The Israel Electric Corporation Ltd.

Financial Reports

For The Three Months Ended
March 31, 2023

INDEX

The financial reports, for the three months ended March 31, 2023, are presented in a primary order.

Each chapter is numbered separately by its internal sequence.

The Israel Electric Corporation Ltd.

Updated Chapter A
(Description of the Company's Business Affairs)
for the 2022 Annual Report

For the Period Ended
March 31, 2023

Prominent Disclaimer

This English translation of the "**Updated Chapter A (Description of the Company's Business Affairs) for the 2022 Annual Report**" for the period ended March 31, 2023 ("English Translation") is provided for information purposes only.

In the event of any conflict or inconsistency between the terms of this English translation and the original version prepared in Hebrew, the Hebrew version shall prevail and holders of the Notes should refer to the Hebrew version for any and all financial or other information relating to the Company.

The Company and its Directors make no representations as to the accuracy and reliability of the financial information in this English translation, except that the Company and its Directors represent that reasonable care has been taken to correctly translate and reproduce such information, yet notwithstanding the above, the translation of any technical terms are, in the absence of generally agreed equivalent terms in English, approximations to convey the general sense intended in the Hebrew version.

The Company reserves the right to effect such amendments to this English translation as may be necessary to remove such conflict or inconsistency.

Updated Chapter A (Description of the Company's Business Affairs) for the 2022 Periodic Report ("the Periodic Report")[1] of the Israel Electric Corporation Ltd. ("The Company" or "The Electrical Corporation")

According to Regulation 39A to the Securities Regulations (Periodic and Immediate Reports), 1970, the following are details of material developments or changes in the Company's business affairs, in any matter that should be described in the periodic report of the Company during the three months ended on March 31, 2023 and up to the publication date of this report, according to the order of the sections in the Chapter of Description of the Company's Business Affairs in the Periodic Report for the year 2022.

This report presents opinions, assessments or positions of the Company. The opinions, assessments or positions presented as opinions, assessments or positions of the Company, are those of the Company only and should not be construed as any opinion, assessment or position of the State or any of its authorities. Therefore, such opinions, assessments or positions shall not constrain the State or any of its authorities from acting and/or deciding and/or expressing an opinion in a different manner from the aforesaid opinions, assessments or positions of the Company.

This chapter of the quarterly report was prepared under the assumption that its reader possesses the Chapter "Description of the Company's Business Affairs" of the periodic report.

It should be noted that the terms in this chapter will have the same meaning as presented in the Chapter - Description of the Company's Business Affairs of the periodic report, unless explicitly stated otherwise.

The State of the Company's Business Affairs

For details regarding the crane collapse at Rutenberg, and the Russia-Ukraine war, see Note 1i of the Company's Financial Statements of March 31, 2023 (the "**Financial Statements**").

1. The Company's operations and a description of its business development

1.1. Section 1.3: The nature and results of each significant structural change, merger or acquisition

For details regarding the implementation of the structural change, including the sale of sites and regulation of the Eshkol site generation units' operation, as well as details regarding the developments that occurred in the generation subsidiary Netiv HaOr - Orot Rabin Ltd. (hereinafter: "Netiv HaOr"), see Note 1e to the Financial Statements.

2. General environment and the impact of external factors on the Company's operations

2.1. Section 6.5: the policy of the Israeli Government in the electricity sector

On May 7, 2023, the Israeli Government approved the first phase of the national plan for energy storage in the urban area. According to the decision, the Electricity Authority will create the appropriate regulation that will allow the consumption of electricity at a regular rate, as part of the "Kosher Electricity" storage program in areas where there is a population that requests it.

As part of the decision, it was decided that the Electricity Authority will examine, in accordance with its powers, the establishment of criteria, rates and rules that will allow the provision of kosher electricity services in combination with suitable generation and storage means and that, for the avoidance of doubt, such regulation, as it will be determined, will not impose an excess cost on all electricity consumers and will not allow cross subsidies between services and between consumers.

It was also stated in the decision that for the purpose of conducting one pilot of kosher electricity supply on the basis of one facility, to the extent that the Electric Company establishes a storage facility for the purpose of conducting the pilot, it will act to sell the facility, so that no later than three years from the date the service from the facility begins, as will be determined by the Electricity Authority, its possession will be transferred and it will be operated by the purchaser.

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1 As published on March 15, 2022 (reference number: 2022-01-025971)

3. The Generation Segment

3.1. Section 7.1: General Information on the Generation Segment

3.1.1. The structure of the field of operation and the changes occurring in it:

Further to that stated in the Periodic Report regarding the conversion of the coal-fired units to use of natural gas, for additional details regarding the decision of the Company's Board of Directors on the matter, see Note 1g to the Financial Statements.

3.2. Section 7.9: Raw Materials and Suppliers

3.2.1. Section 7.9.2

The table below shows the distribution rate of generation in the Company (in percent) according to types of fuels used in the generation segment for generating electricity in the three months ended on March 31, 2023 and on March 31, 2022:

	For the Three Months Ended March 31	
	2023	2022
Natural Gas	59.0%	53.9%
Coal	40.6%	45.6%
Liquid Gas	0.0%	0.2%
Diesel Oil	0.3%	0.2%
Crude Oil	0.1%	0.1%
Total	100%	100%

3.2.2. Section 7.9.3:

The table below shows the total costs of fuels (including related items and attributed wages) used for the generation of electricity in the generation segment in the three months ended on March 31, 2023 and on March 31, 2022:

	For the Three Months Ended March 31	
	2023	2022
	in NIS millions	
Natural Gas	703	813
Coal	1,450	1,302
Liquid Gas	-	68
Diesel Oil	52	49
Costs of maintaining diesel oil for emergencies for the electricity sector	8	8
Crude Oil	14	11
Total	2,227	2,251

3.3. Section 7.12: Environmental risks and the ways in which they are managed

3.3.1. Section 7.12.2.1: The Clean Air Law

Following the contents of Section 7.12.2.1 of the Chapter of Description of the Company's Business Affairs in the Periodic Report, the Company submitted applications to the Ministry of Environmental Protection for renewing emission permits for sites at which the permits are expiring, and is in contact with the Ministry regarding these requests.
For further details regarding the updates to Orot Rabin's emission permit following the Rutenberg crane collapse event, see Note 1g.

3.3.2. Section 7.12.8: Planning and Construction

Following the contents of Section 7.12.8 of the Chapter of Description of the Company's Business Affairs in the Periodic Report regarding the Reading power station – National Outline Plan, in its meeting number 685 of March 28, 2023, the National Council for Planning and Construction decided to forward the NOP 10/a/3/3 - the extension of operation of the generation units existing at the Tel Aviv (Reading) power station, to the Government for approval.

3.3.3. Section 7.12.9 Preservation of the costal environment and prevention of marine pollution

Following the contents of Section 7.12.9 of the Chapter of Description of the Company's Business Affairs in the Periodic Report, on March 28, 2023, the Company received an extension for the temporary business license of the Eshkol marine moorings, valid until the end of July 2023.

On May 16, 2023, the Company received a warning for allegedly not complying with the conditions of the permit for discharge into the sea according to the Law on the Prevention of Sea Pollution from Land Sources. As part of the warning, it was claimed, inter alia, that the Company did not submit on time a work plan for the construction of an industrial facility to treat the discharge stream from the cooling towers at the Gezer power station. The Company has various claims regarding the warning and is expected to deliver a detailed response to the Ministry in this regard.

4. The Transmission Segment

4.1. General information on the transmission segment

4.1.1. Section 8.1.1: The structure of the field of operation and the changes occurring in it

Following that stated in section 8.1.1. of the Periodic Report regarding the Electricity Authority's recommendation to the Minister of Energy and Infrastructure regarding formulation of policy principles relating to burying extra-high voltage lines, the Minister of Energy and Infrastructure accepted and signed the recommendations, under which, in general, all new 161-kilowatt lines will be constructed above ground.

For further details regarding the Minister's decision, see Note 3c to the Company's Financial Statements.

5. The Distribution Segment

5.1. General information on the distribution segment

5.1.1. Section 9.1.1: The structure of the field of operation and the changes occurring in it

On March 26, 2023, the Electricity Authority published a decision regarding a transformer room – Amendment of Criteria 35b "Receiving information for submitting an application for a connection to low voltage" and 35c "Technical coordination". The amendments of the criteria noted in the decision are intended to regulate the proceeding carried out by the distributer for the purpose of examining the need to construct a transformer room for those who request a connection to the grid, the terms under which the distributer will be able to demand a transformer room, who bears the responsibility to supply or construct the transformer room, the rates for a transformer room, and fees for use of the land on which a transformers room is located. Furthermore, under the decision, the distributer will not receive the right of ownership of the land (contrary to the situation at present), but will receive a right to use the transformer room, which cannot be revoked or stipulated upon.

5.2. Section 9.10: Restrictions to and regulation of the operations of the Company in the distribution and supply segments

5.2.1. Section 9.10.2: Criteria for the quality and reliability of supply – rules for supply of electricity to consumers

Following the aforesaid in Section 9.10.2 of the Description of the Company's Business Affairs Chapter of the Periodic Report, regarding the count of consumer non-supply minutes, the total count of consumer non-supply for the first quarter of 2023 is 48.2 minutes, compared to 44.6 minutes in the corresponding period last year.

The count of non-supply minutes caused by the high voltage grid and the transmission and transformation segment in the first quarter of 2023 is 36.43 minutes, compared to 33.18 minutes in the corresponding period last year.

The standard deviation between the districts for the first quarter of 2023 is 15.46 minutes for the components of this count, compared to 11.2 minutes in the corresponding period last year.

The Company carries out monitoring of electricity quality characteristics, analysis of exceptional events in the electricity grid and multi-year statistics of electricity quality characteristics, to ensure that the Company complies with the relevant standards and criteria for electricity quality monitoring.

6. The Supply Segment

6.1. Section 10.4: Competition

On March 16, 2023, the Electricity Authority published a decision that determines granting supply licenses to two corporations that do not have generation facilities, so that in aggregate, since 2021 and as part of the opening of the supply segment to competition, the Electricity Authority published 7 decisions under which supply licenses are granted to 39 corporations that do not have generation facilities.

Additionally, the volume of energy sold by private suppliers, with respect to which the Company was paid grid rates, is approximately 4,659 million kWh. As of the Statement of Financial Position Approval date, the scope of customers supplied by private suppliers amounts to approximately 6,100 customers.

On March 28, 2023, the Electricity Authority published a decision proposal for a hearing in which it determines the nature of the information that a consumer will receive about his place of consumption and the manner in which it is provided to the consumer. The services to be provided by the Company include online information services by digital means, as well as providing information to the consumer about meter readings and consumption data.

Regarding a decision proposal for a hearing on the expansion of deployment of smart meters, see Note 3b to the Financial Statements.

7. Issues Pertaining to the Operations of the Company in General

7.1. Section 11: Customers – electricity consumers

7.1.1. Section 11.2.6: The East Jerusalem Electricity Company

For details regarding the debts of the East Jerusalem Electricity Company Ltd., see Note 4b to the Financial Statements.

7.1.2. Section 11.2.7: The Palestinian Authority

For details regarding the debts of the Palestinian Authority, see Note 4b to the Financial Statements.

7.2. Section 14: Human capital

7.2.1. Section 14.2: Employee roster by areas of operation

As of March 31, 2023, the Company employs 10,695 employees, of which 6,575 are permanent employees, 601 are continuing employees, 3,097 are temporary employees, and 422 are special employment employees. With regard to the expected retirement plan up to and including 2025, see Note 6f to the Financial Statements.

7.2.2. Section 14.5: Employee compensation plans, benefits and employment agreements

7.2.2.1. Section 14.5.1: Employment agreements

For details concerning collective agreements and consents including the agreement on remote work, Generation C retirement agreement, and “Continuing temporary employee” agreement, see Note 6f to the financial statements.

7.2.3. Section 14.9: Labor disputes

For details regarding labor disputes, see Note 10c to the Financial Statements.

7.3. Section 19: Financing

7.3.1. Section 19.1: General

For details of material raisings and repayments during and after the report period and the Company’s credit rating during the report period, see Note 8 to the Financial Statements.

7.4. Section 22: Restrictions and control over the operations of the Company

7.4.1. Section 22.1: Provisions of the Electricity Sector Law, relevant regulations, licenses issued accordingly and Resolutions of the Electricity Authority

7.4.1.1. Section 22.1.6: Provisions of the Electricity Sector Law and the Resolutions of the Electricity Authority with respect to the electricity charge rate

For details concerning main developments regarding electricity rates and regulation, see Note 3 of the Financial Statements.

7.5. Section 24: Legal proceedings – pending actions

7.5.1. Section 24.1: Class actions

For details of applications for class actions received during and after the report period, as well as regarding developments and updates with respect to existing applications for class actions, see Note 10b to the Financial Statements.

Meir Spigler	**Shlomo Arbiv**
Chief Executive Officer	**External Director***

Date of approval: May 18, 2023

*** On August 1, 2021, Mr. Yiftah Ron-Tal concluded his tenure as the Chairman of the Company's Board of Directors, and as of the date of the signing of these Statements, a new Chairman of the Board of Directors has not yet been appointed.**

In light of the aforementioned, in its meeting of May 18, 2023, the Company's Board of Directors authorized Mr. Shlomo Arbiv, who serves as an External Director, to sign the Updated Report of the Description of the Company's Business Affairs for the period ending March 31, 2023, in lieu of the signature of the Chairman of the Board of Directors.

The Israel Electric Corporation Ltd.

Chapter B

Board of Directors' Report on the Status of the Corporation's Affairs

For the Three Months Ended
March 31, 2023

Prominent Disclaimer

This English translation of the "**Company's Board of Directors' Report on the Status of the Corporation's Affairs**" for the three months ended March 31, 2023 ("English Translation") is provided for informational purposes only.

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The Board of Directors of the Israel Electric Corporation (hereinafter: the “Company") hereby presents the Directors’ Report for the three months ended on March 31, 2023, ("The Reporting Period") according to the directives of the Securities Regulations (Periodic and Immediate Reports) – 1970 ("The Securities Regulations") and the provisions of the Government Companies Authority ("The Companies Authority").

a. Explanations of the Board of Directors on the Business Condition of the Company

1. Brief Description of the Company and its Business Environment

a) General

The Company engages in all the stages of the electricity chain: from generation in the power stations, transmission, transformation, distribution, to supply (sale) to consumers - all in accordance with licenses granted to each type of activity. The Company also deals in the construction of infrastructures required for these activities. The Company provides electricity to most of the electricity consumers in the country.

The Company is owned by the State of Israel which holds about 99.85% of its share capital, therefore the Company and its operations are subject, inter alia, to the directives of the Government Companies Law – 1975 (hereinafter: the “Government Companies Law”). As of March 5, 1996, the Company operates according to the Electricity Sector Law – 1996 (hereinafter: the “Electricity Sector Law”) and the regulations thereunder. The Electricity Sector Law replaced the Electricity Concessions Order and the Electricity Authority was founded in accordance with this ordinance. The duties of the Electricity Authority are, inter alia, to set electricity rates and define rate amendment processes, to award licenses and to supervise the compliance with the instructions specified in the licenses (which in certain cases require the approval of the Minister of Energy and Infrastructure). For further details of the Electricity Sector Law, including the details and role of the Electricity Authority, see Note 1 to the Financial Statements as of December 31, 2022 (hereinafter: the “Annual Financial Statements”).

b) Condensed Review of the Changes in the Business Environment

1) For details regarding the Company’s actions to implement the structural change during the report period, and particularly the construction of power stations operating with a combined cycle (CCGTs), classification of the Eshkol site to disposal group held for sale, financial strength goals, and updates regarding the generation subsidiary, see Note 1e to the Financial Statements.
2) For details relating to the Company's Board of Directors' decision regarding the conversion of the coal-fired units to use natural gas, see Note 1g to the Financial Statements.
3) For details regarding material provisions of the Law applying to the Company in the area of environmental protection, including further updates concerning coal-fired units and conversion of units to gas, see Note 1g to the Financial Statements.
4) For details of the crane collapse at the coal dock at the “Rutenberg” power station and the event’s impact on the Company’s financial position and the results of its operation, see Note 1i to the Financial Statements.
5) For details regarding electricity rate amendments and regulations, and particularly the new rate base for the generation segment, as well as the Electricity Authority’s decisions during the Financial Statements period, see Note 3 to the Financial Statements.
6) For details regarding debts of the East Jerusalem Electricity Company and the Palestinian Authority, see Note 4 to the Financial Statements.
7) For details of a framework agreement in the public sector pursuant to the understandings formulated between the Ministry of Finance and the Histadrut and the instructions of the Commissioner of Wages, see Note 6f5 to the Financial Statements.
8) For details of the Company’s credit rating, and of material fundraising and repayments, see Note 8 to the Financial Statements.
9) For details regarding class actions and other material actions, see Note 10b to the Financial Statements.
10) For details regarding changes in the Company’s Board of Directors and Management, see Section c below.

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

1. Brief Description of the Company and its Business Environment (continued)

b) Condensed Review of the Changes in the Business Environment (continued)

11) During the recent period, most of the world's economies, including Israel, are characterized by sharp increases in inflation rates and interest rates published by the Central Banks. The Company estimates that these increases will affect the Company's financing expenses and the rates of return on foreign capital raising as long as these increases continue. However, in light of the fact that the rate coverage on the Company's recognized assets is linked to the CPI and the return on the foreign capital in the rate takes into account the marginal interest rate, it is not expected to have a material impact on its future financial position and operating results. Furthermore, insofar as these increases continue and are accompanied by an increase in the market premium that affects the price of the Company's equity without a corresponding increase in the price of capital in the rate, they may adversely affect the value of the Company's assets and cause impairment in accordance with IAS 36.

The Company continually monitors the developments in Israel and the global capital markets, and since this is an event that is not under the Company's control, the Company cannot estimate the implications of this event, including its future impact on its future financial position and operating results.

For details regarding Consumer Price Index risks and risks with respect to variable interest rates see Note 26c to the Annual Financial Statements.

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

1. Brief Description of the Company and its Business Environment (continued)

c) Information Required in Accordance with the Directives of the Government Companies Authority

Major financial targets

1) Following are the goals approved by the Company's Board of Directors on December 13-15, 2022 until the end of the reform period in 2025:

a) A net real financial debt to EBITDA ratio: the target is a ratio of up to 4.3. The intermediate target for 2023 is 5.4. In practice, as of March 31, 2023, the ratio is approximately 6.2 (the ratio is based on the net financial debt of the Company as of March 31, 2023, in the amount of NIS 36,005 million and on normalized EBITDA which includes movement in regulatory accounts and neutralizing special and non-current events) for the four quarters ended March 31, 2023, in the amount of NIS 5,816 million). With regards to non-GAAP financial indicators, see Section a5 below.

b) The ratio of total debt to total assets (leverage) will gradually decrease to 65%.
In practice, as of March 31, 2023, the ratio stands at approximately 67%.

c) Maintaining the existing international rating of at least 'BBB'. For details regarding the Company's credit rating, see Note 8b to the Financial Statements.

d) The security cushion will have a monetary value of not less than NIS 3 billion and will consist of cash balances and short-term investments of no less than NIS 1.5 billion and secured long-term and unused credit lines effective for longer than one year of up to NIS 1.5 billion. As of March 31, 2023, the Company is in compliance with the target.

e) The net real financial debt will not exceed NIS 31 billion in 2025, and NIS 36.5 billion in 2023, all as subject to compliance with the financial targets specified above, with regards to the debt ratios. For details regarding the financial debt as of March 31, 2023, see Section a5 below.

In addition, the Company's Board of Directors adopted three additional targets pursuant to the circular of the Government Companies Authority (see section a6c below):

f) FFO to adjusted financial debt ratio ranging between 11%-18% in the short-term and 15%-23% in the long-term.
In practice, as at March 31, 2023, the ratio stands at 7.0%.

g) FFO + interest expenses divided by interest expenses ratio greater than 3.
In practice, as at March 31, 2023, the ratio stands at 3.64.

h) Return on Capital Employed (ROCE) ratio of 3.3% in 2023.
In practice, as at March 31, 2023, the ratio stands at 2.6%.

