



The National Coal Supply Corporation Ltd.

Annual Report 2019
For the year ended December 31, 2019

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The National Coal Supply Corporation Ltd.

Annual Report 2019

For the year ended December 31, 2019

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 - Chairman
Oren Helman
Shlomo Tsarfati
Masha Aloni
Wesam Abu-Maarof
Liat Ben-Uziel

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The National Coal Supply Corporation Ltd.

**Financial Statements
As of December 31, 2019**

The National Coal Supply Corporation Ltd.
Financial Statements as of December 31, 2019

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Chaikin Cohen Rubin & Co.

Certified Public Accountants (Isr.)

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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, 2019, 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, 2019, 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, 2019, and for the year then ended, and our report of March 16, 2020, includes an unqualified opinion for those financial statements.

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

Tel Aviv, March 16, 2020

Chaikin Cohen Rubin & Co.

Certified Public Accountants (Isr.)
Atidim Technology Park,
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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, 2019 and 2018, 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, 2019. 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, 2019, 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 18A 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, 2019, based on criteria established by the COSO Internal Control-Integrated Framework. Our report dated March 16, 2020, 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 16, 2020

**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, 2019 (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 16, 2020

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Moshe Bornstein
President & CEO

**STATEMENT OF THE 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, 2019 (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 16, 2020

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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, 2019 (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 16, 2020

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Barak Silverstein
CFO

The National Coal Supply Corporation Ltd.

Statements of Financial Position as of December 31

	Note	2019	2018	2019	2018
		NIS thousands		USD thousands	
Assets					
Current assets					
Cash and cash equivalents	3	2,739	4,828	793	1,397
Israel Electric Corporation (IEC)	4	57,328	191,495	16,588	55,409
Other accounts receivable	5	19,219	41,085	5,561	11,888
Income tax receivable		2,292	688	663	199
Inventory in transit	6	227,567	425,813	65,847	123,210
Total current assets		309,145	663,909	89,452	192,103
Non-current assets					
Pledged bank deposit	15	1,693	1,837	490	532
Fixed assets	7	99,268	104,300	28,723	30,178
Right of use assets	8	252,622	-	73,096	-
Investments in charters	9	58,819	49,406	17,019	14,296
Intangible assets	10	652	1,025	189	297
Total non-current assets		413,054	156,568	119,517	45,303
Total assets		772,199	820,477	208,969	237,406
Liabilities and shareholders equity					
Current liabilities					
Bank credit	11	113,757	263,860	32,916	76,348
Trade payables	12	237,632	359,073	68,759	103,899
Other accounts payable	13	10,267	15,599	2,971	4,514
Proposed dividend	17B	10,801	11,026	3,125	3,190
Total current liabilities		372,457	649,558	107,771	187,951
Non-current liabilities					
Advance on account of investment in charter	18E	3,094	8,000	895	2,315
Charter liabilities	14	184,353	-	53,342	-
Deferred taxes liabilities	20B	4,917	2,686	1,423	777
Loan from bank corporation	15	32,787	38,858	9,487	11,243
Employee benefit liabilities	16	2,193	1,371	635	397
Total non-current liabilities		227,344	50,915	65,782	14,732
Total liabilities		599,801	700,473	173,553	202,683
Shareholders' equity					
Share capital	17A	10,803	10,803	3,126	3,126
Capital reserve		1,093	1,535	316	444
Retained earnings		110,502	107,666	31,974	31,153
Total shareholders' equity		122,398	120,004	35,416	34,723
Total liabilities and shareholders' equity		722,199	820,477	208,969	237,406

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

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Moshe Bornstein
President & CEO

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Ofar Bloch
Member of the Board

[---]
Barak Silverstein
CFO

Financial Statements Approval Date: March 16, 2020

The National Coal Supply Corporation Ltd.

