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Israeli pride, world power

Haifa Port Company Ltd.

Annual report for 2019

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Chapter C

Financial Statements

גאווה ישראלית, עוצמה עולמית

Subchapter C1

Additional report regarding the effectiveness of the internal control over financial reporting (SOX)

גאווה ישראלית, עוצמה עולמית

Auditor's Report for the shareholders of Haifa Port Company Ltd. in accordance with the Government Companies Regulations (additional reports regarding the effectiveness of the internal control over financial reporting). 5768-2007

We have audited the internal control over financial reporting of Haifa Port Company Ltd. (Hereinafter: the "Company") as of December 31, 2019, based on criteria established in the integrated framework of internal control published by the Committee of Sponsoring Organizations of the Treadway Commission (Hereinafter: "COSO"). The Company's Board of Directors and Management are responsible for conducting effective internal control over financial reporting and for evaluating the effectiveness of the internal control over financial reporting, included in the report of the Board of Directors and Management regarding internal control over the attached financial reporting. Our responsibility is to provide an opinion on the of the Company's internal control over financial reporting, based on our audit.

We conducted our audit in accordance with the regulations of the American Public Company Accounting Oversight Board (PCAOB) concerning the audit of internal control over financial reporting, as adopted by the Israeli Institute of Certified Public Accountants. According to these standards, we are required to plan and perform the audit with a view to obtaining a reasonable degree of assurance that, in all material respects, effective internal control over financial reporting has been achieved. Our audit included gaining an understanding of the internal control over financial reporting, assessing the risk of material weakness, and examining and evaluating the effectiveness of the design and operation of the internal control, based on the risk assessed. Our audit also included performing other such procedures that we deemed necessary depending on the circumstances. We believe that our audit provides a proper basis for our opinion.

Internal control over the financial reporting of a government company is a process designed to provide a reasonable degree of assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes in accordance with the financial reporting rules applicable to the company (these rules that apply to the company are explained in Note 2C to the financial statements as of December 31, 2019). Internal control over the financial reporting of a government company includes the policies and procedures which:

1. Refer to the management of records which, in reasonable detail, accurately and adequately reflect the transactions and transfers of the Company's assets (including their removal from its possession);
2. Provide a reasonable degree of assurance that transactions are recorded as required to enable the preparation of financial statements in accordance with the financial reporting rules applicable to the Company (as explained in Note 2C to the financial statements as of December 31, 2019), and that the Company’s receipt and expense of funds are made only subject to the approvals of the Company’s Board of Directors and management and of the state authorities, as required by law; and
3. Provide a reasonable degree of assurance regarding timely prevention or detection of any unauthorized purchase, use or transfer (including removal from possession) of the Company's assets, which may have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misrepresentation. Furthermore, drawing conclusions regarding the future based on any current effectiveness assessment is prone to the risk that the controls were becoming inappropriate due to changes in circumstances, or that the degree of compliance with the

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policies or procedures will change adversely.

In our opinion, the Company maintained, in all material respects, effective internal control over the financial reporting as of December 31, 2019, based on criteria established in the integrated framework of internal control published by COSO.

We also audited, in accordance with generally accepted auditing standards in Israel, the Company's financial statements as of December 31, 2019, and each of the two years included in the period that ended on December 31, 2019, and our report, dated May 12, 2020, Included an unreserved opinion on those financial statements, as well as attention drawing to:

a. The statements made in Notes 1(F) and 24(b)(3)(b)(9) to the financial statements regarding the fact that a permanent agreement has not yet been signed between the Company and Israel Ports Development and Assets Company Ltd., which regulates the Company's rights in the assets made available for its use, and regarding any disputes which may arise with their respect, if any, including IPC's application to the Company regarding the payment of a development levy for yellow areas in the amount of approx. NIS 118 million, as stated in Note 24(b)(3)(b)(6) to the financial statements.

b. The statements made in Note 10 to the financial statements regarding the position of the Companies Authority in relation to the proper accounting treatment of the Company's books with regard to the lease of the Company's port infrastructures from IPC, the Company's management rejects the position of the Companies Authority as it was presented.

c. The statements made in Note 24(b)(4) to the financial statements regarding NOP 3/13/a, according to which the Company's management believes that it is not possible to assess the impact of the implementation of the decision on the expected operational life span of the existing cranes in the west side of the port.
d. The statements made in Note 24(b)(5) to the financial statements regarding the uncertainty involved in the Company's inability to assess whether the tax exemption applicable to the transfer of assets in accordance with the Shipping Law will also apply to the purchase tax related with the provision of the real estate transferred from IPC to the port companies.
e. The statements made in Note 24(b)(9) to the financial statements regarding a request for a class action against Haifa Port Company and against Ashdod Port Company for damages caused due to work disruptions, sanctions and strikes that have occurred in recent years at the ports, the results of which cannot be assessed at this stage. The financial statements did not include a provision in respect of this claim.
f. The statements made in Note 24(b)(11) to the financial statements regarding a request for approval of a class action against the Company and 29 other entities operating in Haifa. The statement of the claim itself has not yet been serviced, nor were the statement of claim documents. As per the Company's management estimates, and based on the opinion of its legal counsels, this is a preliminary stage, and it is not possible to assess the risk, if any, involved with this request and accordingly, this affair was not included in the Company's financial statements.
g. The statements made in Notes 25 and 28(c) to the financial statements regarding the transfer of the activities of the Company's Maritime Department to IPC.

Bnei Brak,
May 12, 2020

-Signature-
Lion, Orlitzky & Co.
Certified Public
Accountants

<u>Second addendum</u>
<u>(Regulation 2)</u>

A report of the Board of Directors and Management regarding the internal control over financial reporting in accordance with the Government Companies Regulations (Additional reports regarding the effectiveness of the internal control over financial reporting), 5768-2007

The management, under the supervision and approval of the Board of Directors of Haifa Port Company Ltd. (Hereinafter: The Company), is responsible for determining and maintaining adequate internal control over the company's financial reporting. Internal control over financial reporting is a process designed to provide a reasonable degree of assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes, in accordance with the generally accepted accounting principles and the provisions of the Government Companies Act. Due to its inherent limitations, a system of internal control over financial reporting is not intended to provide absolute assurance that misrepresentations in the financial statements shall be avoided or detected.

The Board of Directors and management conducted an examination and evaluation of the company's internal control over financial reporting and its effectiveness, based on the criteria set out in a control model known as the "COSO model".

Based on this assessment, the Company's Board of Directors and management have concluded that the Company's internal control over the Company's financial reporting for the period ending on December 31, 2019, is effective.

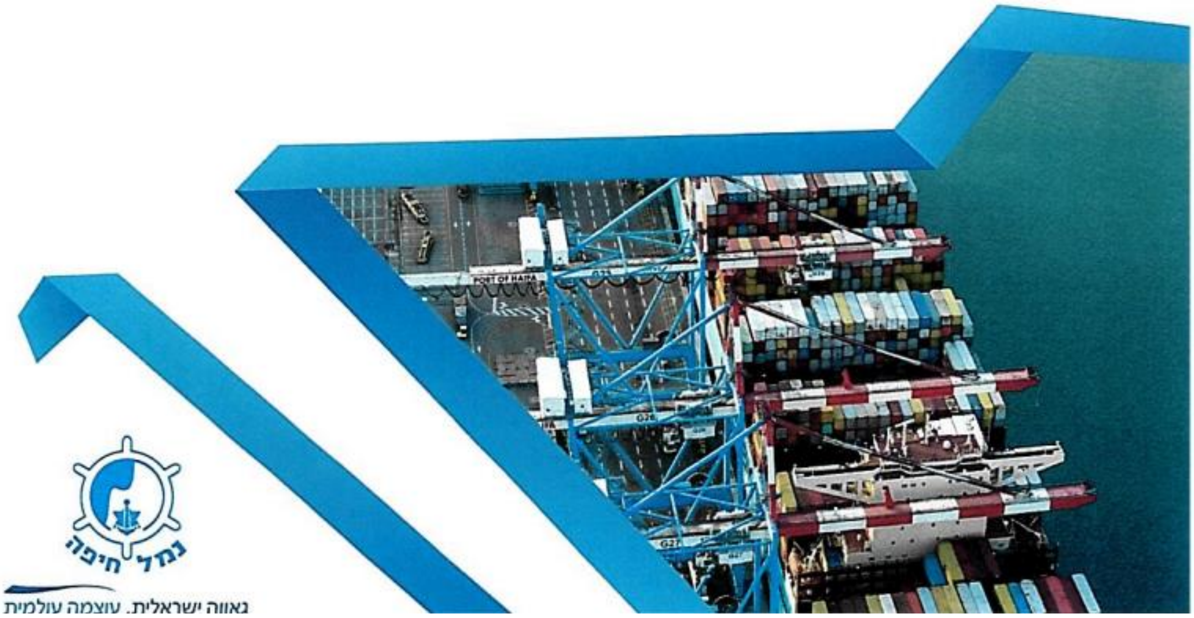
During the above period, there were no changes that materially affected, which may materially affect, the internal control over the financial reporting.

-*Signature*-	-*Signature*-	-*Signature*-
Eshel Armoni	Mandy Salzman	Shirley Hellman Harush
Chairman of the board	General manager	Chief Finance and Economics Officer

Date: Tuesday, May 12, 2020

Subchapter C2

Audited financial statements as for 12/31/2019



Haifa Port Company Ltd.
Financial statements as of December 31, 2019

Content

Auditor's Report for the Shareholders of Haifa Port Company Ltd.

We have audited the attached statement of the financial status of Haifa Port Company Ltd. (Hereinafter: the “Company’) as of December 31, 2019, and 2018 and the statements of total profit, statements of changes in capital and statements of cash flows per each of the years that ended on those dates. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to present an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the generally accepted auditing standards in Israel, including the standards set forth in the Auditors’ Regulations (Auditor’s Mode of Performance), 5733-1973. These standards require us to design and perform the audit while attempting to obtain a reasonable degree of assurance that there are no material misstatements in the financial statements. The audit includes a sample examination of the evidence supporting the amounts and information in the financial statements. An audit also includes an evaluation of the accounting policies implemented and the essential estimates made by the Company's Board of Directors and Management, as well as an evaluation of the appropriateness of the presentation in the financial statements as a whole. We believe that our audit provides a proper basis for our opinion.

In our opinion, the above financial statements adequately reflect, in all material respects, the Company's financial status as of December 31, 2019, and 2018 and the results of its operations, the changes in capital and cash flows per each of the years that ended on those dates, in accordance with the International Financial Reporting Standards (IFRS) and the provisions of Section 33(B) of the Government Companies Law, 5735-1975 and the Government Companies Authority Circulars.

With no reservations to our opinion, we seek to draw attention to the issues listed below:

a. The statements made in Notes 1(f) and 24(b)(3)(b)(9) to the financial statements regarding the fact that a permanent agreement has not yet been signed between the Company and Israel Ports Development and Assets Company Ltd., which regulates the Company's rights in the assets made available for its use, and regarding any disputes which may arise with their respect, if any, including IPC’s application to the Company regarding the payment of a development levy for yellow areas in the amount of approx. NIS 118 million, as stated in Note 24(b)(3)(b)(6) to the financial statements.

b. The statements made in Note 10 to the financial statements regarding the position of the Companies Authority in relation to the proper accounting treatment of the Company's books with regard to the lease of the Company's port infrastructures from IPC, the Company's management rejects the position of the Companies Authority as it was presented.

c. The statements made in Note 24(b)(4) to the financial statements regarding NOP 3/13/a, according to which the Company's management believes that it is not possible to assess the impact of the implementation of the decision on the expected operational life span of the existing cranes in the west side of the port.

d. The statements made in Note 24(b)(5) to the financial statements regarding the uncertainty involved in the Company's inability to assess whether the tax exemption applicable to the transfer of assets in accordance with the Shipping Law will also apply to the purchase tax related with the provision of the real estate transferred from IPC to the port companies.

e. The statements made in Note 24(b)(9) to the financial statements regarding a request for a class action against Haifa Port Company and against Ashdod Port Company for damages caused due to work disruptions, sanctions and strikes that have occurred in recent years at the ports, the results of which cannot be assessed at this stage. The financial statements did not include a provision in respect of this claim.

f. The statements made in Note 24(b)(11) to the financial statements regarding a request for approval of a class action against the Company and 29 other entities operating in Haifa. The statement of the claim itself has not yet been serviced, nor were the statement of claim documents. As per the Company's management estimates, and based on the opinion of its legal counsels, this is a preliminary stage, and it is not possible to assess the risk, if any, involved with this request and accordingly, this affair was not included in the Company's financial statements.

g. The statements made in Notes 25 and 28(c) to the financial statements regarding the transfer of the activities of the Company's Maritime Department to IPC.

Note 2(c) to the financial statements includes additional information required under the requirements of the Government Companies Authority (by virtue of Section 33b to the Government Companies Act)

We also audited, in accordance with the American PCAOB standards regarding the audit of internal control over financial reporting, as adopted by the Israeli Institute of Certified Public Accountants, the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in the integrated framework of internal control published by COSO and our report dated May 12, 2020, included an unreserved opinion on the effectiveness of the Company's internal control over financial reporting.

Bnei Brak,
May 12, 2020

-Signature-
Lion, Orlitzky & Co.
Certified Public Accountants

Managers Statement

In accordance with the Government Companies Regulations (additional report regarding the actions taken and presentations presented to ensure the accuracy of the financial statements and the report of the Board of Directors), 5766-2005, I, Eshel Armoni, declare that:

1. I examined the financial statements and the report of the Board of Directors of Haifa Port Company Ltd. (Hereinafter: The Company) as of 2019 (both jointly hereinafter: The Reports).

2. To the best of my knowledge and after examining the Reports, the Reports do not contain an incorrect presentation of a material fact and do not lack any presentation of a material fact necessary so that the presentations made, in light of the circumstances in which those presentations were made, are not misleading with respect to the period covered in these reports.

3. To the best of my knowledge and after reviewing the reports, financial statements and other financial information contained in the Board of Directors' report, adequately reflect, in all material respects, the Company’s financial status, operation results, changes in equity and cash flows for the days and periods presented in the reports.

4. I, along with others in the Company who make such a statement, am responsible for the implementation and maintenance in the Company of controls and procedures for proper disclosure in the reports. Accordingly, we have established controls and procedures, or caused the establishment, under our supervision, of controls and procedures, designed to ensure that material information relating to the Company is to be brought to our attention by others in the Company, particularly during the reports’ preparation period.

5. I and others in the Company who make such a statement have disclosed to the Company's auditor and Board of Directors, based on our most recent assessment:

    a. All the material deficiencies and weaknesses in the determination or exercise of the internal control over the financial reporting that may, possibly, adversely affect the Company's ability to record, process, summarize and report financial information.
    b. Any fraud, whether material or immaterial, involving managers or other employees who have a significant role in the internal control over the financial reporting of the company.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

-Signature-	May 12, 2020
Eshel Armoni Chairman of the board	Date

Managers Statement

In accordance with the Government Companies Regulations (additional report regarding the actions taken and presentations presented to ensure the accuracy of the financial statements and the report of the Board of Directors), 5766-2005, I, Mandy Salzman, declare that:

1. I examined the financial statements and the report of the Board of Directors of Haifa Port Company Ltd. (Hereinafter: The Company) as of 2019 (both jointly hereinafter: The Reports).

2. To the best of my knowledge and after examining the Reports, the Reports do not contain an incorrect presentation of a material fact and do not lack any presentation of a material fact necessary so that the presentations made, in light of the circumstances in which those presentations were made, are not misleading with respect to the period covered in these reports.

3. To the best of my knowledge and after reviewing the reports, financial statements and other financial information contained in the Board of Directors' report, adequately reflect, in all material respects, the Company’s financial status, operation results, changes in equity and cash flows for the days and periods presented in the reports.

