors 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 according to generally accepted auditing standards in Israel, including standards set forth in the Accountants Regulations (Manner of an Accountant's Operation), 1973. According to these standards, we are required to plan and execute the audit so as to achieve reasonable assurance that the financial statements do not contain any material mis-representation. An audit includes examining a sample of evidence supporting the amounts and disclosures included in the financial statements. An audit also includes a review of the accounting principles applied, and any significant estimates made by the Company's Board of Directors and management, as well as an evaluation of the overall adequacy of the presentation made in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company as of December 31, 2016, and its operating results, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRSs") and the provisions of the Securities Regulations (Preparation of Annual Financial Statements), 2010.

The financial statements include information required in accordance with the directives of the Israel Government Companies Authority.

Without qualifying our opinion, we draw attention to Note 4 concerning Israel Electric Corporation's ("IEC") debt balance, and to Note 16A concerning the agreement with IEC, the Company's main customer.

Pursuant to US PCAOB standards regarding an audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, we have also audited the Company's internal controls over financial reporting as of December 31, 2016, based on criteria established by the COSO Internal Control-Integrated Framework. Our report dated March 7, 2017, includes our unqualified opinion regarding the effectiveness of the Company's internal controls over financial reporting.

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Chaikin Cohen Rubin & Co.
Certified Public Accountants (Isr.)

Tel Aviv, March 7, 2016

**STATEMENT OF THE PRESIDENT & CEO OF
THE NATIONAL COAL SUPPLY CORPORATION LTD.**

**In accordance with the Government Companies Regulations (Additional
Report on Actions Taken and Representations Made to Ensure Accuracy
of Financial Statements and Board of Directors' Reports), 2005**

I, MOSHE BORNSTEIN, declare:

1. I have reviewed the financial statements and the Board of Directors' report of the National Coal Supply Corporation ("Company") as of December 31, 2016 (jointly - "the Reports").
2. To the best of my knowledge, having reviewed the reports, these reports are free of any misrepresentation of material facts and are not lacking any representation of material facts required for the representations made, under the circumstances in which they were made, so as not to be misleading in reference to the period covered by the reports.
3. Having reviewed the reports, and to the best of my knowledge, the financial statements and other financial information included in the Board of Directors' report, adequately reflect, in all material aspects, the Company's financial position, operating results, changes in shareholder equity and cash flows as of the dates and for the periods presented in the reports.
4. Along with others in the Company making this statement, I am responsible for setting and maintaining internal Company controls and procedures for the purpose of required disclosure in the reports. Accordingly, we have established such controls and procedures, or have supervised the setting thereof, so as to ensure that material information concerning the Company is brought to our attention by others within the Company, in particular during the preparation of these statements.
5. I, and others in the Company making this statement, have disclosed the following to the Company's auditors and its Board of Directors, based on our most current assessment:
 - a. All significant flaws and material weaknesses in establishing or implementing internal controls over financial reporting, which may reasonably have a negative impact on the Company's ability to record, process, summarize and report financial information.
 - b. Any fraud, whether material or not, involving managers or other key employees, of the Company's internal controls over financial reporting.

The foregoing does not prejudice my legal liability, or that of any other person, as prescribed by law.

March 7, 2017

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Moshe Bornstein
President & CEO

STATEMENT OF A MEMBER OF THE BOARD OF DIRECTORS OF THE NATIONAL COAL SUPPLY CORPORATION LTD.

In accordance with the Government Companies Regulations (Additional Report on Actions Taken and Representations Made to Ensure Accuracy of Financial Statements and Board of Directors' Reports), 2005

I, OFER BLOCH, declare:

1. I have reviewed the financial statements and the Board of Directors' report of the National Coal Supply Corporation ("Company") as of December 31, 2016 (jointly - "the Reports").
2. To the best of my knowledge, having reviewed the reports, these reports are free of any misrepresentation of material facts and are not lacking any representation of material facts required for the representations made, under the circumstances in which they were made, so as not to be misleading in reference to the period covered by the reports.
3. Having reviewed the reports, and to the best of my knowledge, the financial statements and other financial information included in the Board of Directors' report, adequately reflect, in all material aspects, the Company's financial position, operating results, changes in shareholder equity and cash flows as of the dates and for the periods presented in the reports.
4. Along with others in the Company making this statement, I am responsible for setting and maintaining internal Company controls and procedures for the purpose of required disclosure in the reports. Accordingly, we have established such controls and procedures, or have supervised the setting thereof, so as to ensure that material information concerning the Company is brought to our attention by others within the Company, in particular during the preparation of these statements.
5. I, and others in the Company making this statement, have disclosed the following to the Company's auditors and its Board of Directors, based on our most current assessment:
 - a. All significant flaws and material weaknesses in establishing or implementing internal controls over financial reporting, which may reasonably have a negative impact on the Company's ability to record, process, summarize and report financial information.
 - b. Any fraud, whether material or not, involving managers or other key employees, of the Company's internal controls over financial reporting.

