חברת החשמל
Israel Electric

Investor Presentation

Israel Electric Corp.

Business update as of 06/30/2023

September 2023

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Agenda

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Executive Summary

Israel Electric Corp. at a Glance

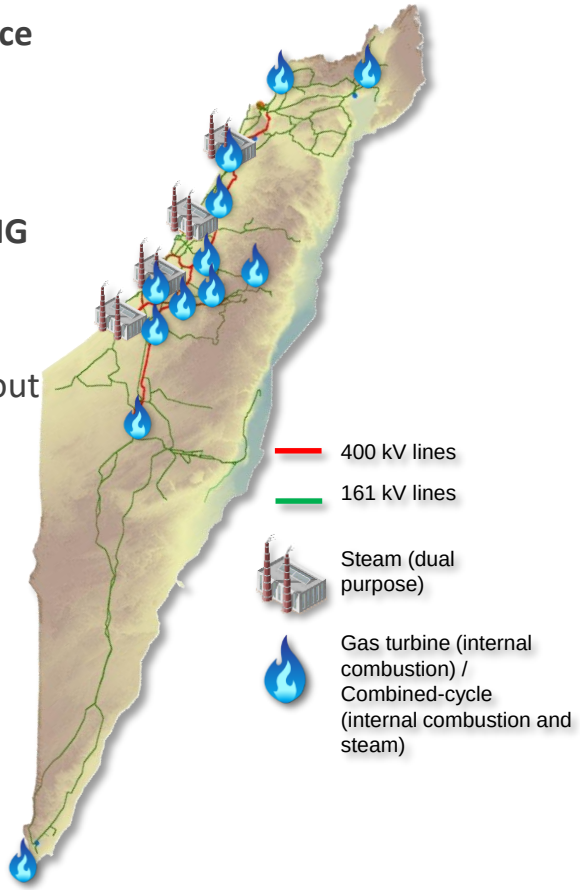
- Established in 1923, 99 years of operation, the Israel Electric Corporation Limited ("IEC") is a **dominant player** in the Israeli electricity sector and is **an essential service provider** of electricity in Israel, and the sole **vertically integrated provider** in the electricity chain.

- The state of Israel, which holds 99.85% of the IEC's shares, is committed for the **GHG reduction in line with Paris Climate Agreement**.

- IEC serves **residential, commercial, agricultural and industrial customers** throughout the State of Israel, including East Jerusalem and the Palestinian Authority (PA).

IEC's goal is to maintain its position as the leading business in the Israeli electricity sector. The Company aims to be Israel's leading electricity provider, an efficient and advanced electricity producer, and one of the world's leading and most advanced grid infrastructure companies

IEC Power Grid



Key Strategic Targets

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Main Israel's Electricity Company

Continuing to guarantee and improve reliability of the electricity supply, as well as providing backup services for electricity consumers and producers.

Adapt to challenges

Completing the remaining steps of the sector reform along with preparing for challenges in the evolving electricity market.

Financial Robustness

Meeting key financial targets and adequate liquidity cushion.

Support environmental projects

Support the combination of renewable energy, electrical cars, Promoting energy storage facilities.
Targeting natural gas as main fuel source in order to reduce the environmental impact.

IEC intends to continue to develop and adapt to the changing market structure and conditions as well as to the economic, social and technological changes in Israel and worldwide

Key Financial Highlights – H1.2023

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Revenues

NIS **11.1** billion

$3.1

CAPEX

NIS **2.9** billion

$0.8

Net Financial Debt(1)

NIS **37.0** billion

$10.3

EBITDA(2)

NIS **2.9** billion

$0.8

Credit Ratings

IEC Global

Baa1 Stable (Moody's)

BBB+ Stable (S&P)

IEC Local

Aa1.il Stable (Midroog)

ilAAA Stable (Maalot S&P)

Source: IEC's Financial Statements for H1.2023

1. *Net financial debt is a non-GAAP measure that is defined as credit from banks and other credit providers, plus total long-term debt (including debentures, long-term liabilities to banks, including hedge transactions, liabilities to the State of Israel), leases liabilities and CPI linkage differentials regulatory deferral account, cash and cash equivalents, short-term investments, long and short term receivables in respect of forward contracts and swap transactions, and long-term deposits to secure swap transactions.*
2. *IEC defines "EBITDA" as a Normalized EBITDA - profit (loss) before income taxes, financial expenses, depreciation and amortization, including movement in regulatory deferral accounts, while neutralizing special non-current events*

Financial Figures presented in USD according to an average USD/NIS exchange rate of 3.59 as of H1.2023

Key Investment Highlights

Government Company

99.85% owned by the State of Israel

IEC's credit quality is supported by its critical role in Israel's electricity ecosystem

Essential Service Provider

IEC is an essential service provider of electricity in Israel and the sole vertically integrated provider in the electricity chain

Fully Regulated across all segments

Electricity Tariff set by the EA, based on forecasted expenses and return on equity, providing predictable revenue to the company

Natural Gas Fuel Independence

Natural gas from Tamar, Leviathan and other significant natural gas discoveries in Israel have paved the way towards potential fuel independence

Key Investment Highlights – cont.

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Focusing in the T&D segments

IEC will focus its activity in the Transmission and Distribution segments and will reduce its share in the generation segment

Preparing the ground for renewables

Stable CAPEX in the T&D segments during the coming years in order to enable renewable energy absorption and to achieve the 2030 Ministry of Energy target on renewables

Growing attention to ESG aspects

Especially in the environmental aspect (conversion of coal units to natural gas), the social aspect (diversity & inclusion) and the governance aspect (deepening corporate governance)

Committed to Deleveraging

Board and management are committed to deleveraging and are aiming to gradually decrease the ratio of total debt to total assets to 65% by 2025

Key Financial Targets until end of reform in 2025

Ratios	Targets till 2025	In practice, as of 06/30/2023
Real net financial debt ratio to normalized EBITDA	4.3 Mid-target of 5.4 in 2023	**6.6**
Total debt to total assets ratio (leverage)	65%	**66%**
International rating	At least 'BBB'	**+BBB**
Real net financial debt	2023 - Maximum NIS 36.5 billion 2025 – Maximum NIS 31 billion Subject to meet the financial targets listed above regarding debt ratios	**NIS 37.0 billion**
Liquidity (safety cushion)	Minimum NIS 3 billion Composed of balance of cash and short-term deposits will be no less than NIS 1.5 billion and unused secured credit lines valid for a period exceeding one year up to NIS 1.5 billion.	**The Company complies with the objective**

Source: IEC's Financial Statements for H1.2023

Note: The financial targets approved by the Board of Directors On December 13-15, 2022 until the end of the reform period by the year 2025. Mid-targets for 2023 have been updated due to the publication of a new tariff base for the generation segment and due to the annual update for 2023, which includes the deployment of consumer debt to the company for the impact of coal prices over three years and the decrease in the return rate in the generation segment

GCA Financial Targets for Government Companies

Ratios	Targets	In practice, as of 06/30/2023
FFO(1) to adjusted financial debt ratio	Short term 11% to 18% Long term 15% to 23%	**8.5%**
FFO(1) plus interest to interest ratio	Greater than 3	**4.15**
Return on capital employed (ROCE) ratio	3.3% in 2023(2)	**2.5%**

Source: IEC's Financial Statements for H1.2023 and a letter regarding the financial targets for Government Companies, circulated by the GCA on November 17, 2021 and approved by the IEC's Board of Directors.

1. *FFO is based on calculation of the EBITDA before normalization while neutralizing the change in liabilities with respect to employee benefits (from cash flow report) and other expenses (revenues), net, less interest and taxes paid (from cash flow report).*
2. *Mid-target of ROCE ratio for 2023 have been updated due to the publication of a new tariff base for the generation segment and due to the annual update for 2023, which includes the deployment of consumer debt to the company for the impact of coal prices over three years and the decrease in the return rate in the generation segment*

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Main events during H1.2023

Progress in implementation of the electricity sector reform and structural change

Selling generation sites

- **Reading site**

On September 13, 2023, the Minister of Energy and Infrastructures approved the team's recommendation (a team which established in order to examine various alternatives for the site, led by the general manager of the Ministry of Energy and Infrastructure), by which, inter alia, the relevant government officials should act to promote the sale of the station. As well, a statutory procedure must be promoted as soon as possible in order to facilitate the establishment of temporary units at the Reading site, and to promote an outline for the transfer of responsibility for their establishment and/or operation to the private market for the interim period.

- **Eshkol site**

The Electricity Authority extended the generation licenses of the Eshkol site until December 3, 2023. The Tenders Committee of IEC decided on July 18, 2023, to cancel the tender for the sale of the Eshkol site due to the withdrawal of the winner Eshkol Power Energies Ltd from its proposal in the tender and conduct a new competitive procedure among the bidders who submitted proposals in the tender, including a minimum price of NIS 9 billion, in accordance with the conditions in the procedure documents. On August 9, 2023, OPC filled an administrative petition with the Tel-Aviv District court against the company, pursuant to which the court was requested, inter alia, to cancel the decision of the tenders committee regarding the cancellation of the tender and regarding a new "competitive procedure" in its place. This petition was rejected on September 14, 2023, by the court, who's decision stated that the Tender Committee's decision was proper, reasonable and unflawed.

Source: IEC's Financial Statements for 2022, H1.2023 and immediate reports as of September 14, 2023

Progress in implementation of the electricity sector reform and structural change – cont.

Construction of new CCGT units 70-80 at Orot Rabin site

- Postponement of the commercial operation date of unit 70 to January 2024 and unit 80 to September 2024.
- On August 11, 2023, the first ignition of unit 70 was carried out in preparation for synchronizing the unit to the electricity grid.

Converting coal units to NG usage

- On May 18, 2023, the company's BOD decided to continue the conversion project of units 1-2 in Rotenberg site only, and to suspend the conversion of units 5-6 in Orot Rabin site.
- On June 2023, the company's BOD decided to continue the procurement process for converting units 3-4 in Rotenberg site.
- On August 9, 2023, a gas fire was ignited in Unit 1 in Rotenberg site as part of the system operation tests, prior to the completion of the conversion process.
- The Company is in ongoing discussions with the Ministry of Energy and the Electricity Authority to fully complete the project.
- The Company Management's estimate is that after exhausting the discussions with all the authorized State Authorities, the chances of executing the conversion in full (i.e. to all the 6 coal-fired units in the project) outweigh the chances that the conversion will not be executed in full, and the chances of recognizing the full cost of the project outweigh the chances that these will not be recognized.

Source: IEC's Financial Statements for 2022FY and for H1.2023

Progress in implementation of the electricity sector reform and structural change – cont.

Request to close "Netiv Haor" subsidiary

- On July 26, 2023, the Company's BOD decided to extend the period of validity of the decisions regarding the supplantation of the powers of the BOD and the CEO of Netiv Ha'or regarding the establishment and operation of the two new CCGT units at the Orot Rabin site, as well as signing on the Company's financial statements. The decisions to supplant these powers will remain in force until the end of 2023 or until at least 2 Company employees are appointed as Directors in Netiv Ha'Or, according to the earlier among them.

- On August 7, 2023, IEC informed the governmental companies authority that Netiv Haor's liquidation process is expected to take a long time and there is great doubt as to whether it will be possible to complete this process by the time of the commercial operation of unit 70. Therefore, and in light of the short timetables until operation of the units, the Company intends to act to continue the operation of the Netiv Ha'Or Company by supplanting the powers or until the appointment of Directors in this company, whichever comes first, including, for the approval of the parent-subsidiary agreements and the submission of the application to the Electricity Authority for receiving the generation license in the name Netiv Ha'Or.

- IEC is working continuously with the GCA to find additional alternatives that will enable the operation of units 70-80 on time.

Source: IEC's Financial Statements for 2022FY and for H1.2023

Progress in implementation of the electricity sector reform and structural change – cont.

Investments in the T&D segments

- On January 16, 2023, the Minister of Energy determined that the company will maintain its activity in the distribution segment as the holder of an essential service provider license for a period of 20 years. The company has not yet been granted a new license in the transmission segment.
- The company continued to increase its investments in the T&D segments and during the first half of 2023 invested a total of NIS 1.7 billion in those segments.

Source: IEC's Financial Statements for 2022FY and for H1.2023

Progress in implementation of the electricity sector reform and structural change – cont.

Organizational changes and efficiency program

- From 2018 to June 30, 2023, 1,763 permanent employees retired as part of the reform agreements in parallel with the employment of temporary employees.

Competition in the supply segment

- On September 7, 2022, the Electricity Authority issued a decision on a market model for generation and storage facilities that regulates the activities of generation facilities in the distribution segment and in particular their possibility of selling electricity directly to suppliers.
- The quotas for suppliers as determined by the electricity authority will be removed as part of opening the supply market to competition.

Renewable energy storage facilities

- On January 25, 2023, the electricity authority published a decision which details the principles and volume by which IEC will be allowed to construct storage facilities by 2030, within the area of substations only and subject to receiving a storage license.
- The decision determines that the company's market share will be 15% of the total storage volume promoted by the private sector, in the previous year, and that in general, the storage deployment will be carried out in accordance with a plan that will be approved by the Noga Company.