4. I, along with others in the Company who make such a statement, am responsible for the implementation and maintenance in the Company of controls and procedures for proper disclosure in the reports. Accordingly, we have established controls and procedures, or caused the establishment, under our supervision, of controls and procedures, designed to ensure that material information relating to the Company is to be brought to our attention by others in the Company, particularly during the reports’ preparation period.

5. I and others in the Company who make such a statement have disclosed to the Company's auditor and Board of Directors, based on our most recent assessment:

    a. All the material deficiencies and weaknesses in the determination or exercise of the internal control over the financial reporting that may, possibly, adversely affect the Company's ability to record, process, summarize and report financial information.
    b. Any fraud, whether material or immaterial, involving managers or other employees who have a significant role in the internal control over the financial reporting of the company.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

-Signature-	May 12, 2020
Mandy Salzman General Manager	Date

Managers Statement

In accordance with the Government Companies Regulations (additional report regarding the actions taken and presentations presented to ensure the accuracy of the financial statements and the report of the Board of Directors), 5766-2005, I, Shirley Hellman Harush, declare that:

1. I examined the financial statements and the report of the Board of Directors of Haifa Port Company Ltd. (Hereinafter: The Company) as of 2019 (both jointly hereinafter: The Reports).

2. To the best of my knowledge and after examining the Reports, the Reports do not contain an incorrect presentation of a material fact and do not lack any presentation of a material fact necessary so that the presentations made, in light of the circumstances in which those presentations were made, are not misleading with respect to the period covered in these reports.

3. To the best of my knowledge and after reviewing the reports, financial statements and other financial information contained in the Board of Directors' report, adequately reflect, in all material respects, the Company’s financial status, operation results, changes in equity and cash flows for the days and periods presented in the reports.

4. I, along with others in the Company who make such a statement, am responsible for the implementation and maintenance in the Company of controls and procedures for proper disclosure in the reports. Accordingly, we have established controls and procedures, or caused the establishment, under our supervision, of controls and procedures, designed to ensure that material information relating to the Company is to be brought to our attention by others in the Company, particularly during the reports’ preparation period.

5. I and others in the Company who make such a statement have disclosed to the Company's auditor and Board of Directors, based on our most recent assessment:

    a. All the material deficiencies and weaknesses in the determination or exercise of the internal control over the financial reporting that may, possibly, adversely affect the Company's ability to record, process, summarize and report financial information.
    b. Any fraud, whether material or immaterial, involving managers or other employees who have a significant role in the internal control over the financial reporting of the company.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

-Signature-	May 12, 2020
Shirley Hellman Harush Chief Finance and Economics Officer	Date

Haifa Port Company Ltd.
Statements of Financial Status

	Note	As of December, 31	
		2019	2018
		Thousands of NIS	
Current assets:			
Cash and cash equivalents	3	84,771	144,208
Limited-use cash	24(d)	101	100
Short term investments	4	747,853	487,794
Current taxes receivable		87	57
Customers, net	5(a)	72,926	73,634
Accounts receivable	6	41,126	*50,141
Fuels and oils stock	2(h)	621	549
Non-current assets held for sale	8(e)	12	160
Assets attributed to discontinued operations	25	146,535	-
		1,094,032	756,643
Non-current assets:			
Long-term debit balance - Mutual Aid Fund	7	33,885	36,400
Fixed assets, net	8	1,010,641	1,163,539
Intangible assets, net	9	19,253	20,909
Usage rights assets	2(z)(1)	3,072	-
Advance expenses due to operating lease	10	172,597	177,655
Assets due to employee benefits	15(e)	605,401	584,798
Deferred taxes	23(e)	42,240	55,314
		1,887,089	2,038,615
		2,981,121	2,795,258

The notes to the financial statements form an integral part thereof

Haifa Port Company Ltd.
Financial Status Reports

	Note	As of December, 31 2019	2018
		Thousands of NIS	
Current liabilities:			
Suppliers and service providers:			
Israel Ports Company Ltd. Due to usage fees	12	124,245	120,209
Other	12	25,369	24,024
Employees and institutions due to wages and benefits	13	39,207	44,559
Accounts payable	14	30,082	*63,434
Liabilities attributed to discontinued operations	25	42,757	-
		261,660	252,226
Non-current liabilities:			
Liabilities due to employee benefits	15(e)	173,917	178,765
Lease liabilities	2(z)(1)	3,136	-
Deferred taxes	23(e)	206,800	201.999
		383,853	380,764
Contracts Contingent liabilities Guarantees and liens:	24		
Capital attributed to the Company's shareholders:			
Share capital	16	1	1
Profit balance		1,353,766	1,180,426
Capital fund		981,841	981,841
		2,335,608	2,162,268
		2,981,121	2,795,258

-Signature-	-Signature-	-Signature-
Shirley Hellman Harush Chief Finance and Economics Officer	Mandy Salzman General Manager	Eshel Armoni Chairman of the board

* Re-sorted
** See Note 1 (17)

Statements confirmation date

The notes to the financial statements form an integral part thereof

Haifa Port Company Ltd.
Statements of comprehensive income

	Note	For the year that ended on December 31		
		2019	2018	2017
		Thousands of NIS		
Revenue	18	746,026	780,528	695,284
Net revenue cost	19	(590,702)	*(581,555)	(556,911)
Gross profit		155,324	198,973	138,373
Administrative and general expenses	20	(105,409)	(7,300)	(98,158)
Other revenues (expenses), net	21	36,891	*(14,742)	1,301
Profit from adjusting the value of assets held for sale	8(e)	871	126	56
Operating Profit		87,677	177,057	41,572
Financing income	22	106,849	13,378	40,004
Financing expenses	22	(2,105)	(19,784)	(3,455)
		104,744	(6,406)	36,549
Profit before taxes on income		192,421	170,651	78,121
Income tax expenses	23(f)	(22,664)	(16,326)	(3,297)
Profit from continued operations		169,757	154,325	74,824
Profit from discontinued operations, net	25	20,582	22,683	20,974
Profit for the period		190,339	177,008	95,798
Other comprehensive income (loss)				
Actuarial gains (losses), continued operations, net of tax		(15,752)	7,702	(10,578)
Actuarial gains (losses), discontinued operations, net of tax		(1,247)	1,320	108
		(16,999)	9,022	(10,470)
Total profit		173,340	186,030	85,328
Basic net earnings per NIS 1 share (in NIS)		190,339	177,008	95,798
The weighted number of shares used in the calculation of the basic earnings per share		1,000	1,000	1,000

* Re-sort

Haifa Port Company Ltd.
Statements of changes in capital

	Share capital	Capital fund	Profit balance	Total equity
	Thousands of NIS			
Balance as of January 1, 2017	1	981,841	909,068	1,890,910
Profit from continuing operations	-	-	74,824	74,824
Profit from discontinued operations, net	-	-	20,974	20,974
Other comprehensive loss due to actuarial losses, net of tax	-	-	(10,578)	(10,578)
Other comprehensive loss due to actuarial losses, net of tax				
Discontinued operations	-	-	108	108
Total profit	-	-	85,328	85,328
Balance as of December 31, 2017	**1**	**981,841**	**994,396**	**1,976,238**
Profit from continued operations	-		154,325	154,325
Profit from discontinued operations, net	-	-	22,683	22,683
Other comprehensive profit from actuarial losses, net of tax	-	-	7,702	7,702
Other comprehensive loss due to actuarial losses, net of tax				
Discontinued operations	-	-	1,320	1,320
Total profit	-	-	186,030	186,030
Balance as of December 31, 2018	**1**	**981,841**	**1,180,426**	**2,162,268**
Profit from continued operations	-	-	169,757	169,757
Profit from discontinued operations, net	-	-	20,582	20,582
Other comprehensive loss due to actuarial gains, net of tax			(15,752)	(15,752)
Other comprehensive loss due to actuarial losses, net of tax				
Discontinued operations	-	-	(1,247)	(1,247)
Total profit	-	-	173,340	173,340
Balance as of December 31, 2019	**1**	**981,841**	**1,353,766**	**2,335,608**

The notes to the financial statements form an integral part thereof

Haifa Port Company Ltd.
Notes to the financial statements

1. **General** (Continued)

	For the period that ended on December 31		
	2019	**2018**	**2017**
		Thousands of NIS	
Cash flows from operating activities:			
Net profit	169,757	154,325	74,824
Adjustments required to display cash flows from operating activities:			
Adjustments to total profit items:			
Depreciation and amortization	67,739	67,012	65,917
Financing income, net	(34,769)	(22,956)	(26,876)
Assets valuation due to employee benefits	(44,307)	25,760	(9,482)
Loss (profit) from realization and deduction of fixed assets	(308)	51	(133)
Profit from a decrease in the value of assets held for sale	(871)	(126)	(56)
Income tax	22,664	16,326	3,297
	10,148	86,067	32,667
Changes in asset and liabilities clauses:			
Decrease (increase) in customers, net	(11,609)	70,546	13,112
Decrease (increase) in accounts Receivable	9,187	(7,641)	(8,039)
Decrease (increase) in fuels and oils stock	(72)	86	(217)
Decrease in advance expenses due to operating lease	5,058	5,058	5,058
Loss (gain) from a change in the value of financial assets at fair value	(50,331)	16,784	(5,944)
Loss from early repayment of liability due to use rights	6	-	-
Increase (decrease) in liabilities to suppliers and other service providers	2,159	(29,440)	(4,879)
Increase (decrease) in liabilities to Israel Ports Company in respect of short-term usage fees	4,036	14,027	(39,685)
Increase (decrease) in employees and institutions due to wages and benefits	(1,323)	3,703	(1,346)
Increase (decrease) in accounts payable	(31,344)	(171,388)	148,031
Change in assets due to employee benefits, net	(456)	(14,145)	(14,611)
	(74,689)	(112,410)	91,480
Cash paid and received during the period for:			
Paid interest	(9,243)	(1,863)	(3,451)
Received interest	44,012	24,819	30,327
Paid taxes	(601)	(493)	(372)
Received taxes	12	37	115
Total cash received	34,180	22,500	26,619
Net cash arising from operating activities	139,396	150,482	225,590
Net cash arising from discontinued operating activities	36,749	35,564	36,092
Net cash arising from operating activities	176,145	186,046	261,682

The notes to the financial statements form an integral part thereof

1. **General (Continued)**

	For the period that ended on December 31		
	2019	2018	2017
	Thousands of NIS		
Cash flows from investment activities:			
Proceeds from realization of fixed assets	1,688	1,759	627
Purchase of fixed assets	(25,025)	(30,896)	(56,347)
Purchase of intangible assets	(1,763)	(1,113)	(4,127)
Purchase of financial assets	(452,251)	(306,843)	(383,505)
Proceeds from realization of financial assets	238,044	212,352	78,710
Change in limited-use deposits	(1)	6,284	12,810
Decrease (increase) in deposits in banking corporations	8,301	39,535	(35,780)
Long-term debit balance change - Mutual Aid Fund	(1,307)	(1,194)	(800)
Net cash used for continued investment activities	(232,314)	(80,116)	(388,412)
Net cash used for discontinued investment activities	(710)	(1,042)	(699)
Net cash used for investment activities	(233,024)	(81,158)	(389,111)
Cash flows from financing activities:			
Lease payments	(2,558)		
Net cash used for continued financing activities	(2,558)		
Increase (decrease) in cash and cash equivalent	(59,437)	104,888	(127,429)
Cash balance and cash value at the beginning of the period	144,208	39,320	166,749
Cash balance and cash value at the end of the period	84,771	144,208	39,320

The notes to the financial statements form an integral part thereof

1. **General** **(Continued)**

a. Haifa Port Company Ltd. (Hereinafter: The Company) is a government company, in accordance with the Government Companies Law 5735-1975. The company was founded on July 21, 2004, under the provisions of the Shipping and Ports Authority Law, 5764-2004 (hereinafter: The Law) from July 20, 2004, and began its business activities on February 17, 2005.
In accordance with the provisions of the law, which commences on February 17, 2005 (hereinafter: the Commencement Date), the Ports Authority was abolished and replaced by the Shipping and Ports Authority in the Ministry of Transportation, which role is to supervise the shipping and ports, their development, promotion and the regulation of their activities. Soon after the enactment of the law, four companies were founded: Haifa Port Company Ltd., Ashdod Port Company Ltd., Eilat Port Company Ltd. (Hereinafter: the Port Companies) and Israel Ports Development and Assets Company Ltd. (hereinafter: IPC). All began their operation under the full ownership of the Israeli government while in 2013 Eilat Port Company Ltd. was privatized.

b. In accordance with the certification letter issued to the Company under section 10 to the law (hereinafter: The Certification Letter), the company's objectives are as follows:
"The port company shall operate the port within the port company's premises, maintain and provide within it port services and related services, as stated in this Certification Letter, while maintaining safety and protecting the environment, in a manner that will ensure the proper and efficient operation of the port company's premises, as per standards that meet the requirements of the port, its customers and its users, in an attempt to meet the requirements of the economy, and operate the port company's premises as a competitive port that also serves as a logistics center, implementing updated technologies and utilizing modern working methods, and will act at all times to improve the port's services.

In accordance with the above Certification Letter, which is valid for a period of 49 years from the commencement date and until February 16, 2054 (hereinafter: The Certification period), the company is certified to operate the following services within the Haifa Port area, as defined in the certification letter:

1) Mandatory services - including, inter alia, cargo handling and storage, passenger services, vessel services, water and fuel supply for vessels, routing, towing, relocation, anchoring, tying and other services mandatory under any law. See also Note 1(16) - Transfer of the activities of the Marine Department.
2) Optional services - Additional services in addition to the mandatory services, including, maintenance and equipping of vessels, cargo count services, provisions and food supply services for vessels, container containerization services, additional logistical services and other services for the benefit of the port visitors and any other related activities related to carrying out the operations and providing the services that the port company was certified to provide.

The Certification Letter contains a number of restrictions and conditions, as follows:

1. **General (Continued)**

The Minister of Transport, with the consent of the Minister of Finance, in consultation with the Shipping and Ports Authority, after granting the company the opportunity to present its claims, may change the certification terms by adding or removing terms. In this regard, certain considerations shall be considered, such as: Maintaining an adequate level of safety and environmental standards, providing port services in an efficient and professional manner, the financial expenditure to be incurred by the port company, or the impact on its financial soundness, considerations concerning the needs of the economy and public benefit, and more.

The Minister of Transport, in consultation with the Shipping and Ports Authority and after granting the company the opportunity to present its claims, may, at any time, revoke or limit the Company's certification as a company, inter alia for the following reasons: In the event that any of the eligibility conditions set under the Shipping Authority Law ceases to exist, an order is issued to liquidate the Company or if a receiver was appointed for the Company (to the extent that the order is not revoked within a certain given period), if a substantive provision or a material condition set forth under the law or the certification letter (which cannot be amended or was not amended within the determined period) has been violated, in the event of a continuing violation of a provision or condition set forth under the Shipping Act or the Certification Letter.

In this regard, a substantive provision or material condition includes Failure to pay a substantial portion of the usage fees payable to the State or of the amounts of fees it has levied, in the event that the Company has stopped paying, unlawfully restricted or delayed a port service that it was obliged to provide, refused to provide information it was obligated to provide under any law, and more.

b. (Continued)

In addition, the Minister of Transport may, in consultation with the Shipping and Ports Authority, and after granting the company the opportunity to present its claims, revoke or restrict the certification, if he deems this to be necessary to address the needs of the economy, or for public benefit purposes.

If the Company's certification is revoked, as stated in this section above, the rights held by the Port Company within the port's operating areas shall expire and be assumed by the state or other certified corporation, as to determine by the Ministers of Finance and Transportation. If the Company's certification is revoked, its rights in the port's operating areas will be revoked, in whole or in part, as to be determined by the Minister of Transport.