The foregoing does not prejudice my legal liability, or that of any other person, as prescribed by law.

March 7, 2017

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Ofer Bloch
Member of the Board

**STATEMENT OF THE CFO OF
THE NATIONAL COAL SUPPLY CORPORATION LTD.**

**In accordance with the Government Companies Regulations (Additional
Report on Actions Taken and Representations Made to Ensure Accuracy
of Financial Statements and Board of Directors' Reports), 2005**

I, BARAK SILVERSTEIN, declare:

1. I have reviewed the financial statements and the Board of Directors' report of the National Coal Supply Corporation ("Company") as of December 31, 2016 (jointly - "the Reports").
2. To the best of my knowledge, having reviewed the reports, these reports are free of any misrepresentation of material facts and are not lacking any representation of material facts required for the representations made, under the circumstances in which they were made, so as not to be misleading in reference to the period covered by the reports.
3. Having reviewed the reports, and to the best of my knowledge, the financial statements and other financial information included in the Board of Directors' report, adequately reflect, in all material aspects, the Company's financial position, operating results, changes in shareholder equity and cash flows as of the dates and for the periods presented in the reports.
4. Along with others in the Company making this statement, I am responsible for setting and maintaining internal Company controls and procedures for the purpose of required disclosure in the reports. Accordingly, we have established such controls and procedures, or have supervised the setting thereof, so as to ensure that material information concerning the Company is brought to our attention by others within the Company, in particular during the preparation of these statements.
5. I, and others in the Company making this statement, have disclosed the following to the Company's auditors and its Board of Directors, based on our most current assessment:
 - a. All significant flaws and material weaknesses in establishing or implementing internal controls over financial reporting, which may reasonably have a negative impact on the Company's ability to record, process, summarize and report financial information.
 - b. Any fraud, whether material or not, involving managers or other key employees, of the Company's internal controls over financial reporting.

The foregoing does not prejudice my legal liability, or that of any other person, as prescribed by law.

March 7, 2017

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Barak Silverstein
CFO

The National Coal Supply Corporation Ltd.

Statements of Financial Position as of December 31

	Note	2016 NIS thousands	2015	2016 USD thousands	2015
Assets					
Current assets					
Cash and cash equivalents	3	2,292	1,573	596	409
Israel Electric Corporation (IEC)	4	288,535	196,952	75,041	51,223
Other accounts receivable	5	18,742	28,372	4,874	7,379
Income tax receivable		937	-	244	-
Inventory in transit	6	377,224	317,256	98,108	82,511
Total current assets		687,730	544,153	178,863	141,522
Non-current assets					
Pledged bank deposit	13	471	-	122	-
Fixed assets	7	114,325	52,302	29,734	13,602
Investment in charters	8	7,974	13,827	2,074	3,596
Intangible assets	9	2,523	3,151	656	820
Deferred income taxes	18B	-	783	-	204
Total non-current assets		125,293	70,063	32,586	18,222
Total assets		813,023	614,216	211,449	159,744
Liabilities and shareholder equity					
Current liabilities					
Bank credit	10	277,941	259,598	72,286	67,515
Trade payables	11	354,883	219,932	92,297	57,199
Other accounts payable	12	10,655	14,172	2,771	3,686
Financial derivatives	21F	-	2,928	-	762
Deferred income tax liability		-	423	-	110
Proposed dividend	15B	8,021	7,516	2,086	1,955
Total current liabilities		651,500	504,569	169,440	131,227
Non-current liabilities					
Deferred taxes liabilities	18B	57	-	15	-
Loan from bank corporation	13	46,636	-	12,129	-
Employee benefit liabilities	14	1,711	1,565	445	407
Total non-current liabilities		48,404	1,565	12,589	407
Total liabilities		699,904	506,134	182,029	131,634
Shareholders' equity					
Share capital	15A	10,803	10,803	2,810	2,810
Capital reserve		951	839	247	218
Retained earnings		101,365	96,440	26,363	25,082
Total shareholders' equity		113,119	108,082	29,420	28,110
Total liabilities and shareholders' equity		813,023	614,216	211,449	159,744

The notes to the financial statements constitute an integral part thereof.