As part of the Annual Board of Directors' Report, the Company updated the interim goals for 2023 (net real financial debt to EBITDA ratio, net real financial debt and Return on Capital Employed ratio). See also section a1c1 to the Annual Board of Directors' Report.

In light of recent developments, including the changes that took place in the rate base for the generation segment as well as following the 2023 Annual Update, which include, inter alia, extending the life of the existing generation units, changing the method of recognizing the cost of capital from the equal principal method to the Spitzer method in a way that reduces the return of income cash flow in the first years (which will be returned to the Company in later years) and the decrease in the rate of return in the generation segment (for more details see Note 3j to the Annual Financial Statements), as well as in view of the increase in investments in accordance with the development plan in the transmission and distribution segments indicated for the years 2023-2030, which was published as part of a hearing regarding the obligation to consult with the Electricity Authority regarding this plan published by the Electricity Authority on February 27, 2023 (which has not yet been approved by the Ministers of Energy and Infrastructure and Minister of Finance), the gas conversion project of the coal-fired power plants at the "Rutenberg"

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

1. Brief Description of the Company and its Business Environment (continued)

c) Information Required in Accordance with the Directives of the Government Companies Authority (continued)

Major financial targets (continued)

and “Orot Rabin” sites, a hearing published by the Electricity Authority on March 26, 2023 regarding the acceleration of the deployment rate of smart meters until 2028, as well as the implementation of the wage agreement in the public sector (which has not yet been signed) and its expected impact on the wage costs in the Company and the accumulated debt of the East Jerusalem Electricity Company (for additional details, see Note 4 to the Financial Statements), the Company anticipates that there may be a deviation from the financial strength goals set within the reform discussions and in the decisions of the Board of Directors.

Given the above, during a discussion of the issue, the Company’s Board of Directors examined the Company’s ability to receive financing in the banking system in Israel and/or abroad, and to raise debt in the capital market, taking into account, inter alia, the balance of cash and short-term investments as of March 31, 2023, and also examined the Company's cash flow forecasts.

Within the framework of the aforesaid discussion and examination, the Board of Directors found that the Company has sufficient sources of financing to finance its activities and to repay its obligations in the foreseeable future, and is of the opinion that failure to meet the financial strength goals as set forth in the reform, in itself, will not have implications for the Company's current activities.
For further details see Note 1e3 to the Financial Statements.

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

2. Financial Position

Data on the Company's financial position on March 31, 2023 and December 31, 2022 are as follows:

	NIS in millions			
	March 31, 2023	December 31, 2022	Increase (decrease)	Percent %
CURRENT ASSETS				
Cash and cash equivalents	1,801	3,654	(1,853)	(51%)
Short term investments	473	459	14	3%
Trade receivables for sales of electricity	5,238	4,702	536	11%
Other current assets	1,100	886	214	24%
Inventory – fuel	1,966	2,412	(446)	(18%)
Inventory – stores	170	166	4	2%
Assets of disposal groups classified as held for sale	1,866	-	1,866	100%
Total current assets	**12,614**	**12,279**	**335**	**3%**
NON-CURRENT ASSETS				
Inventory - fuel	1,310	1,413	(103)	(7%)
Long-term receivables	1,938	2,111	(173)	(8%)
Investment in associate companies	23	13	10	77%
	3,271	**3,537**	**(266)**	**(8%)**
Assets with respect to benefits after employment termination:				
Excess pension plan assets over pension liability	10,002	9,816	186	2%
Funds in trust	1,162	1,184	(22)	(2%)
	11,164	**11,000**	**164**	**1%**
Fixed assets, net:				
Fixed assets in use, net	50,371	52,133	(1,762)	(3%)
Fixed assets under construction	8,308	7,478	830	11%
	58,679	**59,611**	**(932)**	**(2%)**
Intangible assets, net	1,156	1,153	3	0%
Total assets	**86,884**	**87,580**	**(696)**	**(1%)**
Debit balances of regulatory deferral accounts	11,709	11,384	325	3%
Total assets and debit balances of regulatory deferral accounts	**98,593**	**98,964**	**(371)**	**(0%)**

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

2. Financial Position (continued)

Data on the Company's financial condition on March 31, 2023 and December 31, 2022 are as follows: (continued)

	NIS in millions			
	March 31, 2023	December 31, 2022	Increase (decrease)	Percent %
CURRENT LIABILITIES				
Credit from banks and other credit providers	5,052	5,360	(308)	(6%)
Trade payables	3,342	3,807	(465)	(12%)
Other current liabilities	1,484	1,365	119	9%
Customer advances, net of work in progress	824	834	(10)	(1%)
Provisions	675	684	(9)	(1%)
Total current liabilities	**11,377**	**12,050**	**(673)**	**(6%)**
NON CURRENT LIABILITIES				
Debentures	30,734	30,791	(57)	(0%)
Liabilities to banks	3,567	3,546	21	1%
Liabilities with respect to other benefits after employment termination	5,245	5,374	(129)	(2%)
Deferred taxes, net	8,205	8,051	154	2%
Liability to the State of Israel	1,899	1,876	23	1%
Lease liabilities	476	460	16	3%
Other liabilities	510	514	(4)	(1%)
Total non-current liabilities	**50,636**	**50,612**	**24**	**0%**
EQUITY				
Share capital	908	908	-	0%
Capital reserves	798	744	54	7%
Capital remeasurement reserve	(516)	(562)	46	(8%)
Retained earnings	31,424	31,081	343	1%
	32,614	**32,171**	**443**	**1%**
Total liabilities and equity	**94,627**	**94,833**	**(206)**	**(0%)**
Credit balances of regulatory deferral accounts and taxes with respect to regulatory deferral accounts	3,966	4,131	(165)	(4%)
Total liabilities, equity and credit balances of regulatory deferral accounts	**98,593**	**98,964**	**(371)**	**(0%)**

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

2. Financial Position (continued)

a) Current and Non-Current Assets

Below are details of the major changes:

1) The decrease in cash and cash equivalents is mainly derived from investments in fixed assets and repayment of debentures during the period. For additional details see the Company's Cash Flow Statement in the Financial Statements.

2) The increase in customer balances is mainly derived from an increase in the electricity rate, for additional details see Note 4 to the Financial Statements.

3) The increase in the accounts receivable balance and debt balances is mainly due to the increase in forward and currency swap transactions as a result of an increase in the USD rate and an increase in prepaid expenses.

4) The decrease in current fuel inventory is mainly due to a decrease in coal prices.

5) The increase in assets held for sale derives from the classification of the Eshkol site, for further details see Note 5 to the Financial Statements.

6) The increase in the excess pension plan assets over pension liability line item is mainly due to the increase of the interest vector used to capitalize the liability.

b) Investments in Fixed Assets

Below are details of Company investments in Fixed Assets in the Reporting Period and in the corresponding period of the previous year:

	For the three months ended on	
	March 31, 2023	**March 31, 2022**
	In NIS millions	
Power stations, CCGTs, structures	259	88
Sub-stations and high voltage lines	298	161
Switching stations and ultra-high 400 Kilowatt voltage lines	135	91
Distribution grids and meters	492	278
Inventory – stores	140	121
CCGTs 70-80	200	146
Others	165	66
Total	**1,689**	**951**

The investments include the implementation of IAS 19.

c) Current and Non-Current Liabilities

1) The decrease in credit from banks and other credit providers derives from repayments of loans and debentures.

2) The decrease in suppliers is mainly due to a decrease in fuel suppliers due to a decrease in the price of coal.

3) The decrease in liabilities due to other post-employment benefits is mainly due to the increase of the interest rate for capitalizing liabilities and due to the transfer of funds to the company that manages the funds of the reform pension supplement, for additional details see Note 6h to the Financial Statements.

d) Regulatory deferral account

For details regarding an increase in balances of regulatory deferral accounts and changes in them in the reporting period see Note 7 to the Financial Statements.

a. **Explanations of the Board of Directors on the Business Condition of the Company (continued)**

3. **Comparison and Analysis of Operating Results for the Reporting Period compared to the Corresponding Period in the Previous Year:**

a) **Statements of Profit (Loss) and Other Comprehensive Income in NIS Millions:**

	For the three months ended on						
	March 31, 2023		March 31, 2022		Change		Paragraph
Statements of Profit (Loss)	In NIS millions	%	In NIS millions	%	In NIS millions	%	
Revenues	5,764	100%	5,866	100%	(102)	(2%)	b
Cost of operating the electricity system	5,239	91%	5,504	94%	(265)	(5%)	c
Profit from operating the electricity system	**525**	**9%**	**362**	**6%**	**163**		
Other revenues	(74)	(1%)	(3)	(0%)	(71)		
Sales and marketing expenses	202	4%	193	3%	9	5%	
Administrative and general expenses	208	4%	203	3%	5	2%	
Income from liabilities to pensioners, net	(69)	(1%)	(32)	(1%)	(37)	116%	
Reform agreement and other agreements' results	62	1%	58	1%	4		f1
Profit (loss) from current operations	**196**	**3%**	**(57)**	**(1%)**	**253**		
Financial expenses	458	8%	662	11%	(204)	(31%)	e
Loss before income tax	**(262)**	**(5%)**	**(719)**	**(12%)**	**457**		
Income with respect to tax on income	(56)	(1%)	(163)	(3%)	107		
Loss after income tax	**(206)**	**(4%)**	**(556)**	**(9%)**	**350**		
Company's share of the profit of associate companies	10	0%	2	0%	8	400%	
Loss before regulatory deferral accounts	**(196)**	**(3%)**	**(554)**	**(9%)**	**358**		
Movement in regulatory deferral accounts balances, net of tax	539	9%	839	14%	(300)		
Profit for the period	**343**	**6%**	**285**	**5%**	**58**		
Consolidated Reports of Other Comprehensive Income (Loss):							
Profit with respect to cash flow hedging, net of tax	54	1%	-	0%	54		
Remeasurements of a defined benefit plan, net of tax	75	1%	1,506	26%	(1,431)	(95%)	f2
Movement in regulatory deferral accounts balances, net of tax	(29)	(1%)	(56)	(1%)	27		
Other Comprehensive Income for the period	**100**	**2%**	**1,450**	**25%**	**(1,350)**		
Comprehensive Income for the period	**443**	**8%**	**1,735**	**30%**	**(1,292)**		

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

3. Comparison and Analysis of Operating Results for the Reporting Period compared to the Corresponding Period in the Previous Year (continued)

b) Revenues

The revenues for the reporting period amount to a sum of approximately NIS 5,764 million compared to NIS 5,866 million for the corresponding period of last year, a decrease of approximately NIS 102 million deriving mainly from a decrease in the quantity of kWh sold by the Company, that are partially offset by the increase in the electricity rate.

c) Cost of Operating the Electricity System

The cost of operating the electricity system in the reported period amounted to approximately NIS 5,239 million, as compared to approximately NIS 5,504 million in the corresponding period of last year, a decrease of approximately NIS 265 million (approximately 5%) mainly deriving from a decrease in electricity purchases:

1) Fuels consumption cost

The cost of fuels consumed in the reporting period amounted to a sum of approximately NIS 2,227 million, compared to approximately NIS 2,251 million in the corresponding period of last year, a decrease of approximately NIS 24 million, which constitutes a decrease of approximately 1%.

The change in fuel consumption costs derives mainly from a decrease in generation offset by an increase in the price of coal compared to the corresponding period of last year and the decrease in associated fuel and LNG costs.

Following are details of the changes in NIS millions

Fuel Type	**Change in Consumption**	**Change in Prices**	**Total**
Crude	2	-	2
Coal	(491)	645	154
Diesel oil	(1)	4	3
Natural gas	(111)	19	(92)
Total	**(601)**	**668**	**67**
Change in associated fuel and LNG costs			(91)
Total			**(24)**

2) A decrease in electricity purchases of approximately NIS 249 million deriving mainly from a decrease in demand during the period.

d) Depreciation, Amortization and Changes in Impairment:

Following are details of depreciation expenses, amortization and changes in impairment presented in the profit and loss statement:

Depreciation Expenses, Amortization and Changes in Impairment	**The three months ended March 31 2023**	**2022**	**Difference**	**Change in %**
	NIS in millions			
Electricity system operation general	994	1,086	(92)	(8%)
Sales and marketing	43	42	1	2%
Administrative and general	38	39	(1)	(3%)
Total depreciation expenses and changes in impairment	**1,075**	**1,167**	**(92)**	**(8%)**

The decrease in depreciation expenses mainly derives from the extension of the life of the CCGTs and the termination of the gasifying ship charter.

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

3. Comparison and Analysis of Operating Results for the Reporting Period compared to the Corresponding Period in the Previous Year (continued)

e) Financial Expenses

	For the three months ended March 31		
	2023	2022	Difference
	NIS in millions		
a. Financing expenses (income) due to exchange rate differences and linkage differences and revaluation of hedge transactions			
Exchange rate differences due to foreign currency financial liabilities mainly deriving from NIS/Dollar differences as a result of an increase in the exchange rate at a rate of approximately 2.73%	416	130	286
Revaluation of hedging transactions resulting from changes in the exchange rates during the period	(444)	(144)	(300)
Revaluation of hedging transactions resulting from changes in the Consumer Price Index during the period	157	151	6
Revaluation of hedge transactions to their fair value due to capitalization interest rates and credit risk	50	227	(177)
Linkage differentials due to index linked financial liabilities which increased at a rate of 1.08% in the report period compared to an increase of 1.17% in the same period the previous year	207	155	52
Total expenses due to exchange rate differences and linkage differences and revaluation of hedge transactions	**386**	**519**	**(133)**
b. Interest and Other Expenses			
Interest expenses	278	269	9
Other financing income	(77)	(23)	(54)
Total interest and other expenses:	**201**	**246**	**(45)**
Total financing expenses before capitalization	**587**	**765**	**(178)**
c. Capitalization of credit costs			
Financing expenses which were capitalized on projects under construction	129	103	26
Total financing expenses	**458**	**662**	**(204)**

Against the foreign currency exposure (mainly Dollar), the Company implements a policy of hedging for the rate of exchange. Hedging transactions executed by the Company throughout the years to swap foreign currency in substance replaced the foreign currency liabilities with fixed interest CPI linked or nominal NIS liabilities. Additionally, the Company recognizes regulatory deferral accounts with respect to CPI linkage differentials. For details see Note 7 to the Financial Statements.

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

3. Comparison and Analysis of Operating Results for the Reporting Period compared to the Corresponding Period in the Previous Year (continued)

f) Additional Business Results during the Reporting Period:

1) For details regarding the results of the effect of the reform agreement and other agreements during the reporting period in the amount of approximately NIS 62 million, see Note 6f to the Financial Statements.

2) A change in other comprehensive income (loss) in respect of re-measurement of a defined benefit plan, net of tax, compared to the corresponding period last year, in the amount of approximately NIS 1,431 million, deriving mainly from actuarial profits last year mainly due to an increase of the capitalization interest vector for capitalization of the liability with offset of losses in the plan's assets and funds in trust.

4. Liquidity for the Reporting Period

a) General:

1) Cash Flow from Operating Activities:

In the three months ended March 31, 2023, the cash flow deriving from operating activities amounted to NIS 385 million, compared to NIS 137 million used for operating activities in the corresponding period last year. For details of the change, see Appendix A to the Cash Flow Statement in the Financial Statements.

2) Cash Flow for Investment Activities:

In the three months ended March 31, 2023, the cash flow used for investment activities amounted to NIS 1,488 million, compared to NIS 1,347 million used for operating activities in the corresponding period last year.
The change in the cash flow for investment activity of approximately NIS 141 million derives mainly from investments in fixed assets during the period.

3) Cash Flow for Financing Activity:

In the three months ended March 31, 2023, cash flow used for financing activities amounted to NIS 737 million, compared to NIS 394 million deriving from financing activities in the corresponding period last year.
The change in the cash flow for financing activity of NIS 1,131 million derives mainly from the issue of debentures in the corresponding period last year and an increase in repayments of debentures offset by the decrease in short-term credit repayments and the net repayment of deposits to secure swap transactions.

For additional details regarding the cash flow of the Company see the statement of cash flows of the Company in the Financial Statements.

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

4. Liquidity for the Reporting Period (continued)

b) Financing Sources

1) General:

The Company finances its activities from its own sources, from offering debentures in Israel and abroad and from loans from banking corporations in Israel and abroad. For details regarding this, as well as details concerning material fundraising and repayments during and after the reporting period, see Note 8 to the Financial Statements.

2) Debentures and long term loans (without liabilities with respect to lease):

The balance of long-term financial liabilities of the Company on March 31, 2023 and December 31, 2022, is approximately NIS 36,200 million, and approximately NIS 36,213 million, respectively, detailed as follows:

		As at March 31, 2023	As at December 31, 2022
		Millions in NIS	
Liabilities in Index-Linked NIS			
Negotiable debentures		16,254	16,080
Non-negotiable debentures		838	1,530
Loans from the State of Israel		1,956	1,935
Total		**19,048**	19,545
Non-linked NIS Liabilities			
Negotiable debentures		1,224	1,224
Loans		1,500	1,500
Total		**2,724**	2,724
Dollar Linked Liabilities			
Debentures in the US		14,424	14,041
Loans	*	295	287
Total		**14,719**	14,328
Liabilities denominated in other foreign currencies:			
Debentures in Japan in Yen		1,489	1,467
Loans in Euros		305	291
Total liabilities		**38,285**	38,355
Premiums, discount and deferred expenses		171	204
Classification into current maturities		(3,920)	(4,006)
Long term hedge transactions		1,664	1,660
Total debentures, liabilities to banks and long term liabilities to the State of Israel		**36,200**	**36,213**

* Including loans guaranteed by the State of Israel in the sum of NIS 134 million as of March 31, 2023, and NIS 131 million as of December 31, 2022.

a. **Explanations of the Board of Directors on the Business Condition of the Company (continued)**

4. **Liquidity for the Reporting Period (continued)**

b) **Financing Sources (continued)**

3) **Average Long Term Credit for the three months ended March 31, 2023**

Credit is taken from banking corporations, debenture issuances and others. The average credit for the reporting periods was approximately NIS 40,256 million and is mainly long term loans and debentures (including hedging transactions, deferred, premium/discount of debentures and liabilities with respect to leasing).

4) **Suppliers' and Customers' Credit**

	As of March 31				As of December 31	
	2023		2022		2022	
	Days	Credit average **	Days	Credit average **	Days	Credit average **
Trade payables	34	2,221	36	1,874	33	2,145
Trade receivables *......................................	62	4,226	58	3,759	59	3,708
Trade receivables excluding the debts of the Palestinian Authority and the East Jerusalem Electricity Company (see Note 4 to the Financial Statements)*	48	2,886	46	2,655	45	2,566

(*) The credit days presented above represent the credit days from the invoice issue date until the payment date.