On October 1, 2010, a reform of port services tariffs came into force. The tariffs payable for port services were set in the Commodity and Services Prices Supervision (Prices of Port Services) Order 5765-2005, under the Commodity and Services Prices Supervision Law 5756-1996 (Hereinafter: The Supervision Law), which contains the tariffs, as they were in force on the eve of the law’s commencement date.

1. **<u>General</u> (Continued)**

c. Under Section 51 of the Law, all assets and liabilities that the Ports Authority had on the eve of Commencement Date, became state property on the commencement date, with the exception of liabilities for pension payments to employees who retired from the Ports Authority prior to the commencement date, which was determined to become IPC property starting from that date.

Under Sections 53 and 54 of the Law, the state transferred to the port companies' assets and liabilities as per orders set by the ministers on February 20, 2005, as described below:

1) The Shipping and Ports Authority Order (transfer of rights, liabilities and obligations from the state) 5765-2005, which regulates the transfer of the rights, liabilities and obligations (including agreements) transferred as aforesaid to the State from the Ports Authority and from the State to IPC and the port companies.

2) The Shipping and Ports Authority Order (transfer of rights in non-real estate assets) 5765-2005, which regulates the transfer of rights in non-real estate assets that have been transferred to the State from the Ports Authority, to IPC and to the port companies.

3) The Shipping and Ports Authority Order (transfer of claims from the State), 5765-2005, which regulates the transfer of claims which cause preceded the date of the transfer, which were transferred to the State, as aforesaid, from the Ports Authority, to IPC and to the port companies.

4) The Shipping and Ports Authority Order (transfer of rights in the transferred real estate) 5765-2005, which grants a non-exclusive right of use of the real estate to IPC (hereinafter: The Transfer of Rights to Real Estate Order).

5) The Shipping and Ports Authority Order (transfer of rights to funds in the Development and Assets Company), 5765-2005 (hereinafter: the Transfer of Rights to Funds Order) - provides provisions regarding the transfer to the port companies of funds due to their employees at the end of an employer-employee relationship, in respect of sick leave and vacation days and in respect of their rights to a budgetary pension and a lasting accruing pension.

d. According to the transfer of rights to real estate order, the real estate assets, including their attachments, were transferred from the State to IPC.

According to Section 9 and 10 of the Law, which stipulates that assets located in the port area will be made available for use by the Company according to the Certification Letter and for use by corporations certified by the Minister to provide port services in part of the port (hereinafter: Certified Corporations), the areas were divided as follows:

- Areas made available for use by the Company as an operational area of Haifa Port (indicated in yellow on the map attached to the Certification Letter and referred to as the "yellow areas").
- A jointly managed area of the Company and the northern chemical

1. **General (Continued)**

terminal (indicated as a yellow striped area on the map attached to the Certification Letter and referred to as "jointly managed areas").

- An area with an operational and/or commercial affiliation with the company of the rear container terminal (indicated as a yellow striped area on the map attached to the Certification Letter and referred to as "jointly managed areas").
- The other areas within Haifa Port area (indicated in white on the map attached to the Certification Letter and referred to as the "white areas").

It should be noted that the company does not have real estate assets that require registration in the real estate books. The Company's rights to use the land and their attachments are specified in Section 57 (h) of the Law.

According to Section 9 of the Law, in exchange for the assets made available for use by the Company, the company pays a fixed usage fee at the rate of 4% of its revenues, plus due usage fees, as stipulated in the Order issued by the Ministers, as explained in Section E below.
In the absence of an agreement between IPC and the Company regarding assets that have not been transferred to the Company, for its use as an operational area, it was determined in order to be specified below, that the Company is entitled to 75% of the net income that these assets yield, by way of a reduction in the due usage fees that the company is required to pay to IPC.

In 2015 an agreement was signed between IPC and the Israel Land Authority, which regulates the matter of IPC's rights in the real estate.

e. On February 27, 2005, the Ministers published the Shipping and Ports Authority Order (determination of due variable usage fees payable by the Port Company to the Development and Assets Company), 5765-2005 (hereinafter: The Variable Usage Fees Determination Order). On October 1, 2010, a reform of the port services tariffs came into force, following which the Usage Fees Order under the Shipping and Ports Authority Order was also amended (Determination of Due Variable Usage Fees Payable by the Port Company to the Development and Assets Company (amendment)), 5770-2010. According to the provisions under the said order, the Port Company is to pay IPC due usage fees for the use of the real estate and its attachments that were made available for use by the Company.

The due usage fees, as stated above, are calculated as follows:

- A fixed annual amount (fixed component) of NIS 40 million, linked to the consumer price index on January 1st of each year, to be paid to IPC in 12 equal monthly installments.
- A variable amount (variable component) to be paid once a quarter and calculated as a variable percentage from the Company's revenues from the provision of port services only. (Following is the variable component rate: 2.81% in 2010, 2.76% in 2011, 3.61% in 2012, 4.33% in 2013, 4.96% in 2014, 5.53% in 2015, 7.9% in 2016, 8.32% in 2017, 8.19% in 2018, 8.06% in 2019 and 7.55% from 2020 onwards).

From the above amounts, the following amounts are to be reduced:

- 75% from IPC’s net income, mainly collected by the Company for IPC, in

1. **General (Continued)**

respect of a service provided by an entity that is not a port company.
- 75% from IPC's net income, from granting rights in real estate and movables to an entity that is not a port company.

f. According to the provisions under Section 9(b) of the Law and according to the Certification Letter, signed on February 23, 2005, an interim agreement was signed between the Company and IPC, which is to be valid for 180 days from the date of its signing, and which was granted the consent of the Ministers on February 24, 2005, by virtue of their powers under Section 9, (b)(2)(b) of the Law (hereinafter: the Interim Agreement).

The above Interim Agreement temporarily set out the rules according to which the parties should operate until the signing a detailed agreement, regarding the terms under which the assets will be made available to the company. As of the date of the preparation of the financial statements, such detailed agreement has not yet been signed, however, Section 28 of the Interim Agreement, which stipulates that cranes within the port area, even if regarded as permanent attachments of the real estate, shall be made available for use by the company in exchange for variable usage fees at a zero rate, still remains in force.

g. Pursuant to the above orders, the State, by means of an advisor on its behalf, made a distribution of the closing balances of the assets and liabilities, as they appeared in the unregulated books of the Ports Authority on the eve of the commencement date, between the port companies and IPC. This distribution which was provided to the company, was used until the usage fee order was updated in 2010, as the basis for calculating the usage fee.

h. The assets and liabilities transferred to the Company on February 17, 2005, were estimated and recorded in its books according to the following principles:

- Current assets and liabilities were recorded according to the values transferred to the Company as per the Ports Authority's books. The net difference between the assets and the liabilities was credited to a capital fund.
- Liabilities due to employee benefits were recorded as per an actuarial assessment made by an external actuary.
- Operating equipment was valued at fair value as of the transfer date based on an assessment of an external appraiser commissioned by the Company. The aforesaid excess value exceeding the cost in Ports Authority's books was credited to a capital fund.
- Property rights - See Section K below.

i. The main value estimates of the transferred assets as of the commencement date are as detailed below:

1) Operational equipment is estimated according to its value as new equipment minus wear and tear due to use, according to the equipment's purchase date and physical condition, while taking into account any improvements made to it up to the date of its assessment. Its value estimation as new equipment is usually

1. **General (Continued)**

made based on the available market prices. The above value assessment was made by a certified appraiser serving as the representative in Israel of an international appraisal company. This appraiser also performed in August 2005 an assessment of the value of the property in the port for the purpose of insuring the property. The fair valuation of the parts inventory was conducted by the Company. See also Note 2(h).

2) According to Section 49 of the law, the liabilities in respect of the rights of the employees transferring to the Company were imposed on the company, while on the other hand, to cover these liabilities, funds were transferred to the Company in accordance with the Transfer of Rights to Funds Order. The company has commissioned an actuarial opinion, to assess the value of its liabilities under the agreements and the Law applicable between it and the employees. According to an actuarial opinion prepared as of the commencement date, it appears that there are excess assets exceeding the liabilities transferred under the order, with this difference credited to the capital fund, minus the relevant tax.

3) Regarding the balances arising from the differences for tax purposes, see Section J below.

j. Taxes
As part of the Port Authority's structural change process, as outlined above and conducted through legislation, discussions were held between the Tax Authority and the Government Companies Authority and representatives of the port companies and IPC, aimed at formulating regulations regulating various tax issues arising from the performed structural change process. In July 2009 the Shipping and Ports Authority Regulations (provisions regarding tax laws), 5769-2009 were instated, which regulate the handling, as explained below. See extension in Note 23 below.

k. Property rights

1) Land use rights
As part of the distribution by the State of the assets and fixed property, the Company was given the sums payable per the cost of the lands, which usage right was attributed to the Company, according to which the usage fee was calculated. These amounts were not specified in relation to specific lands, but in general, in a global distribution. The said amounts, which amount to approx. NIS 41.5 million, were used until the reform's date of entry into force of the reform of the usage fee in 2010 for calculating the usage fee for the land component according to a rate of 7.5% per year.

2) Rights in assets that have not been transferred for the use of the Company
The order determining the variable usage fee determined the Company's eligibility for 75% of the net income generated by IPC from assets and real

1. **General (Continued)**

estate in the Haifa Port area, which was not transferred for the Company's use. These revenues of IPC are mostly collected by the Company, for IPC, in respect of various types of fees imposed with respect to services provided by an entity that is not a port company within the port area, outside the Company's operating area. Furthermore, this eligibility includes 75% of the net income, due to the granting the right to use the real estate to an entity that is not a port company. It should be noted in relation to these revenues that in the event that the company bears any expenses in producing these revenues, such expenses shall be proportionally reimbursed to the Company by IPC. The company is entitled to a rate of 75% of the balance of net income, minus any expenses, including expenses incurred by the company as aforesaid, and which were reimbursed to it by IPC.

This right, described above, includes the types of revenues specified hereunder:

a) Infrastructure fees, grain handling fees, grain storage fees due to the activities carried out at the grain terminal, and access fees collected from cargo owners (or customs agents on their behalf) and ship agents by the Company for IPC, as well as revenues from granting rights in real estate, collected by IPC.

b) Infrastructure fees for the activities carried out at the fuel terminal and access fees collected from cargo owners (or customs agents on their behalf) and ship agents by the company for IPC, as well as revenues from the granting of rights in real estate within the Haifa Port area, collected by IPC.

c) Infrastructure fees, revenues from the handling of chemicals due to activities carried out at the Southern Chemicals Terminal and access fees collected from cargo owners (or customs agents on their behalf) and ship agents by the Company for IPC, as well as revenues from the granting of rights in real estate, collected by IPC.

d) Infrastructure fees, revenues from the handling of chemicals due to activities carried out at the Northern Chemicals Terminal and access fees collected from cargo owners (or customs agents on their behalf) and ship agents by the Company for IPC, as well as revenues from the granting of rights in real estate, collected by IPC.

e) Fees imposed on fishing vessels and fees imposed on small vessels (yachts), collected by IPC from various users for their activities in the fishing anchorage, in addition to revenues from the granting of rights in real estate collected by IPC.

f) Revenues from the granting of rights in real estate within the Haifa Port area to the various users (ship agents, transport companies, customs agents, government ministries, etc.), collected by IPC and/or the Company.

l. Dividend payments

1) The Government Companies Law, 5735-1975, stipulates that the decision of the Board of Directors regarding the designation of the Company's

1. **General (Continued)**

profits requires the approval of the Companies Authority. In the event that the Companies Authority disputes the decision of the Board of Directors, the Company will act in accordance with the decision of the Companies Authority, subject to the approval of the Minister of Finance. In any case, such distribution as aforesaid is also subject to the provisions and limitations set forth in the Companies Law, and the distribution to be made eventually must will reflect both these restrictions combined. The current policy of the Companies Authority, which was approved by the Minister of Finance, as detailed in the Authority's Circular No. 18/5-2 from December 11, 2018 (and which may change from time to time) with respect to the designation of profits for dividend payments, states as follows:

a. A government company must designate every year at least 50% of the current profits, before bonus payment to employees from the profits for the employees, for distributing a cash dividend.

b. Notwithstanding the provisions of Section A, in accordance with the Law, the Authority may determine a different distribution policy for a government company in relation to its current profits, and the Authority may make a decision regarding a particular company that deviates from the said policy, all given the Company's individual circumstances and any reasoned arguments.

c. With respect to the accrued profits, under the Law, the Authority may determine a policy of designating profits to a particular government company or make a specific decision regarding distribution from accrued profits in a particular company.

d. The Authority, as a rule, will not approve a decision of the Board of Directors regarding the designation of profits that do not constitute distribution.

e. These provisions shall not apply to a company which Articles prohibit profit distribution.

2) At a meeting of the Company's Board of Directors held in February 2009, as part of a discussion on the designation of the Company's profits, and based on the Company's interim financial statements as of September 30, 2008, dividend distribution was approved in the amount of NIS 109,437 thousand, constituting a rate of 30% due to the Company's profits in 2005-2007, as presented in the financial statements approved for these years, after reaching an according to an agreement with the Government Companies Authority. The balance of profits for the years 2008-2019 minus the paid dividend is designated for the implementation of the Company's investment plan for the coming years and for the financing of the privatization grants and employment agreements. The Government Companies Authority announced that the decision of the Company's Board of Directors regarding the designation of profits for the years 2008 and onward was not approved by it.

1. **General (Continued)**

m. Safety net

In February 2005 IPC made a commitment to the company by agreement, to grant the company a safety net loan, in the event of any deterioration in certain financial conditions of the company in accordance with the company's financial statements, arising from the volume of the Company's cash flow and its investment plan. Under this agreement, IPC undertook to provide the Company with a financial safety net in the form of loans under certain conditions specified in the agreement, and primarily intended for the payment of wages to the Company's employees. The actual granting of the loan, the type of loan and its interest terms are to be determined in accordance with the ratio between the Company's planned revenues and actual revenues from port services minus dividends and against the Company's approved investment plan for the coming years.

As of the date of the financial statements, the company has not yet requested any loan from IPC under the safety net agreement.

n. Issuance of the Company on the stock exchange/privatizing the company - sale to a strategic investor

In September 2009, the Ministerial Committee on Privatization Affairs decided on the outline according to which Haifa Port Company and Ashdod Port Company shall be privatized, by way of selling all the State holdings in the port companies. In April 2010 the Company submitted a draft prospectus to the Securities Authority in connection with the implementation of the first stage of the above decision. The privatization process was effectively suspended in April 2010 and one month after the Government's decision in 2014. As of this date, no date has been set for the Issuance of the Company on the stock exchange.