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

	Note	NIS thousands			USD thousands		
		2019	2018	2017	2019	2018	2017
Revenues							
Revenues and sales	19A	2,162,955	3,027,567	3,182,630	756,063	876,032	920,900
Other revenues	19D	-	7,574	-	-	2,192	-
Total revenues		2,162,955	3,035,141	3,182,630	756,063	878,224	920,900
Costs and expenses							
Cost of sales	19B	2,617,957	2,974,841	3,194,200	757,510	860,776	924,248
General and administrative expenses	19C	11,799	11,956	12,267	3,414	3,459	3,550
Other expenses	19E	1,019	1,227	2,097	295	355	607
Total costs and expenses		2,630,775	2,988,024	3,208,564	761,219	864,590	928,405
Operating profit (loss)		(17,820)	47,117	(25,934)	(5,156)	13,634	(7,505)
Finance expenses	19F	(24,033)	(38,749)	(12,339)	(6,954)	(11,212)	(3,570)
Finance income	19F	52,017	3,633	48,899	15,051	1,051	14,149
Finance income (expenses) net		27,984	(35,116)	36,560	8,097	(10,161)	10,579
Profit before taxes on income		10,164	12,001	10,626	2,941	3,473	3,074
Taxes on income	20	2,363	2,776	2,524	684	803	730
Net profit for the year - attributable to Company shareholders		7,801	9,225	8,102	2,257	2,670	2,344
Other comprehensive income (loss):							
Re-measurement of a defined benefit plan		(442)	355	229	(128)	103	66
Comprehensive income for the year - attributable to Company shareholders		7,359	9,580	8,331	2,129	2,773	2,410
Basic earnings per share (NIS and USD)	21	8.57	10.14	8.90	2.48	2.93	2.57

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	Retained earning	Total equity	Share capital	Capital reserve	Retained earning	Total equity
	NIS thousands				USD thousands			
Balance as of January 1, 2017	10,803	951	101,365	113,119	3,126	275	29,330	32,731
Changes in 2017								
Net profit for the year	-	-	8,102	8,102	-	-	2,344	2,344
Other comprehensive income	-	229	-	229	-	66	-	66
Proposed dividend	-	-	(5,190)	(5,190)	-	-	(1,502)	(1,502)
Balance as of December 31, 2017	<u>10,803</u>	<u>1,180</u>	<u>104,277</u>	<u>116,260</u>	<u>3,126</u>	<u>341</u>	<u>30,172</u>	<u>33,639</u>
Balance as of January 1, 2018	10,803	1,180	104,277	116,260	3,126	341	30,172	33,639
Changes in 2018								
Net profit for the year	-	-	9,225	9,225	-	-	2,670	2,670
Other comprehensive income	-	355	-	355	-	103	-	103
Proposed dividend	-	-	(5,836)	(5,836)	-	-	(1,689)	(1,689)
Balance as of December 31, 2018	<u>10,803</u>	<u>1,535</u>	<u>107,666</u>	<u>120,004</u>	<u>3,126</u>	<u>444</u>	<u>31,153</u>	<u>34,723</u>
Balance as of January 1, 2019	10,803	1,535	107,666	120,004	3,126	444	31,153	34,723
Changes in 2019								
Net profit for the year	-	-	7,801	7,801	-	-	2,257	2,257
Other comprehensive income	-	(442)	-	(442)	-	(128)	-	(128)
Proposed dividend	-	-	(5,836)	(5,836)	-	-	(1,436)	(1,436)
Balance as of December 31, 2019	<u>10,803</u>	<u>1,093</u>	<u>110,502</u>	<u>122,398</u>	<u>3,126</u>	<u>316</u>	<u>31,974</u>	<u>35,416</u>