(**) In NIS millions

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

5. Financial indicators that are not based on accepted accounting principles (Non-GAAP)

In this report, the Company includes non-GAAP financial indicators.
Such indicators provide useful information for the management and the investors by neutralizing certain components which the management believes do not constitute an indication for the Company's ongoing activity, and therefore improve the comparative abilities of the financial results between periods, and allow for greater transparency of central indicators used for estimating the Company's performance, for comparing the operational results between the periods, and examining the Company's debt repayment capacity, and this, among other things, in order to comply with the targets defined and approved by the Company's Board of Directors (for details, see Note a1c above). Such indicators should not be considered as substituting the detailed information provided in the Financial Statements in accordance with the IFRS. The indicators are as follows:

a) EBITDA – including movement in regulatory deferral accounts, while neutralizing special non-current events

Definition: profit before financial expenses, depreciation and tax reductions on income, added with movement in regulatory deferral accounts (without depreciation, financial, and tax components), while neutralizing special non-current events. The results for the report period are as follows:

	For the three months ended on March 31		For the year ended on December 31
	2023	2022	2022
	(NIS in millions)		
Profit (loss) before tax	(262)	(719)	(1,013)
Financial expenses (income)	458	662	1,356
Depreciation and amortization	1,075	1,167	4,761
Total	1,271	1,110	5,104
Movement in regulatory deferral accounts	166	878	1,407
Neutralizing special and non-current events	-	-	(144)
Normalized EBITDA	**1,437**	**1,988**	**6,367**

a. **Explanations of the Board of Directors on the Business Condition of the Company (continued)**

5. **Financial indicators that are not based on accepted accounting principles (Non-GAAP) (continued)**

b) Real Financial debt, net

Definition: debentures, loans from banking corporations, negotiable papers, liabilities to the State of Israel, net swap and forward transactions, and liabilities with respect to leasing, while neutralizing cash, deposits, and regulatory deferral accounts due to CPI linkage differentials. The balances for this report period are as follows:

	As of March 31		As of December 31
	2023	**2022**	**2022**
	(NIS in millions)		
Credit from banking corporations and other credit provider	5,052	5,241	5,360
Debentures	30,734	25,659	30,791
Liabilities to banking corporations	3,567	5,336	3,546
Liabilities to the State of Israel	1,899	1,816	1,876
Liabilities for leases	476	519	460
CPI linkage differentials regulatory account	(2,300)	(1,113)	(1,990)
Real financial debt, gross	**39,428**	**37,458**	**40,043**
Less:			
Cash and cash-equivalents	1,801	1,390	3,654
Hedging transactions and deposits for securing the swap transactions	1,149	1,291	1,204
Short-term investments	473	247	459
Long-term investments	-	88	-
Real financial debt, net	**36,005**	**34,442**	**34,726**

c) Financial targets pursuant to the circular of the Companies Authority

On November 17, 2021, the Government Companies Authority published a circular of financial targets which included a set of targets and indices for government companies divided into segments, the following are the indices designated for infrastructure companies in accordance with the methodology defined in the said circular:

1) Adjusted financial debt: gross financial debt less cash and short-term investments plus interest and accrued expenses.

	For the three months ended on March 31		For the year ended on December 31
	2023	**2022**	**2022**
	(in NIS millions)		
Real net financial debt (see section b above)	36,005	34,442	34,726
Neutralizing regulatory asset for linkage differential	2,300	1,113	1,990
Neutralizing hedge transactions debit balances and deposits to secure swap transactions	1,149	1,291	1,204
Plus interest and accrued expenses	888	701	771
Total debt pursuant to the Companies Authority circular	**40,342**	**37,547**	**38,691**

a. Explanations of the Board of Directors on the Business Condition of the Company (continued)

5. Financial indicators that are not based on accepted accounting principles (Non-GAAP) (continued)

c) Financial targets pursuant to the circular of the Companies Authority (continued)

2) FFO and Return (ROCE)

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):

Return (ROCE) – 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 depreciation and amortization plus movement in regulatory deferral accounts (without components of financing, taxes and wages nor employee benefits with respect to the reform):

	For the three months ended on March 31		For the year ended on December 31
	2023	2022	2022
	(in NIS millions)		
EBITDA before normalizations (see section a above)	1,271	1,110	5,104
Change in employee benefits according to cash flow report	(15)	53	188
Other expenses (revenues), net	(74)	(3)	(1,405)
Interest and taxes paid according to the cash flow report	(185)	(216)	(1,106)
FFO	**997**	**944**	**2,781**
Plus interest and taxes paid according to the cash flow report	185	216	1,106
Less depreciation and amortization	(1,075)	(1,167)	(4,761)
Plus movement in regulatory deferral accounts	328	838	3,206
Return (ROCE)	**435**	**831**	**2,332**

3) Capital employed: adjusted gross financial debt (before deduction of cash and short-term investments) plus equity

	For the three months ended on March 31		For the year ended on December 31
	2023	2022	2022
	(in NIS millions)		
Equity	32,614	30,560	32,171
Debt pursuant to the circular of the Companies Authority	40,342	37,547	38,691
Plus cash and short-term investments	2,274	1,637	4,113
Capital employed	**75,230**	**69,744**	**74,975**

b. Linkage Basis Report

	As on March 31, 2023 (in NIS millions)						
	Linkage to USD	**Linkage to Euro**	**Linkage to Japanese Yen**	**Linkage to CPI ***	**Unlinked**	**Non-financial**	**Total**
Assets							
Cash and cash equivalents	816	-	433	-	552	-	1,801
Short term investments	181	197	-	-	95	-	473
Trade receivables for sale of electricity	-	-	-	-	5,238	-	5,238
Other current assets	238	-	-	261	321	280	1,100
Inventory – fuels	-	-	-	-	-	1,966	1,966
Inventory – stores	-	-	-	-	-	170	170
Assets of disposal groups classified as held for sale	-	-	-	-	-	1,866	1,866
Long term inventory – fuels	-	-	-	-	-	1,310	1,310
Long term receivables	1,148	-	-	144	646	-	1,938
Investment in associates	-	-	-	-	-	23	23
Assets with respect to benefits after employment termination	-	-	-	-	-	11,164	11,164
Fixed assets, net	-	-	-	-	-	58,679	58,679
Intangible assets, net	-	-	-	-	-	1,156	1,156
Debit balances of regulatory deferral accounts	-	-	-	-	-	11,709	11,709
Total	**2,383**	**197**	**433**	**405**	**6,852**	**88,323**	**98,593**

* Including adjustments to fair value of hedging transactions (including due to credit risk)
Commencing from January 1, 2016, the Company recognizes a deferred regulatory account in respect of index differentials on the foreign capital component in the financing of fixed assets.

b. Linkage Basis Report (continued)

	As on March 31, 2023 (in NIS millions)						
	Linkage to USD	**Linkage to Euro**	**Linkage to Japanese Yen**	**Linkage to CPI ***	**Unlinked**	**Non-financial and others**	**Total**
Liabilities							
Credit from banks and other credit providers	2,551	71	(1)	779	1,652	-	5,052
Trade payables	1,391	252	-	-	1,699	-	3,342
Other current liabilities	213	4	11	177	1,079	-	1,484
Customer advances from work orders, net of work in progress	-	-	-	-	-	824	824
Provisions	-	-	-	-	-	675	675
Debentures, liabilities to banks and other liabilities	12,223	211	1,484	17,219	1,572	438	33,147
Long term Lease liabilities	34	-	-	442	-	-	476
Liabilities with respect to long term hedging transactions	(14,788)	(306)	(1,049)	14,880	2,927	-	1,664
Liability to the State of Israel	-	-	-	1,899	-	-	1,899
Liabilities with respect to benefits after employment termination	-	-	-	-	-	5,245	5,245
Deferred taxes, net	-	-	-	-	-	8,205	8,205
Equity	-	-	-	-	-	32,614	32,614
Credit balances of regulatory deferral accounts, net of tax	-	-	-	-	-	3,966	3,966
Total	**1,624**	**232**	**445**	**35,396**	**8,929**	**51,967**	**98,593**
Total, net	**759**	**(35)**	**(12)**	**(34,991)**	**(2,077)**	**36,356**	-
Exposures covered by the electricity tariff**	(831)	-	-	831	-	-	-
Total exposure, net	**(72)**	**(35)**	**(12)**	**(34,160)**	**(2,077)**	**36,356**	-

* Including adjustments of hedging transactions to fair value (including due to credit risk).
Commencing from January 1, 2016, the Company recognizes a deferred regulatory account in respect of index differentials on the foreign capital component in the financing of fixed assets.

** Following the implementation of IFRS 16 regarding leases, the Company recognized dollar liabilities in respect of lease of the Coal Company ships, the balance of which as of March 31, 2023 is approximately NIS 60 million. The dollar payments for these liabilities are recognized to the Company by the Electricity Authority, and therefore there is rate coverage for the exposure in respect thereof. On the other hand, the Company holds a financial asset in an amount of approximately NIS 891 million with respect to the dollar receivable amounts expected to be received as part of the compromise agreement with the Egyptian Gas Companies, which will be fully returned to the consumers through the electricity rate.

For details regarding the linkage bases report as of December 31, 2022, see Note 26g to the Annual Financial Statements.

c. Aspects of Corporate Governance

1. The Internal Audit

Following are details regarding the activity of the Internal Auditor during the reporting period:
During the period of January to March 2023, 9 reports were prepared in total.
During this period, the Audit Committee of the Board of Directors held 2 discussions on the internal audit reports on: February 2, 2023, and February 23, 2023.

2. Directors with Accounting and Financial Expertise and External Directors

As of the report date, there are three directors with accounting and financial expertise serving in the Company. Therefore, the Company does not comply with the minimum number of Directors with accounting and financial expertise as set by the Board of Directors (5 Directors).

During the report period, the Company applied to the Ministers and the Government Companies Authority requesting to act to appoint additional Directors to the Company, and in particular to appoint Directors with accounting and financial expertise. It is clarified that the authority to appoint Directors to the Company is not vested in the Company but in the hands of the Ministers, after consultation with the Committee for Reviewing Appointments.

3. Chairman of the Board of Directors

As of August 1, 2021, and as of the date of approval of the Financial Statements, there is no serving Chairman of the Board of Directors of the Company. During the reporting period, the Company applied to the Ministers and the Government Companies Authority, requesting them to act urgently to appoint a Chairman of the Board of Directors to the Company. It is clarified that according to the Company's position, the procedure for appointing a Chairman of the Board of Directors is overwhelmingly the responsibility of the Ministers (after consultation with the Committee for Reviewing Appointments), while the Company's Board of Directors votes on candidates proposed by the Ministers.

On December 18, 2022, the Company received a letter of demand for a financial sanction according to Section 52r of the Securities Law, 2018, in which the Securities Authority informed the Company of its decision to impose a financial sanction on the Company in the amount of NIS 900,000 (after reduction) due to the violation of section 94(a) of the Companies Law, in view of not appointing a Chairman of the Board of Directors for the Company for over 60 days.

On January 18, 2023, the Company paid the financial sanction under protest and at the same time filed an administrative petition against the decision of the Securities Authority, and this, inter alia, because the Company's position (which was backed up by the Government Companies Authority) is that the imposition of the financial sanction was done illegally and without authority, inter alia because the decision completely ignored the position of the Government Companies Authority and the fact that the reason for not appointing a Chairman of Board of Directors is rooted in factors external to the Company and not due to the Company's failure, since in accordance with a practice over the years, the candidates proposed for the position of Chairman of the Company's Board of Directors are proposed and determined by the Ministers and not by the Company. A hearing of the petition is scheduled for July 18, 2023.

4. Appointments and Termination of Offices:

a) Ms. Tamar Fekler is serving as Senior Vice-President of Operations and Logistics in the Company as of March 2, 2023.

b) Mr. Joseph Roffe is serving as Senior Vice-President of Generation and Energy in the Company as of March 2, 2023.

c) Advocate Gershon Berkowitz is serving as Senior Vice-President, General Counsel of the Company as of March 15, 2023.

d) Mr. Gilad Hassid is serving as Senior Vice-President of Finance, Economics and Risk Management of the Company as of April 4, 2023.

e) Mr. Haim Rubin announced the end of his service as Senior Vice-President of Engineering Projects of the Company as of April 13, 2023. On March 30, 2023, the Company’s Board of Directors approved the appointment of Mr. Leonid Gitnik as Acting Senior Vice-President of Engineering Projects as of April 14, 2023.

f) Ms. Miri Shaul is serving as the Company’s Spokesperson as of May 1, 2023.

d. Instructions for Disclosure Related to the Financial Reporting of the Company

1. The Financial Reporting of the Company

The Consolidated Financial Statements of the Company were prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations thereof which were published by the International Accounting Standards Board (IASB). Furthermore, the Financial Statements are prepared in accordance with the Securities Regulations (Annual Financial Statements), 2010. The Company consolidates the National Coal Supply Company Ltd. (hereinafter: the “Coal Company”) and Netiv Ha’Or – Orot Rabin Ltd. in its Financial Statements. The financial data in the Board of Directors’ Report are data from the Consolidated Financial Statements of the Company. For additional details see Note 2 to the Annual Financial Statements.

2. Critical Accounting Estimates

Preparation of the Financial Statements in accordance with accepted accounting principles requires the Management of the Company to make evaluations and estimates that affect the reported values of the assets, liabilities, revenues and expenses and also the disclosure concerning contingent assets and liabilities.
For details on the policy regarding use of critical accounting estimates of the Company and for details regarding key factors of the uncertainty in estimates in the period, see Note 2ad to the Annual Financial Statements.

3. Material and Highly Material Valuations

a) For details of the Company’s policy regarding the issue see section c3 of the Report of the Board of Directors as of December 31, 2022.
b) The Company has highly material valuations regarding actuarial liability with respect to benefits for employees in accordance with IAS 19.

Identifying the valuation subject	Actuarial obligation with respect to employee benefits in accordance with International Accounting Standard 19 (IAS 19)
Valuation date:	March 31, 2023
The value of the subject of the valuation determined in accordance with the evaluation	NIS 33,512 million
Assessor identity and characteristics thereof	The evaluation was performed by Alan Fefferman - Actuarial Services Ltd by Alan Fefferman and the staff under his supervision. Alan Fefferman holds an MBA from the Booth School of Business at the University of Chicago in the United States and is qualified as an actuary (a full member of the Society of Actuaries in Israel - FILAA, and the society of actuaries in the United States - FSA). His professional experience of 33 years includes actuarial estimates of employee benefits in similar types of companies, actuarial valuations of pension funds, and determining assumptions and actuarial methods for pension funds and insurance companies as an assessing actuary, a reviewing actuary, or an examining actuary as well as an actuary regulator.
Date of agreement with the evaluator	May 26, 2016
Dependence on the actuary requester	The actuary of the Company is not dependent on the work or the Company, except for the fact that he receives a fee for this work and for other consulting services. The fee is not contingent on the results of the work.
The valuation model used by the appraiser	Discounted Cash Flow (hereinafter: “DCF”)

d. Instructions for Disclosure Related to the Financial Reporting of the Company: (continued)

3. Material and Highly Material Valuations (continued)

b) The Company has a highly material valuation regarding actuarial liability with respect to benefits for employees in accordance with IAS 19 (continued)

The assumptions under which the evaluation assessor made the valuation, in accordance with the evaluation model:	The real weighted interest rate inherent in the present value of the liability - 2.89% A real update of salaries during the period of work - individual salary development model of active employees and a salary increase with respect to current salary agreements. A real amendment of the pension amounts following the termination of employment – pension development model, from January 2012 the pensions are linked to the CPI. Pensioner and survivor mortality, including the updating of the mortality data - in accordance with the Ministry of Finance circular 2022-9-18, and mortality study for pensioners and survivors of the Company. Other actuarial assumptions - see actuary opinions in Appendix A.
The function in the Company which decided on the agreement with the appraiser	Head of Accounting, Finance and Risk Management Division
Preapproval of the evaluator to attach the evaluation	Existing
Indemnification agreement	On May 26, 2016 the Company granted the evaluator an undertaking to indemnify (also valid as of this date, as part of the extension of the contract) with respect to any sum or expense that will be paid by him with respect to an action or a demand filed against him and directly or indirectly related to an act or omission that the Company is responsible for the results deriving therefrom, all insofar as the said sum or expense exceeds three times the scope of the Company's basic engagement with the evaluator

4. Disclosure of the Forecasted Cash Flow of the Company for Financing Repayment of the Corporation's Liabilities:

As of March 31, 2023, there are no warning signs that apply to the Company as specified in Section 10(b)14(a) of the Securities Regulations.

The Company has cash flow from current operation for the reporting period amounting to approximately NIS 0.4 billion. The cash and short-term investments balance as of March 31, 2023 amounts to approximately NIS 2.3 billion, and the Company has positive working capital as of March 31, 2023 amounting to approximately NIS 1.2 billion. For details regarding the Company's policy for holding a safety cushion, see section a1c1d above.

e. Dedicated Disclosure to Debentures Holders - Details of Debentures of the Group

Following are details regarding the negotiable debentures as of March 31, 2023, issued prior to the reporting period, as required by the eighth supplement to the Securities Regulations:

	Debenture series						
	Series 26	**Series 27**	**Series 29**	**Series 30**	**Series 31**	**Series 32**	**Series 33**
	NIS millions						
Nominal value	678	2,610	2,956	547	3,889	1,202	4,292
Index linkage basis	Unlinked	Linked	Linked	Unlinked	Linked	Linked	Linked
Nominal value including linkage to the CPI (in the linked series)	678	2,864	3,266	547	4,226	1,290	4,608
Accumulated interest	15	51	13	0	3	9	48
Stock exchange value (which also constitutes fair value)	677	3,095	3,476	535	4,222	1,251	3,985

For additional details see section D in the Report of the Board of Directors for the year ended December 31, 2022.

Existence of liabilities deriving from terms of the debentures as of the date of the report:

- The Company has complied with all the conditions and commitments according to the deeds of trust for the debentures.
- There was no cause to classify the debentures as immediately repayable.
- The Company did not receive any notice from the trustee to the debentures on its failure to comply with the conditions and commitments according to these deeds of trust.

The Board of Directors and Management wish to express their appreciation to the Company's employees and its managers.

Meir Spigler	Shlomo Arbiv
Chief Executive Officer	External Director*

Date of Approval: May 18, 2023

* **On August 1, 2021, Mr. Yiftah Ron-Tal concluded his tenure as the Chairman of the Company's Board of Directors, and as of the date of the signing of these Statements, a new Chairman of the Board of Directors has not yet been appointed. In light of the aforesaid, in its meeting of May 18, 2023, the Company's Board of Directors authorized Mr. Shlomo Arbiv, who serves as an External Director, to sign the Company's Board of Directors Report for the period ending March 31, 2023, in lieu of the signature of the Chairman of the Board of Directors.**

The Israel Electric Corporation Ltd.

Supplement

Additional Report Regarding the Effectiveness of the Internal Control Over Financial Reporting

For the Three Months Ended
March 31, 2023

Prominent Disclaimer

This English translation of the **“Additional Report Regarding the Effectiveness of the Internal Control Over Financial Reporting”** for the three months ended March 31, 2023 ("English Translation") is provided for information purposes only.

In the event of any conflict or inconsistency between the terms of this English Translation and the original version prepared in Hebrew, the Hebrew version shall prevail and holders of the Notes should refer to the Hebrew version for any and all financial information relating to the Company.

The Company, its Directors and its Auditors make no representations as to the accuracy and reliability of the financial information in this English Translation, save that the Company and its Directors represent that reasonable care has been taken to correctly translate and reproduce such information, yet notwithstanding the above, the translation of any technical terms are, in the absence of generally agreed equivalent terms in English, approximations to convey the general sense intended in the Hebrew version.

The Company reserves the right to effect such amendments to this English Translation as may be necessary to remove such conflict or inconsistency.

SECOND ADDENDUM
(REGULATION 2)

A REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT ON THE INTERNAL CONTROL OVER FINANCIAL REPORTING IN ACCORDANCE WITH GOVERNMENT COMPANIES REGULATIONS (ADDITIONAL REPORTS REGARDING THE EFFECTIVENESS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING), 2007

The Management, under supervision and upon approval of the Board of Directors of the Israel Electric Corporation Ltd. (hereinafter: the “Company”), is responsible for establishing and maintaining adequate internal controls over financial reporting of the Company. The internal controls over financial reporting are a process designed to provide a reasonable measure of assurance regarding the reliability of the financial reporting and the preparation of the financial statements for external purposes, in accordance with generally acceptable accounting principles and the directives of the Government Companies Law. Due to its inherent limitations, the system of internal control over financial reporting is not intended to provide absolute assurance that a misstatement in the financial statements will be prevented or detected.