In December 2018 a term sheet was signed between the Company and the Histadrut, which stipulated that a sale procedure would be published for the sale of 100%of the Company's shares to a strategic investor as soon as possible subject to the fulfillment of all of the following conditions: Signing a detailed real estate agreement between IPC and the Company, and in the absence of an agreement between the companies, a binding consent mechanism shall be established by the Government Companies Authority, which will bind the companies, signing agreements for the transfer of the Marine Department from the Company to a subsidiary of IPC and signing all collective agreements with the workers' representatives, in relation to this agreement. The terms shit further stipulates that the protection provided in the reform agreements of 2005 and in the privatization outline for the extension of the validity of the collective agreements, the practices and procedures (including the rights that depend on seniority according to the agreements, practices and procedures) in the event that the State's holdings fall below 51%, will also apply in the event of a sale to a strategic investor, for a period of five years from the date of the sale to the strategic investor, as specified in the 2005 agreement, respectively, and without derogating from any commitments to longer periods, if any, such as in the matter of protection against dismissal and premium payments safety net. Furthermore, for the first five years from the date of the completion of the sale to a strategic investor,

1. **General (Continued)**

the workers' organization will have the right to appoint two observers for the Board, who will meet the professional qualification requirements, as stated in the Companies Regulations (Terms and tests for a director with accounting and financial expertise and for a director with professional qualification", 5766-2005. At least one observer will be external to the Company. At the end of five years from the said date, the workers' organization will have the right to appoint only one observer, who meets the conditions of professional qualification and who will remain external.

in January 2020 after the date of the financial report, the Ministerial Committee on Privatization decided to privatize all State holdings in the Company by way of a private sale, as one whole, of all the Company's shares (100%) To a strategic buyer, combined with raising capital for the Company by allocating the Company's shares to the buyer. The buyer will have to meet the experience requirements and criteria formulated by the Government Companies Authority, the Budget Division of the Ministry of Finance, the Ministry of Transport and Road Safety, including the Shipping and Port Authority, in consultation with IPC and the Company. The strategic buyer will have to meet conditions and criteria that would ensure economic resilience and financial soundness appropriate for the purchase and ownership of the Company's shares, as determined by the State Share Sale Committee, and at its sole discretion.

As of the date of the approval of the reports, the Company cannot assess the date on which the tender is to be published by the Government Companies Authority.

o. Construction and operation of new ports

In 2013 IPC has issued tenders for the construction and operation of two additional private ports (the southern port and the bay port, respectively). As of the date of the preparation of the financial statements, two contracting groups have been selected for the construction of the infrastructure, as well as two operating companies for the operation of the bay port in Haifa and for the operation of the southern port in Ashdod. As of the date of the approval of the statements of financial status, the construction of the infrastructure is in progress. The Company is examining the effect of the above on the course of its business and estimates that the operation initiation of the new ports, expected in 2021, will substantially reduce the Company's future revenues from container operations. The Company began to prepare for this occurrence and signed re-organization agreements with the various sectors in the port. in January 2020, after the date of the financial statement, a special collective agreement was signed (regarding the reform in Haifa Port) that includes an agreement for early retirement of some of the Company's veteran employees and re-organization agreements in the various departments aimed at reducing the Company's current and future operating expenses. At the same time, the Company is considering entering new areas of activity in order to increase the volume of the Company's future revenues.

p. Transferring the operation of the Marine Department

In the agreement terms sheet from 2018 it was agreed to transfer all the

1. **General (Continued)**

employees of the Marine Department and its activities from the Company to a subsidiary of IPC while maintaining the wage and employment conditions of the employees. All the activities, assets and liabilities of the Marine Department, including the current activity field of the Marine Department and its office buildings, observation tower, anchorage and all its operational assets, such as tugs and more, will be transferred to IPC's subsidiary at fair value, as to be determined by the Company and IPC by means of two agreed value sets. In August 2019 a collective agreement was signed between HPC, IPC, the new Histadrut and the trade unions on the transfer of the Company's marine department to IPC. The agreement was approved by the Company's board of directors and IPC's board of directors.
In light of the aforesaid, all the assets, liabilities and activities of the Marine Division held for sale are presented as "discontinued operations" (see Note 25).

q. Definitions:

The Company	Haifa Port Company Ltd.
Stakeholder and controlling shareholder	- As defined in the Securities Regulations (Annual Financial Statements), 5770- 2010.
Related Parties	- As defined in the international accounting standard 24 regarding related disclosures to a related party. The financial statements include under the related parties section government ministries and government companies.
Presentation currency	- The currency in which the financial statements are presented.
Index	- Consumer Price Index. As published by the Central Bureau of Statistics.
USD	- US dollars.
International Financial Reporting Standards (hereinafter: "IFRS")	- Standards and interpretations adopted by the International Accounting Standards Board (IASB) and include International Financial Reporting Standards (IAS), including interpretations of these standards set by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations set by the Standard Interpretations Committee (SIC), respectively.

r. in May 2019 the Chief Financial and Economics Officer, Mr. Moti Votru, has retired. On November 1st, 2019, Mrs. Shirley Hellman Harush was appointed as the Company's Chief Financial and Economics Officer.

2. **Principles of Accounting Policy (Continued)**

a. –

1) Adoption of international financial reporting standards (IFRS)

The Company's financial statements comply with the provisions of the International Financial Reporting Standards.

These IFRS standard include:

a) International Financial Reporting Standards (IFRS)

b) International Accounting Standards (IAS).

c) Clarifications concerning the International Financial Reporting Standards (IFRIC) and concerning the International Accounting Standards (SIC).

2) Principles of preparing the financial statements

The Company's financial statements are presented in accordance with the presentation currency (see Note 2(d) below) with all the values rounded unless otherwise stated.
The Company's financial statements have been prepared while applying the cost principle, except for certain assets and liabilities in respect of which the fair value model has been applied, inter alia, such as Derivatives, certain financial instruments, liabilities and assets in respect of employee benefits.
The Company presents the comprehensive income report in accordance with the provisions of the International Accounting Standard (IAS).

3) The Company's operating turnover period

The Company's operating turnover period is a calendar year beginning on January 1st of each year and ending on December 31 of each year.

4) Activity sectors

IFRS 8 refers to the method for presenting the activity sectors and replaces IAS 14. In accordance with this standard, the sectoral information is the information that the Company's chief operational-decisions maker uses for the purpose of evaluating the sectoral performances and for the purpose of its decisions regarding how the resources are to be allocated to the various operating sectors.

The operating sector is a component of the company that meets all three following conditions:

a) Engages in business activities from which it may generate income and due to which it may incur expenses; and

2. **Principles of Accounting Policy (Continued)**

b) Its operating results are regularly reviewed by the Company's chief operational-decisions maker, in order to make decisions regarding the resources allocated to it and to evaluate its performances; and

c) There is separate financial information available about it.

The Company's sectoral reporting format was prepared in accordance with the manner in which the information is presented to the Company's chief operational-decisions maker.

b. Estimates and assumptions principles in the preparation of the financial statements

The preparation of the Company's financial statements in accordance with the International Financial Reporting Standards (IFRS), requires the management to rely on estimates, assessments and assumptions that affect the implementation of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. The above estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates, if any, are recognized in the period in which the estimated change was made.

These estimates sometimes require consideration within an environment of uncertainty and have a material impact on the presentation of the data in the financial statements.

The following is a description of the key assumptions for reliance on the material accounting estimates used in the preparation of the Company's financial statements, and which, upon their formulation, the Company's management is required to make assumptions regarding circumstances and events under conditions of significant uncertainty. When making these estimates, the Company's management exercises judgment and relies on facts, past experience, dependence on external factors and reasonable assumptions considering the circumstances appropriate to each estimate. The actual results may differ from the management’s estimates set in connection with the preparation of the financial statements.

1) Lawsuits

Upon its assessment of the chances of the lawsuits filed against the Company, the Company relied on the opinions of its legal counsels. These assessments of the legal counsel rely on the best of their professional judgment, given the stage of the legal proceedings, and on the legal experience gained with respect to the various issues. Since the outcomes of the lawsuits will be determined in the courts, these outcomes may differ from these assessments.

2) Deferred tax assets

Deferred tax assets are recognized in respect of losses transferred for

2. **Principles of Accounting Policy (Continued)**

tax purposes and temporary differences, which have not yet been realized, to the extent that the Company is expected to earn future taxable income against which they can be realized. Management's discretion is required to determine the amount of the deferred tax asset that can be recognized based on the timing, the amount of expected taxable income and its source.

3) Pension benefits and other post-employment benefits

Liabilities due to defined benefit plans after the termination of the employment period and some of the guarantees used to cover this liability are determined using actuarial valuation techniques. The calculation of the liability involves the determination of assumptions regarding, inter alia, capitalization rates, expected rates of return on assets, the rate of increase in wages and rates of employee turnover. There is uncertainty about these estimates due to the fact that the plans are long-term plans.

c. By virtue of its being a government company, the Company reports in accordance with the circulars and guidelines of the Government Companies Authority (hereinafter: The Authority)

In accordance with Government Decision70 from August 2004, the general accounting standardization regarding government companies is the same as that of the private sector. The unique standardization for government companies is in addition to the standardization of the private sector and/or as an extension and/or refinement of issues unique to government companies, as specified in the Authority's circulars. It was determined that the unique standardization for government companies would-be carried out in accordance with the law.

In accordance with the Government Companies Regulations (additional report regarding the actions taken and presentations presented to ensure the accuracy of the financial statements and the report of the Board of Directors), 5766-2005, these reports include executive statements. With regard to the aforesaid executive statements, "the Company's existing controls and procedures, intended to ensure that material information relating to the Company is brought to the attention of the signatories of the statements included in these reports," are regulated in the Company's procedures and practices by means of Procedures regarding the rights to sign binding documents on behalf of the company, procedures for approving transactions, checking accounts and approving them.

Practices practiced by the Company for informing senior executives of material matters related to the Company's financial statements during their preparation and for consulting senior executives regarding these matters, etc.

Furthermore, the Company implements a process of determining controls and procedures at a scale that is appropriate to the size of the Company, the scope of its activities and other characteristics of the Company, including an internal control system related to financial reporting. (SOX)

2. **Principles of Accounting Policy (Continued)**

The presentations included in the financial statements and the information attached to them are the sole responsibility of the Company and do not bind the State of Israel.

d. Operation currency and foreign currency (continued)

1) Operation currency and presentation currency

a) Operation currency

The operation currency that faithfully presents, in the best way possible, the economic effects of transactions, events and circumstances on the Company's financial status is the new Israeli Shekel. Any transaction not made with the Company's operation currency is a transaction made with foreign currency, see Note 2(d)(2) below.

b) Presentation currency

The Company's financial statements are presented in New Israeli Shekel.

2) Asset transactions and liabilities in foreign currency or linked to it

Transactions denominated in foreign currency (any currency other than the operation currency) are recorded upon their initial recognition as per the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each statement of financial status date into the operation currency as per the exchange rate at that date. Exchange rate differences, other than those capitalized into qualified assets and liabilities, are credited to the statement of comprehensive income. Non-monetary assets and liabilities presented at cost are translated as per the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and presented at fair value are translated into the operation currency as per the exchange rate on the date on which the fair value is determined. See also Note 17.

3) CPI-linked monetary items

Monetary assets that are linked, according to their terms, to changes in the Israeli consumer price index (hereinafter: The Index) are adjusted as per the relevant index in accordance with the terms of the agreement, each statement of financial status date. Linkage differences arising from the adjustment stated above, with the exception of those capitalized into qualified assets, are credited to the statement of comprehensive income.

4) Details regarding foreign exchange rates and the consumer price index

2. **Principles of Accounting Policy (Continued)**

The following are details regarding the consumer price index, the exchange rates of the major currencies and the rates of change, during the reporting periods:

	As of December, 31		
	2019	**2018**	**2017**
Consumer Price Index (in points) *	100.80	100.20	99.41
US Dollar (NIS to1 Dollar)	3.46	3.75	3.47
Euro (NIS to1 Euro)	3.88	4.29	4.15

	For the year that ended on December 31		
	2019	**2018**	**2017**
	%	**%**	**%**
The increase (decrease) rate of:			
Consumer Price Index*	0.59	0.79	0.4
USD	(7.79)	8.01	(9.83)
Euro	(9.63)	3.37	2.69

* According to the index for the month ending on the balance sheet date on an average basis of 2018 = 100.

e. Cash and cash equivalents

Cash equivalents are short-term high-liquidity investments, which include short-term deposits in banking corporations that are not restricted by a lien, which original period does not exceed three months from the date of investment or which original period exceeds three months but can be withdrawn immediately without penalty.

f. Short term deposits

Short-term deposits in banking corporations which original period exceeds three months from the date of investment. The deposits are presented according to the terms of their deposit.

g. Provision for doubtful debts

The provision for doubtful debts is determined specifically in respect of debts which collection, in the opinion of the company's management, is questionable. Customer debts are deducted at a time when it is determined that these debts are not collectible.

h. Inventory

The Company's inventory is an inventory of spare parts, auxiliary equipment and materials used for the routine maintenance of the Company's operational equipment. The inventory is valued as per the purchase cost, including any expenses involved in getting it to its current place and/or condition.

2. **Principles of Accounting Policy (Continued)**

The cost of the inventory of spare parts that the value per each item of its type is less than NIS 15,000 and the cost of fuels and oils is determined according to the weighted moving average method. See also Note 2(l).

The Company periodically reviews the condition of the inventory and its age and makes provisions for dead inventory, accordingly. The inventory of fuels and oils is displayed as part of the current assets. The inventory of spare parts is displayed as part of the Company's fixed assets.

i. Financial Instruments

Up to and including 2017, the accounting policy was in accordance with the provisions of IAS 39. Since 2018 and onward, the policy is in accordance with IFRS 9.

1) Financial assets

A financial asset is recognized when the company has become a party to the contractual provisions of the financial instrument.
A financial asset is classified at the time of investment into one of four groups, according to the purpose for which the financial asset was acquired:

- Fair-value financial assets through profit or loss.
- Loans and receivables.
- Investments held for proceeds.
- Financial assets available for sale.

The following are the groups relevant to the Company, including the accounting handling to be implemented with respect to each one of the groups:

a) Fair-value financial assets through profit or loss.

Financial assets held for trading or financial assets that were designated upon their initial recognition to be presented at fair value through profit or loss. Financial assets in this group are measured at fair value with the changes in fair value credited to profit or loss. Transaction costs attributed to these assets are recognized in profit or loss upon their formation.

b) Loans and receivables.

Loans and receivables are investments repaid in fixed or determinable installments that are not traded in an active market. After initial recognition, loans are presented as per their terms according to the cost-plus direct transaction costs, using the effective interest method, minus provision for devaluation. Short term receivables are presented as per their terms, usually at face value.

2) Financial assets devaluation and its cancellation

2. **Principles of Accounting Policy (Continued)**

The Company examines at each reporting date whether there is objective evidence of any decrease in the value of a financial asset or a group of the following financial assets:

a) Financial assets presented at a decreased cost

Objective evidence of value reduction is evident when one or more events adversely affect the estimate of future cash flows from the asset after the recognition date.

The amount of the loss is the difference between the value of the financial asset in the books and the present value of the estimate of future cash flows (excluding future credit losses not yet incurred) from the financial asset capitalized at the original effective interest rate of the financial asset. This amount of loss is attributed to comprehensive profit or loss.

If during a subsequent period, the amount of loss due to value decrease is small and can be objectively attributed to an event that occurred after the value decrease was recognized, the loss due to this value decrease, previously recognized, will be canceled, provided that the cancellation does not cause the book value of the financial asset to exceed the reduced cost expected at value decrease cancellation date if the value decrease was not recognized in the comprehensive profit or loss.

With regard to customers, provision for doubtful debts is recognized when the Company believes that it will not be able to collect the amounts to which it is entitled. The customers' balance is presented net, minus the balance of the provision for doubtful debts.

3) Fair value of financial instruments

a) Fair value is the amount sufficient to replace an asset or remove a liability, between a voluntary buyer and a voluntary seller, operating in an informed manner, in a transaction that is not affected by special relations between the parties.

b) The best evidence of fair value is quoted prices in an active market.

c) If the market of a financial instrument is inactive, the Company determines fair value by using an appraisal technique to determine what the transaction price could have been at the measurement date in an exchange between parties operating under ordinary business considerations, which is unaffected by special relationships between them. The technique taken makes maximum use of market data and relies as little as possible on

2. **Principles of Accounting Policy (Continued)**

company-specific data. The technique also refers to all the factors that market participants would consider for determining the price.

4) Financial Instruments offsetting

Financial assets and financial liabilities are presented in the balance sheet at net sums, only when the Company immediately has an enforceable legal right to offset the amounts, and there is an intention to repay the asset and the liability on a net basis or realize the asset and repay the liability simultaneously.