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Moshe Bornstein
President & CEO

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Ofer Bloch
Member of the Board

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Barak Silverstein
CFO

Financial Statements Approval Date: March 7, 2017

The National Coal Supply Corporation Ltd.

Statements of Income and Comprehensive Income for the Year Ended December 31

	Note	2016	2015	2014	2016	2015	2014
		NIS thousands			USD thousands		
Revenues							
Revenues and sales	17A	2,609,693	3,383,409	3,903,800	678,724	879,950	1,015,293
Other revenues	17D	-	4,026	1,523	-	1,047	396
Total revenues		2,609,693	3,387,435	3,905,323	678,724	880,997	1,015,689
Costs and expenses							
Cost of sales	17B	2,576,430	3,341,559	3,797,438	670,073	869,066	987,630
General and administrative expenses	17C	12,000	12,070	12,767	3,121	3,139	3,320
Other expenses	17E	2,176	1,935	2,271	566	503	591
Total costs and expenses		2,590,606	3,355,564	3,812,476	673,760	872,708	991,541
Operating profit		19,087	31,871	92,847	4,964	8,289	24,148
Finance expenses	17F	(7,682)	(17,090)	(85,158)	(1,998)	(4,445)	(22,148)
Finance income	17F	6,017	1,593	3,599	1,565	415	936
Finance expenses net		(1,665)	(15,497)	(81,559)	(433)	(4,030)	(21,212)
Profit before taxes on income		17,422	16,374	11,288	4,531	4,259	2,936
Taxes on income	18	4,476	4,388	3,065	1,164	1,141	797
Net profit for the year - attributable to Company shareholders		12,946	11,986	8,223	3,367	3,118	2,139
Other comprehensive income:							
Re-measurement of a defined benefit plan		112	144	196	29	37	51
Comprehensive income for the year - attributable to Company shareholders		13,058	12,130	8,419	3,396	3,155	2,190
Basic earnings per share (NIS and USD)	19	14.23	13.17	9.04	3.70	3.43	2.35

The notes to the financial statements constitute an integral part thereof.

The National Coal Supply Corporation Ltd.

Statement of Changes in Shareholders' Equity

	Share Capital	Capital reserve	Ratined earning	Total equity	Share cpital	Capital reserve	Retained earning	Total equity
	NIS thousands				USD thousands			
Balance as on January 1, 2014	10,803	499	89,012	100,314	2,810	130	23,150	26,090
Change in 2014								
Net profit for the year	-	-	8,223	8,223	-	-	2,139	2,139
Other comprehensive income	-	196	-	196	-	51	-	51
Proposed dividend ⁽¹⁾	-	-	(5,265)	(5,265)	-	-	(1,369)	(1,369)
Balance as of December 31, 2014	<u>10,803</u>	<u>695</u>	<u>91,970</u>	<u>103,468</u>	<u>2,810</u>	<u>181</u>	<u>23,920</u>	<u>26,911</u>
Balance as on January 1, 2015	10,803	695	91,970	103,468	2,810	181	23,920	26,911
Change in 2015								
Net profit for the year	-	-	11,986	11,986	-	-	3,117	3,117
Other comprehensive income	-	144	-	144	-	37	-	37
Proposed dividend ⁽¹⁾	-	-	(7,516)	(7,516)	-	-	(1,955)	(1,955)
Balance as of December 31, 2015	<u>10,803</u>	<u>839</u>	<u>96,440</u>	<u>108,082</u>	<u>2,810</u>	<u>218</u>	<u>25,082</u>	<u>28,110</u>
Balance as on January 1, 2016	10,803	839	96,440	108,082	2,810	218	25,082	28,110
Change in 2016								
Net profit for the year	-	-	12,946	12,946	-	-	3,367	3,367
Other comprehensive income	-	112	-	112	-	29	-	29
Proposed dividend⁽¹⁾	-	-	(8,021)	(8,021)	-	-	(2,086)	(2,086)
Balance as of December 31, 2016	<u>10,803</u>	<u>951</u>	<u>101,365</u>	<u>113,119</u>	<u>2,810</u>	<u>247</u>	<u>26,363</u>	<u>29,420</u>

(1) 60% of earnings before employee bonuses, in accordance with the Government Companies Authority's policy

The notes to the financial statements constitute an integral part thereof.