The Board of Directors and the Management conducted an examination and assessment of the internal controls in the Company over financial reporting and their efficiency, including its consolidated corporations, based on criteria defined in a control model named the "COSO Model".

In the annual report on the internal controls over financial reporting which was attached to the periodic report for the period ended on December 31, 2022, the internal controls were found to be ineffective due to the material weakness described below:

The Company did not maintain effective controls to ensure that the rights and benefits, according to which salaries and pensions are paid, and actuarial liabilities are included, are authorized in accordance with the provisions of the law.

Disclosure with respect to the material weakness was first reported in the report on the internal controls over financial reporting, which was attached to the 2009 periodic annual report.

Correcting the material weakness and actions to ensure the appropriateness of financial reporting:

The Company took action to reinforce the controls pertaining to this issue and has formulated a procedure that was approved by the Company's Board of Directors in 2011, concerning the rights and benefits under which salary and pension payments are paid, and actuarial liabilities are included. The procedure is implemented in practice. With regard to salary rights originating in the past, the Company has received an opinion from its legal counsel, and in 2011 applied to the Commissioner of Wages for his approval of the validity of salary rights that have not yet been approved. The comprehensive approval has not yet been received from the Commissioner.

The Company estimates that these measures have strengthened the internal control over financial reporting on issues pertaining to the treatment of the employee salary rights item from 2011 onwards.

On December 11, 2016, a Collective Agreement was signed, determining, inter alia, restitution with respect to payment of salary components which were defined as irregular by the Commissioner of Wages in 2013, and the arrangement of these components from that day on.

The possible impact of the material weakness described above on the financial reporting and the disclosure is not quantifiable.

The Company is working with all relevant factors to remove the material weakness.

In the three months ended on March 31, 2023, no changes occurred that had a material affect or that are expected to have a material effect on the internal control over financial reporting in the Company.

Gilad Hassid Senior Vice-President of Finance, Economics and Risk Management	Meir Spigler Chief Executive Officer	Shlomo Arbiv External Director*

May 18, 2023

*** On August 1, 2021, Mr. Yiftah Ron-Tal concluded his tenure as the Chairman of the Company’s Board of Directors, and as of the date of the signing of these Statements, a new Chairman of the Board of Directors has not yet been appointed. In light of the aforesaid, in its meeting of May 18, 2023, the Company’s Board of Directors authorized Mr. Shlomo Arbiv, who serves as an External Director, to sign certifications relating to the Company’s Financial Statements for the period ending March 31, 2023, in lieu of the signature of the Chairman of the Board of Directors.**

The Israel Electric Corporation Ltd.

Chapter C

Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2023

<u>Prominent Disclaimer</u>

This English translation of the **“Consolidated Interim Financial Statements”** for the three months ended March 31, 2023 ("English Translation") is provided for information purposes only.

In the event of any conflict or inconsistency between the terms of this English Translation and the original version prepared in Hebrew, the Hebrew version shall prevail and holders of the Notes should refer to the Hebrew version for any and all financial information relating to the Company.

The Company, its Directors and its Auditors make no representations as to the accuracy and reliability of the financial information in this English Translation, save that the Company and its Directors represent that reasonable care has been taken to correctly translate and reproduce such information, yet notwithstanding the above, the translation of any technical terms are, in the absence of generally agreed equivalent terms in English, approximations to convey the general sense intended in the Hebrew version.

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Translated to English from the Hebrew original

Review Report of the Auditors to the Shareholders of
The Israel Electric Corporation Ltd

Introduction

We have reviewed the accompanying financial information of The Israel Electric Corporation Ltd and consolidated companies (hereinafter – the Company) comprising of the condensed consolidated interim statement of financial position as of March 31, 2023 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting"*, and are also responsible for the preparation of financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970 and according to the instructions of the Government Companies Authority. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

We did not review the condensed financial information for the interim period of a consolidated company whose assets included in consolidation represent less than 1% of total consolidated assets as at March 31, 2023, and the income included in consolidation represents 0% of all consolidated income for the three month period ended on that date. The interim condensed financial information of that company were reviewed by other auditors whose review report was presented to us and our conclusion, inasmuch as it relates to financial information in respect of that company, is based on the review report of the other auditors.

Scope of Review

We conducted our review in accordance with the Review Standard (Israel) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review report of the other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information was not prepared, in all material respects, in accordance with IAS 34 and the instructions of the Government Companies Authority.

In addition to that mentioned in the previous paragraph, based on our review and the review report of the other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Item Emphasis Paragraph (Drawing of attention)

Without qualifying our above conclusion, we draw attention to that mentioned in Notes 10b and 1g regarding class actions, requests to recognize claims as class actions, pending claims connected to the Law for the Protection of the Environment and other material claims filed against the Company, where their chances of success and the expected effect on the Company's financial situation and results cannot be estimated.

Sincerely,

Somekh Chaikin
Certified Public Accountants (Isr.)

Haifa, May 18, 2023

Translated to English from the Hebrew original

The Board of Directors

Israel Electric Corporation Ltd (**"the Company"**)

1 Netiv Haor, Haifa

Dear Sirs,

Re: Consent letter in respect of a shelf prospectus of Israel Electric Corporation Ltd from May 2021

We hereby inform you that we consent to the inclusion (including by way of reference) of our reports detailed below in the draft shelf prospectus to be published by the Company insofar as this will be published in respect of the relevant shelf prospectus from May 2021.

The review report of the auditors dated May 18, 2023 on the condensed consolidated financial information of the Company as at March 31, 2023 and for the three month period ended on that date.

Yours truly

Somekh Chaikin

Haifa, May 18, 2023

ADDENDUM
(REGULATION 2)
ADDITIONAL REPORT

IN ACCORDANCE WITH GOVERNMENT COMPANIES REGULATIONS (ADDITIONAL REPORT REGARDING ACTIONS TAKEN AND REPRESENTATIONS MADE TO ENSURE THE ACCURACY OF THE FINANCIAL STATEMENTS, AND THE REPORT OF THE BOARD OF DIRECTORS), – 2005

I, Gilad Hassid, certify that:

1. I have reviewed the Quarterly Report within the meaning of Regulation 38 of Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970, of The Israel Electric Corporation Limited (hereinafter: the “Company”) for the three months ended March 31, 2023 (hereinafter: the "reports").

2. To the best of my knowledge and after reviewing the reports, they do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the reports.

3. To the best of my knowledge and after reviewing the reports, the Financial Statements and other financial information included in the Directors’ Report fairly present, in all material respects, the financial condition, results of operations, changes in equity and cash flows of the Company as of, and for, the periods presented in the reports.

4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures for the Company. Accordingly, we have designed such disclosure controls and procedures, or had established under our charge such disclosure controls and procedures, designed to ensure that material information relating to the Company, including its consolidated companies, is made known to us by others in the Company, and in those corporations, particularly during the period in which the reports were prepared.

5. The Company's other certifying officers and I have disclosed to the Company's auditors and to the Company's Board of Directors, based on our most recent evaluation:

    a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information.

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of any other person, pursuant to any law.

Gilad Hassid
Senior Vice-President of Finance, Economics and Risk Management

May 18, 2023

ADDENDUM
(REGULATION 2)
ADDITIONAL REPORT

IN ACCORDANCE WITH GOVERNMENT COMPANIES REGULATIONS
(ADDITIONAL REPORT REGARDING ACTIONS TAKEN AND REPRESENTATIONS MADE TO ENSURE THE ACCURACY OF THE FINANCIAL STATEMENTS, AND THE REPORT OF THE BOARD OF DIRECTORS), – 2005

I, Meir Spigler, certify that:

1. I have reviewed the Quarterly Report within the meaning of Regulation 38 of Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970, of The Israel Electric Corporation Limited (hereinafter: the "Company") for the three months ended March 31, 2023 (hereinafter: the "reports").

2. To the best of my knowledge and after reviewing the reports, they do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the reports.

3. To the best of my knowledge and after reviewing the reports, the Financial Statements and other financial information included in the Directors' Report fairly present, in all material respects, the financial condition, results of operations, changes in equity and cash flows of the Company as of, and for, the periods presented in the reports.

4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures for the Company. Accordingly, we have designed such disclosure controls and procedures, or had established under our charge such disclosure controls and procedures, designed to ensure that material information relating to the Company, including its consolidated companies, is made known to us by others in the Company, and in those corporations, particularly during the period in which the reports were prepared.

5. The Company's other certifying officers and I have disclosed to the Company's auditors and to the Company's Board of Directors, based on our most recent evaluation:

   a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information.

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of any other person, pursuant to any law.

Meir Spigler
Chief Executive Officer

May 18, 2023

ADDENDUM
(REGULATION 2)
ADDITIONAL REPORT

IN ACCORDANCE WITH GOVERNMENT COMPANIES REGULATIONS
(ADDITIONAL REPORT REGARDING ACTIONS TAKEN AND REPRESENTATIONS MADE TO ENSURE THE ACCURACY OF THE FINANCIAL STATEMENTS, AND THE REPORT OF THE BOARD OF DIRECTORS), – 2005

I, Shlomo Arbiv, certify that:

1. I have reviewed the Quarterly Report within the meaning of Regulation 38 of Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970, of The Israel Electric Corporation Limited (hereinafter: the “Company”) for the three months ended March 31, 2023 (hereinafter: the "reports").

2. To the best of my knowledge and after reviewing the reports, they do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the reports.

3. To the best of my knowledge and after reviewing the reports, the Financial Statements and other financial information included in the Directors’ Report fairly present, in all material respects, the financial condition, results of operations, changes in equity and cash flows of the Company as of, and for, the periods presented in the reports.

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5. The Company's other certifying officers and I have disclosed to the Company's auditors and to the Company's Board of Directors, based on our most recent evaluation:

   a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information.

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of any other person, pursuant to any law.

Shlomo Arbiv
External Director *

May 18, 2023

*** On August 1, 2021, Mr. Yiftah Ron-Tal concluded his tenure as the Chairman of the Company’s Board of Directors, and as of the date of the signing of these Statements, a new Chairman of the Board of Directors has not yet been appointed. In light of the aforesaid, in its meeting of May 18, 2023, the Company’s Board of Directors authorized Mr. Shlomo Arbiv, who serves as an External Director, to sign certifications relating to the Company’s Financial Statements for the period ending March 31, 2023 in lieu of the signature of the Chairman of the Board of Directors.**

(NEW ISRAELI SHEKELS, IN MILLIONS)

	Note	As of March 31 2023	As of March 31 2022	As of December 31 2022
		Unaudited	Unaudited	Audited
CURRENT ASSETS				
Cash and cash equivalents		1,801	1,390	3,654
Short term investments		473	247	459
Trade receivables for sales of electricity	4	5,238	5,080	4,702
Other current assets		1,100	882	886
Inventory - fuel		1,966	1,449	2,412
Inventory - stores		170	133	166
Assets of disposal groups classified as held for sale	5	1,866	165	-
Total current assets		12,614	9,346	12,279
NON-CURRENT ASSETS				
Inventory - fuel		1,310	1,570	1,413
Long-term receivables		1,938	2,375	2,111
Investment in associates		23	11	13
Assets with respect to benefits after employment termination:	6			
Excess pension plan assets over pension liability		10,002	8,971	9,816
Funds in trust		1,162	1,397	1,184
		11,164	10,368	11,000
Fixed assets, net:				
Fixed assets in use, net		50,371	51,670	52,133
Fixed assets under construction		8,308	7,196	7,478
		58,679	58,866	59,611
Intangible assets, net		1,156	1,158	1,153
Total non-current assets		74,270	74,348	75,301
Total assets		**86,884**	**83,694**	**87,580**
Debit balances of regulatory deferral accounts	7	11,709	9,156	11,384
Total assets and debit balance of regulatory deferral accounts		**98,593**	**92,850**	**98,964**

The accompanying notes are an integral part of the Financial Statements.

(NEW ISRAELI SHEKELS, IN MILLIONS)

	Note	As of March 31		As of December 31
		2023	2022	2022
		Unaudited		Audited
CURRENT LIABILITIES				
Credit from banks and other credit providers	8	5,052	5,241	5,360
Trade payables		3,342	2,922	3,807
Other current liabilities		1,484	1,324	1,365
Customer advances, net of work in progress		824	799	834
Provisions		675	706	684
Total current liabilities		11,377	10,992	12,050
NON-CURRENT LIABILITIES				
Debentures	8	30,734	25,659	30,791
Liabilities to banks	8	3,567	5,336	3,546
Liabilities with respect to other benefits after employment termination	6	5,245	5,944	5,374
Deferred taxes, net		8,205	7,747	8,051
Liability to the State of Israel	8	1,899	1,816	1,876
Lease liabilities		476	519	460
Other liabilities		510	480	514
Total non-current liabilities		50,636	47,501	50,612
Total liabilities		62,013	58,493	62,662
EQUITY				
Share capital		908	908	908
Capital reserves		798	684	744
Capital remeasurement reserve		(516)	(624)	(562)
Retained earnings		31,424	29,592	31,081
Total equity		32,614	30,560	32,171
Total liabilities and equity		**94,627**	**89,053**	**94,833**
Credit balances of regulatory deferral accounts and deferred taxes with respect to regulatory deferral accounts	7	3,966	3,797	4,131
Total liabilities, equity and credit balance of regulatory deferral accounts		**98,593**	**92,850**	**98,964**

The accompanying notes are an integral part of the Financial Statements.

Mr. Gilad Hassid	Mr. Meir Spigler	Mr. Shlomo Arbiv
Senior Vice-President of Finance, Economics and Risk Management	Chief Executive Officer	External Director*

Date of approval of the Financial Statements: May 18, 2023

*** On August 1, 2021, Mr. Yiftah Ron-Tal concluded his tenure as the Chairman of the Company's Board of Directors, and as of the date of the signing of these Statements, a new Chairman of the Board of Directors has not yet been appointed. In light of the aforesaid, in its meeting of May 18, 2023, the Company's Board of Directors authorized Mr. Shlomo Arbiv, who serves as an External Director, to sign the Company's Financial Statements for the period ending March 31, 2023, in lieu of the signature of the Chairman of the Board of Directors.**

THE ISRAEL ELECTRIC CORPORATION LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)
(NEW ISRAELI SHEKELS, IN MILLIONS)

	Note	For the Three Months ended March 31		For the Year ended December 31
		2023	2022	2022
		Unaudited		Audited
Consolidated Statements of Profit (Loss):				
Revenues	9	5,764	5,866	23,105
Cost of operating the electricity system:				
Fuels		2,227	2,251	9,561
Purchases of electricity		1,292	1,541	5,933
Operation of the generation system		947	990	4,094
Operation of the transmission and distribution system and others		773	722	2,840
		5,239	5,504	22,428
Profit from operating the electricity system		525	362	677
Other revenues, net		(74)	(3)	(1,405)
Sales and marketing expenses		202	193	819
Administrative and general expenses		208	203	856
Income from liabilities to pensioners	6n	(69)	(32)	(148)
Reform agreement and other agreements' results	6f	62	58	212
		329	419	334
Profit (loss) from current operations		196	(57)	343
Financial expenses, net		458	662	1,356
Loss before income taxes		(262)	(719)	(1,013)
Income tax income		(56)	(163)	(226)
Loss after income tax		(206)	(556)	(787)
Company's share of the profit of associate companies		10	2	-
Loss before regulatory deferral accounts		(196)	(554)	(787)
Movement in regulatory deferral accounts balances, net of tax	7	539	839	2,561
Profit for the period		**343**	**285**	**1,774**
Consolidated Statements of Other Comprehensive Income (Loss):				
Amounts that will be attributed in the future to the Statement of Profit (Loss):				
Profit with respect to cash flow hedging, net of tax		54	-	60
Amounts that will not be attributed in the future to the Statement of Profit (Loss):				
Remeasurement of a defined benefit plan, net of tax	6k	75	1,506	1,693
Movement in regulatory deferral accounts balances, net of tax	7	(29)	(56)	(181)
		46	1,450	1,512
Other comprehensive income for the period, net of tax		**100**	**1,450**	**1,572**
Comprehensive income for the period		**443**	**1,735**	**3,346**

The accompanying notes are an integral part of the Financial Statements.

THE ISRAEL ELECTRIC CORPORATION LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(NEW ISRAELI SHEKELS, IN MILLIONS)

	For the Three Months ended on March 31, 2023				
	Paid-up share capital	Capital reserves	Capital remeasurement reserves	Retained earnings	Total
			Unaudited		
Balance as of January 1, 2023	908	744	(562)	31,081	32,171
Profit for the period	-	-	-	343	343
Other comprehensive income for the period	-	54	46	-	100
Balance as of March 31, 2023	**908**	**798**	**(516)**	**31,424**	**32,614**

	For the Three Months ended on March 31, 2022				
	Paid-up share capital	Capital reserves	Capital remeasurement reserves	Retained earnings	Total
			Unaudited		
Balance as of January 1, 2022	908	684	(2,074)	29,307	28,825
Profit for the period	-	-	-	285	285
Other comprehensive income for the period	-	-	1,450	-	1,450
Balance as of March 31, 2022	**908**	**684**	**(624)**	**29,592**	**30,560**

	For the Year Ended on December 31, 2022				
	Paid-up share capital	Capital reserves	Capital remeasurement reserves	Retained earnings	Total
			Audited		
Balance as of January 1, 2022	908	684	(2,074)	29,307	28,825
Profit for the year	-	-	-	1,774	1,774
Other comprehensive income for the year	-	60	1,512	-	1,572
Balance as of December 31, 2022	**908**	**744**	**(562)**	**31,081**	**32,171**

The accompanying notes are an integral part of the Financial Statements.

(NEW ISRAELI SHEKELS, IN MILLIONS)

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	Unaudited		Audited
Cash flow from operating activities:			
Loss before regulatory deferral accounts according to the statement of profit and loss	(196)	(554)	(787)
Adjustments required to present cash flow from operating activities - Annex A	581	417	2,997
Net cash deriving from (used for) operating activities	**385**	**(137)**	**2,210**
Cash flow for investing activities:			
Investment in fixed assets and intangible assets	(1,601)	(1,343)	(5,472)
Proceeds from sale of fixed assets	65	8	1,781
Loan to an associate company	-	(5)	(9)
Long-term receivables, net	49	(8)	(4)
Investment in exchange traded funds	-	-	(100)
Withdrawing (depositing) bank deposits, net	(1)	1	-
Net cash used for investing activities	**(1,488)**	**(1,347)**	**(3,804)**
Cash flow from financing activities:			
Issuance of long-term debentures	-	1,598	7,929
Repayment of long-term debentures	(704)	(668)	(2,065)
Repayment of other long-term loans	-	(1)	(208)
Proceeds (payment) from settlement of derivatives	(56)	(2)	49
Repayment of deposits to secure swap transactions, net	330	17	604
Changes in short-term credit from banks, net	(94)	(267)	(2,215)
Repayment of lease liabilities	(35)	(69)	(264)
Interest and commissions paid, net	(178)	(214)	(1,079)
Net cash deriving from (used for) financing activities	**(737)**	**394**	**2,751**
Increase (decrease) in cash and cash equivalents	(1,840)	(1,090)	1,157
Effect of exchange rate fluctuations on cash and cash equivalent balances	(13)	26	43
Balance of cash and cash equivalents at the beginning of the period	**3,654**	**2,454**	**2,454**
Balance of cash and cash equivalents at the end of the period	**1,801**	**1,390**	**3,654**

(NEW ISRAELI SHEKELS, IN MILLIONS)

ANNEX A - ADJUSTMENTS REQUIRED TO PRESENT CASH FLOW FROM OPERATING ACTIVITIES

	For the Three Months ended March 31		For the Year ended December 31
	2023	**2022**	**2022**
	Unaudited		Audited
Income and expenses not affecting cash flow:			
Company's share in profit of associates	(10)	(2)	-
Depreciation and amortization and changes in impairment	1,075	1,167	4,761
Income tax income	(56)	(163)	(226)
Expenses with respect to deductions assessment agreement	-	-	17
Change in liabilities with respect to employee benefits, net	(15)	53	188
Financing expenses, net, recognized in Statement of Profit and Loss	458	662	1,356
Capital loss (gain) on disposal and sale of fixed assets	(4)	8	(1,367)
	1,448	**1,725**	**4,729**
Changes in assets and liabilities:			
Change in trade receivables for sales of electricity	(536)	(790)	(412)
Change in other current assets (including long-term receivables)	(215)	(175)	34
Change in inventory (including noncurrent inventory)	430	89	(750)
Deposits in funds, and non-fund payments	(168)	(710)	(1,844)
Change in customer advances for work ordered, net of work in progress	(10)	59	94
Change in trade payables (including long-term)	(402)	97	966
Change in other current liabilities (including those presented in long-term)	41	124	207
	(860)	**(1,306)**	**(1,705)**
Taxes on income, which have been paid	(7)	(2)	(27)
	581	**417**	**2,997**

The accompanying notes are an integral part of the Financial Statements.