Source: IEC's Financial Statements for 2022FY and for H1.2023

Progress in implementation of the electricity sector reform and structural change – cont.

Financial stability

- IEC expects that some of the financial stability goals established as part of the reform and some of the goals established in the BOD‘s decisions may be exceeded, this is in light of: changes that have occurred in the tariff base for the generation segment, the tariff update for 2023, an increase in investments according to the development plan in the transmission segment for the years 2023-2030, the gas conversion project of coal units at the Rotenberg and Orot Rabin sites, the replacement of meters with smart meters by the end of 2028, the implementation of the wage agreement in the public sector and the accumulated debt of East Jerusalem Electricity Company.
- The Company continues to work with the Electricity Authority and the Ministry of Energy in order to find solutions to finance the scope of the extensive investment activity in the coming years in T&D segments.
- The Company's management believes that the Company has sufficient funding sources of financing its activities and to repay its obligations in the foreseeable future, and it performs and will continue to perform any action to maintain its financial strength. The Company does not anticipate that failure to meet the financial strength goals, as set forth in the reform, in itself, will have implications for the Company's current activities.

Source: IEC’s Financial Statements for 2022FY and for H1.2023

Additional events

"Kosher Electricity" program

- On May 7, 2023, the Israeli government approved the first phase of the national plan for energy storage in urban areas. As part of the program, the EA will create the appropriate regulation that will allow the consumption of electricity at a normal rate, in areas where the population requests it.
- According to the decision, IEC will build a storage facility for the purpose of supply pilot of "kosher electricity" through one facility and will operate to sell the facility and hand over possession of it no later than three years from the day the facility's operation.

Source: IEC's Financial Statements for 2022FY and for H1.2023

Additional events – cont.

Collapse of the crane at Rothenberg site

- On May 13, 2023, due to an extreme weather conditions, the crane of the coal pier at the site collapsed, damaging the coal pier and killed 2 people. As a result of the collapse, the bridge was damaged and the ability to unload coal at the pier was disabled.
- As of April 10, 2023, IEC transports coal using trucks from the Orot Rabin site and also unloads coal at the Port of Ashdod and transports it according to the needs of the Rotenberg site.
- IEC operates to build a temporary bridge for the purpose of unloading coal at the Rothenberg pier, which is expected to be completed at the end of 2023.
- At this stage, it is not possible to assess the full impact of the event on the company's financial condition.

Source: IEC's Financial Statements for 2022FY and for H1.2023

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Operational Overview

The IEC Electricity Chain

Generation

50
Generation Units in
15
Power Sites

Transmission

Transformation System

11
Switching stations

149
Substations

Power Lines

806 km
400 kV lines

5,024 km
161 kV line (includes underground lines)

42 km
115 kV lines

Distribution

30,113 km
Medium Voltage Lines

40,955 km
Low Voltage Lines

53,920
Distribution Transformers

Supply

2.7
Million Households

3.0
Million Customers

Source: IEC Financial Statements for FY2022

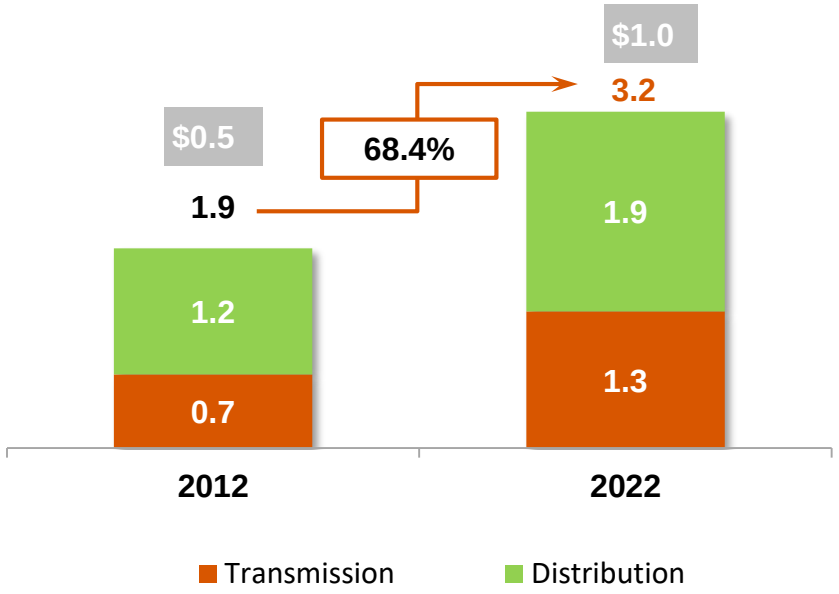
Historical Performance[1]

Comparison of Key Metrics

	12/31/2012	12/31/2022	% Change
Population [2] (mn)	8.0	9.7	21.3%
Number of Customers (mn)	2.6	3.0	15.4%
Transmission network lines (km of circuit)	5,338	5,872	10.0%
Distribution network lines (km of circuit)	46,489	71,068	52.9%

IEC Historical CAPEX[3] in the T&D segments

(Nis billion)



IEC continues to be the sole vertically integrated electric utility in Israel

1) *Source: IEC Financial Statements for FY2011 and for FY2022, IEC Statistical Report for 2011FY and The Electricity Authority - Report on State of Electricity Sector Year of 2021.*
2) *According to the Israeli Central Bureau of Statistics*
3) *CAPEX after re-measurements, reform costs and lease*
Financial Figures denote USD figures at USD/NIS average exchange rate of 3.86 & 3.36 for 2012FY & 2022FY, respectively

The IEC Transmission Segment

Development plans for 2023-2027 in the transmission segment

- Addition of appx. 738 circuit km ultra-high voltage transmission lines (400 KV).
- Establishment of appx. 930 circuit km high voltage transmission lines (161 KV).
- Upgrading of appx. 989 circuit km of existing network (high voltage poles) and re-construction of appx. 462 circuit km.
- Addition of appx. 155 km underground cable circuits.
- Construction of 3 new switching stations so that by the end of 2025, the total expected capacity in existing and new 400/161 KV switching stations will be 17,695 MVA.
- As of the end of 2022, the company has at it's disposal 149 substations with total capacity of 19,486 MVA.
- By the end of 2025, the total capacity of the substations is expected to reach 24,849 MVA.

Source: IEC's Financial reports for 2022FY

The IEC Generation Segment & Fuel Mix

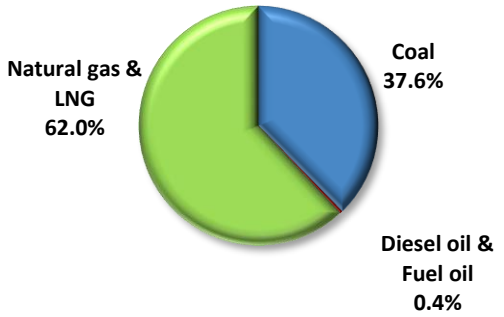
- Construction of two combined cycle gas turbines (units 70-80) at the 'Orot Rabin' site.
- Deactivation and Preservation of coal-fired Units 1-4 at 'Orot-Rabin' site in order to guarantee the reliability of electricity supply to consumers.
- Conversion of the remaining 6 coal units to natural gas gradually until 2026 (units 5-6 at 'Orot Rabin' and units 1-4 at 'Rothenberg').
- Total generation in the electricity sector is expected to be coal free, based on natural gas and renewable energies no later than year 2026.

IEC Generation Facilities[1]

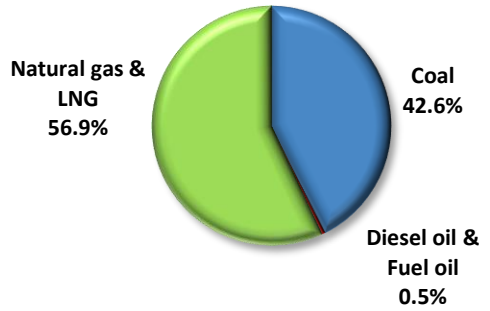
	No. of units	Installed Capacity (MW)
Steam (dual purpose) (coal and fuel oil) [2,3]	10	4,840
Steam (dual-purpose) (natural gas and fuel / diesel oil)	6	1,340
Gas turbine (internal combustion) (industrial gas)	9	914
Gas turbine (internal combustion) (jet engine)	16	504
Combined cycle (internal combustion and steam)	9	3,357
Total	**50**	**10,955**

Fuel Mix by Electricity Generated

January 1 – June 30, 2023



January 1 – December 31, 2022



Source: IEC's Financial Statements for 2022FY and for H1.2023

1) *As of December 31, 2022*
2) *Units 1-4 at the Orot Rabin Power Station will be transferred to preservation subject to the following conditions: three natural gas reservoirs in separate infrastructure + start of the first CCGT activation. Please see the decision of the Minister of Energy relative to the preservation of units 1-4 of February 8, 2021 published on the EA website*
3) *In accordance with the Minister of Energy's policy principles, which was published on the Ministry of Energy's website on November 24,2019, it was decided that units 5-6 at Orot Rabin Power Station and units 1-4 at Rutenberg Power Station will gradually converse using natural gas in order to stop routine coal use until 2025 and no later than 2026.*

Natural Gas Overview

Firm gas supply from Tamar Field

- A long term Gas Sale and Purchase Agreement (GSPA) was signed on March 2012.
- On January 24, 2022, an amendment to the agreement was signed with all Tamar partners, following the contractual first price reopening date.
- Reduction of the contractual gas price applicable for the Take or Pay (TOP) quantity in a rate that is a few percent higher than the maximum rate of first price re-opener in the GSPA Agreement.
- According to the GSPA, the gas price for the minimum charged amount is linked to the US CPI. Few restrictions for the US CPI indexation have been set in the amendment.
- The parties' entitlement was maintained for another re-opener date for the minimum amount (in the range of up to 10% supplement or reduction) on December 31, 2024 (instead of the re-opener date set in the GSPA agreement - July 1, 2024).
- The agreement term was extended for another 2.5 years until December 31, 2030.
- Commitment to purchase additional 16 BCM according to the Company's actual operational needs.
- The company will undertake to order a minimum daily quantity on an operational basis during the agreement period.
- Price of gas for the operational quantity and for any additional quantity up to the maximal daily quantity but in excess of the minimal annual quantity (Take or Pay), will be slightly lower than $ 4 per MMBTU without indexation.
- **The amendment to the Tamar agreement entered into force on July 22, 2022 after the fulfillment of all the precedent conditions. The accounting between the parties will be executed retroactively as from July 1, 2021.**

Source : IEC 's Financial Statements for for 2022FY.

Natural Gas Overview – cont.

Gas supply from Leviathan Field

- On July 4, 2021 an agreement for Spot sale and purchase of natural gas was signed between IEC and the Leviathan partners. The contract period is one year.
- On June 23, 2022 the contract period was extended for another year. On June 28, 2023, the agreement was extended for an additional year until July 4, 2024.
- The price of gas will be determined each month. The contract does not include any obligation regarding the purchased quantities (TOP or minimum quantity).

Gas supply from Karish Field

- On March 14, 2022, IEC entered into an agreement with Energean Israel Limited for Spot sale and purchase of natural gas for one year, starting from the date of delivery of gas from the reservoir.
- On October 29, 2022, the delivery of gas from the reservoir started and the agreement came into force.
- The price of gas will be determined each month. The contract does not include any obligations regarding the purchased quantities.