The National Coal Supply Corporation Ltd.

Statements of Cash Flows for the Year Ended December 31

	2016	2015	2014	2016	2015	2014
	NIS thousands			USD thousands		
Cash flows from operating activities						
Profit for the year	12,946	11,986	8,223	3,367	3,117	2,139
Adjustments required for presenting cash flows from operating activities (Appendix A)	(9,521)	202,759	(258,624)	(2,476)	52,733	(67,262)
Net cash from (used in) operating activities	3,425	214,745	(250,401)	891	55,850	(65,123)
Cash flows from investing activities						
Acquisition of fixed assets	(65,615)	(20,914)	(18,861)	(17,065)	(5,439)	(4,905)
Proceeds from leasing fees	6,405	6,491	5,957	1,666	1,688	1,549
Investment in intangible assets	(288)	(93)	(112)	(75)	(24)	(29)
Deposit in pledged bank deposit	(471)	-	-	(122)	-	-
Proceeds from sale of fixed assets	120	201	121	31	52	31
Net cash used in investing activities	(59,849)	(14,315)	(12,895)	(15,565)	(3,723)	(3,354)
Cash flows from in financing activities						
Dividends paid	(7,516)	(5,265)	(6,894)	(1,955)	(1,369)	(1,793)
Long term loan received from a bank corporation	50,539	-	-	13,144	-	-
Payment of a long term loan received from a bank corporation	(837)	-	-	(218)	-	-
Increase (decrease) in short-term bank credit, net	14,957	(195,921)	270,173	3,890	(50,955)	70,266
Net cash from (used in) financing activities	57,143	(201,186)	263,279	14,861	(52,324)	68,473
Increase (decrease) in cash and cash equivalents	719	(756)	(17)	187	(197)	(4)
Cash and cash equivalents at the beginning of the year	1,573	2,329	2,346	409	606	610
Cash and cash equivalents at the end of the year	2,292	1,573	2,329	596	409	606

The notes to the financial statements constitute an integral part thereof.

The National Coal Supply Corporation Ltd.

Appendix to the Statements of Cash Flows for the Year Ended December 31

Appendix A - Adjustments required for presentation of cash flows from operating activities:

	2016	2015	2014	2016	2015	2014
	NIS thousands			USD thousands		
Revenues and expenses not involving cash flows:						
Depreciation and amortization	4,363	1,534	1,614	1,135	399	420
Deferred income taxes, net	859	(45)	(42)	223	(12)	(11)
Capital loss from sale of fixed assets, net	25	59	15	7	15	4
Net finance income on a finance lease	(852)	(1,578)	(4,402)	(221)	(410)	(1,145)
Finance expense on long term loan	320	-	-	83	-	-
Change in long-term employee benefit liabilities	239	211	214	62	55	56
	4,954	181	(2,601)	1,289	47	(676)
Changes in asset and liability items:						
Decrease (increase) in IEC balance	(91,583)	180,670	(178,408)	(23,819)	46,988	(46,400)
Decrease (increase) in other accounts receivable	7,002	(3,562)	12,304	1,821	(926)	3,200
Decrease (increase) in inventory in transit	(59,968)	(25,790)	25,147	(15,596)	(6,707)	6,540
Increase (decrease) in trade payables	134,951	47,546	(118,017)	35,098	12,366	(30,694)
Increase (decrease) in other accounts payable	(3,517)	2,361	3,584	(915)	613	933
Decrease (increase) in income taxes receivable	(1,360)	1,353	(633)	(354)	352	(165)
	(14,475)	202,578	(256,023)	(3,765)	52,686	(66,586)
	(9,521)	202,759	(258,624)	(2,476)	52,733	(67,262)
Appendix B - Non-cash operations						
Proposed dividend (included under current liabilities)	8,021	7,516	5,265	2,086	1,955	1,369
Appendix C - Additional Cash Flow information:						
Cash paid during the period as:						
Interest	6,183	9,271	10,205	1,608	2,411	2,654
Taxes on income	4,922	3,952	3,957	1,280	1,028	1,029
	11,105	13,223	14,162	2,888	3,439	3,683
Cash received during the period as:						
Interest	1,157	1,565	3,596	301	407	935
Taxes on income	-	26	281	-	7	73
	1,157	1,591	3,877	301	414	1,008

The notes to the financial statements constitute an integral part thereof.