NOTE 1:- GENERAL

a. Company Activities

1. The Israel Electric Corporation Limited (hereinafter: "The Company"), pursuant to licenses granted to the Company by the State of Israel, engages in the generation, transmission, distribution and supply of electricity. The Company is classified as an Essential Service Provider in relation to these services. The Company was declared a monopoly by the General Director of Competition (formerly the General Director of the Israel Antitrust Authority) and the directives of the Economic Competition Law – 1988 (hereinafter: “Economic Competition Law”) apply to the Company (see section h below). The Company also deals in the construction of the infrastructures required for these activities.

2. The Company is a Government Company (the State of Israel holds approximately 99.85% of its share capital) and it is subject to the provisions of the Government Companies Law – 1975 (hereinafter: “Government Companies Law”) (see section d below).
The Company is also a Public Company as defined by the Companies Law – 1999 (hereinafter: “Companies Law”) and a Reporting Corporation, as defined by the Securities Law – 1968 (hereinafter: the “Securities Law”).

3. These condensed statements should be read in conjunction with the Annual Financial Statements of the Company as of December 31, 2022, and for the year ended on that same date, and their accompanying Notes (hereinafter: the “Annual Financial Statements”).

b. The Electricity Sector Law

For details of the Electricity Sector Law, see Note 1b to the Annual Financial Statements.

c. Decisions of the Government Regarding the Electricity Sector and Activities of the Company

For details regarding Government Resolutions that concern the electricity sector and the Company’s operation, see Note 1c of the Annual Financial Statements.

d. Regulation and Statutory Provisions Applicable to the Company

For details of the regulations of the law applying to the Company, including the provisions of the Government Companies Law and the relevant regulations, as well as additional provisions applying to the Company as a Government Company, see Note 1d to the Annual Financial Statements.

For information regarding profit centers and reporting on profit centers pursuant to the summary of the governmental team on the manner of reporting – see Note 12 below and Note 36 to the Annual Financial Statements.

NOTE 1:- GENERAL (continued)

e. Structural Change

Actions to implement the structural change

For details regarding the implementation of the Structural Change Outline, see Note 1e to the Annual Financial Statements.

Below, developments concerning actions to implement the structural change during the reporting period:

1. Construction of Combined Cycle Power Stations (CCGTs)

For details regarding the expected forecast for activation of the CCGTs at the Orot Rabin site see Note 1e9 to the Annual Financial Statements.

As of the Statement of Financial Position date, the Company has invested an amount of approximately NIS 3,535 million in the construction of the two CCGTs at the Orot Rabin site.

2. Sale of Sites

Eshkol

Further to the contents of Note 1e1 of the Annual Financial Statements regarding the date of publication of the regulation of the activity of the generation units at Eshkol, with respect to which the Company decided to postpone the date of submitting the financial offers in the tender for the sale of the site to May 22, 2023, and the date of transfer of possession to December 3, 2023, and following the Company's application to the Electricity Authority and the Ministry of Energy and Infrastructure with a request to extend the validity of the generation licenses at the site accordingly, after the Statement of Financial Position date, on May 18, 2023, the Company received the licenses signed by the Minister of Energy and Infrastructure, valid until December 3, 2023, and this after receiving the Resolution of the Electricity Authority's plenum which was published on May 17, 2023, in accordance with the mechanism set forth in Section 60a(c) of the Electricity Sector Law.

As a result of publication of the regulation as aforesaid, the Company classified the fixed assets, inventory, and sale costs whose value will be recovered through the sale of the Eshkol site to a disposal group classified as held for sale in these Financial Statements.

3. Financial Strength

In light of recent developments, including the changes that took place in the rate base for the generation segment as well as following the 2023 Annual Update, which include, inter alia, extending the life of the existing generation units, changing the method of recognizing the cost of capital from the equal principal method to the Spitzer method in a way that reduces the return of income cash flow in the first years (which will be returned in later years) and the decrease in the rate of return in the generation segment (for more details see Note 3 to the Annual Financial Statements), as well as in view of the increase in investments in accordance with the development plan in the transmission and distribution segments indicated for the years 2023-2030, which was published as part of a hearing regarding the obligation to consult with the Electricity Authority regarding this plan published by the Electricity Authority on February 27, 2023 (and which has not yet been approved by the Minister of Energy and Infrastructure and Minister of Finance), the gas conversion project of the coal-fired power plants at the "Rutenberg" and "Orot Rabin" sites, a hearing published by the Electricity Authority within the framework of Resolution No. 652 of March 26, 2023 regarding the acceleration of the deployment rate of smart meters until 2028, as well as the implementation of the wage agreement in the public sector (which has not yet been signed) and its expected impact on the wage costs in the Company and the accumulated debt of the East Jerusalem Electricity Company (for additional details, see Notes 4 and 6 below), the Company anticipates that there may be a deviation from the financial strength goals set in the reform documents and in the decisions of the Board of Directors.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

Actions to implement the structural change (continued)

3. Financial Strength (continued)

In light of the above, the Company intends, in accordance with the provision in section B(16) of Government Resolution No. 3859 of June 3, 2018 regarding the "Reform in the electricity sector and structural change in the Electricity Company", to apply in order to convene the monitoring team for compliance with the financial strength goals, which consists of State officials headed by the Director of the Government Companies Authority and with the participation of the Budget Commissioner, the Accountant General and the Director General of the Ministry of Energy and Infrastructure or someone on their behalf, in order to monitor and audit, in consultation with the Company and on the basis of its reports to the team, the compliance with the goals of financial strength and to hold discussions with the Company regarding possible courses of action, whether for the purpose of meeting the goals or for the purpose of changing these goals.
As of the date of approval of the Financial Statements, the team had not yet convened to discuss the implementation of the financial strength goals.

Additionally, the Company continues to work with the Electricity Authority and the Ministry of Energy and Infrastructure, with the aim of finding solutions to finance the extensive investment activity in the coming years.

In this context, the Company's Management is of the opinion that, in light of the Company's ability to receive financing in the banking system in Israel and/or abroad, and to raise debt in the capital market and taking into account the balance of cash and short-term investments as of March 31, 2023 and the Company's cash flow forecasts, the Company has sufficient sources of financing to finance 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.

4. The Generation Subsidiary

Further to that stated in Note 1e9 to the Annual Financial Statements, regarding the Company's application to the State entities requesting to examine the closing of the generation subsidiary, Netiv Ha'Or-Orot Rabin Ltd. (hereinafter: "Netiv Ha'Or"), after the Statement of Financial Position date, on May 4, 2023, the Company's Board of Directors, in its capacity as the General Meeting of Netiv Ha'Or, decided to supplant the powers of the Board of Directors of Netiv Ha'Or and to supplant/restrict the powers of the CEO of Netiv Ha'Or in the matter of advancing the establishment and operation of the two CCGTs at the Orot Rabin site as well as to supplant the powers of the Netiv Ha'Or Board of Directors in the matter of signing the Financial Statements of Netiv Ha'Or for the three months ended on March 31, 2023.
The decisions to supplant these powers will remain in force for a fixed period of three months or until at least 2 Company employees are appointed as Directors in Netiv Ha'Or, according to the earlier among them.

f. Assets Arrangement

For details regarding the Assets Arrangement, see Note 1f to the Annual Financial Statements.

As of the approval date of the Financial Statements, the Company is continuing to apply the outline of the Assets Arrangement in accordance with the timetables stipulated in the agreements, while implementing adjustments as required by circumstances, performed with mutual consent and in accordance with the terms of the arrangement. As part of this, as of the approval date of these Financial Statements, the Company has transferred all the assets it is required to transfer to the relevant entities, in accordance with the arrangement outline.

NOTE 1:- GENERAL (continued)

g. Environmental Protection Laws

1. Emissions permits for the coal-fired units:

For details regarding the crane collapse at the Rutenberg power station, see section i below.
In light of the crane collapse event which damaged, inter alia, the ability to unload coal at the site, and following the Company's applications to the Ministry of Environmental Protection regarding alternatives for transporting coal to Rutenberg, after the Statement of Financial Position date on April 10, 2023, an amendment to the Orot Rabin emission permit was received (Amendment no. 5), allowing a limited pilot to be carried out for two weeks of transporting coal from the site to Rutenberg. Following this and after discussions held by the Ministry of Environmental Protection with the Company, the Noga Company, and the Ministry of Energy and Infrastructure, upon the end of the pilot period, after the Statement of Financial Position date on April 24, 2023, an additional amendment to the Orot Rabin emission permit was received (Amendment no. 6) which regulates how the coal is removed by trucks from the Orot Rabin site, until the end of the permit period, subject to conditions.

2. Converting units to gas

Further to that stated in Note 1g in the Company's Annual Financial Statements pertaining to the conversion of coal-fired units to the use of natural gas, an amendment for the Rutenberg emission permit was received on March 29, 2023 for the activation of Unit 1 on the site with natural gas after its conversion, subject to conditions.

Further to the Board of Directors' decision from November 2022, and further to that stated in Government Resolution 171 (see Note 1c3 to the Annual Financial Statements), in light of the principles of policy of the Minister of Energy and Infrastructure published in November 2019 according to which the era of generation using coal must end in 2025 and no later than in 2026 and in light of discussions with the Minister of Energy and Infrastructure regarding this matter, in November 2022, the Company's Board of Directors instructed the Company's Management to act to advance the project of converting to gas for all the 6 coal-fired generation units at the generation sites "Rutenberg" (4 units) and "Orot Rabin" (2 units) , (hereinafter: the "**Project**") and at the same time work to continue the process of the rate recognition of the project's expenses.

After the Statement of Financial Position date, on May 7, 2023, a discussion was held at the Ministry of Energy and Infrastructure, with the participation of the Electricity Authority, the Noga Company, the Budget Division of the Ministry of Finance and representatives of the Company (hereinafter: "**the discussion at the Ministry of Energy and Infrastructure**"), in which the Director General of the Ministry of Energy and Infrastructure directed the Electricity Authority to conduct and convey an examination of the feasibility of the project and alternatives, including an examination of the feasibility of converting all or part of the six units, and instructed the Company to conduct and convey an examination of the implications of gas prices on the project.

It should also be noted that after the Statement of Financial Position date, on May 17, 2023, at the Company's request, a letter was received from Mr. Shiki Fisher, Chief Operations Officer of the Noga Company (hereinafter: the "**Noga Company Letter**"), referring to the forecast of the necessity of the coal units for the electricity system of the Country.

The Noga Company Letter shows, inter alia, that the continued operation of the six units at full capacity is essential as a central part of the electricity sector's ability to meet expected demands, both in the short term and in the medium term, where the full capacity of these units was taken into account until 2026, regardless of whether they have been converted to gas or still remained only with use of coal. In addition, the aforementioned units are designed to support adequate production reserves and to maintain the system's survivability in situations of peak demand and when there is a need for an increase in load.

Furthermore, regarding the necessity of the units for the longer term, it was clarified in the "Noga" letter that the units that are the subject of the project were included in the development plan and are taken into account in their full capacity whether they are converted to gas or not. Also, any decrease in the capacity of any of the units must be accompanied by the construction of units in the sector in such a way as to cover the gap. In addition, the planning forecast of the System Manager takes into account a 50-year lifespan for these units.

It was also noted that in all the analyses of dealing with emergency scenarios (which were carried out until 2030), there is a reliance of the System Manager on the full capacity of all the units that are the subject of the project.

NOTE 1:- GENERAL (continued)

g. Environmental Protection Laws (continued)

2. Converting units to gas (continued)

In addition, with regard to the type of fuel in which the units will be operated and although they comply with Best Available Technology (BAT) as they have emission reduction measures (scrubbers) installed, the System Manager insisted that the expected operational benefits for them from converting these units to gas (as long as they pass the necessary tests) are: the ability to provide the System Manager with high flexibility, a better dynamic response (quick responses to a frequency change) and maintaining inertia in the system.

Further to all of the above, in a discussion held by the Company's Board of Directors, after the Statement of Financial Position date, on May 18, 2023, current economic sensitivity scenarios and calculations and relevant and current risks in the project were presented (given exposure to non-full rate recognition of the costs of the project). In this framework, the Company's Board of Directors decided:

1. To continue advancing the project for the conversion of units 1-2 at the "Rutenberg" site only, inter alia, in light of the fact that almost all of the equipment for these units has already been supplied and the rest will be supplied in the coming month, as given that the installation of the piping to the site has been carried out, and given:

   1.1 The position of the System Manager from May 17, 2023 regarding the necessity of the full capacity of the units in the project for the electricity sector in the short term and in the intermediate and long term, including from considerations of energy security and the needs of the system and in light of the operational advantages arising from their conversion to gas.

   1.2 The principle of policy of the Minister of Energy and Infrastructure from November 2019 which stated that the project must be completed by the end of 2025 and no later than in 2026, and in accordance with his directive to the Company from January 4, 2021.

   1.3 The position of the Ministry of Environmental Protection is such that it believes that the Government must fully implement the Government's policy that determined that the use of coal will be completely stopped by the year 2025, also in light of Government Resolution 171 regarding the reduction of emissions into the air of greenhouse gases.

2. To suspend the continuation of the project regarding units 3-4 at the "Rutenberg" site and units 5-6 at the "Orot Rabin" site, until a decision is made by the Ministry of Energy and Infrastructure to recognize in principle the costs of the project, and this, in light of the risks presented in connection with the advancement of the project and in light of the difficulty in evaluating the estimated scope of the claims, damages and costs expected from the delay of the project at every stage of its phases and the resumption of its execution, as it occurs.

3. To instruct the Company's Management to inform the Ministry of Energy and Infrastructure of the Board's decision, while clarifying that if it is decided to carry out the project in its entirety, then it will be necessary to update the timetables for its completion accordingly.

   Also, to act within a reasonable period of time to provide appropriate notices to the suppliers, manufacturers, contractors and the Israel Natural Gas Lines company and conduct negotiations with them in order to make the necessary adjustments to the agreements concluded with them, as well as report to the Board of Directors the costs, financial requirements or claims of any of them, arising from the decision. The report will be given quarterly, as part of the reporting to the CEO.

4. To instruct the Management to continue to act decisively and resolutely with the Ministry of Energy and Infrastructure and the Electricity Authority, so that the full costs of the project are recognized, and to alert them and the Ministry of Finance that it is necessary to limit the export of gas, so that a continuous supply of gas to the project is guaranteed, in accordance with the demand forecasts of the System Manager, and to demand recognition of the costs for the additional gas that the Company will have to purchase in order to operate the converted units and/or consider controlling gas prices for these units, given the encouragement of local gas exports outside Israel's borders.

In the Management's estimation, the chances of recognizing the full cost of the project after exhausting the discussions with the authorized State Authorities outweigh the chances that these will not be recognized.

NOTE 1:- GENERAL (continued)

g. Environmental Protection Laws (continued)

3. Reading

For additional details see Note 1g4 to the Company's Annual Financial Statements.

As of the date of approval of the Financial Statements, the Company cannot estimate all the possible implications that this matter may have for the Company, this, due to, inter alia, the possibility of asbestos in the pipelines, the pipeline's length , the complexity of its removal (since it passes under public and private areas, some of which are populated), and in light of the fact that no documentation exists regarding its exact location. Consequently, the provision included in the Financial Statements is in accordance with the plan submitted by the Company.

h. The Economic Competition Law, 1988:

For details regarding the Economic Competition Law, see Note 1h to the Annual Financial Statements.

i. Material events during the reporting period

1. The crane collapse at Rutenberg

On March 13, 2023, following extreme weather, a crane at the coal pier at the "Rutenberg" power station collapsed into the sea and the coal pier was damaged. In this event, a Company employee (after being found in the sea under the wreckage 41 days after the event) and a Company pensioner perished, and another employee was injured. The collapse of the crane, inter alia, caused part of the bridge to break and fall into the sea, and the ability to unload coal at the pier was disabled.
The depreciated cost in the Company's books of the damaged crane and the damaged section of the pier, as on the date of the collapse, is approximately NIS 28 million. The Company deducted these assets from its books and at the same time created a regulatory account debit balance.
Shortly after these events, the requirements of the System Management Company "Noga" were received - to take care in general and particularly in preparation for expected demand peaks this summer of the availability of the coal-fired units at the Rutenberg power station in order to supply electricity and to secure the survivability of the national electricity system.
Given the aforesaid, the Company is examining several alternatives for transporting and unloading coal to the Rutenberg power station, while the pier is not yet available for unloading. The Company has recently begun transporting coal by trucks from the Orot Rabin site in Hadera and later also from the port of Ashdod, and is also looking into additional options for transporting coal to Rutenberg, in order to provide all the quantities of coal required to meet the requirements of the System Manager "Noga".

At the same time, the Company is working to remove the collapsed crane from the water and clear it (while until recently these actions were accompanied by a complex activity to locate the missing Company employee as aforesaid) and all this in order to start putting the pier back into use after restoring the part that was damaged.

The Company has informed all the relevant parties about this, including the Ministry of Energy and Infrastructure.

Furthermore, the Company is examining several alternatives to return the pier and the cranes to regular operation as soon as possible.
The estimated cost of removing the crane and the parts of the pier that collapsed out of the water, as of the date of approval of the Financial Statements, is approximately NIS 47 million. The Company signed a contract for removing the wreckage of the crane and the pier out of the water as well as for external supervision for the performance of this work and has accordingly made a provision in its books in the amount of this liability. As of the date of approval of the Financial Statements, the work to remove the wreckage has begun.
For additional details regarding the emission permits as a result of the aforesaid, see section g above.

As of the date of approval of the Financial Statements, it is not possible to estimate the full impact of the event on the Company's financial position and the results of its operations beyond the aforesaid.

However, the Company has commenced actions to exhaust its rights according to the insurance policies with the relevant insurance companies.

NOTE 1:- GENERAL (continued)

i. Material events during the reporting period (continued)

2. The Russia-Ukraine war

For additional details regarding the impact of the Russia-Ukraine war, including with regard to the Company's coal purchase from Russia and the Company's application to the Ministry of Environmental Protection with regard to compliance with the Orot Rabin site emission permit, see Note 1i2 to the Annual Financial Statements, as well as section g1 above and Note 3a below.

As this is an event that is not under the Company's control, and factors such as continuing or stopping the conflict may affect the Company's estimates, the Company continuously monitors changes in markets in Israel and around the world and continuously examines the implications for its business results.
As of the date of approval of the Financial Statements, the Company cannot estimate the implications of this event, including its future impact on its future financial position.

j. Definitions

The Company	–	The Israel Electric Corporation Ltd.
Interested Parties	–	As "Interested Party" is defined in Section 1 of the Securities Law, 1968.
Related Parties	–	As defined under International Accounting Standard 24.
Companies Authority	–	The Government Companies Authority.
Dollar	–	US Dollar.
Subsidiary Companies	–	Companies either directly or indirectly controlled (as defined under IFRS 10) by the Company and whose financial reports are fully consolidated with those of the Company.
Held Companies	–	Subsidiary companies and investee companies.
Associate Companies	–	Companies in which the Company has material influence.
The Group	–	The Company and its subsidiaries.
Total Electricity Consumers	–	All the electricity consumers in Israel that are customers of the Company and that are customers of private producers.