Sufficient gas supply and predictable prices - stable operational environment

Source : IEC 's Financial Statements for H1.2023 and for 2022FY

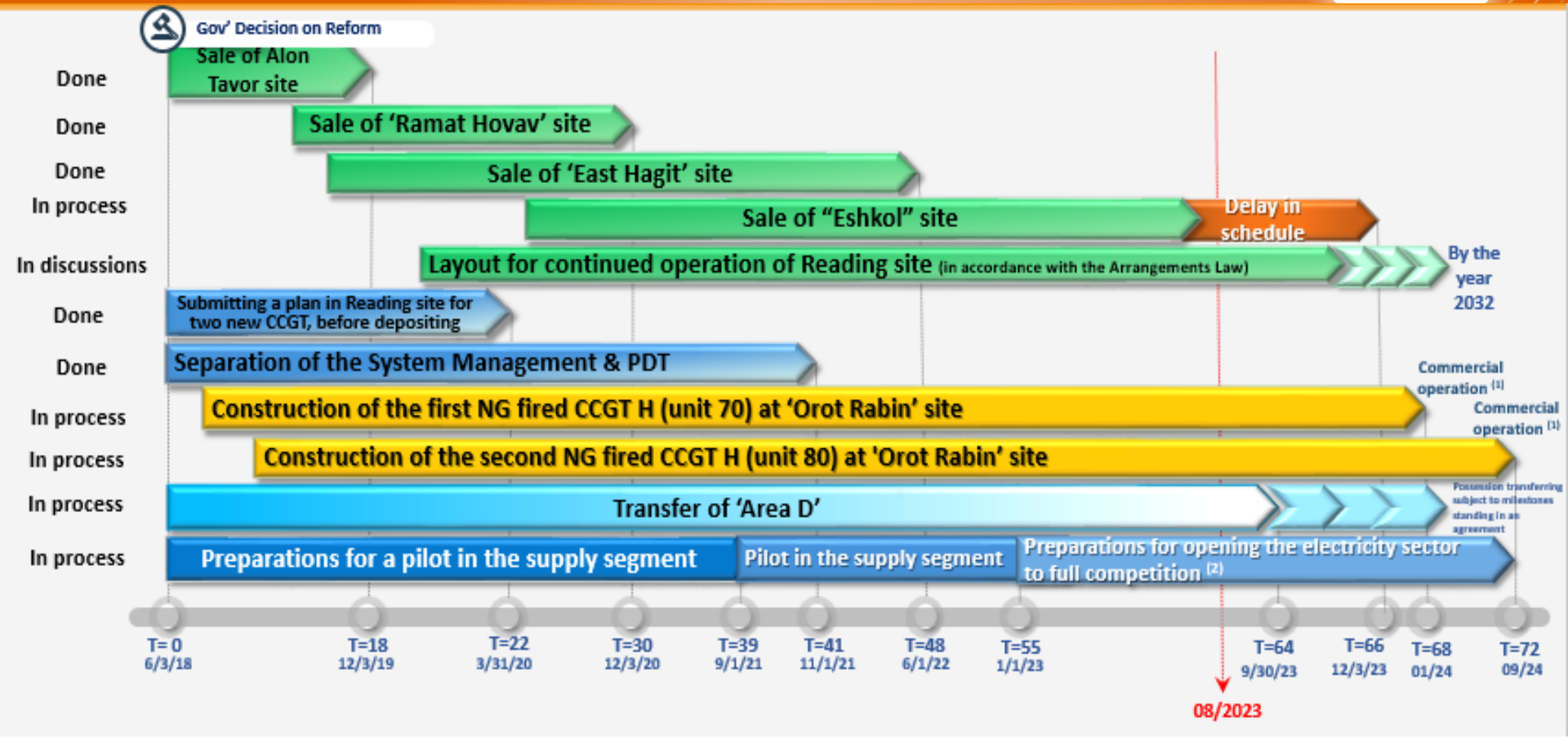
The Sector Reform

Main points of the reform

Organizational change, efficiency plan and administrative flexibility	Essential service provider in the transmission and distribution segments	Opening the supply segment market to competition from other entities	Transfer of the system Management and additional units to a separate Government company	Sale of generation sites and increased competition in the generation segment
Value added services, installation of smart meters, construction and operation of storage facilities	Strengthening the financial stability of IEC	Compliance with financial targets	Assets arrangement	Construction & operation of two combined cycle gas turbines at the 'Orot Rabin' site

Source : IEC 's Financial Statements for 2022FY

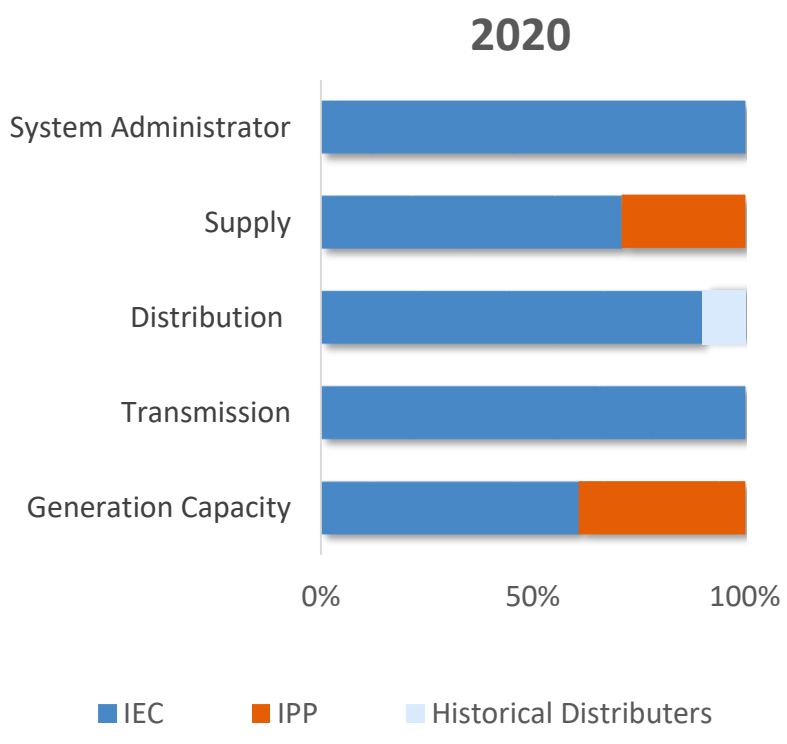
The Sector Reform Timeline

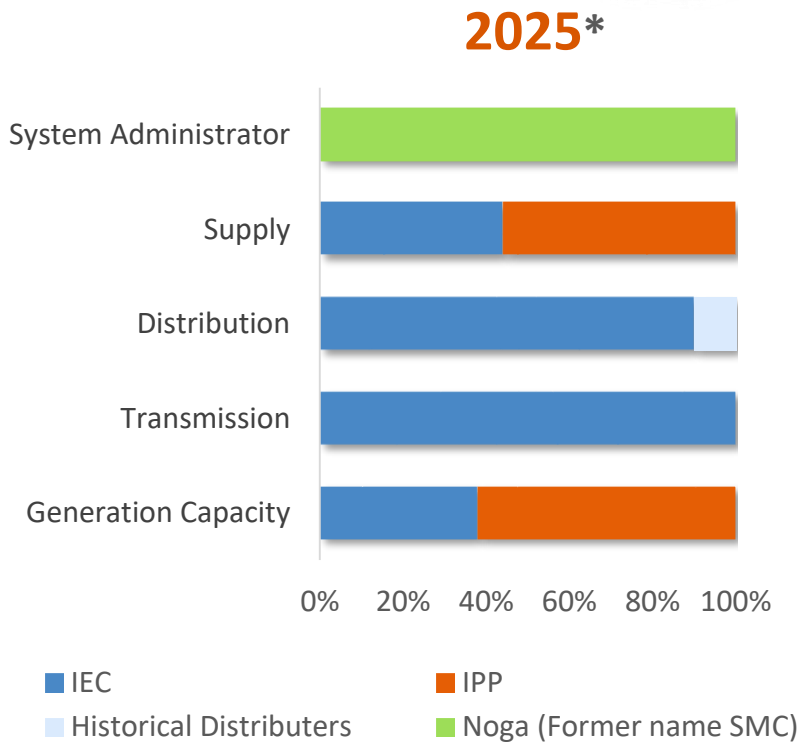


Source : IEC 's Financial Statements for H1.2023

1. *Commercial operation is the date on which the generation unit successfully passed all the acceptance tests of the System Manager as defined in the criteria published by the Electricity Authority, and the generation license entered into effect.*
2. *The Electricity Authority (EA) is intended to open the electricity sector to full competition at the beginning of 2024*

The Israeli Electricity Sector Structure





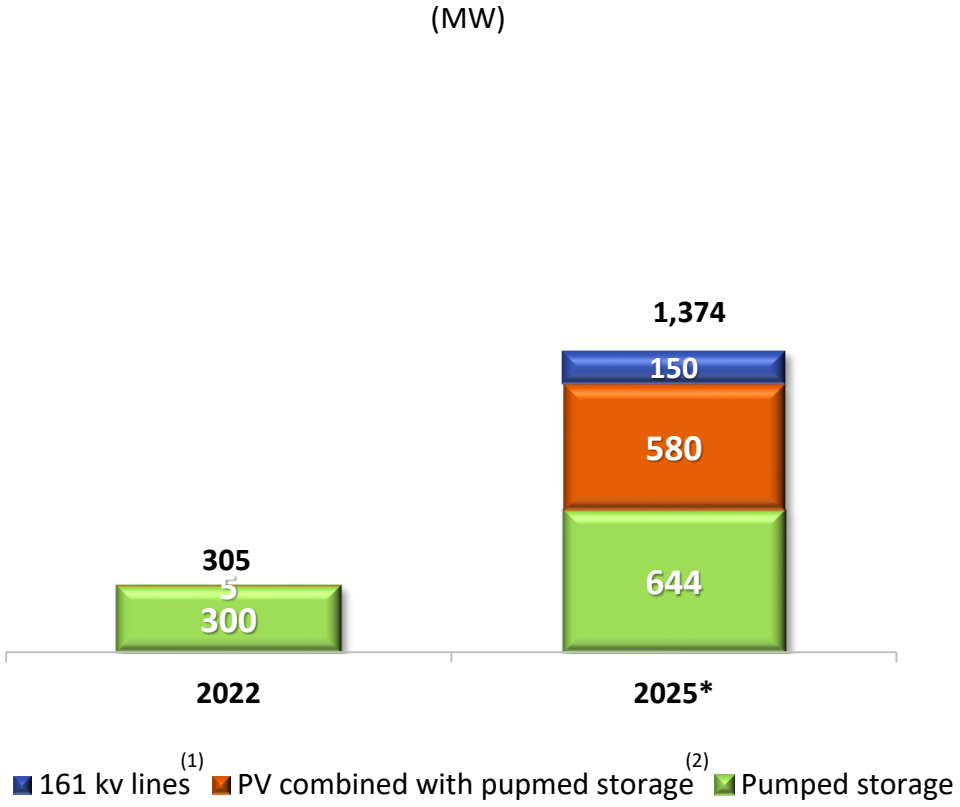
In light of reform in the electricity sector, The Noga company was established in order to manage the electricity system in Israel. The share of IEC in the generation segment will be reduced and the supply segment shall be open to competition. IEC will focus its activity in the T & D segments. The transmission activity and most of the distribution activity shall remain in IEC as Essential Service Provider

** The Electricity Authority Forecast*

Source: The Electricity Authority - Reports on State of Electricity Sector for the years 2019-2021.

Energy Storage

Energy Storage Capacity



Moving towards Energy Storage

- In 2022, most of the capacity in storage facilities sourced from a pumped storage facilities.
- By 2025, the capacity in storage facilities is expected to increase significantly mainly due to the entry of new pumped storage facility, the entry of low and high voltage combined storage PV facilities and the entry of storage facilities by IEC.
- After 2025, a new pumped storage facility with a capacity of 150 MW is expected to operate.
- According to the EA's hearing from June 2023, 161 kv storage facilities constructed by the private producers are expected to enter with an approximate capacity of 1,000 MW.
- In the coming years, storage in the market model and storage behind the counter is expected to enter.

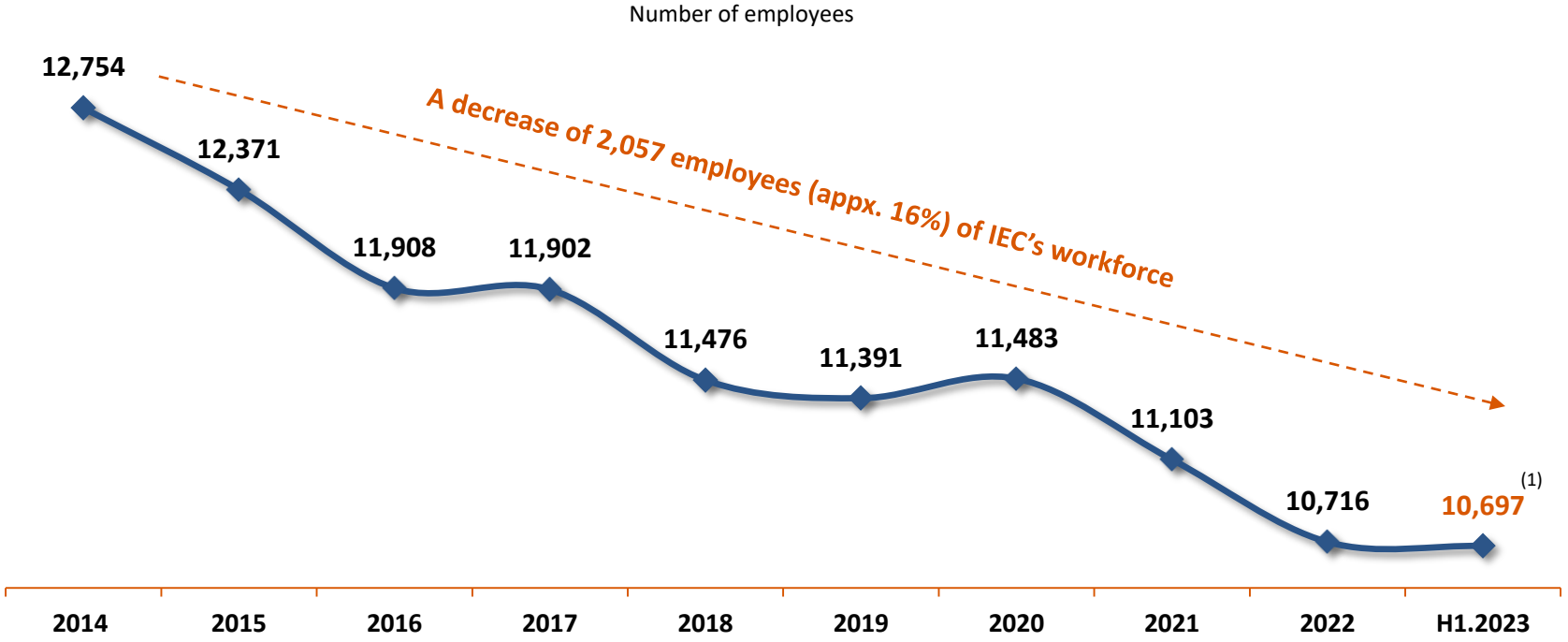
Source: The Electricity Authority - Report on State of Electricity Sector Year of 2022.