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

	2019	2018 ^(*)	2017 ^(*)	2019	2018 ^(*)	2017 ^(*)
	NIS thousands			USD thousands		
Cash flows from operating activities						
Profit for the year	7,801	9,225	8,102	2,257	2,670	2,344
Adjustments required for presenting cash flows from operating activities (Appendix A)	246,465	5,348	60,427	71,315	1,548	17,485
Cash from operating activities	254,266	14,573	68,529	73,572	4,218	19,829
Taxes paid	(1,604)	(1,335)	(1,142)	(464)	(386)	(330)
Net cash from operating activities	252,662	13,238	67,387	73,108	3,832	19,499
Cash flows from investing activities						
Acquisition of fixed assets	(509)	(416)	(451)	(147)	(120)	(130)
Investment in charters	(19,272)	(21,186)	(19,436)	(5,576)	(6,130)	(5,624)
Proceeds from leasing fees	195	1,032	5,291	56	299	1,531
Interest received	503	3,632	774	146	1,051	224
Advance received on account of investment in charters	-	8,000	-	-	2,315	-
Investment in intangible assets	(17)	(267)	(203)	(5)	(77)	(59)
Deposit in pledged bank deposit	-	-	(1,228)	-	-	(355)
Proceeds from sale of fixed assets	-	73	-	-	21	-
Net cash used in investing activities	(19,100)	(9,132)	(15,253)	(5,526)	(2,641)	(4,413)
Cash flows from in financing activities						
Dividends paid	(5,190)	-	(8,021)	(1,502)	-	(2,321)
Interest paid	(24,244)	(13,289)	(12,025)	(7,015)	(3,845)	(3,479)
Payment of a long term loan received from a bank corporation	(3,130)	(3,189)	(3,185)	(906)	(923)	(922)
Payment in respect of charter liabilities	(53,241)	-	-	(15,405)	-	-
Increase (decrease) in short-term bank credit, net	(149,846)	14,474	(28,469)	(43,358)	4,188	(8,238)
Net cash used in financing activities	(235,651)	(2,004)	(51,700)	(68,186)	(580)	(14,960)
Increase (decrease) in cash and cash equivalents	(2,089)	2,102	434	(604)	611	126
Cash and cash equivalents at the beginning of the year	4,828	2,726	2,292	1,397	786	660
Cash and cash equivalents at the end of the year	2,739	4,828	2,726	793	1,397	786

(*) Reclassified.

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:

	2019	2018 ^(*)	2017 ^(*)	2019	2018 ^(*)	2017 ^(*)
	NIS thousands			USD thousands		
Revenues and expenses not involving cash flows:						
Depreciation and amortization	67,866	6,447	6,355	19,637	1,865	1,839
Taxes on income	-	1,484	1,242	-	429	359
Deferred income taxes, net	2,231	1,340	1,289	646	388	373
Capital (gain) loss from sale of fixed assets, net	-	(15)	-	-	(4)	-
Net finance expense (income)	(27,984)	35,116	(36,560)	(8,097)	10,161	(10,579)
Change in long-term employee benefit liabilities	380	68	176	110	20	51
	<u>42,493</u>	<u>44,440</u>	<u>(27,498)</u>	<u>12,296</u>	<u>12,859</u>	<u>(7,957)</u>
Changes in asset and liability items:						
Decrease (increase) in IEC balance	132,732	(56,737)	153,777	38,406	(16,417)	44,496
Decrease (increase) in other accounts receivable	22,847	(36,619)	8,831	6,611	(10,596)	2,555
Decrease (increase) in inventory in transit	198,246	(114,457)	65,868	57,363	(33,118)	19,059
Increase (decrease) in trade payables	(144,521)	163,555	(140,329)	(41,818)	47,325	(40,604)
Increase (decrease) in other accounts payable	(5,332)	5,166	(222)	(1,543)	1,495	(64)
	<u>203,972</u>	<u>(39,092)</u>	<u>87,925</u>	<u>59,019</u>	<u>(11,311)</u>	<u>25,442</u>
	<u>246,465</u>	<u>5,348</u>	<u>60,427</u>	<u>71,315</u>	<u>1,548</u>	<u>17,485</u>
Appendix B - Non-cash operations						
Proposed dividend (included under current liabilities)	4,965	5,836	5,190	1,437	1,558	1,502
Charter fees against expenses in respect of rendering services through the tugboats	3,017	-	-	873	-	-
Recognition of right-of-use assets against leasing liabilities	314,555	-	-	91,017	-	-
	<u>322,537</u>	<u>5,836</u>	<u>5,190</u>	<u>93,327</u>	<u>1,558</u>	<u>1,502</u>

(*) Reclassified.

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