A financial asset is deducted from the statement of financial status when the contractual rights to cash flows from the financial asset, as of the date of the statement of financial status expire, or when the Company has transferred the financial asset.

This deduction can be made by transferring the contractual rights to receive cash flows from the financial asset or by assuming a contractual obligation to pay cash flows from the financial asset to another party, which the company received from the said financial asset, provided certain conditions are met.

j. Leases

Up to and including 2018, the accounting policy was in accordance with the provisions of IAS 17. Since 2019 and onward, the policy is in accordance with IFRS 16. The criteria for classifying a lease as financial or operational are based on the nature of the lease agreements and are examined at the time of contracting according to the rules below, as set forth in the International Standard IFRS 16. See also Note 2(y) and Note 10 below.

The company as a lessee:

According to the International Accounting Standard IFRS 16, the Company recognizes in the asset the right of use on the one hand and a lease obligation on the other hand, in respect of all the lease contracts in which it is the lessee, except for short-term leases (for a period of up to 12 months) and leases of low-value assets. In these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the lease term, unless another method basis better represents the pattern of consumption of economic benefits by the Company from the leased assets.

The lease period is the non-cancellable period in which the lessee has the right to use the leased asset, together with periods covered by an option to extend the lease if it is probable to assume that the lessee will exercise this option, and periods covered by an option to cancel the lease if it is probable to assume that the lessee shall not exercise this option. The lease liability is measured for the first time according to the present value of the lease payments that are not paid at the commencement date, capitalized using the Company's supplementary interest rate.

2. **Principles of Accounting Policy (Continued)**

The supplementary interest rate of the lessee is defined as the interest rate that the lessee would have been required to pay in order to borrow for a similar period and with similar collateral the amounts needed to obtain an asset of similar value as the right-of-use asset within a similar economic environment.
The lease obligation is presented in the Non-current liabilities section under the statement of financial status. The lease obligation is then measured by decreasing the book value to reflect the paid lease payments. In addition, the financing expenses due to the interest inherent in the liability are presented in the statement of comprehensive income in accordance with the determined capitalization rate.
The right-of-use asset is presented in the Non-Current Asset section, measured according to the cost model and reduced in a straight line. The expense due to the reduction is attributed to the depreciation and amortization item in the statement of comprehensive income.

1) Presenting the attachments transaction in the Company's books

In April 2019 the Company received a position paper from the Government Companies Authority regarding the manner in which the international accounting standard IFRS 16 is to be implemented. The position paper discusses the issue of the application of the standard regarding the lease payments (usage fees) paid to IPC by the port companies. The position of the Government Companies Authority is that there are no fixed lease payments in the said lease arrangements, and accordingly, there is no need to recognize the liability due to the lease or the asset due to the right to use the transferred real estate assets.

Accordingly, the Company continues to attribute the lease payments paid in practice in respect of the real estate assets on an ongoing basis to profit or loss, as presented so far in the Company's financial statements.

2) Presenting lease transactions in respect of vehicles assigned to employees of the Company

In accordance with the provisions of Standard IFRS 16, the company presents an "asset" due to the use of vehicles assigned to employees of the company, which it leases from a third party, and in return presents a liability for rental payments to a third party (the leasing company). The lease period for these transactions is 3 years per each rented vehicle.

On the initial application date, the Company recognized an asset of the same value of the amount of the lease liability. From this date, the asset is reduced in a straight line over its sage life span, and the expense due to the amortization is attributed to the "depreciation and amortization" section in the statement of comprehensive income. In addition, the company also records in the statement of comprehensive profit financing expenses due to the interest inherent in the lease liability as per the determined capitalization rate.

According to the standard's transfer provisions, the Company has chosen to apply the standard using the cumulative impact method without

2. **Principles of Accounting Policy (Continued)**

reproducing any comparative information.

k. Usage fee

1) The usage fee is recorded in the company's books in accordance with the provisions of the Shipping and Ports Authority Law and in accordance with the provisions of the Due Usage Fee Order.

2) As per the opinion of the Company's legal counsels the additional due usage fees under Section 2(c) of the Due Usage Fee Order, which constitute a component deducted from the usage fee according to the said order, is recorded, in accordance with the order, as a reduction in the expenses paid in respect to the due usage fee presented in the financial statements.

3) On October 1st 2010 the reform in port tariffs came into force, which included, inter alia, a reform in usage fees. See also Note 1(e) above.

l. Fixed asset

1) Fixed asset is a tangible item that held for use in the manufacture or supply of goods or services, for rent to others, or for administrative purposes, and is predicted to be used for more than one accounting period.

2) Fixed asset items are presented according to cost-plus direct purchase costs, minus accumulated depreciation, minus losses due to value decrease accrued in respect of them, and do not include current maintenance expenses, except for current maintenance items at the cost of over NIS 15,000 per one single item that is added to the cost of the asset upon its replacement. (See also Sections 7 and 8 below). The cost includes spare parts and auxiliary equipment that can only be used in the context of machinery and equipment and which meet the asset recognition rules.

3) The cost of independently constructed assets includes the cost of materials, direct wages and credit costs, as well as any additional cost that can be directly attributed to getting the asset to the place and condition in which it can operate as the management intended.

4) Fixed assets are deducted as per the straight-line method according to the expected duration of the Company's use of the asset. For this purpose, the Company's management defined the operational equipment renewal policy in accordance with an appraiser's assessment. In this methodology, the equipment renewal relies on various parameters, including the purchase cost of a new item, the cost of maintenance during the use of the asset, realization value, interest, technological improvements, etc.

5) However, with regard to any assets transferred for use by the company on the commencement date, the Company conducted a comprehensive and

2. **Principles of Accounting Policy (Continued)**

specific examination by a qualified appraiser regarding the expected use of assets transferred for its use, as stated, while taking into account the physical condition of the asset, its technological characteristics compared to other assets currently available at the market, the port's need within the foreseeable future, etc.

6) Improvements in the leased asset are depreciated as per the straight-line method according to the estimated life span period of the improvement.

7) Spare parts and auxiliary equipment worth up to NIS 15,000 per item are presented under the fixed assets and recognized as an expense in the statement of comprehensive income upon their consumption.

8) Spare parts and auxiliary equipment worth over NIS 15,000 per item are treated as fixed assets, and depreciated from the beginning of their operation after they are issued to the operational equipment.

9) The Company recognizes the replacement cost of any part of a fixed asset item as part of the balance in the financial statements of the fixed asset item, when the cost is incurred, the economic benefits associated with the item are expected to flow to the Company, and the cost of the item can be measured reliably. Current maintenance costs are included in the statement of comprehensive income when incurred.

10) The assets' depreciation is terminated on the date on which the asset is classified as held for sale or on the date on which the asset is deducted, whichever is earlier. An asset is deducted from the financial statements at the time of sale or when no further economic benefits are expected from the use of the asset. Profit or loss from the asset deduction (calculated as the difference between the net proceeds from the deduction and the reduced cost in the financial statements) is included in the statement of comprehensive income during the period in which the asset is deducted.

11) The use life span, depreciation method and residual value of the asset are examined at the end of each year. The changes are handled as an accounting estimate change thereafter.

2. **Principles of Accounting Policy (Continued)**

The following is a breakdown of the depreciation rates used by the Company in accordance with the above notes:

	Depreciation rates	
	Range	Main rate
	%	%
Infrastructure and buildings:		
Structures	5	5
Infrastructure	5	5
Operating equipment:		
Cranes	3-5	3
Trailers carts and compressors	5-12.5	8.3
Vessels	4	4
Spare parts stock of over NIS 15,000	*	*
Vehicles	15	15
Other equipment:		
Furniture and equipment	6-10	6
Communication equipment	15	15
Computers	20	20
Other equipment:	7-12.5	12.5

* From the initiation of their operation, after being issued to the operating tools and in accordance with the depreciation rates of the parent asset to which it is associated.

m. Liability due to cargo damage

The Company sets aside amounts to cover contingent claims relating to cargo damages.

Provisions for expected claims for cargo damages are estimated according to the assessments of the Company's management and its legal counsels, and for claims filed through the court, according to the legal counsels' assessment, which also relies on experience gained in similar cases in the past. See also Note 2(b) above.

n. Intangible assets

1) An intangible asset is a non-monetary asset, identifiable, devoid of physical substance. The identifiability criterion under this definition will be met if the asset is separable or derives from contractual rights or other legal rights. With no regard to whether these rights can be transferred or separated from the Company or from other rights and liabilities.

2) An intangible asset is initially recognized at cost, including costs that can be directly attributed to the acquisition of the intangible asset. The cost of an intangible asset is an amount equivalent to the cash price at the date of recognition.

2. **Principles of Accounting Policy (Continued)**

3) After initial recognition, intangible assets are presented at cost minus cumulative depreciation and minus losses due to accumulated devaluation.

4) Costs in respect of intangible assets that have been independently developed by the Company, other than capitalized development costs, are included in the statement of comprehensive income upon their formation.

5) According to the management's assessment, intangible assets have a defined usage life span. The assets are depreciated over their useful life span based on the straight-line method.

   When there are signs indicating any devaluation, changes in usage life span or in the expected consumption pattern of the economic benefits expected to result from the asset, they are treated as an accounting estimate change from now on. The amortization expenses due to intangible assets with a defined usage life span are recognized in the statement of comprehensive income (cost of sales or general and administrative expenses, depending on the attribution of the asset).

6) The usage life span of intangible assets is as follows:

	Depreciation rate	
	Range	**Main rate**
	%	**%**
Computer software	**10-33**	**10**

Software
The Company's assets include computer systems consisting of hardware and software. Software constituting an integral part of the hardware that cannot operate without the software installed on it are classified as fixed assets. In contrast, licenses for self-sufficient software which add additional functionality to the hardware, are classified as intangible assets.
Gains or losses from the deduction of an intangible asset are measured according to the difference between the consideration from net realization and the cost of the asset, net, and are included in the statement of comprehensive income.

o. Financial assets devaluation

The Company examines the need to examine the devaluation of non-financial assets when there are signs as a result of events or changes in circumstances that indicate that the balance in the financial statements is not recoverable. In cases where the balance in the financial statements of the non-financial assets exceeds their recoverable amount, the assets are depreciated to their recoverable amount. For an asset that does not generate independent cash flows, a recoverable amount is set for the cash-generating unit to which the asset belongs. Depreciation losses are included in the statement of comprehensive income.

2. **Principles of Accounting Policy (Continued)**

Losses resulting from the devaluation of an asset that has been revalued in the past with this revaluation credited to a capital fund, are credited to a capital fund until it is reset, with any remaining balance included in the statement of comprehensive income.

Losses resulting from the devaluation of a non-financial asset, excluding goodwill, are canceled when changes occur in the estimates used to determine the recoverable amount of the asset from the date on which the depreciation loss was last recognized. The cancellation of such said loss is limited to devaluation amount of the previously recognized asset (minus depreciation or amortization) or the recoverable amount of the asset, whichever is lower. For property displayed by cost,

Such loss is included in the statement of comprehensive income. In the case of an asset that has been revalued, such cancellation is recognized as other comprehensive profit (loss) and charged to equity, except for the cancellation of a loss previously charged to profit or loss that was also charged to profit on the comprehensive statement.

p. Discontinued operations

Operations, which have been realized or classified as held for sale, constitute discontinued operations when they represent a business area of activity or a geographical area of activity that is primary and separate, or when they constitute a part of a single and coordinated design for the realization of a business area of activity, or a geographical area of activity, which is primary and separate. These activities are classified as held for sale when the Company's management decides to sell them and provided that the sale is highly expected (among other things, it is expected that the sale will be completed within one year) and are available for immediate sale in their current condition under their acceptable terms of sale.
Discontinued operations classified as held for sale are measured on the basis of their book value, and their fair value minus delivery costs, and its assets (excluding financial assets, investment property measured at fair value, assets arising from employee benefits and deferred tax assets) are not amortized. Interest and other expenses arising from liabilities of the discontinued operations classified as held for delivery continue to be recognized.
Assets and liabilities of discontinued operations are presented in the statement of the Company's financial status at the end of the period in which the operation was classified as discontinued operation under the item "Assets attributed to discontinued operations" and "Liabilities attributed to discontinued operations”, respectively. Income and expenses constituting discontinued operations are presented in the statement of comprehensive income minus income taxes in all the periods presented under the item "Profit (loss) from discontinued operations, net". The cash flows due to discontinued operations are presented in Note 25 with respect to all the reporting periods presented in accordance with the classification of current activity, investment activity and marking activity.
The comparative data in the statement of profit or loss and other

2. **Principles of Accounting Policy (Continued)**

comprehensive income and in the statement of cash flows, with respect to the discontinued operations, are adjusted retrospectively.

q. Income tax

Income taxes in the statement of comprehensive income consist of current taxes and deferred taxes. The tax results in respect of current or deferred taxes are included in the statement of comprehensive income. For assets and liabilities in which the change is charged to capital, the resulting tax effect is also attributed to the item relating to capital.

1) Current taxes

Liability due to current taxes is determined using the tax rates and tax laws enacted. or which enactment has been completed in practice, by the date of the statement of financial status, and the adjustments required with respect to tax liability payable for previous years.

2) Deferred taxes

The company adopts a method of tax attribution. Accordingly, the statements of financial status are deferred due to temporary differences between the financial reporting and for income tax purposes. These differences result mainly from a difference between the reduced balance of the item in the statements of financial status and the amounts to remain in the future as depreciation for income tax purposes. From a difference in the timing of the charging of certain incomes and expenses and from balances for transfer of losses for tax purposes.

Deferred taxes attributed to items charged to capital are also charged to the item relating to capital.

Deferred tax balances are calculated according to the tax rate expected upon the inclusion of these taxes in the statement of comprehensive income or charged to capital, based on the tax laws enacted or which enactment has been completed in practice by the date of the statement of financial status. The amount of deferred taxes in the statement of comprehensive income reflects the changes in the balance at the reporting period, except for changes attributed to items charged to capital.

At each statement of the financial status date, the deferred tax assets are examined and if their realization cannot be expected, they are amortized. At the same time, temporary differences (such as losses carried forward for tax purposes) for which no deferred tax assets have been recognized, are also examined. To the extent that their utilization is expected, an appropriate deferred tax asset is recognized. Any such reduction and recognition are charged to the income tax item.

All deferred tax assets and liabilities are presented in the statements of financial status as non-current assets and non-current liabilities, respectively. Deferred taxes are offset in the statement of financial status if there is a legally enforceable right that allows offsetting a current tax

2. **Principles of Accounting Policy (Continued)**

asset against a current tax liability, and the deferred taxes relate to the same taxable entity and the same tax authority.

r. Liabilities due to employee benefits

The company has several types of employee benefits:

1) Short-term employee benefits

Short-term employee benefits include salaries, vacation and convalescence leaves which are recognized as an expense with the growth of entitlement by the employee.

A liability due to a cash bonus or profit-sharing scheme is recognized when the company has a legal or implied obligation to pay the said amount for a service provided by the employee in the past and the amount can be reliably estimated.

Classification of employee benefits as current benefits or as non-current benefits for their presentation in the statements of financial status is made in accordance with the date on which the liability is payable.

Long-term benefits for eligible employees also include amounts relating to employees who may retire within a period of one year from the date of the financial statement.

2) Post-transaction benefits

Plans for employee benefit after the termination of their employment are usually funded by amounts paid by the Company and the employees to insurance companies and provident funds, and which are classified as both defined deposit plans and defined benefit plans.