- The Electricity Authority Forecast

1) Competitive procedure
2) Promoted by Israel Electric

IEC's Human Capital

Streamlining of IEC's Workforce



As part of the reform in the electricity sector, an efficiency program is resuming for the years 2023-2025

Source: IEC's Financial Statements for 2014FY – 2022FY and for H1.2023

1. *From 2018 to March 31, 2022, 1,763 permanent employees retired as part of the reform agreements in parallel with the employment of temporary employees.*

חברת החשמל
Israel Electric

Israeli Electricity Sector

The Electricity Tariff

Tariff Structure

In accordance with the Electricity Sector Law, the electricity tariff is set by the Electricity Authority (EA) and reformulated from time to time. The outline of the formula is as follows:

Recognized costs per segment (e.g. fuel costs, operational costs, depreciation costs and financial costs).
Some of the recognized costs are also attributed to funding the reform costs

+

Fair rate of return on equity per segment

Electricity Tariff

Ongoing Update

- Actual costs are examined every 2 weeks by the EA (at the time of CPI and fuel prices changes)
- Discrepancies between forecasted costs and actual cost are reconciled on the earlier of:
  - A difference of 3.5%, provided that 3 months have passed since the last update
  - A difference of 5.5%
  - The Annual Update

Annual Update

Once a year, The current year's costs are updated based on forecasts as well as on previous years' reckoning - the gap between the previous year's forecast components and the actual costs of the previous year

Source: IEC's Financial Statements for 2022FY

The Electricity Tariff Updates

Date of update	Update rate	Decision factors
01/01/2023	8.2% ↑	▪ Ongoing and increase in the global coal prices ▪ Prohibition of the Ministry of Environmental Protection to operate old NG units at Eshkol site, which forced to increase the electricity production in coal, delaying the construction of the new 2 CCGT in Hadera ▪ Delay in conversion of coal units to NG in Hadera and Ashkelon ▪ Increases at the interest rates and Israeli consumer price index
02/01/2023	1.5% ↓	▪ Extension of reduction of the excise tax on coal
04/01/2023	2.4% ↓	▪ Reduction in coal prices and their stabilization since the beginning of the year

Source: IEC's Financial Statements for 2022FY and for H1.2023, Electricity Authority's decisions no. 62302 as of 01/24/22, no. 63006 as of 04/12/22, no. 63308 as of 07/27/22, no. 64504 as of 12/21/22, no. 64801 as of 01/26/23 and no. 65203 as of 03/26/23 - electricity tariff to IEC's consumers

Update of the generation tariff base

- On January 9, 2023, the Electricity Authority published a decision regarding a new rate base for the generation segment that will apply until the end of year 2027. This decision includes reference to recognition of the operating costs, cost of capital, recognized assets, working capital, availability of the generation units, and calculation of the gaps between the recognized cost and actual costs.
- The change of the method of recognizing assets and extending the life of the generation units, affected the costs of 2022 in a direction opposite to the debt arising from the use of coal. The gaps created in the generation segment in 2022, amounting to approximately NIS 1 billion, were also spread over 3 years.
- The spread of the 2022 fuel debt offset by the effect of the change in methodology of the generation tariff base in 2022 is approximately NIS 2.8 billion over the years 2023-2025.
- New tariff base for transmission and distribution segments for the coming years has not yet been published.

Source: IEC's Financial Statements for 2022FY and for H1.2023

Progress in implementation of the electricity sector reform and structural change

Selling generation sites

- **Reading site**

On September 13, 2023, the Minister of Energy and Infrastructures approved the team's recommendation (a team which established in order to examine various alternatives for the site, led by the general manager of the Ministry of Energy and Infrastructure), by which, inter alia, the relevant government officials should act to promote the sale of the station. As well, a statutory procedure must be promoted as soon as possible in order to facilitate the establishment of temporary units at the Reading site, and to promote an outline for the transfer of responsibility for their establishment and/or operation to the private market for the interim period.

- **Eshkol site**

The Electricity Authority extended the generation licenses of the Eshkol site until December 3, 2023. The Tenders Committee of IEC decided on July 18, 2023, to cancel the tender for the sale of the Eshkol site due to the withdrawal of the winner Eshkol Power Energies Ltd from its proposal in the tender and conduct a new competitive procedure among the bidders who submitted proposals in the tender, including a minimum price of NIS 9 billion, in accordance with the conditions in the procedure documents. On August 9, 2023, OPC filled an administrative petition with the Tel-Aviv District court against the company, pursuant to which the court was requested, inter alia, to cancel the decision of the tenders committee regarding the cancellation of the tender and regarding a new "competitive procedure" in its place. This petition was rejected on September 14, 2023, by the court, who's decision stated that the Tender Committee's decision was proper, reasonable and unflawed.

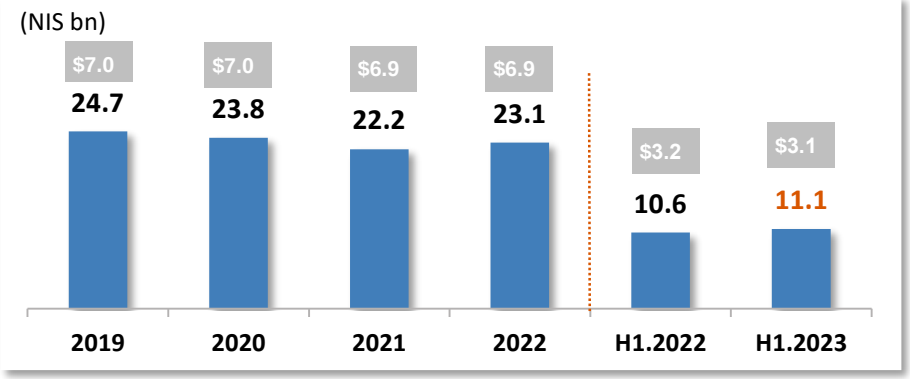
Source: IEC's Financial Statements for 2022, H1.2023 and immediate reports as of September 14, 2023

חברת החשמל
Israel Electric

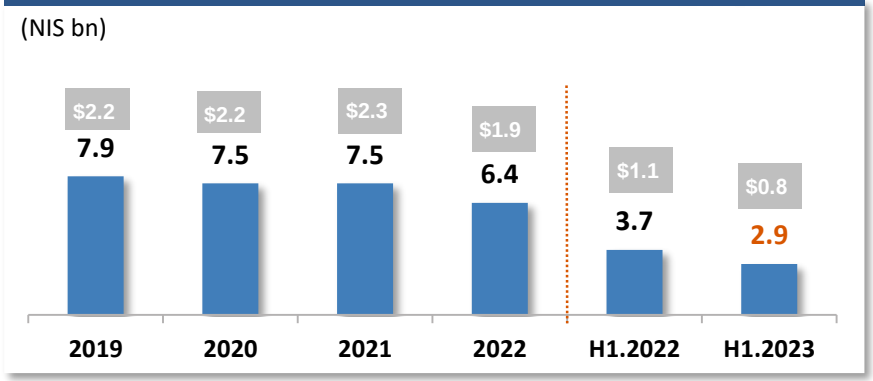
Financial Overview

Financial Highlights

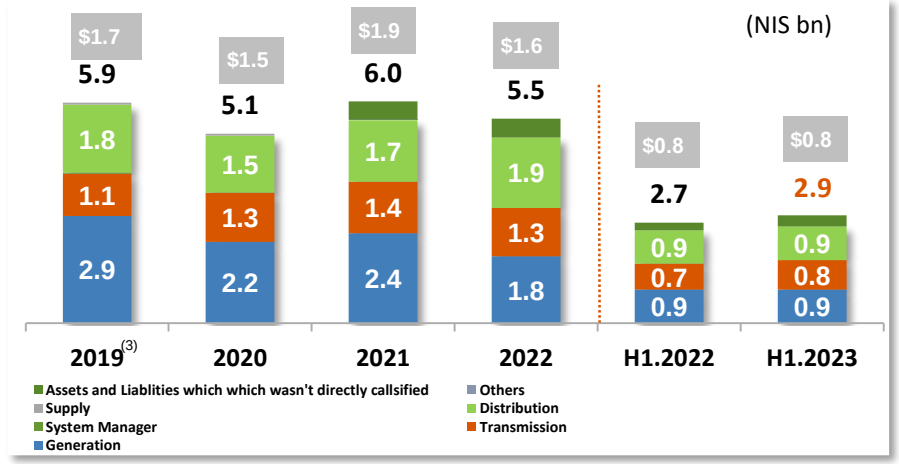
Revenues



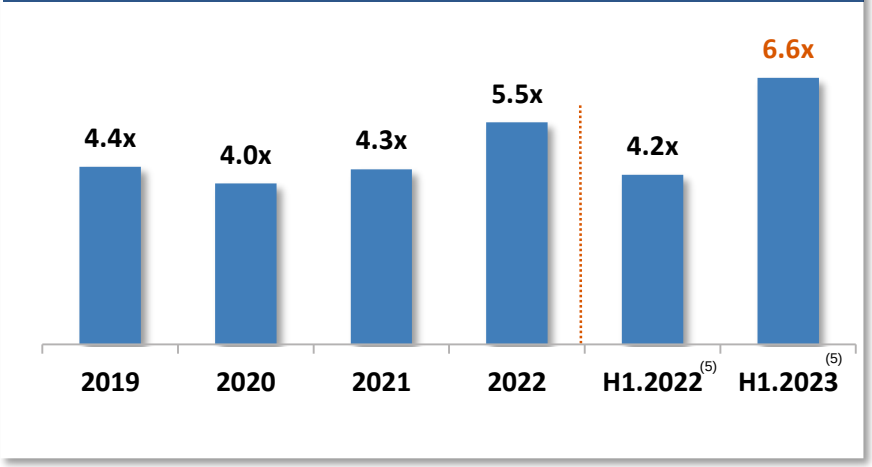
EBITDA(1)



Historical Investments by segments (CAPEX) (2)