NOTE 2:- REPORTING RULES AND ACCOUNTING POLICIES

a. Declaration of Compliance with International Financial Reporting Standards:

The Condensed Consolidated Interim Financial Statements (hereinafter: the "Interim Financial Statements") of the Company were prepared in accordance with International Accounting Standard no. 34 "Interim Financial Reporting" (hereinafter: "IAS 34"). In preparing these interim financial statements, the Company implemented accounting policies, presentation rules, calculation methods and consideration of key factors for uncertainty in estimates and discretion in implementation of accounting policies identical to those detailed in Note 2 to the Annual Financial Statements (hereinafter: the "Annual Statements"). For more about the initial adoption of new Standards, amendments of Standards, and interpretations for the period, see also section c below. Furthermore, these statements were prepared in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The Condensed Interim Financial Statements were approved for publication by the Company's Board of Directors on May 18, 2023.

b. Operating cycle period

The Company's regular operating cycle period is 12 months.

c. Main points of the accounting policy

Except as detailed below, the accounting policy of the Company in these Interim Financial Statements is the accounting policy applied in the Annual Statements. Below is a description of the major changes in the accounting policy in these Interim Financial Statements and their impact:

1. **Initial implementation of New Standards, Amendments of Standard, and Interpretations:**
   Amendment to IAS12 - Income Taxes
   The Amendment reduces the application of the exemption from recognition of deferred taxes as a result of temporary differences that were created on the date of the initial recognition of assets and/or liabilities, such that the said exemption will not apply to transactions that create on the date of recognition equal temporary differences that have an offsetting effect.
   As a result, the Group will recognize deferred tax assets and/or liabilites in the amount of the temporary differences on initial recognition of transactions creating equal temporary differences on the date of recognition that may be offset, such as lease transactions and provisions for dismantling and restoration. The Amendment will be implemented by amending the opening balance of the surplus of the earliest comparative figures presented or as an adjustment to another capital item in the period in which the aforesaid amendment was adopted. The implementation of the Amendment did not have a material impact on the Financial Statements.

2. **New Standards, Amendments of Standards, and Interpretations not yet adopted**
   Amendment to IAS1 - Presentation of Financial Statements: Classification of liabilities as Current or Non-current
   The Amendment replaces certain classification requirements of liabilities as current or non-current. For example, according to the Amendment, a liability will be classified as non-current when the entity has the right to defer the payment for a period of at least 12 months after the reporting period, when it is "of substance" and which exists at the end of the reporting period, and this instead of the requirement for the right which is "unconditional". According to the amendment, a right exists as of the reporting date only if an entity meets the conditions for deferring payment as of this date. The subsequent Amendment, as published in October 2022, determined that financial covenants which an entity is required to comply with after the reporting date will not affect the classification of a liability as current or non-current. Furthermore, the subsequent Amendment added disclosure requirements for liabilities that are subject to examination of financial covenants within 12 months after the reporting date, such as disclosing the nature of the financial covenants, the date on which they are to be met, and facts and circumstances indicating that an entity will have difficulty complying with the covenants. In addition, the amendment clarifies that the right to convert a liability will affect the classification of the instrument as a whole as current or non-current, unless the conversion component is capital.
   The Amendment will be implemented in the reporting periods beginning on January 1, 2024, the Company is examining the implications of the Amendment on the Financial Statements with no intention of early implementation.

NOTE 2:- REPORTING RULES AND ACCOUNTING POLICIES (continued)

d. Use of estimates and judgment

In preparing the Condensed Consolidated Interim Financial Statements in accordance with IFRS, the Management of the Company is required to use judgment for the purpose of making evaluations, estimates and assumptions concerning the implementation of policies and the amounts of the assets, liabilities, income and expenses. It should be clarified that the actual results may differ from these estimates.

The judgment of Management when applying the accounting policies of the Company and the main assumptions used in assessments involving uncertainty, are consistent with those used in the preparation of the Annual Financial Statements.

NOTE 3:- THE ELECTRICITY RATE AND REGULATION

The revenues of the Company are based on the electricity charge rate that the Company charges consumers. In accordance with the Electricity Sector Law, the electricity charge rates and their manners of update are determined by the Electricity Authority (hereinafter: the "Authority"). For additional details regarding the manner of determining the electricity charge rate, the rate update mechanism and the date of its update, the 2023 Annual Update and the current rate update carried out subsequently, the 2022-2027 Rate Base for the generation segment, the grid segments' Rate Base for 2018-2022, and additional Authority decisions, see Note 3 to the Annual Financial Statements.

Following are the major developments regarding the electricity rate and regulation as of the approval date of the financial statements:

a. Rate updates in 2023

On March 27, 2023, the Electricity Authority published a decision regarding current update of the electricity rate for the Company's consumers. The updated rates set in this decision entered into effect as of April 1, 2023.

According to the decision, the rate for a representative domestic consumer decreased by approximately 2.4% compared to the rate published on February 1, 2023. In addition, pursuant to the decision, the Company's recognized cost is decreasing by approximately NIS 1,260 million, mainly due to a decrease in coal prices and at the same time Noga's recognized cost is increasing by approximately NIS 400 million.

For further details of rate updates that entered into effect as of January 1, 2023 and February 1, 2023, respectively, see Note 9b below and Note 3g to the Company's Annual Financial Statements.

b. Expanding the deployment of smart meters

On March 28, 2023, the Electricity Authority published a decision proposal for a hearing regarding the advancement of an accelerated deployment plan in order to expand the use of smart meters. Under the hearing, the Company has to complete replacement to smart meters for all the sector's consumers by December 31, 2028. The Authority left in effect the previous decision regarding the threshold of the recognized cost for an installed meter that will not exceed NIS 1,120. It stated that it will determine later on the incentive mechanism for meeting the goals of the deployment plan, the normative cost and the rate recognition, taking into account the uniqueness of the accelerated deployment project and subject to the threshold of the recognized cost for an installed meter as mentioned above. Furthermore, when installing meters at the consumer's request, which is carried out sporadically, the limit of days for installing the meter was extended from 60 days to 120 days. On May 1, 2023, the Company submitted its response to the hearing, in which it noted the need for financing the advancement of the investments in the scope of approximately NIS 1.2 billion, and the supplement of recognition required with respect to the additional operating expenses and depreciated cost in the rate of the meters that will be removed.

c. Policy principles for burying new extra high voltage lines

Following the Electricity Authority's recommendation to the Minister of Energy and Infrastructure regarding formulation of policy principles relating to burying extra-high voltage lines, the Minister of Energy and Infrastructure accepted and signed the recommendations under which, in general, all new 161-kilowatt lines will be constructed above ground. However, the use of burying will be expanded according to the land's designation, and within this framework new extra-high voltage lines that will be constructed will be buried when in built-up urban areas, in areas designated for a built-up urban fabric, in areas with engineering difficulty to construct overhead voltage lines, in coastal environments, in national parks and nature reserves. In addition, extra-high voltage lines will be buried in favor of the development of overhead ultra-high voltage lines. Furthermore, it was decided on an additional quota that will allow the burying of another 50 km for areas that do not meet the criteria indicated above but there is justification for burying them, at the discretion of the System Manager. The excess financial cost estimated in accordance with the burying policy document ranges from NIS 2 to 3.3 billion and is expected to be added to the cost of the 2023-2030 development plan published for a hearing. For further details regarding the development plan see Note 3ad to the Annual Financial Statements.

NOTE 3:- THE ELECTRICITY RATE AND REGULATION

d. <u>Project to reduce emissions at the coal-fired power stations</u>

Following that stated in Note 3k to the Company's Annual Financial Statements regarding the emission reduction project, on April 23, 2023, a hearing was held regarding the Company's petition about the lack of recognition of the full construction costs of an emission reduction project. The Court accepted the Company's claims regarding the coal sulfur component percentage and the Company will be given another opportunity to bring its claims in this matter before the Electricity Authority. In this regard, the Court made a number of decisions, as follows: the Authority must examine the possibility of transferring the identity of the professional entity behind the Authority's reasoning and documentation for this. The Company will submit a statement of objections, if any, by July 23, 2023, and the Authority must deliver its decision as soon as possible, and if possible, within 90 days from the date of its submission. In addition, the Authority will consider allowing the Company the right to an oral hearing after submission of the objection. Acceptance of the Company's claims in this matter could lead to a supplement to the rate recognition of the project.

NOTE 4:- TRADE RECEIVABLES FOR SALES OF ELECTRICITY

a. Composition

	As of March 31		As of December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Open debts	5,262	4,745	4,627
Provision for doubtful debts	(548)	(474)	(541)
Unrecognized income (1)	(1,116)	(935)	(1,066)
	3,598	3,336	3,020
Income receivable (2)	1,640	1,744	1,682
Total customer receivables with respect to electricity sales	**5,238**	**5,080**	**4,702**

(1) The above mentioned relates to income from the East Jerusalem Electricity Company (hereinafter: "EJEC") as detailed in section b below. Regarding the examination of the manner of recognizing the income see Note 2s of the Annual Financial Statements.

(2) Income with respect to the relative part of the electricity invoices issued after the date of the Statement of Financial Position, that according to an estimate relate to the reporting period.

b. The Palestinian Authority and the East Jerusalem Electricity Company

Below are details of the balances of the Palestinian Authority and the East Jerusalem Electricity Company after provision for doubtful debts and income that was not recognized from the customers' balance:

	As of March 31		As of December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Open invoices	1,653	1,393	1,483
Receivables	218	219	236
Total debt	1,871	1,612	1,719
Less:			
Provision for doubtful debts as of January 1	(104)	(104)	(104)
Income not recognized as of January 1	(1,066)	(881)	(881)
Income recognized with respect to previous periods	30	30	120
Income not recognized this period	(80)	(84)	(305)
Total debt with respect to sale of electricity	**651**	**573**	**549**

The payments of the Palestinian Authority and the East Jerusalem Electricity Company are executed both through direct payment transfers and through transfers that the Company received from the Ministry of Finance, out of the sums held by the Ministry of Finance that are at the disposal of the Palestinian Authority.

For further details regarding the principle agreement, the agreement draft for supply of electricity, and additional agreements signed between EJEC and PETL (the entity established by the Palestinian Authority), and carrying out supply disconnection rounds due to EJEC's partial and irregular payments see Note 6c2 of the Annual Financial Statements.

NOTE 5:- DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

In accordance with the Structural Change Outline described in Note 1e of the Annual Financial Statements, the Eshkol site was classified as a disposal group that is classified as held for sale.

Efforts to sell the site have begun and the Company anticipates at a high probability that the sale will take place within a year. For additional details regarding the progress of the Eshkol site sale process, and publication of the Electricity Authority's decision to regulate the operation of the generation units at the site, see Note 1e2 above.

a. <u>Composition</u>:

	As of March 31, 2023	As of March 31, 2022	As of December 31, 2022
		NIS in millions	
	Unaudited	Unaudited	Audited
	Eshkol	**Hagit**	
<u>Assets</u>			
Inventory – fuel	115	41	-
Fixed assets	1,688	124	-
Total assets	1,803	165	-
Other current assets - Sale costs	63	-	-
Total assets of disposal groups classified as held for sale	**1,866**	**165**	**-**

The Eshkol site assets are presented according to the lower of their value in the Company's books and their rate value (for additional details see Note 3o3 of the Annual Financial Statements).

For further details regarding regulatory deferral account balances that constitute part of the disposal groups held for sale, see Note 7g below.

b. <u>Revenues and expenses recognized in Other Comprehensive Income:</u>

The Company has no material revenues or expenses that have been directly recognized in Other Comprehensive Income, which relate to disposal groups classified as held for sale.

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS

a. Excess of amounts of pension plan assets over the pension obligation

	As of March 31		As of December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Fair value of plan assets (see section i2 below)	38,269	40,895	38,274
Present value of pension obligations (see section h1 below)	(28,162)	(31,786)	(28,353)
	10,107	**9,109**	**9,921**
Present value of pension obligations with respect to special agreements on early retirement (see section h3 below)	(105)	(138)	(105)
Excess of pension plan assets over the pension obligations	**10,002**	**8,971**	**9,816**

b. Funds in Trust

	As of March 31		As of December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Fair value of funds in trust (see section j2 below)	**1,162**	**1,397**	**1,184**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

c. Liabilities with respect to other post-employment benefits

	As of March 31		As of December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Present value of obligation with respect to other post-employment benefits (see section h2 below)............................	**5,245**	**5,944**	**5,374**

Composed of:

	As of March 31		As of December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
1) Present value of liabilities with respect to the other post-employment benefits, that are not part of the collective agreement with respect to the reform and the special collective agreement (see section h2b below):			
Discounted electricity	993	1,120	1,013
VAT and grossed up tax with respect to discounted electricity	428	446	436
Retirement benefits	780	871	792
Welfare Fund for pensioners insured in the budgetary pension	64	70	64
Holiday gifts including grossed up tax	385	420	394
	2,650	**2,927**	**2,699**
2) Present value of liability with respect to other post-employment benefits as a result of the collective agreement with respect to the reform and the special collective agreement (see section h2b below)..................	2,595	3,017	2,675
Total..	**5,245**	**5,944**	**5,374**

d. The Pension Plan of the Company and Other Post-Employment Benefits

The pension regulations from 1958 apply to all Company tenured employees and pensioners and their survivors who were admitted to work in the Company up to June 10, 1996 (inclusive) (hereinafter: "the Insured under the Budgetary Pension Arrangement"). The code of the central provident fund for pension to the Company's employees, pensioners and their survivors is based on the provisions of the aforesaid pension regulations and prescribes the entitlements of the Insured under the Budgetary Pension Arrangement (see also section i1 below).

For additional details also see Note 12d to the Annual Financial Statements.

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

e. Pension to Employees who are not Included in the Budgetary Pension Plan

The remaining permanent employees of the Company (hereinafter: "Generation C Employees") who started working on June 11, 1996 and thereafter and are not included under the budgetary pension plan, as described in section d above, as well as the Company's employees with a temporary status and employees with a personal contract, are insured by default under a comprehensive cumulative paying pension fund (an external long-standing or new cumulative pension fund, or under another pension insurance policy at the personal choice of the employee). The Company makes deposits on a regular basis in respect of its liabilities to these employees.

These plans constitute plans for a defined deposit with respect to the Company's liability to pay these employees' pension rights, and Section 14 of the Severance Pay Law - 1963 applies with regards to them.

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Defined deposit plan - Amount recognized under the wage cost and fixed assets	**46**	**44**	**171**

For additional details also see Notes 12e, 12f1a to the Annual Financial Statements and section f3 below.

f. Collective Agreements and Consents

1) Special Collective Agreement, Reform (organizational and structural change) and Special Collective Agreement (Early Retirements, Permanence Quota, One Time Grant to EPE and SMC Employees, and Additional Matters)

a) **Special Collective Agreement, Reform (organizational and structural change)**

Further to that specified in Note 12f1a to the Annual Financial Statements regarding a special Collective Agreement, Reform (organizational and structural change):

(1) The following is an updated forecast of the retirement program:

The annual special early retirement plan is as follows:
In 2018, 459 employees retired in early retirements.
In 2019, 347 employees retired in early retirements.
In 2020, 204 employees retired in early retirements.
In 2021, 219 employees retired in early retirements.
In 2022, 228 employees retired in early retirements.
In 2023, 194 early retirements are expected.
In 2024, 92 early retirements are expected.
In 2025, 60 early retirements are expected.
The foregoing estimates do not include the additional early retirements as specified in Section b below.

(2) Transition to personal contracts – the Company may employ up to 160 managers and additional employees by personal contract according to the criteria determined in the Collective Agreement, on a personal contract and not in accordance with the collective agreements applicable to the Company's employees. As of the date of the Financial Statements, the Company continues to implement the Agreement's instructions concerning the employment of senior managers (from the level of Vice Division Manager and up) to employment through personal contracts.

(3) As of 2022, management of the funds and payment of pension to those eligible regarding the reform supplement is carried out by the "Harel" Company as the company that insures and manages the funds of the reform pension supplement for all the eligible employees, as described in Note 12f1a 2,5,6,7 of the Annual Financial Statements (hereinafter: the "Insuring Company"). In the three months ended on March 31, 2023, the Company transferred approximately NIS 39 million to the insuring company, thus discharging the liability with respect to the eligible employees who retired and are over 60 years old, in accordance with the scope of their eligibility.

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

1) Special Collective Agreement, Reform (organizational and structural change) and Special Collective Agreement (Early Retirements, Permanence Quota, One Time Grant to EPE and SMC Employees, and Additional Matters) (continued)

b) **Special Collective Agreement (Early Retirements, Permanence Quota, One Time Grant to EPE and SMC Employees, and Additional Matters)**

Following the contents of Note 12f1b of the Annual Financial Statements concerning the Special Collective Agreement (Early Retirements, Permanence Quota, One Time Grant to EPE and SMC Employees, and Additional Matters):

The additional early retirement plan is as follows:

In 2021, 100 employees retired by early retirement.
In 2022, 65 employees retired by early retirement.
In 2023, 35 early retirements are expected.

During the three months ending on March 31, 2023, 86 employees retired pursuant to the two Early Retirement Agreements as aforesaid in sections a and b above.

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

1) Special Collective Agreement, Reform (organizational and structural change) and Special Collective Agreement (Early Retirements, Permanence Quota, One Time Grant to EPE and SMC Employees, and Additional Matters) (continued)

c) Following is the composition of costs of the reform and the Special Collective Agreement according to benefits given with respect to the Collective Agreements:

	For the Three Months ended March 31,						For the Year Ended December 31,		
	2023			2022			2022		
	Collective Reform Agreement – see Section A above	Special Collective Agreement – see Section B above	Total	Collective Reform Agreement – see Section A above	Special Collective Agreement – see Section B above	Total	Collective Reform Agreement – see Section A above	Special Collective Agreement – see Section B above	Total
	NIS in millions								
	Unaudited						Audited		
Early retirement plan including pension supplement	1	(9)	(8)	(51)	(10)	(61)	(67)	3	(64)
Pension supplement for mandatory retirees during and after the reform period	15	-	15	8	-	8	(54)	-	(54)
Current salary costs	5	-	5	5	-	5	18	-	18
Retirement plan for employees loaned to purchasers of the sold generation units	10	-	10	2	-	2	21	-	21
Total	**31**	**(9)**	**22**	**(36)**	**(10)**	**(46)**	**(82)**	**3**	**(79)**
Total attributed to statement of profit and loss	*** 58**	**4**	**62**	*** 55**	**3**	**58**	*** 200**	**12**	**212**
Total attributed to fixed assets	*** 11**	**(4)**	**7**	*** (17)**	**(5)**	**(22)**	*** (47)**	**1**	**(46)**
Total attributed to other comprehensive income	*** (38)**	**(9)**	**(47)**	*** (74)**	**(8)**	**(82)**	*** (235)**	**(10)**	**(245)**

(*) For details regarding a regulatory asset with respect to the reform costs attributed to profit and loss and other comprehensive income - see Note 7 below.