The Company has defined deposit plans, in accordance with the provisions of Section 14 of the Dismissal Compensation Law, according to which the company regularly pays payments to the fund without having any legal or implied obligation to pay any additional payments (except due to second-generation employees for whom no deposit is made for the compensation component at the rate of 2.33%), even if the pension fund has not accumulated sufficient amounts to pay all the benefits to the employee that relate to the employee's service and during the current period and previous periods. Deposits in a defined deposit plan due to compensation or benefits are recognized as an expense when depositing in the plan at the same time with obtaining the work services from the employee, and no further provision is required in the statements of financial status.

In addition, the Company is obligated to pay pension payments to employees in accordance with the pension agreement signed between the new Histadrut and employees transferred from the Ports Authority. Under the agreement, employees are entitled to a pension upon their retirement. The liability due to employee benefits is presented according to the

2. **Principles of Accounting Policy (Continued)**

actuarial value method of the projected entitlement unit. The actuarial calculation takes into account future wage increases and the rate of employee departure based on an estimate of the payment timing. The amounts are presented on the basis of discounting the expected future cash flows.
With respect to interest rates on capitalization, see Note 15(d).

The company deposits funds in respect of its obligations to pay pensions to some of its employees. These assets are assets held by the Company and do not constitute plan assets as defined in the International Accounting Standard IAS 19.

Liability due to employee benefits presented in the statements of financial status represents the present value of the defined benefit liability and actuarial gains or losses that have not yet been recognized.

Actuarial gains and losses are presented in the other comprehensive income after deducting the tax effect.

3) Other long-term employee benefits

Company employees are entitled to a benefit for cumulative sick leave days that have not been realized. This benefit is handled as another long-term benefit as the company anticipates that this benefit will be realized, and the company’s commitment due to it will be eliminated, at the end of the employment period.

The Company's net liability in respect of other long-term employee benefits is in respect of the amount of future benefit due to employees in respect of services rendered in the current period and in previous periods while taking into account the expected rate of the wage increase. The amount of these benefits is capitalized at its present value and the fair value of assets relating to this obligation, if any, is deducted from it. Starting from the 2014 statements of financial status the capitalization rate is determined in accordance with the return on the reporting date regarding high-quality corporate bonds which currency and maturity date are similar to the Company's commitment terms. The calculation is made according to the expected actuarial value method of the projected eligibility unit. Actuarial gains and losses are fully attributed to the comprehensive income in the period in which they were formed.

4) Benefits in respect of dismissal or voluntary retirement

Severance pay for employees is recognized as an expense on an ongoing basis in accordance with the increase in the seniority accumulation of the Company's employees. Benefits provided to employees in voluntary retirement are recognized as an expense in the statement of comprehensive income when the company offers employees a voluntary retirement plan, a detailed plan which there cannot be reasonably canceled and which enables reliably estimating the:

a) Location, position, and the approximate number of employees whose

2. **Principles of Accounting Policy (Continued)**

services will be terminated.

b) Benefits for termination of employment concerning any type of job or position.

c) The date on which the plan will be implemented.

s. Revenue Recognition

Up to and including 2017, the accounting policy was in accordance with the provisions of IAS 18. Since 2018 and onward, the policy is in accordance with IFRS 15.

Revenues are recognized in the statement of comprehensive income when: They can be measured reliably; it is expected that the economic benefits related to the transaction will flow to the Company as well as the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured according to the fair value of the consideration in the transaction minus commercial discounts and/or quantity discounts and/or various incentives according to commercial agreements.

Revenues from credit transactions that include a financing transaction are recognized at their present value so that the difference between the fair value of the transaction if it were made without credit and the par value of the consideration is recognized in the statement of comprehensive income as financing income using the effective interest method and in accordance with International Accounting Standards IFRS 15.

The following are the specific criteria for recognizing income regarding the following types of income:

Revenue from the provision of services

Revenue from the provision of services is recognized in accordance with the completion stage of the transaction (date of completion of the service) to the date of the statements of financial status. Under this method, revenue is recognized in the reporting periods in which the services were provided.

Customer discounts

The Company operates using various marketing means, including providing discounts and incentives, both to cargo owners and to ship agents, to increase their activity in the port.

Discounts and incentives provided to these customers are included in the statements of financial status at the time of their eligibility and are deducted from the relevant income items.

Interest income

Interest income due to financial assets is recognized on an accrual basis.

t. The cost of revenue and discounts from suppliers

2. **Principles of Accounting Policy (Continued)**

Revenue costs also include losses due to devaluation of spare parts inventory and the scrapping of spare parts inventory.

Discounts provided by suppliers are deducted from the costs of sale on the dates when the conditions qualifying for those discounts are met.

u. Financing income and expenses

Financing income includes interest income in respect of amounts invested in securities and deposits, income from dividends, changes in the fair value of financial assets measured at fair value through comprehensive income, gains from exchange rate differences and gains from hedging instruments recognized in the statement of comprehensive income. Interest income is recognized upon its accrual. Dividend income is recognized upon the receipt of the payment.

Changes in the fair value of financial assets measured at fair value through the statement of comprehensive income also include income from dividends and interest.

Financing expenses include interest expenses on loans received, changes due to time value due to provisions, dividends paid on preference shares classified as liabilities, changes in the fair value of financial assets measured at fair value through the statement of comprehensive income, losses from the devaluation of financial assets and losses due to hedging instruments recognized in comprehensive gain or loss. Credit costs, which are not capitalized on qualified assets, are recognized in the statement of comprehensive income according to the effective interest method. Gains and losses due to exchange rate differences are reported net.

v. Earnings per share

Earnings per share are calculated in accordance with the provisions of the International Accounting Standard IAS 33, which provides, inter alia, that the Company shall calculate the basic earnings per share for gain or loss, attributable to the Company's ordinary shareholders and the basic earnings per share for profit or loss from continued operations, attributed to those shareholders if such gain or loss is presented.

Basic earnings per share are calculated by dividing profit or loss, attributable to the Company's ordinary shareholders, by a weighted average of the number of ordinary shares existing in circulation during the period.

w. Provisions

A provision in accordance with the International Accounting Standard IAS 37 is recognized when the Company has a present obligation (legal or implied) as a result of an event that has occurred in the past; it is expected that economic resources will be required to eliminate the obligation and it can be estimated reliably. See also Note 2(b) above.

x. Advertising expenses

2. **Principles of Accounting Policy (Continued)**

Expenses in respect of advertising, promotional and marketing activities are recognized as an expense at the time the service is provided in respect of these activities to the Company.

y. New standards. New interpretations and amendments to standards affecting the current period and/or previous reporting periods

1) International Financial Reporting Standard 16 - Leases (hereinafter in this subsection: "IFRS 16")

On January 1st 2019, the International Financial Reporting Standard "Leases" (IFRS 16) CAME INTO FORCE in accordance with the transition provisions of the standard; the company has chosen to apply the standard using the cumulative impact method without reproducing comparative information. In accordance with the provisions of the standard, the company presents an "asset" due to the use of vehicles assigned to employees of the company, which it leases from a third party, and in return presents a liability for rental payments to the leasing company. The lease period for these transactions is 3 years per each rented vehicle.
On the initial application date, the Company recognized an asset of the same value of the amount of the lease liability. From this date, the asset is reduced in a straight line over its sage life span, and the expense due to the amortization is attributed to the "depreciation and amortization" section in the statement of comprehensive income. In addition, the company also records in the statement of comprehensive profit financing expenses due to the interest inherent in the lease liability as per the determined capitalization rate.

The capitalization rate used for the calculations is 1.69%and is based on the company's supplementary interest rate, depending on the amount of the lease, its average lifespan and the quality of the leased property.

2. **Principles of Accounting Policy (Continued)**

The main effects of the report on the Company's financial status as of January 1st, 2019:

The leased property	Asset due to use	Liability due to sale	Deferred taxes	Total net change in capital
Vehicles	4,316	(4,316)	-	-

The main effects of the report on the Company's financial status as of December 31, 2019:

The leased property	Asset due to use	Liability due to sale	Deferred taxes	Total net change in capital
Vehicles	3,072	(3,136)	15	(49)

The main effects on the 2019 statement of comprehensive income

The leased property	Decrease in lease expenses according to IAS 17	Increase in depreciation expenses according to IFRSI6	Total increase in profit from ordinary activities	Increase in financing expenses according to IFRS 16	Decrease in tax expenses according to IFRS 16	Total decrease in profit per year
Vehicles	(2,640)	2,615	(25)	89	(15)	49

The main effects on the 2019 statement of cash flows

The leased property	Increase in cash flow from operating activities	Decrease in cash flow from financing activities
Vehicles	2,621	(2,558)

2) Amendment to the International Accounting Standard 19 - "Employee Benefits" (hereinafter in this subsection: “Amendment to IAS 19")

According to the amendment to IAS 19, in a situation where during the liability (asset) period, the net in respect of a defined benefit is re-measured for the purpose of determining the cost of past services or gains and losses from the disposal, in the balance of the annual period after the amendment, reduction or disposal:

- The cost of current service and the net interest will be measured based on the same assumptions used for the re-measurement; and
- Net interest will be calculated based on the net liability (asset) remeasured.
- Furthermore, the impact on the asset ceiling will be measured and recognized in two stages :(1) The cost of past services and profits and losses from the disposal will be measured without regard to the effect of the asset ceiling. As a result, the entire effect of the re-measurement will be recognized in profit or loss; (2) After the re-

2. **Principles of Accounting Policy (Continued)**

measurement, the effect of the asset ceiling will be examined and recognized as part of other comprehensive income.

The company applied the amendment to IAS 19 prospectively. The first application of the amendment to IAS 19 had no effect on the Company's financial statements.

3) Interpretation 23 - Uncertainty regarding income tax treatments (hereinafter in this subsection: ״23 IFRIC״)

In June 2017 the IASB published IFRIC 23 - Addressing Income Tax Related Uncertainty (hereinafter: The Interpretation). The Interpretation clarifies the rules of recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12 "Income taxes" in situations where there is uncertainty related to income taxes. Uncertainty related to income taxes is any tax treatment applied by an entity when there is uncertainty as to whether this tax treatment will also be acceptable to the tax authorities. The uncertainty may exist until a future decision is made by the relevant tax authority or by a court. The Interpretation states that the entity must determine whether the uncertain tax positions should be assessed separately or as part of a set of uncertain tax positions. The entity must also assess whether the tax authorities are likely to accept the treatment that the Company implemented, or is expected to implement, in connection with the uncertain tax positions, assuming that the tax authorities shall review the entity's reports and have all the relevant information in their possession(100% exposure risk). If so, the entity is required to determine the accounting treatment for the uncertain tax positions consistent with the tax position it has taken or is expected to take. If not, the entity is required to reflect the effect of the income tax-related uncertainty on the financial statements. In addition, the Interpretation provides guidelines for dealing with changes in the facts and circumstances of the uncertainty. The Interpretation will be applied to annual periods beginning on January 1st, 2019. The Company's estimates that the effect of the Interpretation is expected to lead to an increase in tax expenses in the amount of approx. NIS 20.3 million up to and including 2019 and to the offsetting of a total of approx. NIS 43.1 million from the company's accumulated business loss for tax purposes.

4. Cash and cash equivalents

Composition:

	As of December, 31	
	2019	2018
	Thousands of NIS	
Deposits in banks *	57,100	121,513
Cash in cashbox and in banks	26,871	20,468
Foreign currency	800	2,227
	84,771	144,208

* Bear average annual interest at the rate of 0.25%.

4. Short term investments

Composition:

	As of December, 31	
	2019	2018
	Thousands of NIS	
a. Financial assets designated at fair value through profit or loss		
Government bonds and loans	145,662	242,783
Corporate debentures	255,012	151,369
Shares	333,352	88,313
	*734,026	482,465
b. Deposits in banking corporations**	10,005	5,329
c. The company's share in the mutual aid fund***	3,822	-
	747,853	487,794

Near the date of the approval of the financial statements, the balance of the financial *
assets designated at fair value through profit or loss stands at NIS 678,905 thousand. **
* Bear average annual interest at the rate of 0.25%. ***
The relative share with respect to employees associated with discontinued operations
(see Note 7 below).

2. **Principles of Accounting Policy (Continued)**

5. Customers, net

a. Composition:

	As of December, 31	
	2019	**2018**
	Thousands of NIS	
Unpaid debts (*)	87,858	92,313
Receivable revenue	12,843	9,901
Provisions for meeting targets	(25,859)	(22,331)
Minus - Provision for doubtful debts**	(1,916)	(6,249)
	72,926	73,634

*The balance as of December 31, 2019, includes debts due to four major customers in the amount of NIS 76,057 thousand, as detailed below: Customer A NIS 1,850, Customer B NIS 43,326, Customer C NIS 15,490 and Customer D NIS 15,391. The balance as of December 31, 2018, includes debts due to four major customers in the amount of NIS 73,432 thousand, as detailed below: Customer A NIS 9,306, Customer B NIS 44,048, Customer C NIS 16,049 and Customer D NIS 4,029.

** Impairment of customer debts is dealt with by recording a provision for doubtful debts.

b. The following is an analysis of the customer balance after the provision for impairment (provision for doubtful debts), according to the ages of the debts in relation to the date of the statements of financial status:

	Up to 30 days	30-60 days	60-90 days	90-120 days	Over 120 days	Total
	Thousands of NIS					
Tuesday, December 31, 2019	57,622	586	(645)	2,720	12,643	72,926
Monday, December 31, 2018	63,533	160	615	62	9,264	73,634

6. **Accounts receivable**

Composition:	As of December, 31	
	2019	2018
	Thousands of NIS	
Vacation fund, net	17,357	16,487
Israel Ports Development and Assets Company Ltd.	12,788	*23,518
Employees and institutions due to employees	5,220	5,871
VAT	2,738	697
Advanced expenses	997	1,990
Accounts receivable	2,026	1,578
	41,126	50,141

* Re-sort

7. **Long-term debit balance - Mutual Aid Fund**

The section includes the balance of investment in a saving fund shared with the company's employees, managed by a mutual aid association. The association's members are employees of the company (as well as the company as the substitute of the Ports Authority). The membership of an employee in the fund involves a one-time payment. One a month amounts to be deposited in the fund are deducted from the members of the association, as follows:

- Up to the amount of the first NIS 144 the Company adds NIS 1 per every NIS 1 deposited by the employees.
- Over the amount of NIS 144, the company adds NIS 2 NIS per every NIS 1 deposited by the employees.

Employees who are members of the fund are entitled to receive loans from the fund under subsidized terms set forth in the fund's Articles. The company is entitled to withdraw the funds it has deposited (in nominal amounts) only in respect of an employee who has retired from his membership in the fund. (See also Note 4c above).