Net Financial Debt(4)/EBITDA

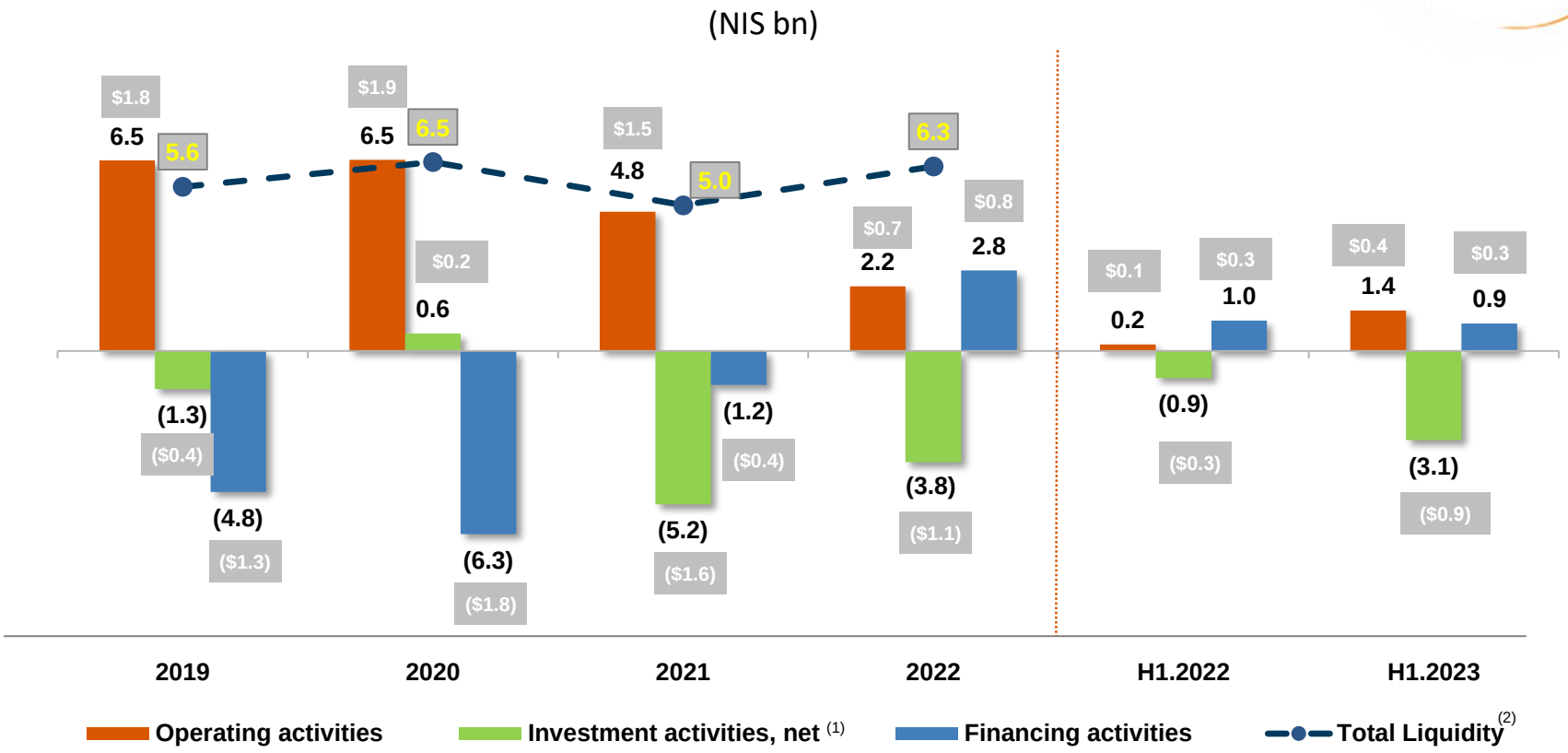


Source: IEC's Financial Statements for 2019FY-2022FY and for H1.2023

1. *IEC defines "EBITDA" as a Normalized EBITDA - profit (loss) before income taxes, financial expenses, depreciation and amortization, including movement in regulatory deferral accounts, while neutralizing special non-current events.*
2. *CAPEX before re-measurements and reform costs.*
3. *CAPEX also include non – cash adjustments in 2019 in accordance with IFRS 16 (Leases) in the sum of appx, Nis 1.4 billon.*
4. *IEC defines "net financial debt" as credit from banks and other credit providers, total long-term debt (including debentures, long-term liabilities to banks, including hedge transactions, lease liabilities, debentures to the State of Israel and liabilities to the state of Israel), less cash and cash equivalents, short-term investments and other receivables (including receivables for forward contracts and swap transactions, MTM and long-term deposits and regulatory deferral account assets with respect to linkage differentials)*
5. *In annualized terms, calculation based on LTM EBITDA,.*

Financial Figures denote USD figures at USD/NIS average exchange rate of 3.56, 3.44, 3.23, 3.36, 3.27 and 3.59 for 2019FY ,2020FY, 2021FY, 2022FY, H1.2022 and H1.2023, respectively

Historical Cash Flow

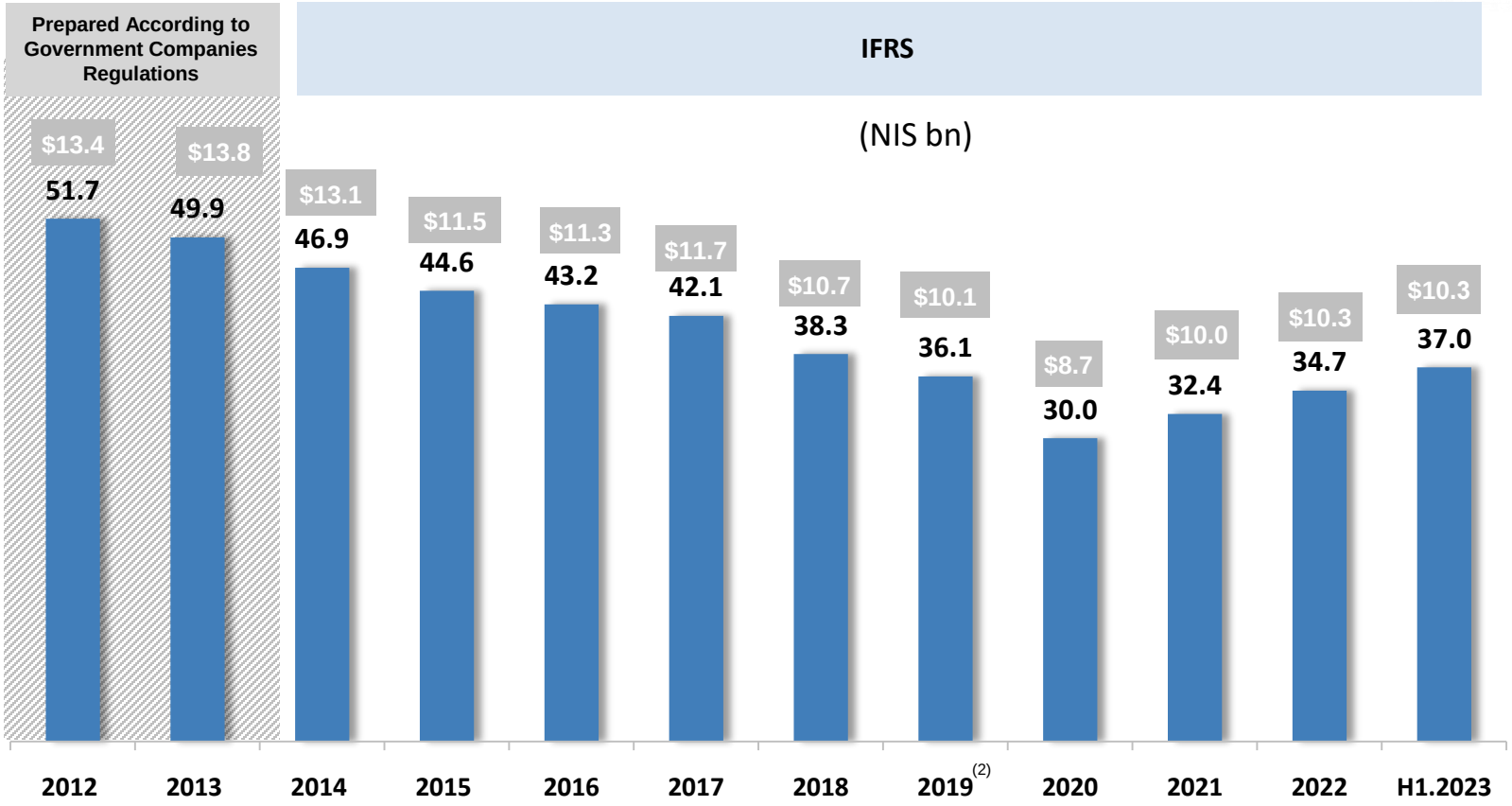


Source: IEC's Financial Statements for 2018FY-2022FY and for H1.2023

1. *Investment activities excluding repayment (or deposits) of bank deposits.*
2. *IEC defines "liquidity" as cash and cash equivalents, short term investments and available credit facilities.*

Financial Figures denote USD figures at USD/NIS average exchange rate of 3.56, 3.44, 3.23, 3.36, 3.27 and 3.59 for 2019FY ,2020FY, 2021FY, 2022FY, H1.2022 and H1.2023, respectively.

Net Financial Debt (1) Over Time



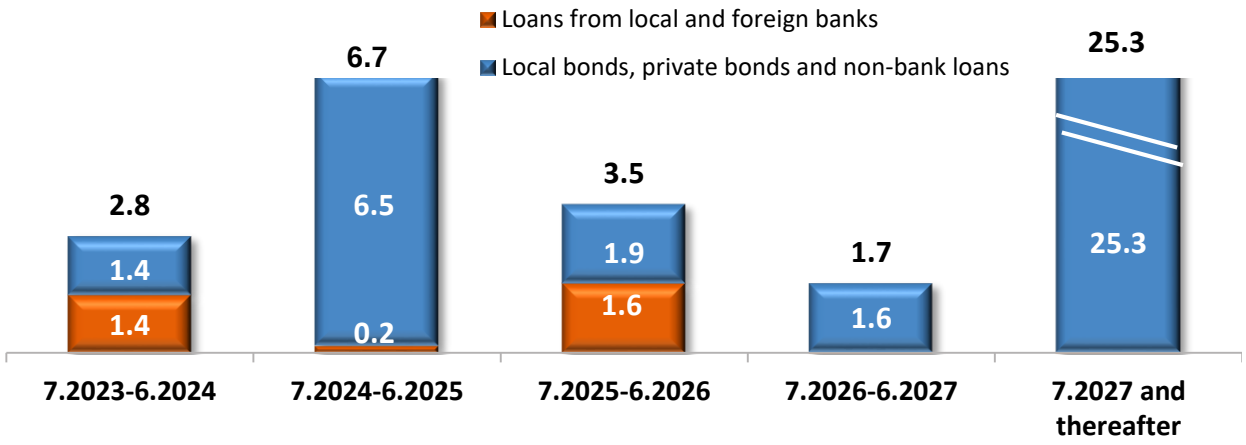
Source: IEC's Financial Statements for 2012FY-2022FY and for H1.2023

1. *Net financial debt is a non-GAAP measure that is defined as credit from banks and other credit providers, plus total long-term debt (including debentures, long-term liabilities to banks, including hedge transactions, liabilities to the State of Israel), leases liabilities and CPI linkage differentials regulatory deferral account, less; cash and cash equivalents, short-term investments, long and short term receivables in respect of forward contracts and swap transactions, and long-term deposits to secure swap transactions.*
2. *As from 01/01/2019, "net financial debt" also includes lease liabilities.*

Figures denote USD figures at USD/NIS average exchange rate of 3.86, 3.61, 3.58, 3.89, 3.84, 3.60, 3.59, 3.56, 3.44 ,3.23, 3.36 and 3.59 for 2012FY, 2013FY, 2014FY, 2015FY, 2016FY, 2017FY, 2018FY, 2019FY ,2020FY ,2021FY, 2022FY and H1.2023, respectively.

Consolidated Debt Breakdown
as of June 30, 2023

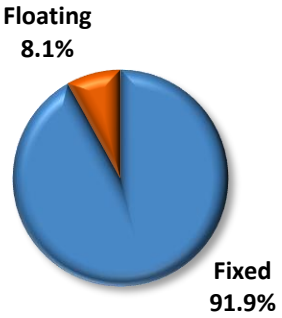
Annual Debt Maturities (Principal in NIS billions)[1]



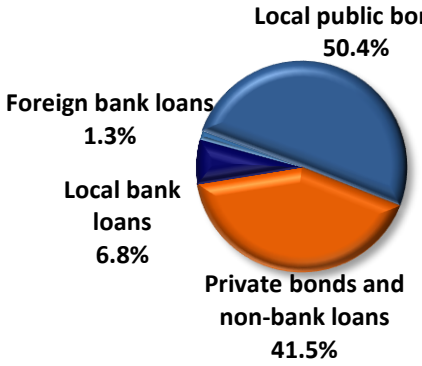
Profile of International IEC $ Bonds[2]

Maturity	Outstanding Amount ($mn)	Coupon
Nov-24	1,250	5.000%
Dec-26	125	7.875%
Dec-27	300	7.750%
Aug-28	1,000	4.250%
Mar-30	40	8.940%
Feb-32	500	3.750%
Dec-96	125	8.100%

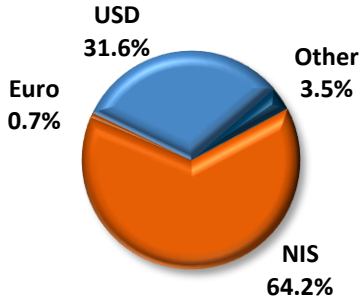
Interest Rate Exposure[3]



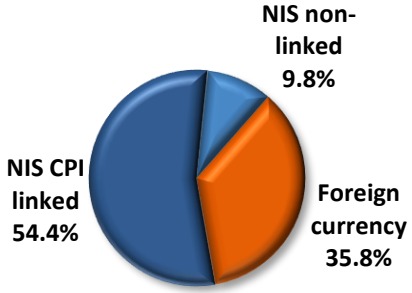
Type of Instrument[1]



Debt by Currency[1]



Debt by Linkage[1]



Source:
1) *IEC immediate report on the Corporate Liabilities Status, IEC Financial data.*
2) *IEC Financial data and Bloomberg as of September 2023*
3) *IEC's Financial Statements for 2022FY*

חברת החשמל
Israel Electric

Sustainability Overview

Environment, sustainability and corporate governance (ESG)

חברת החשמל
Israel Electric

Ethical Aspects of Business Conduct

Responsible Supply Chain

Employee health, Wellbeing and working relations

Environment

Diversity & Inclusion

Corporate Governance

Employee Volunteering

IEC earned the highest ranking in the Maala[(1)] 2022 Index: Platinum^{+} (for the ninth consecutive year)

Source: IEC's Corporate Sustainability Report for 2021, Maala's rating for IEC for 2023

1. *Maala is the non-profit CSR standards-setting organization in Israel who serves the needs of some 120 members, comprised of Israel's large and mid-size companies, committed to excellence in corporate citizenship. The criteria in the rankings are determined by an independent public committee composed of content experts, academics, heads of social environmental organizations and representatives of the business sector.*

State of Israel's Commitments on Climate

100 Action Items

- Just before COP26, the government released a "100 Action Items" plan to develop technologies aimed at reducing CO2 emissions and preparation for climate change with the cooperation of 14 ministries

Absolute Targets

- State of Israel's goal is to reduce absolute greenhouse gas emissions:
  - By 27% by 2030, from 2015 levels
  - By 85% by 2050, from 2015 levels