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

1) Special Collective Agreement, Reform (organizational and structural change) and Special Collective Agreement (Early Retirements, Permanence Quota, One Time Grant to EPE and SMC Employees, and Additional Matters) (continued)

d) Following is the composition of costs of the reform and the Special Collective Agreement as included in the actuarial liabilities and current salary:

	For the Three Months ended March 31,						For the Year Ended December 31,		
	2023			2022			2022		
	Collective Reform Agreement – see Section A above	Special Collective Agreement – see Section B above	Total	Collective Reform Agreement – see Section A above	Special Collective Agreement – see Section B above	Total	Collective Reform Agreement – see Section A above	Special Collective Agreement – see Section B above	Total
	NIS in millions								
	Unaudited						Audited		
Obligation for pension									
Current service cost and interest	25	3	28	19	2	21	78	9	87
Losses (profits) from remeasurement	(14)	(1)	(15)	(50)	(9)	(59)	(65)	1	(64)
Other post-employment benefits resulting from the collective agreement with respect to the reform									
Past service cost - change in the plan's terms following implementation of the collective reform agreement and the special collective agreement	-	-	-	-	-	-	2	-	2
Current service cost and interest	61	1	62	65	3	68	221	7	228
Losses (profits) from remeasurement	(46)	(12)	(58)	(75)	(6)	(81)	(336)	(14)	(350)
Current Salary Costs	5	-	5	5	-	5	18	-	18
Total	**31**	**(9)**	**22**	**(36)**	**(10)**	**(46)**	**(82)**	**3**	**(79)**
Total attributed to statement of profit and loss	**58**	**4**	**62**	**55**	**3**	**58**	**200**	**12**	**212**
Total attributed to fixed assets	**11**	**(4)**	**7**	**(17)**	**(5)**	**(22)**	**(47)**	**1**	**(46)**
Total attributed to other comprehensive income	**(38)**	**(9)**	**(47)**	**(74)**	**(8)**	**(82)**	**(235)**	**(10)**	**(245)**

For details regarding the accounting policy pertaining to the manner of implementation of the agreement - see Note 2x6 of the Annual Financial Statements.

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

2) Special collective agreement regarding employment extensions for temporary employees

On August 3, 2022, a collective agreement was signed regarding a continuing temporary employee. The agreement entered into effect on August 15, 2022, after the Commissioner of Wages' approval to the agreement was received. For further details see Note 12f6 to the Annual Financial Statements.

3) Special Collective Agreement (Generation C employees retiring as pensioners)

In April 2022, a Collective Agreement was signed, applying to Generation C permanent employees insured by the cumulative pension, which determined the terms for their retirement as pensioners from the Company, bonuses they will be entitled to on the date of retirement, and additional rights as Company pensioners. For further details see Note 12f5 to the Annual Financial Statements.

4) Agreement regarding remote work

On February 22, 2022, an agreement regarding remote work was signed between the Company and the employees' union, which entered into effect on May 1, 2022. Under this agreement, Company employees belonging to a list of occupations determined by the Company are authorized to work from their home or from another appropriate work space in the country in accordance with the terms and restrictions as specified in the agreement. The agreement was approved by the Commissioner of Wages. The agreement does not have a material impact on salary and other post-employment benefit expenses.

5) A Framework agreement in the public sector

On March 2, 2023, it was published that according to the understandings reached between the Ministry of Finance and the National Labor Federation (the Histadrut), the employees will be entitled to universal wage increases in increments at a total rate of approximately 11% while strengthening designated populations. This, along with increasing productivity and improving management capabilities in the public service. In addition, the work week in the public sector will be shortened in stages to 40 hours and a one-time grant of up to NIS 6,000 will be given to employees and the concentrated vacation will be extended once by one day (the day following Passover/Mimouna).

In accordance with the reform agreement, the framework for the cost of the wage increases and other financial benefits that will be determined in relation to State employees in framework agreements that will be signed by the end of the reform period, together with the provisions for the exhaustion of claims and the industrial peace that will be determined in them, will apply to the Company with the required changes. The allocation of the relevant cost framework will be done in a manner that will be agreed upon between the Company and the employees' union, subject to the approval of the Commissioner of Wages and paying attention to the provisions of the framework agreement and the dates of applicability established therein.

As of the date of approval of the Financial Statements, only the principles of the agreement were published, but the framework agreement in the public sector has not yet been signed and its full details have not yet been clarified, and therefore the Company has not implemented its implications in the Financial Statements.

At the same time, in accordance with the instructions of the Commissioner of Wages, in March 2023, the Company paid a grant advance of up to NIS 6,000 each to the eligible employees on account of the future agreement and also extended the concentrated vacation on April 13, 2023. The total costs of the grant are approximately NIS 58 million, which were recorded as salary costs in the Company and credited to profit and loss and to fixed assets.

6) Regarding the estimated increase in expected salary, and the termination of the validity of the labor law, see Note 12f2 of the Annual Financial Statements.

g. The total liabilities' items, with respect to post-employment employee benefits according to the calculations of the Company as of March 31, 2023, March 31, 2022, and December 31, 2022, respectively, amount to a total of NIS 33,512 million, NIS 37,868 million and NIS 33,832 million, respectively.

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

h. Defined Benefit Liability

1) Changes in the present value of the obligation for pensions

	For the Three Months ended March 31		For the Year ended December 31
	2023	**2022**	**2022**
		NIS in millions	
	Unaudited		Audited
Present value of the obligation for pensions as of the beginning of the period	28,353	35,770	35,770
Cost of interest	376	296	1,195
Current service cost	31	56	221
Past service cost – changes in the plan's terms following implementation of the collective agreements	-	2	2
Employee deposits	4	4	18
Benefits paid	(315)	(283)	(1,158)
	28,449	**35,845**	**36,048**
Losses (gains) with respect to remeasurement:			
Actuarial losses (gains) deriving from changes in financial assumptions	(452)	(4,326)	(8,768)
Actuarial losses (gains) deriving from changes in demographical assumptions	-	-	107
Impact of differences between the previous actuarial assumptions and that which occurred in practice (hereinafter: "Adjustments based on past experience")	165	267	966
	(287)	(4,059)	(7,695)
Present value of the obligation for pensions as of the end of the period	**28,162**	**31,786**	**28,353**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

h. Defined Benefit Liability (continued)

2) Changes in the present value of the obligation for other post-employment benefits

a) Changes in other benefits described in section c1 above:

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Present value of the obligation for other post-employment benefits that are not part of the collective agreement with respect to the reform and the special collective agreement as of the beginning of the period	2,699	3,321	3,321
Cost of interest	36	28	113
Current service cost	13	19	62
Past service cost – change in plan conditions due to implementation of collective agreements	-	-	44
Benefits paid	(38)	(37)	(143)
	2,710	3,331	3,397
Losses (gains) with respect to remeasurement:			
Actuarial losses (gains) deriving from changes in financial assumptions	(39)	(358)	(627)
Actuarial losses (gains) deriving from demographical assumptions	-	-	7
Adjustments based on past experience	(21)	(46)	(78)
	(60)	(404)	(698)
Present value of the obligation for other post-employment benefits that are not part of the collective agreement with respect to the reform and the special collective agreement as of the end of the period	**2,650**	**2,927**	**2,699**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

h. Defined Benefit Liability (continued)

2) Changes in the present value of the obligation for other post-employment benefits

b) Changes in other benefits described in section c2 above:

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Present value of the obligation for other post-employment benefits as a result of the reform collective agreement and the special collective agreement as of the beginning of the period	2,675	3,553	3,553
Past service cost – changes in the plan's terms following implementation of collective agreements	-	-	2
Cost of interest	35	29	113
Cost of current service	27	39	115
Benefits paid	(45)	(52)	(186)
Payments transferred to the insurance company*	(39)	(471)	(572)
	2,653	3,098	3,025
Losses (gains) with respect to remeasurement:			
Actuarial losses (gains) deriving from changes in financial assumptions	(42)	(81)	(271)
Actuarial losses (gains) deriving from changes in demographic assumptions	-	-	5
Adjustments based on past experience	(16)	-	(84)
	(58)	(81)	(350)
Present value of the obligation for other post-employment benefits which are not part of the reform collective agreement and the special collective agreement as of the end of the period	**2,595**	**3,017**	**2,675**
Total present value of the obligation for other post-employment benefits	**5,245**	**5,944**	**5,374**

* See section f1a3 above

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

h. Defined Benefit Liability (continued)

3) Changes in present value of the obligation with respect to special agreements on early retirement

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Present value of the obligation with respect to special agreements for early retirement as of the beginning of the period	105	146	146
Cost of interest	1	1	4
Additional provision with respect to employee retirement within the special retirement plan	7	8	14
Benefits paid	(11)	(17)	(56)
Actuarial losses (gains) with respect to the obligation charged to the Profit and Loss	3	-	(3)
Present value of the obligation with respect to special agreements for early retirement as of the end of the period	**105**	**138**	**105**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

i. Plan's Assets

1) Central Pension Fund

a) From March 8, 2005, the Company deposits funds in the Central Pension Fund (hereinafter: the "Fund") to cover pension liabilities for pensions to the employees entitled to the budgetary pension arrangements.

The Pension Fund acts by force of the Control of Financial Services (Provident Funds) (Rules for Management of a Central Provident Fund) Regulations – 2012. The fund was managed by the managing company accordingly. As of January 1, 2017, "Halman Aldubi IEC Gemel Ltd." manages the Central Provident fund. During February 2022, the Phoenix Holdings Company completed the acquisition of Halman Aldubi Investments House Ltd. which holds 100% of the shares of the management company.

For further details see Note 12j to the Annual Financial Statements.

b) According to the Financial Statements of the Fund, the actuarial liability as of March 31, 2023, is NIS 37,783 million and the Company's surplus in the fund is approximately NIS 486 million. According to the Financial Statements of the Company, its actuarial liability for the pension obligations as of March 31, 2023, is NIS 28,267 million

For details regarding the nature of the difference and differences in calculation of the liability between the Company and the Fund, the response of the Commissioner of Capital Markets, Insurance and Savings of the Ministry of Finance, and the Companies Authority's notification to the Company that it is executing an examination in this matter, see Note 12j1b-d to the Annual Financial Statements.

c) For details of the Control of Financial Services (Provident Funds) (Rules for Management of a Central Provident Fund) Regulations – 2012 and the circular of the Commissioner of Capital Markets, Insurance and Savings "Instructions for Management of a Central Provident Fund", see Note 12j1f to the Annual Financial Statements. As part of the Company's reports to the Capital Market Authority regarding the execution of actual deposits with respect to the early retirement plan in accordance with the Collective Agreement and the forecasted provisions with respect to the reform years, it reported the expansion of early retirements by 200 additional retirements in accordance with the Collective Agreement signed in November 2020, so that the payment plan of the fund also applies to these retirements.

d) The Company deposited in the fund, including the costs of the plan's assets, a total of NIS 64 million during the three months ended on March 31, 2023.

e) The Fund approved its financial statements of March 31, 2023 on May 9, 2023.

f) The Fund presents the value of its assets at fair value according to International Financial Reporting Standards (IFRS).

g) According to the forecast of the Company, according to the articles in effect (starting from March 31, 2014), the expected transfers to the fund from the Statement of Financial Position date until the end of 2023 will amount to approximately NIS 405 million (not including forecast with respect to early retirement campaigns).

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

i. Plan's Assets (continued)

2) Changes in the fair value of the assets of the plan

	For the Three Months ended March 31		For the Year ended December 31
	2023	**2022**	**2022**
	NIS in millions		
	Unaudited		Audited
Fair value of plan assets as of the beginning of the period	38,274	42,703	42,703
Interest income on plan assets	507	355	1,434
Deposits including costs of the plan assets	64	156	1,035
Benefits paid	(319)	(294)	(1,188)
Losses with respect to remeasurements of plan assets:			
Yield on plan assets (except for sums included in interest income)	(257)	(2,025)	(5,710)
Fair value of plan assets as of the end of the period	**38,269**	**40,895**	**38,274**

	For the Three Months ended March 31		For the Year ended December 31
	2023	**2022**	**2022**
	NIS in millions		
	Unaudited		Audited
Interest income on plan assets	507	355	1,434
Gains (losses) with respect to remeasurements of plan assets	(257)	(2,025)	(5,710)
Actual yield on plan assets	**250**	**(1,670)**	**(4,276)**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

j. Funds in Trust

1) Funds in trust are designated to cover actuarial liabilities for pension payments to pensioners with respect to non-pension salary components and liabilities as related to the termination of employer-employee relationships and are invested in Government and corporate bonds, deposits and Exchange Traded Funds, presented according to their fair value. See note 12k to the Annual Financial Statements.

2) Changes in fair value of funds in trust designated to cover actuarial liabilities (assets according to section 116 A of IAS 19):

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Fair value of funds in trust as of the beginning of the period	1,184	1,493	1,493
Interest income from funds in trust	16	12	49
Current refunds	(25)	(12)	(118)
Losses with respect to remeasurement:			
Yield on plan assets (except for sums included interest income)	(13)	(96)	(240)
Fair value of funds in trust as of the period end	**1,162**	**1,397**	**1,184**

3) Yield of funds in trust:

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Interest income from funds in trust	16	12	49
Gains (losses) with respect to remeasurement of funds in trust	(13)	(96)	(240)
Actual yield on funds in trust	**3**	**(84)**	**(191)**

k. Capital Reserves with Respect to Remeasurements of Actuarial Profits (Losses), net, which were not attributed to fixed assets and to regulatory deferral accounts (Before Tax Effect)

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Balance as of the beginning of the period	(733)	(2,695)	(2,695)
Gains from remeasurements	98	1,956	2,197
Gains from remeasurements attributed to movement in the balance of a regulatory deferral asset due to the reform	(38)	(74)	(235)
Balance as of the end of the period	**(673)**	**(813)**	**(733)**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

l. Re-measurements which were Capitalized to Assets Cost (Fixed Assets)

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Decrease in fixed assets	**(37)**	**(467)**	**(596)**

m. Amounts Presented in Cost of Salaries, in Expenses with respect to Liabilities to Pensioners, the results of the Reform Agreements and other agreements, and in fixed assets

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
1) Cost of Salaries Results of the Reform Agreement and other agreements and Expenses with respect to Liabilities to Pensioners			
Current service cost	71	114	398
Past service cost following implementation of the collective agreements	-	2	48
Cost of interest except for cost of interest with respect to early retirement	447	353	1,421
Interest revenues (*)	(523)	(367)	(1,483)
Costs due to early retirement and other costs	12	9	18
Total cost recognized in salaries cost with respect to liabilities to pensioners	**7**	**111**	**402**
2) Income with respect to Liabilities to Pensioners only			
Cost of interest except for cost of interest with respect to early retirement	248	181	733
Interest revenues (*)	(328)	(222)	(896)
Costs due to early retirement and other costs	11	9	15
Total cost recognized in income with respect to liabilities to pensioners	**(69)**	**(32)**	**(148)**

(*) For plan assets and funds in trust

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

n. Main Actuarial Assumptions Applied to the Actuarial Liability and Plan Assets

	For the Three Months ended March 31		For the Year Ended on December 31
	2023	2022	2022
	Unaudited		Audited
The weighted real discount rate for the end of the period grossed in the present value of the obligation	2.89%	1.76%	2.78%
Nominal rate of return used to calculate the interest cost	5.43%	3.37%	3.37%
Anticipated annual nominal rate of return grossed in the fair value of plan assets	5.43%	3.37%	3.37%
Average liability lifetime	14.26 years	14.82 years	14.3 years

Regarding real update of salaries during the work period, real update of pension sums after employment termination and pensioners' mortality and survivors including mortality data update see Note 12o to the Annual Financial Statements.

o. Analysis of sensitivity of main actuarial assumptions as of March 31, 2023 (in NIS millions):

Actuarial assumptions	Change %	Increase in liability	Change %	Decrease in liability
Rate of interest for capitalization	(0.1)	427	0.1	418
Future salary increase rate with respect to general salary agreements and cost of living increment less the CPI (real increase)	0.5	699	(0.5)	664

Manner of determining the sensitivity – the actuarial liability for each of the above mentioned actuarial assumptions was calculated once according to the base assumption (as appears in the Financial Statements) and once according to an adjusted assumption (according to a specific scenario), and the increase (decrease) was calculated in respect of the change of this assumption.

p. The funds for pensions cover all the liabilities of the Company to employees included in the pension plan, assuming that the employees will retire in accordance with the accepted actuarial estimates.
In the event that all employees included in the pension plan are discharged immediately, the liability amount for these employees is significantly higher than the liability amount presented in the Financial Statements. The Management of the Company estimates that such an event is not expected.

NOTE 7:- BALANCE OF REGULATORY DEFERRAL ACCOUNTS

a. For additional information regarding regulatory deferral accounts see Note 15 to the Annual Financial Statements.

b. **Details of the amounts and transactions in regulatory deferral accounts for the three months ended on March 31, 2023:**

	Balance	Transactions for the three months ended on March 31, 2023		Classification (*)	Balance	Period remaining for refund / cancellation
	As of January 1, 2023	Creation / recognition	Refund / cancellation		As of March 31, 2023	Years
		(NIS millions)				
Debit balance of regulatory deferral accounts	Audited	Unaudited				
With respect to income balancing	51	1	(3)	-	49	1-2
With respect to non-consecutive update of the fuels component in the rate	2,467	233	(157)	-	2,543	1-4
With respect to social rate	283	84	(59)	-	308	1-2
With respect to load management arrangements	7	4	(6)	-	5	1-2
With respect to gap between update date of fixed payment component	34	7	(1)	-	40	3
With respect to electricity purchases from private electricity producers and photovoltaic installations	1,106	253	(315)	-	1,044	1-3
With respect to recognition of pension costs	101	-	-	(101)	-	2-3
With respect to linkage differentials	1,990	343	(33)	-	2,300	10-45
With respect to depreciation differences and rate recognition for the fixed assets	816	244	-	-	1,060	1-45
With respect to sale of sites	3	-	2	-	5	-
With respect to reform costs	4,526	(21)	(150)	-	4,355	3-45
Total	**11,384**	**1,148**	**(722)**	**(101)**	**11,709**	
Credit balance of regulatory deferral accounts						
With respect to consumer participation in financing sites sold	542	-	(9)	197	730	12-18
With respect to the gap between actual rate update dates and the theoretical rate	1,854	(77)	(142)	(101)	1,534	1-3
With respect to the compromise agreement with the Egyptian Gas Companies	858	33	(40)	-	851	5
Total	**3,254**	**(44)**	**(191)**	**96**	**3,115**	
Deferred taxes with respect to part of the regulatory deferral accounts	877				851	
Total credit balances of regulatory deferral accounts and deferred tax	**4,131**				**3,966**	
						Change (*)
Total balance of regulatory deferral accounts, net	**7,253**				**7,743**	**490**

(*) The change in the three months ended on March 31, 2023 is divided as follows:

Change in regulatory deferral accounts before tax, attributed to profit and loss	699
Change in deferral taxes included in credit balances of regulatory deferral accounts and deferred tax	26
Movement in regulatory deferral accounts before tax attributed to other comprehensive income	(38)
Classification from fixed assets (see section f below)	(197)
Total	**490**

NOTE 7:- BALANCE OF REGULATORY DEFERRAL ACCOUNTS (continued)

c. **Details of the amounts and transactions in regulatory deferral accounts for the three months ended on March 31, 2022:**

	Balance	Transactions for the three months ended on March 31, 2022		Balance	Period remaining for refund / cancellation
	As of January 1, 2022	Creation / recognition	Refund / cancellation	As of March 31, 2022	Years
	(NIS millions)				
Debit balance of regulatory deferral accounts	Audited	Unaudited			
With respect to income balancing	225	3	(44)	184	1-2
With respect to non-consecutive update of the fuels component in the rate	1,396	539	(296)	1,639	1-2
With respect to social rate	271	75	(77)	269	1-2
With respect to load management arrangements	22	16	(14)	24	1-2
With respect to deemed interest	108	-	(2)	106	14-23
With respect to recognition of investments that were reduced in the past	114	-	(3)	111	1-14
With respect to gap between update date of fixed payment component	57	-	(8)	49	4
With respect to electricity purchases from private electricity producers and photovoltaic installations	-	382	64	446	1-2
With respect to recognition of pension costs	375	-	(75)	300	1-2
With respect to linkage differentials	913	296	(96)	1,113	10-45
With respect to reform costs	5,100	(8)	(177)	4,915	7-45
Total	**8,581**	**1,303**	**(728)**	**9,156**	
Credit balance of regulatory deferral accounts					
With respect to consumer participation in financing sites sold and designated for sale	578	-	(12)	566	1-12
With respect to the gap between actual rate update dates and the theoretical rate	567	375	(9)	933	1-3
With respect to electricity purchases from private electricity producers and photo-voltaic installations	102	-	(102)	-	1-2
With respect to sale of sites	1,202	(325)	(340)	537	1
With respect to the compromise agreement with the Egyptian Gas Companies	819	24	(44)	799	7
With respect to depreciation differences	273	3	(11)	265	1-45
Total	**3,541**	**77**	**(518)**	**3,100**	
Deferred taxes with respect to part of the regulatory deferral accounts	729			697	
Total credit balances of regulatory deferral accounts and deferred tax	**4,270**			**3,797**	
					Change (*)
Total balance of regulatory deferral accounts, net	**4,311**			**5,359**	**1,048**