8. Fixed asset Net

a. Composition as of December 31, 2019

	Infrastructure and buildings	Equipment	Spare parts inventory over NIS 15,000 per item	Spare parts inventory up to NIS 15,000 per item	Total
	Thousands of NIS				
Cost:					
Balance as of January 1, 2019	212,241	1,644,353	39,009	38,201	1,933,804
Purchases	9,686	10,870	1,894	3,276	25,726
Transfers between items and other assets	(159)	559	(1,077)	-	(677)
Realizations/Deductions	-	(16,472)	(104)	-	(16,576)
Transfer to assets held for sale	-	3,448	-	-	3,448
Decrease in the provision for devaluation	-	870	-	-	870
Transfer to discontinued operation	(1,995)	(146,856)	(1,737)	(3,320)	(153,908)
Balance as of December 31, 2019	219,773	1,496,772	37,985	38,157	1,792,687
Accumulated depreciation:					
Balance as of January 1, 2019	54,530	708,386	7,349	-	770,265
Depreciation	11,570	56,277	-	-	67,847
Transfers between items and other assets	(42)	(630)	125	-	(547)
Realizations/Deductions	-	(15,208)	-	-	(15,208)
Transfer to assets held for sale	-	3,300	-	-	3,300
Transfer to discontinued operation	(776)	(42,572)	(263)	-	(43,611)
Balance as of December 31, 2019	65,282	709,553	7,211	-	782,046
Reduced cost balance as of December 31, 2019	154,491	787,219	30,774	38,157	1,010,641

b. Composition as of December 31, 2018

	Infrastructure and buildings	Equipment	Spare parts inventory over NIS 15,000 per item	Spare parts inventory up to NIS 15,000 per item	Total
			Thousands of NIS		
Cost:					
Balance as of January 1, 2018	200,068	1,635,861	38,592	36,627	1,911,148
Purchases	12,381	15,860	2,123	* 1,574	31,938
Transfers between items and other assets	(181)	1,887	(1,706)	-	-
Realizations/Deductions	(27)	(9,422)	-	-	(9,449)
Transfer to assets held for sale	-	(3,749)	-	-	(3,749)
Decrease in the provision for devaluation	-	3,916	-	-	3,916
Balance as of December 31, 2018	212,241	1,644,353	39,009	38,201	1,933,804
Accumulated depreciation:					
Balance as of January 1st, 2018	43,479	657,971	7,421	-	708,871
Depreciation	11,060	59,312	-	-	70,372
Transfers between items and other assets	(3)	13	(10)	-	-
Realizations/Deductions	(6)	(5,449)	(62)	-	(5,517)
Transfer to assets held for sale	-	(3,461)	-	-	(3,461)
Balance as of December 31, 2018	54,530	708,386	7,349	-	770,265
Reduced cost balance as of December 31, 2018	157,711	935,967	31,660	38,201	1,163,539

* The balance includes a provision for devaluation due to spare parts inventory intended for scrapping.

c. Payments on account of the purchase of fixed assets

The cost as of December 31, 2019, includes payments on account of the purchase of fixed assets in the amount of approx. NIS 4,486 thousand.

d. Asset renewal fund

Section 33 The Company's letter of certification stipulates that the Company will annually deposit in the fund an amount that equates to no less than the accounting depreciation of its assets, as published in its annual financial statements at its real value. The company will dedicate the funds to be set aside as aforesaid and use them renewal, replacement and acquisition of assets.
In practice, the company did not set aside such amounts for the fund. It should be clarified that from the commencement date and until December 31, 2019, the cumulative accounting depreciation expenses of the assets amounted to

approximately NIS 1,117,892 thousand, while during this same period the Company invested, for the purpose of renewal, replacement and acquisition of assets, a cumulative total of approx. NIS 1,642,007 thousand, all according to its investment plan. The Company's management is of the opinion that due to the fact that the amounts invested by the Company as aforesaid exceed the amount of the depreciation, the Company complied with the provisions of this section above.

e. Non-current assets held for sale

The company acts on a regular basis for the sale of operational equipment that was scrapped. Accordingly, this operating equipment is presented within the current assets as a non-current asset held for sale. As of December 31, 2019, the realization group included assets in the amount of approx. NIS 12 thousand in accordance with an appraiser's assessment and/or in accordance with the Company's past experience.

Profit from the increase in the value of the above assets in the amount of approx. NIS 871 thousand, which resulted from the re-measurement of the realization group according to the book value or the fair value less the costs of sale, whichever is the lower, was recognized as a separate item in the statement of comprehensive income.

9. **Intangible assets Net**

Composition:

	Computer software	
	2019	**2018**
	Thousands of NIS	
Cost:		
Balance as of January 1st,	84,241	83,128
Purchases	1,772	1,113
Transfers from fixed assets	677	-
Transfer to discontinued operation	(546)	-
Balance as of December 31st,	86,144	84,241
Accumulated decrease:		
Balance as of January 1st,	63,332	60,310
Decrease recognized during the year**	3,453	3,022
Transfers from fixed assets	547	-
Transfer to discontinued operation	(441)	-
Balance as of December 31st,	66,891	63,332
Net balance		
As of December 31st,	19,253	20,909

* The balances include investments in software that do not constitute an integral part of the investment in hardware.
** Decrease of intangible assets is classified in the statement of comprehensive income under the cost of sale and/or general and administrative expenses, as applicable.

10. **Advance expenses due to operating lease**

According to the previous Variable Usage Fee Order (before the tariff reform and the 2010 usage fee order) The usage fee for attachments and infrastructure was paid as per the balance of the assets on the commencement date (as they were presented in the books of the Ports Authority) plus annual interest at the rate 7.5% from the reduced cost balance and in accordance with the remaining life span of these assets.

The usage fee for the attachments is presented in the statements of total profit as an expense according to the straight-line method, over the entire lease period, which according to the Company's Certification Letter is for a period of 49 years that began on February 17, 2005, and therefore, the entire prepaid balance, paid from the Commencement Date, is presented in the statements of financial status under the item "Prepayments for operating leases."
Starting from October 1st, 2010, upon the coming into force of the tariff reform, the prepaid usage fees, as stated above, are attributed to the statement of comprehensive profit over the balance of the lease period in equal distribution each year.

In 2018 the Government Companies Authority requested the Company to reduce the usage fees paid in advance over a period of 30 years only in accordance with the life span of the docks transferred to its use and not over the 49 years of the company's certification period. According to an engineering opinion obtained by the Company, the economic life span of the attachments significantly exceeds the duration of the lease period according to the Company's Certification Letter, and therefore the Company's management is in the opinion that the prepaid usage fees should be reduced over a period of 49 years.
Implementing the position of the Government Companies Authority by way of restatement will reduce the "Prepaid expenditure due to operating leases" asset by approximately NIS 77 million, reduce the surpluses balance by about NIS 59 million, and create an additional advance usage fee deduction expenditure, each year, in the amount of approx. NIS 1.3 million, before the effect of the tax. At this stage, the Company disagrees with this position of the Government Companies Authority and has not yet implemented any change in its accounting policy.

11. Fair value of financial instruments

a. Fair value compared to the book value
The book value of certain financial assets and financial liabilities, including cash and cash equivalents, customers, other debtors, suppliers and other creditors is commensurate with their fair value.

b. Fair value hierarchy

Below is a table depicting an analysis of the financial assets measured at fair value, in accordance with the valuation method. The different levels were defined as follows:
Level 1 - Fair value measured by the use of quoted prices in an active market for identical instruments.
Level 2 - Fair value measured by the company actuary according to use of foreseen and calculated, directly or indirectly, data that are not included in Level 1, as stated above.
Level 3 - Fair value measured by the use of data that are not based on foreseen market data.

	as of December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	Thousands of NIS			
Financial assets designated at fair value through profit or loss				
Short term investments	734,026	-	-	734,026
Vacation fund	34,579	-	-	34,579
Assets due to employee benefits	581,105	24,296	-	605,401
	1,349,710	24,296	-	1,374,006

	as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	Thousands of NIS			
Financial assets designated at fair value through profit or loss				
Short term investments	482,465	-	-	482,465
Vacation fund	35,073	-	-	35,073
Assets due to employee benefits	563,789	21,009	-	584,798
	1,081,327	21,009	-	1,102,336

12. Liabilities to suppliers and service providers

Composition:

	As of December 31st,	
	2019	2018
	Thousands of NIS	
Israel Ports Company Ltd. - Due to usage fees	116,670	115,920
Israel Ports Company Ltd. - Supplier	7,575	4,289
Unpaid debts to suppliers and service providers	25,369	24,024
	149,614	144,233

* Regarding the disputes between the Company and IPC, see Note 25(b)(3)(b)

13. Employees and institutions due to wages and benefits

Composition:

	As of December 31st,	
	2019	2018
	Thousands of NIS	
Institutions due to wages	21,349	22,665
Institutions due to wages	17,858	21,894
	39,207	44,559

14. Accounts payable

Composition:

	As of December 31st,	
	2019	2018
	Thousands of NIS	
Expenses payable	19,371	26,596
Advances from customers (1), (2), (3),	4,346	29,741
Provision for damages	4,327	4,083
Advance income	1,569	*2,353
Others	469	661
	30,082	63,434

* Re-sorted

1) Pursuant to a licensing contract signed prior to the ports reform by the Ports Authority with a particular customer, the customer operates a piping facility at the Northern Chemicals Terminal. This contract has long since ended and since then the customer and IPC, with the participation of the Company’s representatives, have held negotiations for the continued granting of the license to use this terminal. UPC, which for the purposes of this contract assumed the role of the Ports Authority, extends the contract repeatedly for an additional fixed period, under the terms of the terminated contract. IPC and the company assert that in addition to the contractual handling and cancellation fees paid by the customer in accordance with the quantities of transported cargo, the customer will pay for the above-stated license, retroactively starting from January 1st, 2011, an additional amount as a supplement to the amount

that was to be paid to IPC and the Company if the rates that applied on the eve of the reform of the port services prices since January 1st, 2020 continued to apply. Due to the inability to reach agreements on the terms of the new contract, the parties agreed to resort to a mediation procedure. In 2016 a memorandum of understanding was signed between IPC, the Company and the customer, by which virtue the customer transferred to the Company, as earnest money and in order to promote the dialogue, a down payment of NIS 7.3 million and the parties began to promote the appointment of an agreed mediator. In June 2018 the mediator's proposal for the conclusion of the dispute between the parties was submitted. According to the mediator's proposal, the customer is required to pay an additional amount of about NIS 16.9 million-plus VAT in respect of the handling tariff differences for the period of 2011-2018. In July-December 2018 the customer paid the above-stated amount recorded as an advance payment, with the amount of approx. NIS 4.2 million (25%) transferred to IPC (income in the white areas). Since IPC and the Company undertook in the term sheet to return to the customer within 30 days every amount from the above-stated advance payments in accordance with the decision of the mediator, the Company decided that as of 12/31/18 the income (reduced usage fee expenses) shall not be recognized by the Company in respect of the amounts paid as advance payments. As of 12/31/19, the customer has paid all past debts and still pays the current debt, while the delay in the signing of the agreement is due to a dispute on another matter. Therefore, it was decided that the conditions were ripe to recognize in the statement of profit and loss the handling fee as a reduction in the usage fee expenses during previous years.

2) The Company had another dispute with another customer due to his disagreement with the terms of the new contract transferred to him regarding a permit to use the chemicals terminal. As a result, the customer refused to pay his debt for the handling of chemicals. During 2018 an agreement in principle was reached by the parties by which for handling differences the customer will pay a total of approx. NIS 16 million, in monthly installments starting from 2019. After the date of the report, the customer has repaid all past debts, including any current debt. Accordingly, the company recognized the handling fee as a reduction in usage fee expenses in previous years.

15. Liabilities due to employee benefits, net

15. Liability due to employee benefits, net (Continued)

15. Liability due to employee benefits, net (Continued)

15. Liability due to employee benefits, net (Continued)

15. Liability due to employee benefits, net (Continued)

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15. Liability due to employee benefits, net (Continued)

15. Liability due to employee benefits, net (Continued)

15. Liability due to employee benefits, net (Continued)

15. Liability due to employee benefits, net (Continued)

16. Capital attributed to the Company's shareholders:

Composition:

	As of December 31st,	
	2019	2018
	Ordinary shares of NIS 1 each	
The number of registered shares	400,000,000	400,000,000
Number of shares issued and repaid *	1,000	1,000

* The State of Israel holds a rate of 100% of the issued and paid-up share capital

17. Financial Instruments

The Company's financial assets mainly include cash and cash equivalents, customers, accounts receivable, liabilities to suppliers and service providers, accounts payable and long-term financial liabilities.

Financial assets included in the items of the statements of financial status constitute an approximation of the fair value.

a. The Company's operations expose it to risks related to various financial instruments such as interest rate risk, currency risk and credit risk. The Company's risk management focuses on activities aimed to minimize possible adverse effects on the Company's financial performances.
The company's financial risk management is the responsibility of the Chief Finance and Economics Officer.

b. The following is information regarding risks for the financial instruments:

1) Currency risk - the company is exposed to changes in exchange rates. The existing exposure is an exposure in the statements of financial status resulting from a surplus of funds and assets in foreign currency, mainly USD and Euro. In the event of a real devaluation, the Company will gain financing revenues, while in the event of a real appreciation, the company will incur financing expenses.

2) Credit risk - The Company's revenues stem from a wide spread of various customers. The Company's credit customers provide a deposit or guarantee to secure the payment of their debt. The company regularly examines the customers' balances in order to determine the amount of the provision for doubtful debts. Accordingly, the provision for doubtful debts is determined specifically in respect of debts which collection is questionable.

c. Linkage conditions of the fiscal balance as of December 31st, 2019:

	In foreign currency or linked to it			Linked to the construction input index	Linked to the consumer price index	Without linkage and others	Total
	USD	Euro	Pound Sterling				
	Thousands of NIS						
Assets:							
Current assets:							
Cash and cash equivalents	546	254	-	-	-	83,971	84,771
Limited-use cash	-			-	-	101	101
Short term investments	37,803			-	268,569	441,481	747,853
Customers, net	-			17	-	72,909	72,926
Current taxes receivable	-			-	-	87	87
Accounts receivable	-			-	5,402	35,724	41,126
	38,349	254		17	273,971	634,273	946,864
Non-current assets:							
Long-term debit balance	-	-	-	-	-	33,885	33,885
Assets due to employee benefits	30,709	-	-	-	217,294	357,398	605,401
	30,709	-	-	-	217,294	391,283	639,286
Liabilities:							
Current liabilities:							
Liabilities to suppliers and service providers							
Israel Ports Company Ltd.	-	-	-	-	-	124,245	124,245
Other	113	1,634	4	-	-	23,618	25,369
Employees and institutions due to wages and benefits	-	-	-	-	-	39,207	39,207
Accounts payable	-	-	-	-	-	30,082	30,082
	113	1,634	4	-	-	217,152	218,903
Non-current liabilities:							
Liabilities due to employee benefits	-	-	-	-	-	173,917	173,917
	-	-	-	-	-	173,917	173,917

d. Linkage conditions of the fiscal balance as of December 31st, 2018:

	In foreign currency or linked to it			Linked to the construction input index	Linked to the consumer price index	Without linkage and others	Total
	USD	Euro	Pound Sterling				
	Thousands of NIS						
Assets:							
Current assets:							
Cash and cash equivalents	554	1,674		-	-	141,980	144,208
Limited-use cash	-			-	-	100	100
Short term investments	22,751			-	183,066	281,977	487,794
Customers, net	-			510	-	73,124	73,634
Current taxes receivable	-			-	-	57	57
Accounts receivable	-			-	18,458	35,662	54,120
	23,305	1,674		510	201,524	532,900	759,913
Non-current assets:							
Long-term debit balance	-	-	-	-	-	36,400	36,400
Assets due to employee benefits	19,786	-	-	-	202,946	362,066	584,798
	19,786	-	-	-	202,946	398,466	621,198
Liabilities:							
Current liabilities:							
Liabilities to suppliers and service providers							
Israel Ports Company Ltd.	-	-	-	-	-	120,209	120,209
Other	1,630	1,305	12	-	-	21,077	24,024
Employees and institutions due to wages and benefits	-	-	-	-	-	44,559	44,559
Accounts payable	-	-	-	-	-	67,413	67,413
	1,630	1,305	12	-	-	253,258	256,205
Non-current liabilities:							
Liabilities due to employee benefits	-	-	-	-	-	178,765	178,765
	-	-	-	-	-	178,765	178,765

18. Net income

Composition:

	For the year that ended on December 31		
	2019	**2018**	**2017**
	Thousands of NIS		
From cargo services	652,619	698,101	614,291
From ship services	41,800	42,858	39,105
From HPC's infrastructure fees	38,930	36,676	38,892
From other services	12,677	2,893	2,996
	746,026	780,528	659,284

19. Cost of revenues. Net composition:

Composition:

	For the year that ended on December 31		
	2019	***2018**	***2017**
	Thousands of NIS		
Salaries and attachments in the operating departments:			
Current payments	377,257	360,147	338,586
Changes in liabilities due to employee benefits	3,818	881	2,447
	381,075	361,028	341,033
Operating depreciation	61,517	63,370	62,591
Equipment operation and maintenance	51,336	49,461	53,170
Usage fee(a)	14,872	*26,950	20,908
Other	81,902	80,746	79,209
	209,627	220,527	215,878
	590,702	581,555	556,911

* Re-sort

a. Usage fee composition

	For the year that ended on December 31		
	2019	**2018**	**2017**
	Thousands of NIS		
Fixed usage fees*	29,841	31,221	27,811
Due usage fees:			
East Kishon dock rental fee	(15,895)	(15,730)	(15,632)
For assets usage rights	5,058	5,058	5,058
Due usage fee - fixed component	43,455	42,941	42,813
Due usage fee - variable component	60,130	63,925	57,847
	92,748	96,194	90,086
Minus 75% of the income from assets not transferred to Company Use, Net	(107,717)	(100,465)	(96,989)
	(14,969)	(4,271)	(6,903)
	14,872	26,950	20,908

* See Note 24(b)(3)(b)(8).