המשרד להגנת הסביבה

الوزارة لحماية البيئة

Israel Ministry of Environmental Protection

Renewable Power Targets

- The Minister of Energy announced to phase-out coal-fired power generation no later than 2026 and determined targets for a renewable power generation share of 20% in 2025 and 30% in 2030. IEC will continue to develop the electricity network system in order to enable renewable energy absorption and to achieve the 2030 target
- Israel signed the COP26 pledge to phase-out from coal by 2030 for major economies (2040 for the rest) and end investments in new coal power generation plants

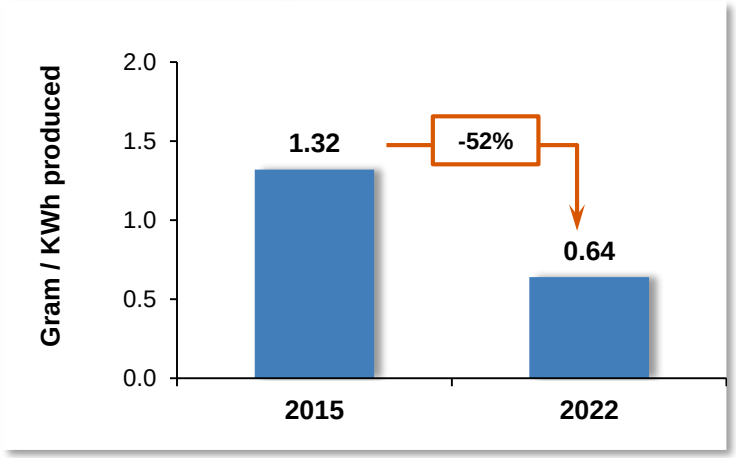
Sectoral Targets for Electricity

- The electricity / heat sector make up approx. 45% of Israel's total emissions (latest data 2019)
- State of Israel has a sectoral target to reduce greenhouse gas emissions from **electricity generation (IEC & IPP's):**
  - **By 30% by 2030,** from 2015 levels (37.4 MtCO2eq)
  - **By 85% at least by 2050**, from 2015 levels (37.4 MtCO2eq)

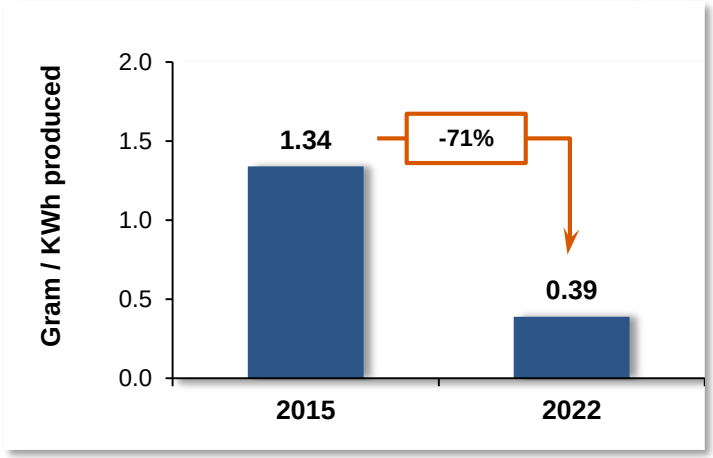
Source: Report of greenhouse gas emissions in Israel - Annual Tracking regarding the implementation of the National Program and Goals to reduce greenhouse gas emissions and the commitment of Israel to the climate trust, The Ministry of Environmental protection May 2021 ; government decision number 171 dated July 25, 2021 "Transition to low carbon economy" ; Emissions report of air pollutants from fuel burning, according to fuel consumer, The Israeli Central Bureau of Statistics

IEC has taken significant steps to reduce emissions

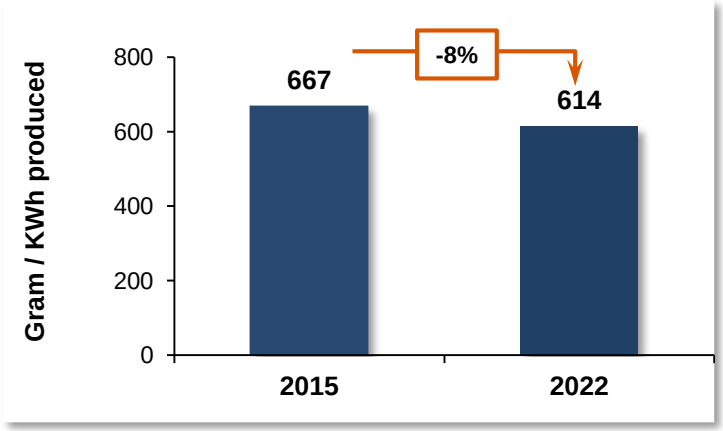
Nitrogen Oxides NOX



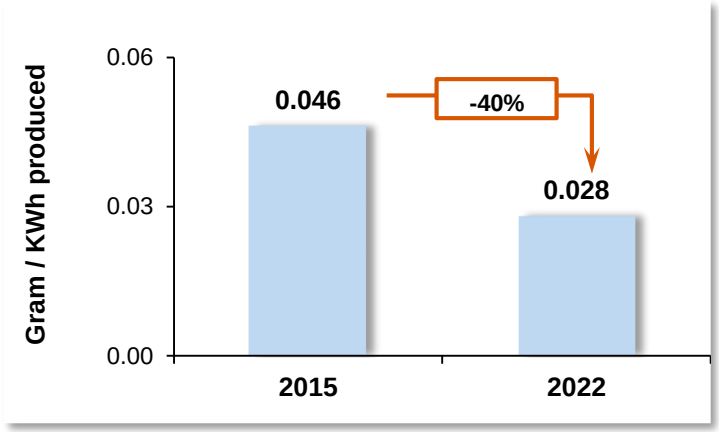
Sulfur Dioxide SO2



Carbon Dioxide CO2

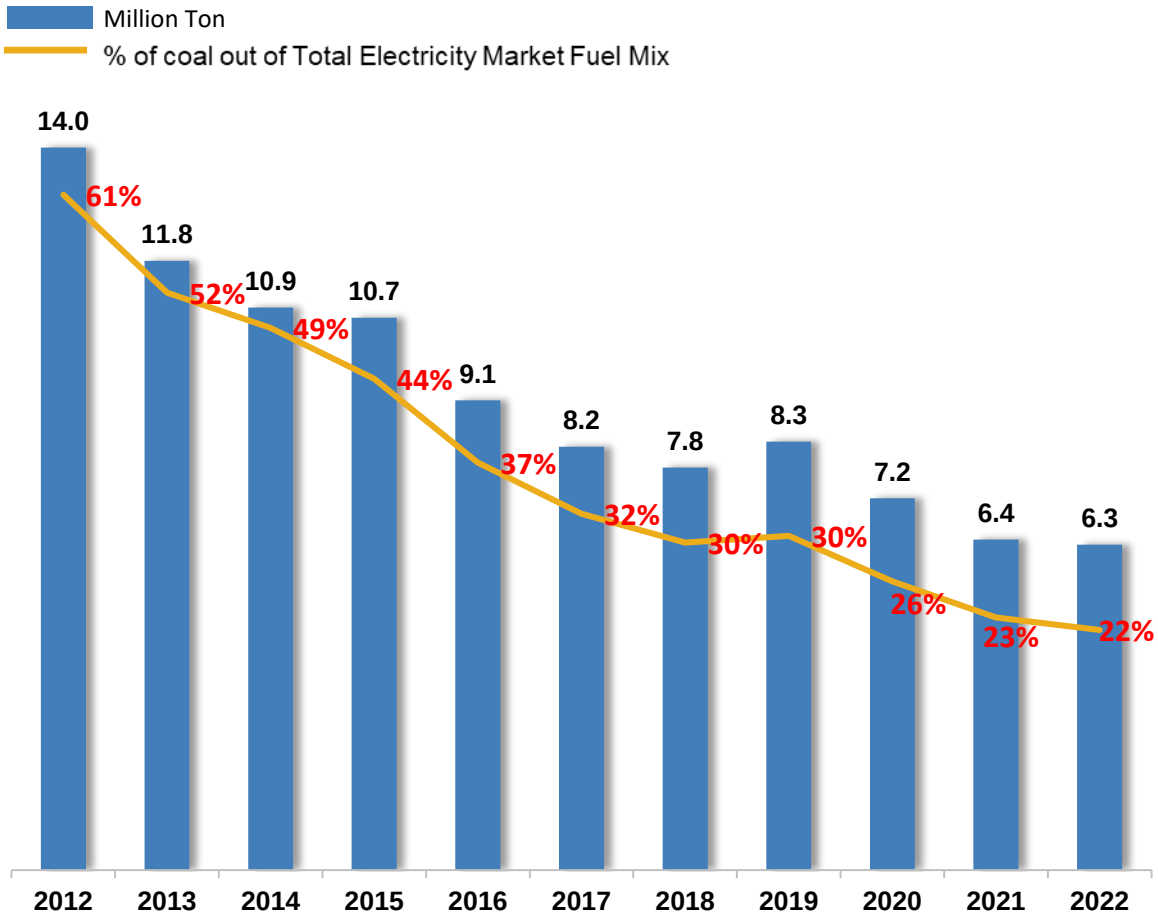


Particulate Matter PM



Source: IEC Environmental report for the year 2022

Coal Usage Over Time



Source: IEC's Financial Statements for 2012FY-2022FY, The Electricity Authority - Report on State of Electricity Sector Year of 2022
1) The emissions reduction cost does not include interest during the construction period

Implementing Government policies

- The State of Israel signed the Paris Agreement in 2016 and has significantly limited the usage of coal for electricity generation
- An emissions reduction project in the larger coal units was executed at a significant cost of NIS 7.1 billion (1)
- Government target of Israel is to be "coal free" by 2030. The Israeli Electricity Market will stop routine coal use until 2025 and no later than 2026 following the Israeli Minister of Energy's policy principles on 11/24/2019
- IEC is financially protected from change in fuel mix by the electricity tariff

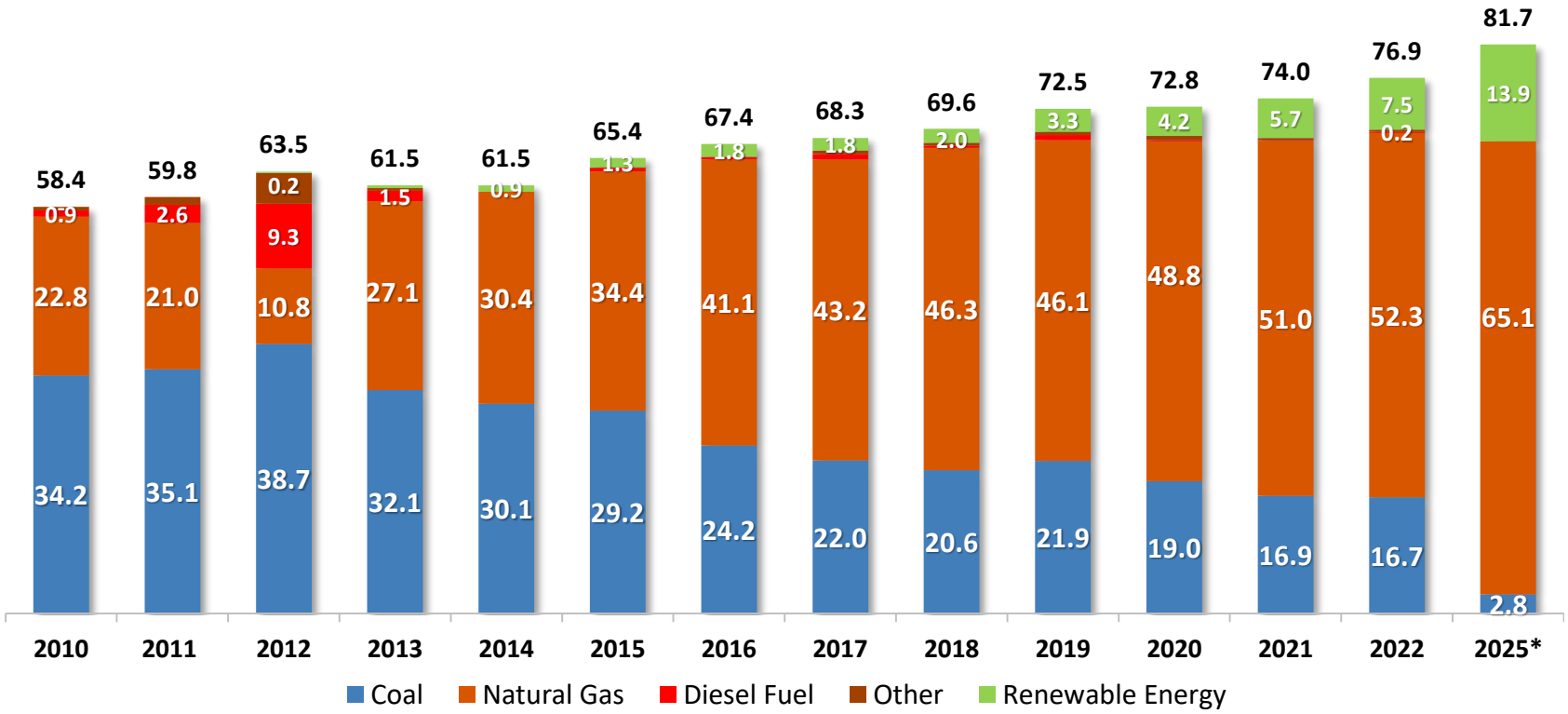
The Future of Coal

- The current coal capacity is 4,840 MW of which:
  - 1,440 MW will be mothballed in 2023/24 following the Israeli Minister of Energy decision on 2/8/2021
  - 3,400 MW are expected to be converted to NG by the end of 2025 following the Israeli Minister of Energy's policy principles on 11/24/2019

The Israeli Electricity Sector Fuel Mix

Electricity Market Fuel Mix (IEC & IPP)

(TWH)



The Israeli Electricity Sector is expected to be "coal free" by 2030 (the target may be preceded to 2025)[1]

Source: The Electricity Authority - Report on State of Electricity Sector Year of 2022.

** The Electricity Authority Forecast*

1. For that matter please see the Minister of Energy's statements and the Ministry of Energy's policy for 2030 regarding the rehabilitation from polluting fuels

Thank you!

For questions or additional information, please contact IEC Investor Relations: ir@iec.co.il

חברת החשמל
Israel Electric

Appendices

Income Statement
(NIS millions)

חברת החשמל
Israel Electric

(NIS millions)	For the period:		
	12/31/2022	**06/30/2022**	**06/30/2023**
Revenues	23,105	10,581	11,144
Cost of operating the electricity system			
Fuels	9,561	4,227	3,704
Purchases of electricity	5,933	2,868	2,926
Operation of the generation system	4,094	2,026	1,829
Operation of the transmission and distribution system and others	2,840	1,406	1,497
Total costs	22,428	10,527	9,956
Profit from operating the electricity system	**677**	**54**	**1,188**
Other revenues, net	(1,405)	(1,378)	(82)
Sales and marketing expenses	819	397	426
Administrative and general expenses	856	419	423
Income from liabilities to pensioners	(148)	(70)	(147)
Reform agreement and other agreements results	212	135	125
Profit from current operations	**343**	**551**	**443**
Financial expenses, net	1,356	750	784
Loss before income taxes	(1,013)	(199)	(341)
Income from taxes on income	(226)	(41)	(71)
Loss after income taxes	**(787)**	**(158)**	**(270)**
Company's share of the profit of asociated companies	-	2	7
Loss before regulatory deferral accounts	**(787)**	**(156)**	**(263)**
Movement in regulatory deferral accounts balances, net of tax	2,561	1,016	1,006
Profit for the period	**1,774**	**860**	**743**
Profit with respect to cash flow hedging, net of tax	60	58	7
Remeasurement of a defined benefit plan, net of tax	1,693	737	825
Movement in balances of regulatory deferral accounts balances,	(181)	(145)	(37)
Comprehensive income for the period	**3,346**	**1,510**	**1,538**

Source: IEC's Financial Statements for H1.2023

Balance Sheet
(NIS millions)

חברת החשמל
Israel Electric

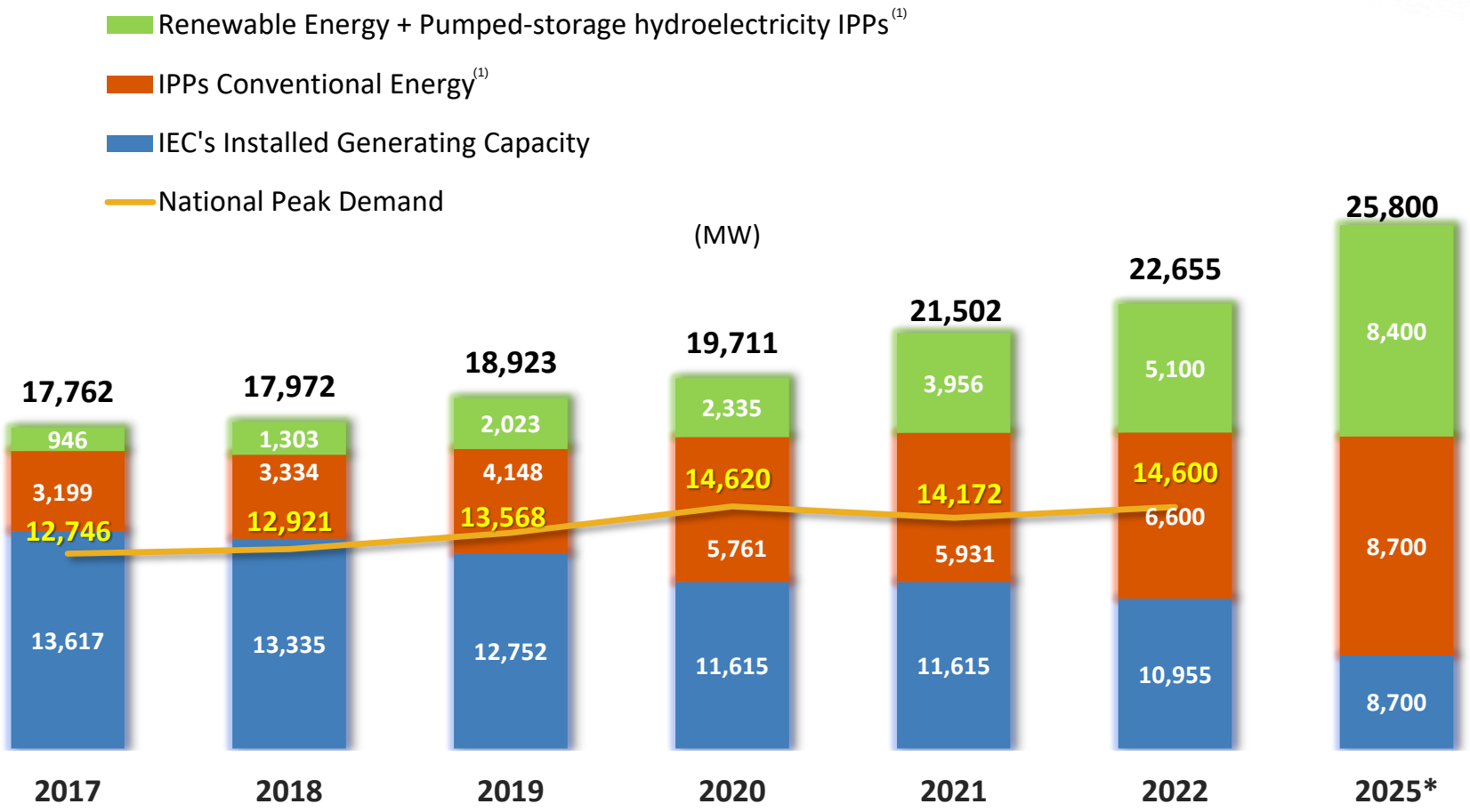
(NIS millions)

Assets	12/31/2022	06/30/2022	06/30/2023
Current assets			
Cash and cash equivalents	3,654	2,827	1,048
Short term investments	459	357	484
Trade receivables for sales of electricity	4,702	4,391	5,199
Other current assets	886	930	1,077
Inventory - fuel	2,412	2,204	1,760
Inventory - stores	166	140	180
Assets of disposal groups classified as held for sale	-	-	1,868
Total current assets	**12,279**	**10,849**	**11,616**
Non-current assets			
Inventory - fuel	1,413	1,554	1,246
Long-term receivables	2,111	2,220	1,960
Investment in associates	13	11	20
Assets with respect to benefits after employment termination	11,000	9,399	12,963
Fixed assets, net	59,611	59,325	58,810
Intangible assets, net	1,153	1,175	1,154
Total non-current assets	**75,301**	**73,684**	**76,153**
Debit balance of regulatory deferral accounts	**11,384**	**10,038**	**12,073**
Total assets and debit balance of regulatory deferral accounts	**98,964**	**94,571**	**99,842**

Liabilities and Equity	12/31/2022	06/30/2022	06/30/2023
Current liabilities			
Credit from banks and other credit providers	5,360	6,863	3,062
Trade payables	3,807	3,211	3,155
Other current liabilities	1,365	1,520	1,381
Customer advances, net of work in progress	834	788	881
Provisions	684	692	660
Total current liabilities	**12,050**	**13,074**	**9,139**
Non-current liabilities			
Debentures	30,791	26,766	33,545
Liabilities to banks	3,546	3,572	3,428
Liabilities with respect to other benefits after employment termination	5,374	5,787	4,897
Deferred taxes, net	8,051	7,701	8,482
Liability to the State of Israel	1,876	1,833	1,906
Lease liabilities	460	482	461
Other liabilities	514	485	490
Total non current liabilities	**50,612**	**46,626**	**53,209**
Equity	**32,171**	**30,335**	**33,709**
Credit balances of regulatory deferral accounts and deferred taxes with respect to regulatory deferral accounts	**4,131**	**4,536**	**3,785**
Total liabilities, equity and credit balance of regulatory deferral accounts	**98,964**	**94,571**	**99,842**

Source: IEC's Financial Statements for H1.2023

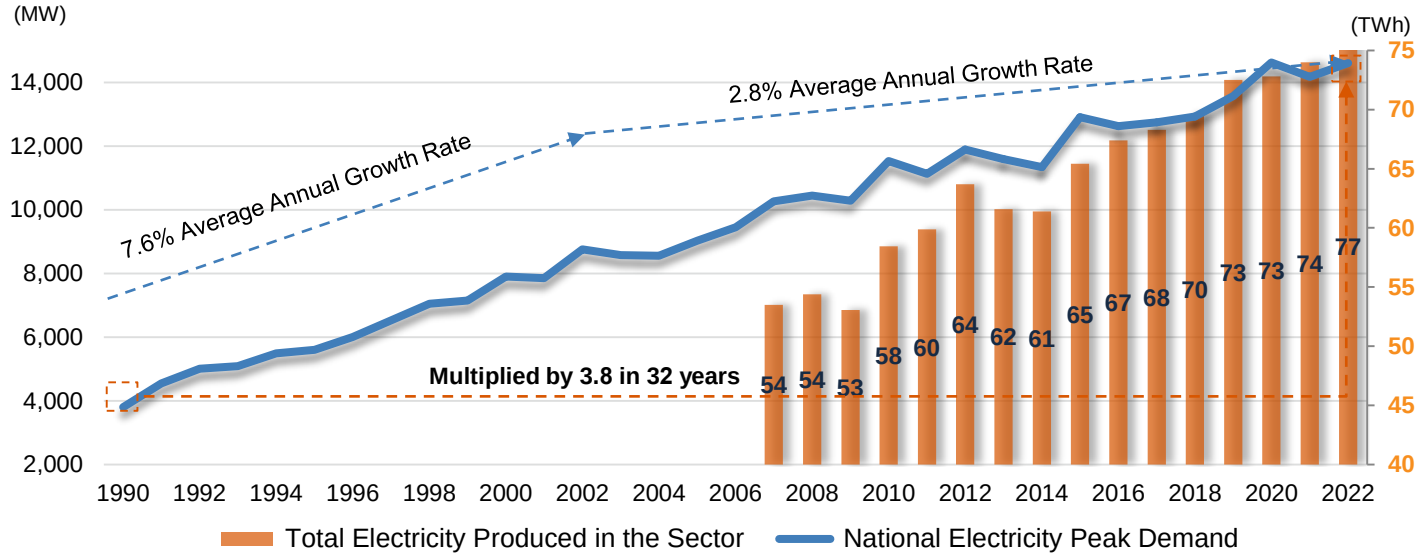
Israel Generation Capacity and Demand



Source: IEC's Financial Statements (2017FY-2020FY), The Electricity Authority - Report on State of Electricity Sector Year of 2022.
** The Electricity Authority Forecast. The expected IEC's Installed Generating Capacity contains coal units which supposed to undergo a conversion to gas in a total power of 2.8 GW.*
1. Installed Generation Capacity of Independent Power Producers ("IPPs")

Demand for Electricity

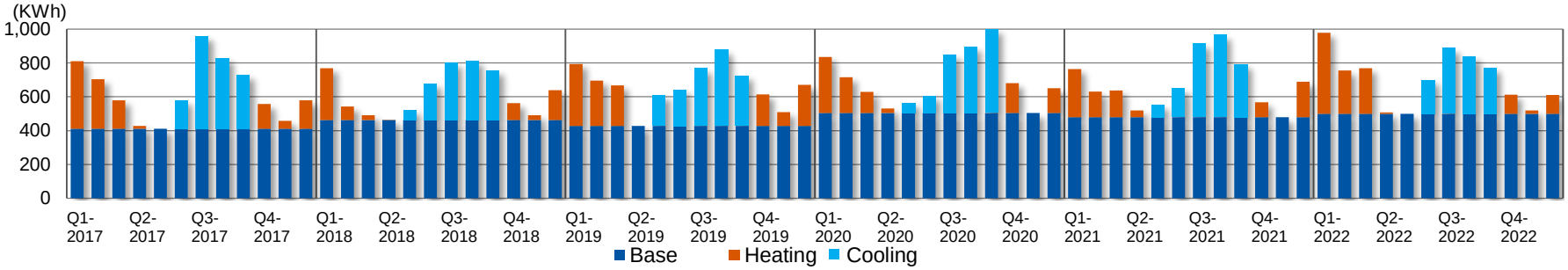
National Electricity Peak Demand & Total Electricity Produced in the Entire Sector