20. Administrative and general expenses

Composition:

	For the year that ended on December 31		
	2019	**2018**	**2017**
	Thousands of NIS		
Wages, salaries and related expenses:			
Current payments	68,916	65,073	61,364
Changes in liabilities due to employee benefits	778	179	503
	69,694	65,252	61,867
Computer Maintenance	8,526	8,194	8,529
Professional counseling, legal and audit costs	7,133	4,417	4,027
Depreciation and amortization	6,038	4,013	3,585
Provision for doubtful debts	3,358	(85,319)	10,334
Social, cultural and welfare activities for employees	2,500	2,720	2,207
Public relations	1,768	1,600	1,552
Electricity, water and property taxes	1,526	1,423	1,169
Office and communication	958	910	867
Administrative and general expenses	3,908	4,090	4,021
	35,715	(57,952)	36,291
	105,409	7,300	98,158

21. Other expenses (income), Net

Composition:

	For the year that ended on December 31		
	2019	**2018**	**2017**
	Thousands of NIS		
Other expenses (income), Net	(36,583)	*14,650	(1,153)
Decrease in the provision for devaluation	(370)	(2,992)	(161)
Capital loss	62	3,084	13
	(36,891)	14,742	(1,301)

* Re-sort

22. Financing income/expenses

Composition:

	For the year that ended on December 31		
	2019	2018	2017
	Thousands of NIS		
Financing income			
Interest income	472	13,176	*642
Gains from changes in exchange rates, net	-	202	-
Profits from designated investments	54,083	-	28,918
Profits from investments in securities	52,294	-	10,444
	106,849	13,378	40,004
Financing expenses			
Losses from designated investments	-	9,035	-
Losses from investments in securities	-	8,886	-
Management fees and bank commissions	1,863	1,863	1,743
Gains from changes in exchange rates, net	153	-	1,585
Interest expenses - usage rights	89	-	-
Others	-	-	*127
	2,105	19,784	3,455

* Re-sorted

23. Income tax

a. The tax rates applicable to the company

In December 2016 the Knesset plenum approved the Economic Re-organization Law (legislation amendments aimed to achieve the budget targets set for budget years 2017 and2018) 5777-2016, which determined, inter alia, a reduction in the corporate tax rate from 25% to 23% in two beats. The first beat to a rate of 24%, starting from January 2017 and the second beat to a rate of 23% starting from January 2018 and onwards.

The current taxes for the reported periods are calculated in accordance with the tax rates shown in the table below:

Year	Tax rate
2017	24%
2018 onwards	23%

b. Tax assessments

The company has final tax assessments up to and including 2015 tax year. The company filed self-tax assessments for the 2016-2018 tax years.

c. Losses transferred for tax purposes

As of December 31st, 2019, the company has business losses and capital losses

for tax purposes in the amount of approx. NIS 135 million (including NIS 90 million arising from losses carried forward from the commencement date) and approx. NIS 16.5 million, respectively, carried over to the following years.
Since by the end of the 2011 tax year the Company accumulated losses for tax purposes amounting to approx. NIS 198 million which realization is not within the foreseeable future, it was decided, starting from the financial statements as of December 31, 2012, and up to 2018, not to increase the deferred tax asset in respect of losses carried forward for tax purposes. in 2019 due to income for tax purposes, the deferred tax asset was reduced.
In 2019 a deferred tax asset was recognized for the first time in respect of the Company's transferred capital losses since their realization is expected to occur in the near future due to the cessation of the Marine Department's activity and its sale to IPC.

d. Legislation for the regulation of tax aspects resulting from the structural change

1) As part of the Port Authority's structural change process, as outlined above and conducted by means of legislation, discussions were held between the Tax Authority and the Government Companies Authority and representatives of the port companies and IPC, and regulations were formulated to regulate various tax issues arising from the performed structural change process.

2) The tax issues relevant to the Company in this arrangement, according to the current format, are:

   - Setting the original price and purchase date of the assets, for the purpose of capital gains and depreciation calculations.
   - Handling losses transferred from the Ports Authority and their distribution between the companies.
   - Handling the expenses due to pension payments to employees or former employees.
   - Distribution of tax charges arising from deduction assessments and income assessments for the years up to 2005 between the companies.
   - Other issues related to the transition period.

3) As for the determination of the original price and the date of purchase, the provisions of the regulations stipulate that capital gains and depreciation will be calculated as if the assets were still recorded in the Ports Authority's books.

4) Regarding the matter of past losses for tax purposes, a total of up to NIS 1 billion shall be permitted as of the commencement date for distribution between the companies. Of this amount, according to a distribution in principle made by the Companies Authority, a total of NIS 270 million were credited to the Haifa Port Company Ltd.

5) The regulation of the tax issues in the actuarial aspects concerns permitting expenses due to deposits in segregated account prior to the formation of funds, as defined by law, permitting expenses due to deposits in funds after their formation and exemption from tax payable on profits in these funds.

6) In addition, these regulations regulate the principles for distribution and attribution of revenues of the Ports Authority that accrued after the commencement date, expenses due to the past that were not permitted for deduction and which permission is realized after the commencement date

and the distribution of any tax liability arising from assessments in respect to the periods prior to the commencement date. In principle, these distributions were made as per the material attribution of each issue, to the relevant company.

7) As stated above, these regulations have been approved. Therefore, with respect to tax calculations, recognition of deferred taxes and registration of the assets and liabilities on the commencement date, the Company has taken the following approach:

- The balances of the assets for tax purposes, including the date of their purchase, will be according to the balances that would have been calculated if they had been managed in the books of the Ports Authority. The company performed a restoration of the assets data for tax purposes, as they were presented to the best of its knowledge, in the books of the Ports Authority for tax purposes. This is based on past reports submitted for tax purposes and on the basis of the distribution of the assets provided to the Company by the State, as described above. It should be noted that the special report in accordance with Section 11(2) to the Regulations of the Shipping and Ports Authority (Provisions regarding Tax Law), 5769-2009 was filed with the Tax Authority.
- Accordingly, the deferred taxes were calculated in respect of the difference between the balances for tax purposes as calculated by the Company, and the balances of the assets recorded on the basis of the fair value calculated as aforesaid.
- Payments from the funds to cover the Company's liabilities due to employee benefits are recognized as an expense for tax purposes.
- Gains from investments of the funds in the segregated accounts for budgetary pensions are tax-exempt. Starting from 2010 and based on a legal expert’s opinion, the Company adopts a broad interpretation of the regulations also regarding the financing income from the segregated accounts’ funds to finance the terms of retirement of employees in accruing pensions, as it functions with regard to the financing profits from the segregated account for budgetary pensions. In the event that this Interpretation shall not be acceptable to the tax authorities, the Company shall be exposed to further tax expenses in the amount of approx. NIS 20.3 million up to and including 2019 and to the offsetting of a total of approx. NIS 43.1 million from the company's accumulated business loss for tax purposes. See also Note 2(z)(2).

e. Deferred taxes

Composition:

	Statements of financial status as of December 31st		Statements of comprehensive income for the year that on December 31st	
	2019	2018	2019	2018
	Thousands of NIS		Thousands of NIS	
Deferred tax assets			Expenses (tax income)	
Losses transferred for tax purposes	34,791	45,708	10,917	
Provision for vacation	3,961	4,275	314	(50)
Non-utilization of sick leave grant	2,498	2,475	(23)	171
13th Salary	534	1,412	878	(118)
Provision for doubtful debts	441	1,444	1,003	19,632
Usage rights assets	15	-	(15)	
	42,240	55,314	13,074	19,635
Deferred tax liabilities			Expenses (tax income)	
Employee benefits	94,641	88,437	6,204	(284)
Fixed asset	71,550	71,712	(162)	7,280
Prepaid usage fees	39,697	40,861	(1,164)	(1,163)
Advance expenses due to employees	912	989	(77)	81
	206,800	201,999	4,801	5,914

f. Income taxes included in statements of comprehensive income

Composition:

	For the year that ended on December 31		
	2019*	2018	2017
		Thousands of NIS	
Deferred tax expense (income), see also Section E above	23,174	25,549	*6,098
Current tax expenses (income)	560	246	517
Tax revenue due to discontinued operations	(6,148)	(6,774)	(6,624)
The deferred tax portion inherent in the actuarial loss	5,078	(2,695)	3,306
	22,664	16,326	3,297

* Deferred taxes, including adjustment of the balance of taxes deferred due to changes in tax rates.

g. Theoretical tax

The following is a correlation between the theoretical tax amount and the amount of income tax recognized in profit or loss:

	For the year that ended on December 31		
	2019	2018	2017
		Thousands of NIS	
Profit before income taxes	192,421	170,651	78,121
Statutory tax rate	23%	23%	24%
Tax by statutory tax rate	44,257	39,250	18,749
Addition (savings) in tax due to: Exempt income	-	(292)	-
Unrecognized expenses	1,043	271	2,408
Losses and benefits for tax purposes for which deferred tax assets have not been recognized	(6,874)	(5,036)	(10,427)
A benefit from a previous period that was previously unrecognized and used to reduce current tax expenses	(243)	(19,813)	(5,815)
Taxes due to previous years	559	247	311
Effect of changes in tax rate	-	-	790
Capital gains from securities - Current portfolio	(15,824)	2,044	(2,302)
Other differences	(254)	(345)	(417)
Total income taxes	22,664	16,326	3,297

24. Contracts Contingent liabilities Guarantees and liens:

24. Contracts Contingent liabilities Guarantees and liens (continued)

24. Contracts Contingent liabilities Guarantees and liens (continued)

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24. Contracts Contingent liabilities Guarantees and liens (continued)

24. Contracts Contingent liabilities Guarantees and liens (continued)

24. Contracts Contingent liabilities Guarantees and liens (continued)

25. Discontinued operations

In accordance with the terms sheet signed in 2018 and in accordance with the directive of the Company's Board of Directors, the Company is preparing to implement the government decisions made regarding the transfer of the activities of the Company's Marine Department to IPC. To this end, and as a preliminary step, the Company signed collective agreements with the workers' representatives and IPC for the transfer of the department's employees to IPC. The completion of the sale transaction is expected to take place by the end of 2020 with all the assets, liabilities and activities of the Marine Division held for sale presented as "discontinued operations" in accordance with the provisions of Standard IFRS 5 "Non-current assets held for sale and discontinued operations."

a. Composition of the assets and liabilities of discontinued operations:

	2019 Thousands of NIS
Total assets:	
Customers	7,121
Debtors	465
Fixed assets, net	110,298
Other asset, net	106
Assets due to employee benefits	25,920
Deferred taxes	2,625
	146,535
Total liabilities:	
Suppliers	749
Employees and institutions due to wages and benefits	4,118
Creditors	2,100
Liabilities due to employee benefits	27,863
Deferred taxes	7,927
	42,757

b. Analysis of profit or loss from discontinued operations:

	For the year that ended on December 31		
	2019	**2018**	**2017**
		Thousands of NIS	
Revenue	127,909	126,317	123,669
Expenses	(101,179)	(96,860)	(96,071)
Profit before tax from discontinued operations	26,730	29,457	27,598
Income tax expenses	(6,148)	(6,774)	(6,624)
Total profit from discontinued operations	20.582	22,683	20,974

c. Analysis of the cash flows from the discontinued operations:

	For the year that ended on December 31		
	2019	**2018**	**2017**
		Thousands of NIS	
Cash flows arising from operating activities	36,749	35,564	36,092
Cash flows arising from investment activities	(710)	(1,042)	(699)
Cash flows arising from financing activities	-	-	-
Total cash flows from discontinued operations	36,039	34,522	35,393

26. Business sector information

26. **Business sector information (Continued)**

26. **Business sector information** **(Continued)**

26. **Business sector information (Continued)**

27. Balances and transactions with related parties

27. Balances and transactions with related parties (Continued)

א. Transactions with related parties (Continued)

27. Balances and transactions with related parties (Continued)

27. Balances and transactions with related parties (Continued)

28. Significant events after the reporting period

a. After the date of the financial statement, in January 2020 a special collective agreement was signed (regarding the reform in Haifa port). The agreement stipulates that the Company will be fully privatized and that the proceeds from the privatization will be directed to required future investments in the port infrastructures, reorganization plans have been determined to improve productivity, cancel and unify standards, provide partial wage increases to employees for re-organization, changing the collective dismissal mechanism for second-generation non-founding employees, setting a safety net and founding a designated fund for premium payments and deploying an occupational safety net for the remaining second-generation non-founding employees for the duration of 10 years, starting from 2021, and early retirement plans for veteran employees. As part of the early retirement plan, employees will be able to choose to retire according to the 2014 plan (See Note 15(f) or in the new retirement plan. It was further decided to encumber the funds held in designated accounts for the financing the retirement conditions of transferred employees, as defined in the collective agreements.

b. After the financial status reporting period, there was a global outbreak of the new Coronavirus, which began in China and spread over several weeks to dozens of countries around the world, including Israel. As of the date of the report, due to the efforts of many countries to block or delay the spread of the virus, mainly by means of closure around infected areas and home isolation directives, the effects of the epidemic are evident in the tourism and aviation sectors, along with an imbalance in the trade sector and price declines in many markets, including Israel. After the date of the financial statement, the Company recorded significant losses in the investment portfolios used for current operations and to finance the retirement conditions of the eligible employees. As of the date of the report, it is not possible to assess the effects of the epidemic on the scope of activity of the company. However, the persistence of this health crisis, with rising morbidity and expansion of global quarantine and isolation zones, could hamper the continuity of the Company's operations, due to the massive absence of the manpower essential to the Company's business operations or specialized service providers, including from abroad, which will result in disruptions to the Company's operations. Beyond that, the prolongation and exacerbation of this unprecedented crisis may adversely affect business and economic activity worldwide and in Israel, in a way that will reduce the company's activity, including due to difficulties of customers and suppliers in a manner and extent unrecognizable by the company at this time.

c. in May 2020, after the date of the financial statement, a memorandum of understanding was signed between the Company and IPC regarding the sale of the Marine Department's activities to IPC and a new usage fee model that will replace the provisions of the usage fee order. Under the new model, the usage fee for the provision of assets to the company will include a fixed component payable starting from 2026 and a variable component determined as a variable rate of the Company’s revenues. The memorandum of understanding included a schedule according to which by June 15, 2020, the detailed agreements for the transfer of the activities of the Marine Department, and a Real Estate agreement, which regulates, inter alia, the issue of usage fees, will be brought to the approval of the boards of directors of the Company and of IPC. It should be clarified that as of the date of the report, all the details regarding the method for the implementation and the wording of the detailed agreements have not yet been formulated and finalized and the required approvals have not yet been obtained from both the qualified organs in the companies and other regulatory approvals.