Trends

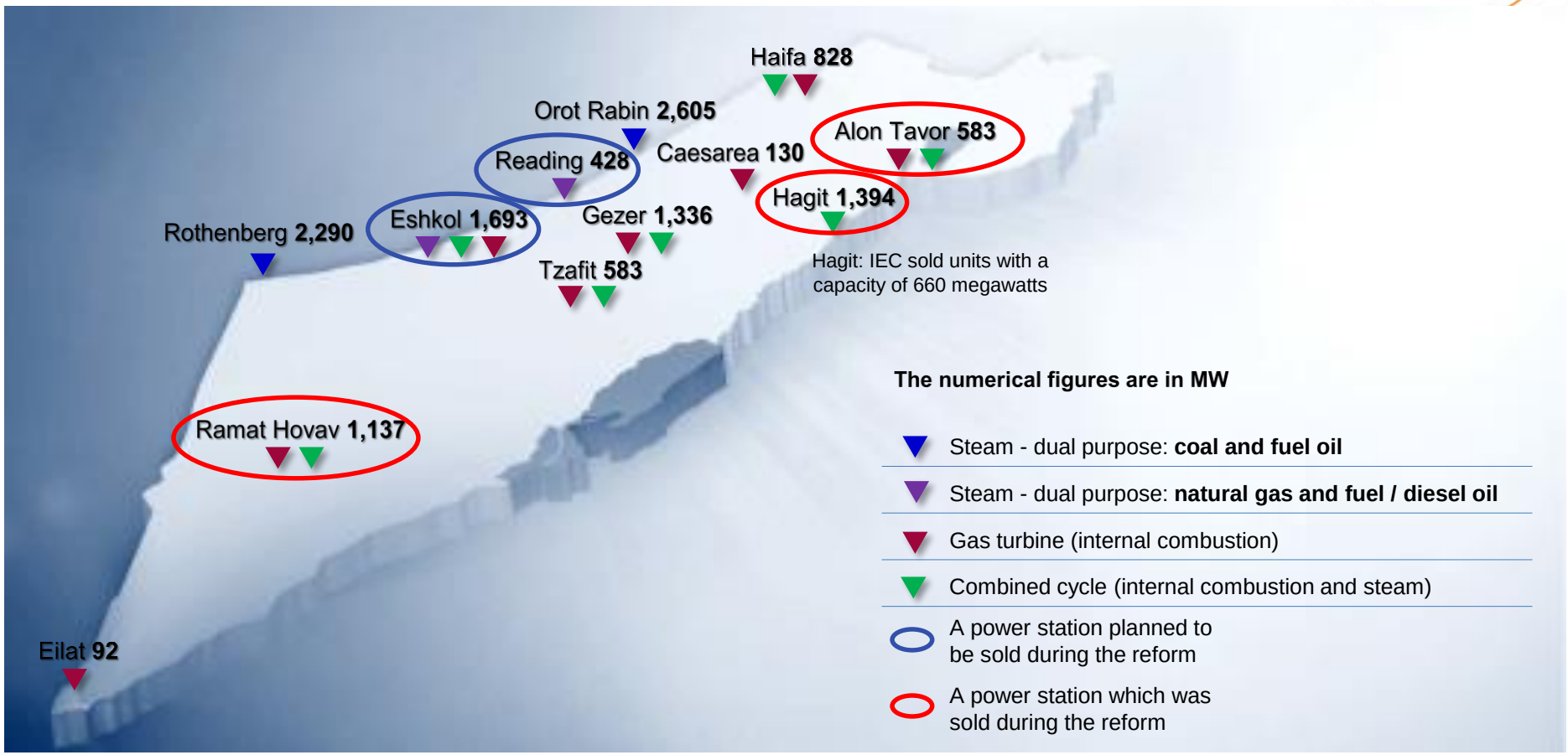
- The demand for electricity in Israel is growing at a fast and steady pace
- Demand is driven by both population growth and the increase in electricity consumption per household
- Noga's demand forecast anticipates an average annual increase of 2.2% in the years 2023 to 2025

Seasonality in Electricity Demand - Average Consumption of Households



Source: IEC's Annual Financial Statements (1990FY-2022FY), IEC's Statistical data, The Electricity Authority - Report on State of Electricity Sector Year of 2022

The Reform in the Generation Segment
(Selected generation sites)



Source: IEC 's Financial Statements for 2022FY

IEC's COVID-19 Implications

Investments

There were no significant delays in the investments in the transmission and distribution segments, nor to the investment in the combined cycle at Orot Rabin site

Supply Chain Security

The fuel supply to IEC was not affected by the COVID-19 restrictions

Cash Management & Finance

Maintaining sufficient liquidity above the BoD's goals ("safety cushion") including a Long-term fundraising in May 2020

Continuity of service & operations

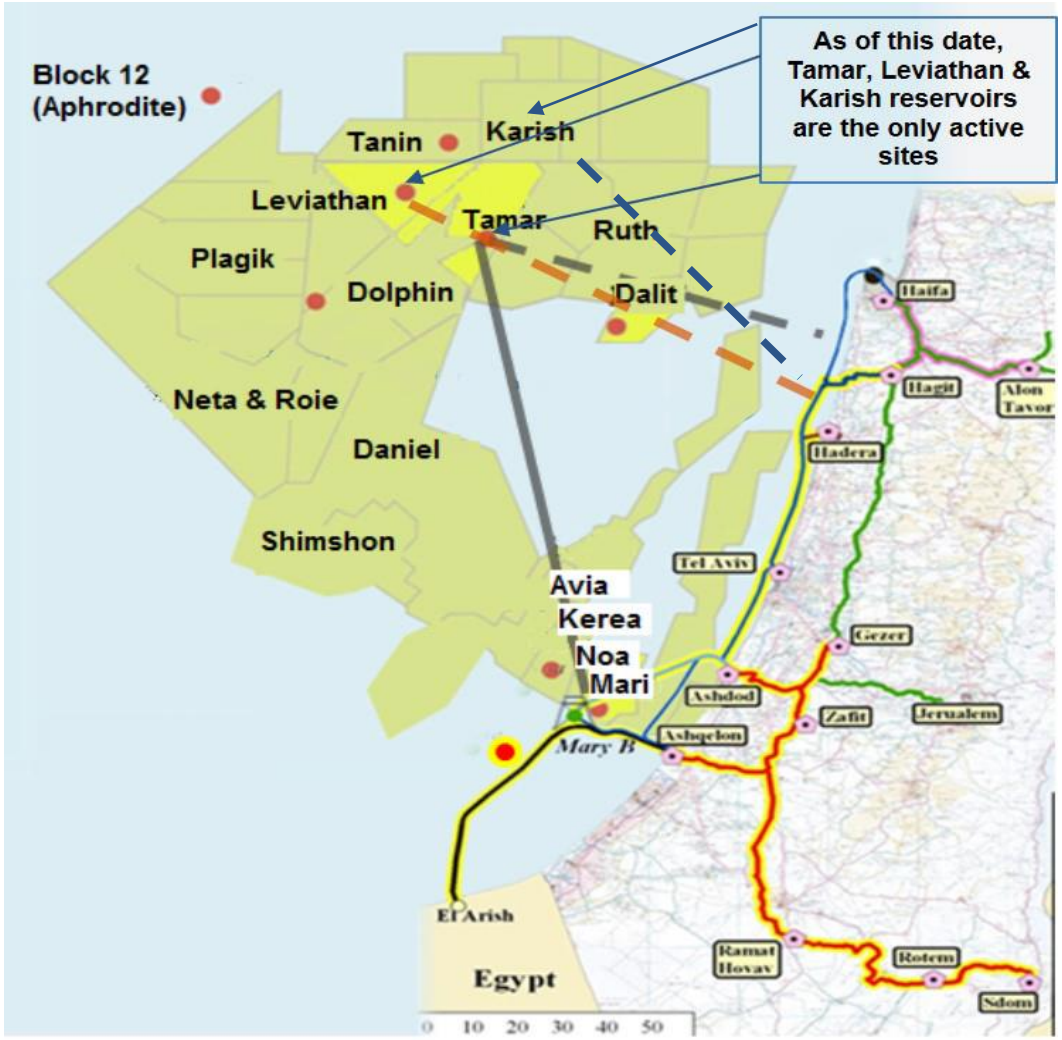
IEC was prepared in advance, in accordance with the requirements of the Israeli law, for business continuity during the crisis period and entered this challenging period with pre-defined work processes, in order to protect employees as well as ensuring energy supply and maintenance activities

Executive Branch of the State

In cooperation with the State authorities, several steps have been taken to provide reliefs for the electricity consumers such as the possibility of delaying the payment of electricity bills and support was provided to some vendors

Source : IEC 's Financial Statements for 2022FY

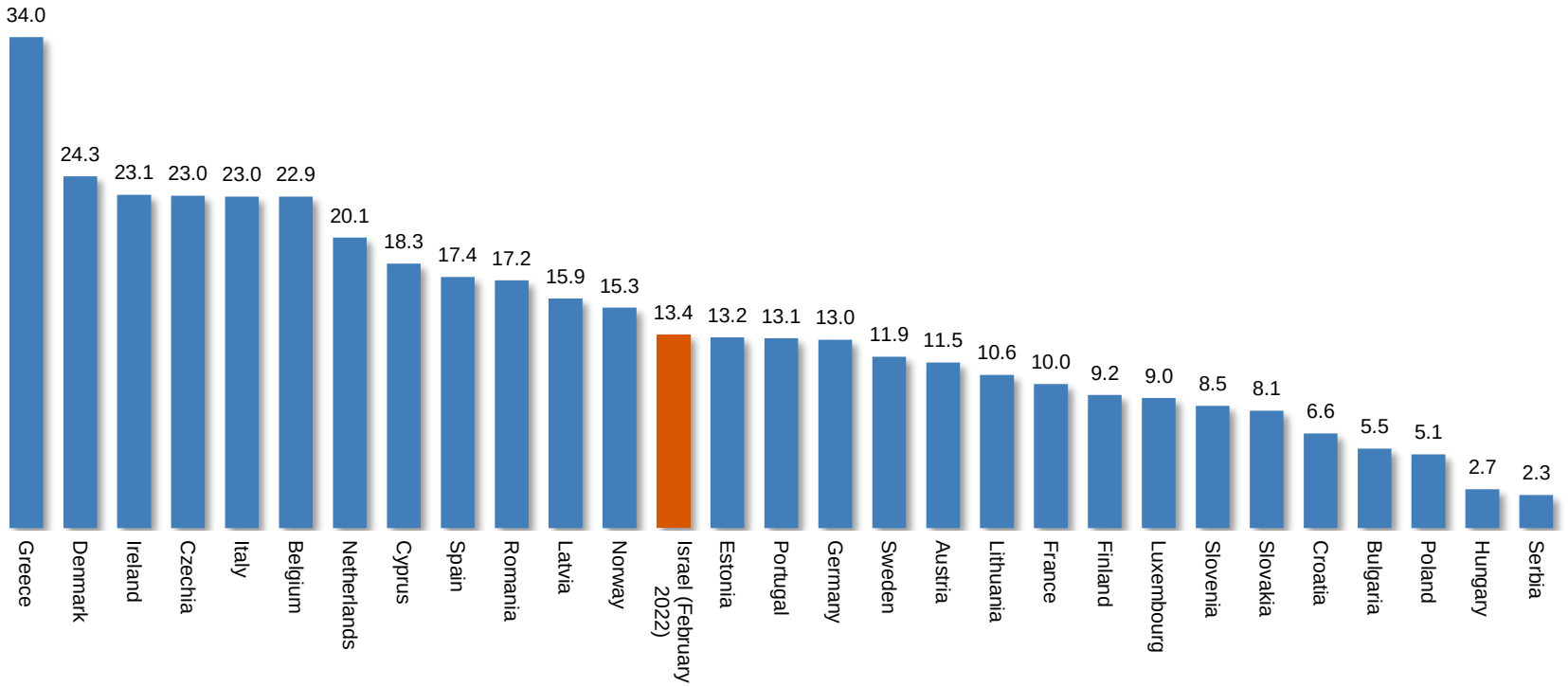
Sources of Natural Gas in Israeli Waters



Tariff Comparison to European Countries

Average Price per KWh(1)

(€ cents equivalent)



Source: Eurostat, Electricity prices for domestic consumers – bi-annual data, as of H2/2022. Israel rate is based on the last tariff update that does not include VAT (04/01/2023) and converted EUR/NIS exchange rate of 3.93 as of 03/31/2023.
1) Average national price in Euro per kWh without taxes for medium size household consumers (annual consumption between 2,500 and 5,000 kWh).