(*) The change in the three months ended March 31, 2022 is divided as follows:

Change in regulatory deferral accounts before tax, attributed to profit and loss	1,090
Change in deferral taxes included in credit balances of regulatory deferral accounts and deferred tax	32
Movement in regulatory deferral accounts before tax attributed to other comprehensive income	(74)
Total	**1,048**

NOTE 7:- BALANCE OF REGULATORY DEFERRAL ACCOUNTS (continued)

d. Details of the amounts and transactions in regulatory deferral accounts for the year ended on December 31, 2021:

	NIS in millions					
	Balance	Transactions for the year ended on December 31, 2022			Balance	Period remaining for refund / cancellation
Debit balance of regulatory deferral accounts	As of January 1, 2022	Creation / recognition	Refund / cancellation	Classification (*)	As of December 31, 2022	Years
With respect to income balancing	225	(6)	(168)	-	51	1-2
With respect to non-consecutive update of the fuels component in the rate	1,396	2,615	(1,544)	-	2,467	1-4
With respect to social rate	271	291	(279)	-	283	1-2
With respect to load management arrangements	22	32	(47)	-	7	1-2
With respect to deemed interest	108	-	(5)	(103)	-	-
With respect to recognition of investments that were reduced in the past	114	-	(9)	(105)	-	-
With respect to gap between update date of fixed payment component	57	9	(32)	-	34	3
With respect to electricity purchase from private electricity producers and photo-voltaic installations	-	524	582	-	1,106	1-2
With respect to recognition of pension costs	375	3	(277)	-	101	2-3
With respect to linkage differentials	913	1,201	(124)	-	1,990	10-45
With respect to depreciation differences and rate recognition for the fixed assets	-	837	-	(21)	816	1-45
With respect to sale of sites	-	-	3	-	3	0
With respect to reform costs	5,100	6	(580)	-	4,526	7-45
Total	**8,581**	**5,512**	**(2,480)**	**(229)**	**11,384**	
Credit balance of regulatory deferral accounts						
With respect to consumer participation in financing sites held for sale	578	-	(36)	-	542	12-18
With respect to a gap between actual rate update dates and the theoretical update	567	1,516	(229)	-	1,854	1-3
With respect to electricity purchases from private electricity producers and photo-voltaic installations	102	-	(102)	-	-	1-2
With respect to sale of sites	1,202	1,239	(2,441)	-	-	-
With respect to the compromise agreement with the Egyptian Gas Companies	819	213	(174)	-	858	6
With respect to depreciation differences and rate recognition for the fixed assets	273	(11)	(33)	(229)	-	1-45
Total	**3,541**	**2,957**	**(3,015)**	**(229)**	**3,254**	
Deferred taxes with respect to part of the regulatory deferral accounts	729				877	
Total credit balances of regulatory deferral accounts and deferred tax	**4,270**				**4,131**	
						Change (**)
Total balance of regulatory deferral accounts, net	**4,311**				**7,253**	**2,942**

(*) The change in 2022 is divided as follows:

Change in regulatory deferral accounts before tax, that was attributed to profit and loss	3,325
Deferred taxes included in credit balances of regulatory deferral accounts and deferred tax	(148)
Movement in regulatory deferral accounts before tax attributed to other comprehensive income	(235)
Total	**2,942**

e. Regulatory accounts are measured on a non-capitalized basis. In some cases, the non-capitalized balance accumulates interest until the collection date in accordance with the interest rate determined by the Electricity Authority, as applicable. For additional details, see Note 3j of the Annual Financial Statements.

NOTE 7:- BALANCE OF REGULATORY DEFERRAL ACCOUNTS (continued)

f. In light of the classification of the Eshkol site into the disposal group classified as held for sale (see Note 5 above), the Company classified in the Financial Statements a total of NIS 197 million for receipts with respect to the construction of the Eshkol power station which were recognized in the electricity rate for the purpose of financing a development plan in the generation segment from the fixed assets item to regulatory liability with respect to the sale of sites. This is when even after the sale of the station, the refund to consumers will continue in its original form, this classification has no impact on the Statement of Profit and Loss. Furthermore, as part of the 2023 Annual Update, the Authority recognized for the Company the disposal cost for the actuarial liability of PTDD and SMU employees that was presented as part of a regulatory account of pension cost recognition, following which the Company classified the balance of the asset and collection with respect to it in the amount of NIS 101 million to a regulatory account with respect to the gap between the actual rate update dates and the theoretical rate.

g. The regulatory deferral accounts' balances as on March 31, 2023 include an amount of approximately NIS 175 million in debit with respect to a disposal group classified as held for sale with respect to the Eshkol site (mainly depreciation differences and rate recognition and linkage differences).

NOTE 8:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS

a. Raisings and Substantial Payments:

1. Material raisings during the Financial Statements period

During the Financial Statements period, the Company took short-term On Call loans in a total amount of NIS 250 million that were repaid in full after the Statement of Financial Position date.

2. Material repayments during the Financial Statements period

a) On January 18, 2023, private (non-negotiable) debentures from the series "Electric Linked 2022" were fully repaid in an amount of approximately NIS 617 million par value (an amount of approximately NIS 704 million, including linkage differentials) issued for institutional investors in 2011 and 2012.

b) On February 26, 2023, the Company carried out an early partial repayment of NIS 180 million out of the short-term loan of NIS 510 million taken from Bank Hapoalim on October 2, 2022, for financing the operation of the National Coal Supply Company Ltd.

On March 28, 2023, the Company carried out an early final repayment of the loan principal balance in the amount of NIS 330 million.

b. Credit rating:

On February 21, 2023, the international rating company Moody's published a rating report in which it announced that it is leaving the Company's international credit rating unchanged, a rating of 'Baa1' with a stable outlook.

On March 21, 2023, the local rating company Midroog published a follow-up rating reports, announcing that it is leaving the Company's local credit rating unchanged, a rating of 'Aa1.il' with a stable outlook.

For additional details regarding the Company's credit rating, see Note 20f to the Annual Financial Statements.

c. Terms of the Company's financing agreements which might result in immediate repayment:

The financing contracts of the Company include provisions that provide the lender with the right to demand immediate repayment of the unpaid balance of the loan and the accrued interest. For details see Note 20d to the Annual Financial Statements.

From an inspection performed by the Company, at the approval date of the Financial Statements, no events have occurred which may indicate failure to comply with contractual terms, in a manner which would give the lenders the right to demand immediate repayment.

d. State Guarantee:

The State provided a guarantee to a financial institution for a Dollar loan raised by the Company with a balance of approximately NIS 134 million as of March 31, 2023.

NOTE 9:- REVENUES

a. Demand for electricity in Israel is seasonal. In this context, the seasons are defined as summer (the months of July and August), winter (the months of December through February) and the transitional seasons – spring (the months of March to June) and autumn (the months of September to November).

Demand is higher in summer (due to the use of air conditioners) and in winter (due to the use of heaters) in comparison to the transitional seasons. In summer and winter, the average electricity consumption is higher than during the transitional seasons and is even characterized by peak demand due to extreme conditions of heat or cold.

In addition, the Company's revenues in the various seasons are affected by changes in rates for consumers paying in accordance with load and time, since average load and time rates are higher in summer and winter, in comparison to the load and time rates in the transitional seasons.

b. **Composition:**

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	NIS in millions		
	Unaudited		Audited
Revenue from the sale of electricity	4,841	5,024	19,788
Revenue from the sale of infrastructure services and system management	160	153	701
Revenue from the sale of electricity to the East Jerusalem Electric Company and the Palestinian Authority	670	613	2,345
Miscellaneous (1)	93	76	271
	5,764	**5,866**	**23,105**

(1) Mainly included in the sectors of distribution, supply and activity that is not part of the electricity chain.

Rate update

- On January 1, 2023, the rate for a domestic consumer increased by approximately 8.2% compared to the rate published on August 1, 2022.
- On February 1, 2023, the rate for a domestic consumer decreased by approximately 1.5% compared to the rate published on January 1, 2023.
- After the Statement of Financial Position date, on April 1, 2023, the rate for a domestic consumer decreased by approximately 2.4% compared to the rate published on February 1, 2023.

For additional details regarding updates of the electricity tariff, see Note 3a above.

c. **Scope of sales arising from electricity purchases:**

	For the Three Months ended March 31		For the Year ended December 31
	2023	2022	2022
	Unaudited		Audited
Total electricity sales of the Company (in millions of kWh) (*)	11,175	12,794	48,681
Scope of electricity purchases by the Company (in millions kWh)	3,408	3,256	13,972
Their part of the total electricity sales of the Company (in %)	30%	25%	29%

(*) Without infrastructure services which are mainly electricity transmission and distribution services provided for private electricity producers.

NOTE 10:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES, AND LABOR DISPUTES

a. Agreements

1. Gas Agreements

For details regarding the Company's agreements for supply of gas from the "Tamar", "Leviathan" and "Karish" fields, see Note 35a to the Annual Financial Statements.

2. Lease Agreement - Execution Center

During the three months ended on March 31, 2021, possession of the Galil Golan execution center was transferred. Accordingly, on the date of transfer of possession, the Company recognized a right-to-use asset against a liability with respect to lease in the amount of approximately NIS 31 million.

NOTE 10:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES, AND LABOR DISPUTES (continued)

b. <u>Contingent Claims and Liabilities:</u>

1. Following are the main changes that occurred up to the date of approval of the Financial Statements in respect of requests to certify class actions and petitions approved as class actions that were filed against the Company in relation to that detailed in Note 35b to the Annual Financial Statements:

    a) Further to that stated in Note 35b1a of the Annual Financial Statements pertaining to the request to approve a class action regarding the Company's contractual engagements in 2001-2003 with the Siemens Company in agreements to purchase combined cycle gas turbines (CCGT) and related services, which caused damage, allegedly to the Company, which was passed on to the electricity consumers within the electricity rate, the parties are still conducting a mediation proceeding in the case. After the Statement of Financial Position date, on April 2, 2023, the Court extended the stay of proceedings in the case until June 30, 2023. The Company's legal advisors' estimate remains unchanged, that it is more likely than not that the application for approval will be rejected.

    b) Further to that stated in Note 35b1d of the Annual Financial Statements pertaining to an application to approve a class action regarding payments to private electricity producers that were passed on to the electricity consumers, after the Statement of Financial Position date, on April 10, 2023, the Court rejected the Company's application to serve notice against third parties. Pursuant to the provisions of the Law, the deadline for initiating the appeal proceeding will be June 11, 2023. A pretrial hearing has been scheduled for June 5, 2023. An application for disclosure of documents was submitted on May 2, 2023, and pursuant to the Court's decision responses to the applications will be submitted by May 21, 2023. To the extent that the Company will initiate an appeal proceeding over the decision of April 10, 2023, it will deliver a notice about it to the Court immediately upon initiating the proceeding. The Company's legal advisors estimate remains unchanged, that it is more likely than not that the application for approval will be rejected.

    c) Further to that stated in Note 35b1e of the Annual Financial Statements regarding an application to approve a class action in an amount of NIS 1,038 million regarding an alleged severe security event in which consumers' confidential personal details were exposed as part of entry to digital services on the Company's website, on March 2, 2023, the decision of the Supreme Court's registrar was given, within which it was determined that the objection submitted by the opponents to the decision of the court secretary regarding the deposit of a third party guarantee should be rejected. The opponents were given the opportunity to resubmit the application for leave to appeal until March 12, 2023 with an appropriate guarantee or with an application for the deposit of a third-party guarantee. Despite the passage of the stipulated date, the Company has not been served with an application for leave to appeal, and to the best of the Company's knowledge, such an application has also not been filed. Therefore, the application was definitively rejected.

    d) Further to that stated in Note 35b1f to the Annual Financial Statements, regarding the application to approve a class action in the amount of approximately NIS 2,000 million concerning a claim of artificial and deliberate inflation of project costs, after the Statement of Financial Position date, on May 1, 2023, the Company gave an update notice regarding the petition it filed with the High Court of Justice on the same subject. As part of the notice, the Company updated that a judgment was rendered within which the petition was accepted in part, and the Company will be given an additional opportunity to present some of its arguments to the Electricity Authority. The Court has not yet made its decision regarding the update notice and regarding the continuation of the proceedings in the case. The Company's legal advisors are of the opinion that at this preliminary stage of the proceeding, before the evidentiary proceeding begins, it can be assessed with all due caution that it is more likely than not that the application for approval will be rejected.

NOTE 10:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES, AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities: (continued)

1. (continued)

e) Further to that stated in Note 35b1g of the Annual Financial Statements regarding an application to approve a class action in an amount of approximately NIS 3,204 million, concerning an application for a class action on behalf of all electricity consumers between 2012 and 2017 to return to the group members all amounts collected from them as part of electricity rates intended for the development of the electricity grid, and which the Company has allegedly used for other purposes, on March 28, 2023, the Court granted an extension to the Electricity Authority under its application to submit its position in the proceeding by May 18, 2023. It was further noted, against the background of the applicant's objection to granting an extension, that the Authority will make an effort to submit its position by this date. At this preliminary stage, before the regulator's (Electricity Authority) position in the dispute between the parties has been submitted and before the evidentiary proceeding has begun, the estimate of the Company's legal advisors is that it can be estimated with all due caution that it is more likely than not that the application for approval will be rejected.

f) Further to that stated in Note 35b1i of the Annual Financial Statements regarding an application to approve a class action in an amount of NIS 45 million, claiming that the Company is charging its customers with a meter reading rate although it does not actually conduct meter readings when a smart meter is installed and when the customer reads the meter independently. After the Statement of Financial position date, on April 18, 2023, the applicants submitted their response, in which they applied to submit summaries on behalf of the parties before the proceeding is decided. On April 23, 2023, the Court rendered its decision, under which summaries will be submitted on behalf of the applicants until May 30, 2023, summaries on behalf of the Company will be submitted until June 30, 2023 and the applicants may submit reply summaries until July 10, 2023. The Company's legal advisors estimate that at this preliminary stage of the proceeding, before the evidentiary proceeding has begun, it is possible to estimate with the full caution required that it is more likely than not that that the application for approval will be rejected.

g) Further to that stated in Note 35b2a of the Annual Financial Statements regarding an application to approve a class action in an amount of NIS hundreds of millions regarding alleged environmental hazards of coal dust and coal ash at the Orot Rabin power station in Hadera, in a decision of March 29, 2023, the Court decided that the tour of applicant 1's house in the Heftziba neighborhood of Hadera and the site of the power station will take place on May 28, 2023. According to the decision, the relevant officials in the Company, as well as a representative from the Association of Cities, will be present for the tour. Further discussions in the proceeding have not yet been scheduled. The estimate of the Company's legal advisors is that at this stage the prospects of the approval of the application cannot be estimated.

h) Further to that stated in Note 35b2b of the Annual Financial Statements regarding an application to approve a class action in an unspecified amount concerning claims of excess morbidity among people who stayed in the Haifa Bay area for over two years throughout their lives, and were diagnosed with cancer, allegedly caused due to exposure to pollution created by the respondents to the application, evidentiary hearings of the case began on February 12, 2023 and they will continue consecutively for several months. As on the date of approval of the Financial Statements, all experts on behalf of the applicant were examined, as well as the declarant on its behalf. On February 22, 2023, the examination of the declarants on behalf of the respondents began. The joint experts will be examined later. The estimate of the Company's legal advisors, considering the preliminary stage of the proceeding, is that the prospects of the approval of the application cannot be estimated.

i) Further to that stated in Note 35b2d of the Annual Financial Statements regarding an application to approve a class action pertaining to claims of monetary and non-monetary damages due to planned power outages performed, according to the plaintiffs, for an elongated period of time during the hot summer months, after the Statement of Financial Position date, on May 18, 2023, an agreed withdrawal application was submitted to the Court.

NOTE 10:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES, AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities: (continued)

1. (continued)

j) Further to that stated in Note 35b2e of the Annual Financial Statements regarding an application to approve a class action pertaining to the issuance of a declaratory order under which the Company acted contrary to the provisions of the law and issuance of a mandatory injunction instructing the Company to correct the "repeat call" service. In a deliberative settlement which received the effect of a decision, it was agreed that the Company's response to the application for approval would be submitted by May 21, 2023, and the applicant's response to the response would be submitted by June 15, 2023. A preliminary hearing has been scheduled for September 11, 2023. Considering the preliminary stage of the proceeding, the legal advisors cannot estimate the prospects of the approval of the application.

k) Further to that stated in Note 35b2f of the Annual Financial Statements in respect of an application to approve a class action against the Company regarding the gaps between the rate and manner of calculating the meter reading and the credit amount for not reading the meter. The Company has to submit a response to the application to approve by June 15, 2023, A pretrial hearing has been scheduled for September 14, 2023. Considering the preliminary stage of the proceeding, the legal advisors cannot estimate the prospects of the approval of the application.

l) Further to that stated in Note 35b3a of the Annual Financial Statements regarding a class action in the amount of approximately NIS 5,000 million approved against the Company concerning alleged unlawful wage payments, and further to that stated in Note 35b3ba regarding an application to approve a class action in the amount of approximately NIS 2,000-3,000 million, on January 10, 2023, the Court rendered its decision, under which the Attorney General must announce whether she intends to join as a party to the proceedings. In accordance with the decision, if the Attorney General considers that it is not appropriate for her to join as a party to the proceedings, she must notify if any of the State authorities have a position regarding the issues in dispute. The parties gave the Attorney General their positions on the issues regarding which it is appropriate to receive the Attorney General's and the State authorities' reference. The Attorney General must submit her notice by May 19, 2023. A pre-trial in the case is scheduled for May 22, 2023. The Company's legal advisors maintain their estimation as specified in Note 35b3a of the Annual Financial Statements.

m) After the Statement of Financial Position date, on April 16, 2023, an application to approve a class action in the amount of NIS 4 million was submitted against the Company to the Tel Aviv District Court, regarding the unlawful withholding of tax from compensation and restitution funds. In view of the preliminary stage of the proceeding, the Company's legal advisors cannot estimate the prospects of the application being approved.

NOTE 10:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES, AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities: (continued)

2. For details regarding the monetary demands of fixed asset contractors, see note 35b6d of the Annual Financial Statements.

3. For details regarding the compromise agreement achieved between the Company and the Egyptian gas companies, see Note 35b7 of the Annual Financial Statements.

4. Further to that stated in Note 35b to the Annual Financial Statements, there were no additional material changes in the reporting period and thereafter in material claims, monetary demands, other contingent liabilities and other legal proceedings in relation to that stated in the Annual Financial Statements, except for the aforesaid changes.

5. With regards to contingencies related to environmental protection laws, see Note 1g above.

6. Further to that stated in Note 35b6c2 to the Annual Financial Statements, after the Statement of Financial Position date, on May 1, 2023, the Appeals Committee gave its decision, which accepted the appeal, cancelled the betterment assessment and required the Local Authority to pay the legal costs. As of the date of approval of the Financial Statements, this decision is not final, since the Local Authority is granted the right to appeal to the District Court until June 15, 2023.

c. Labor disputes

Further to that stated in Note 35c to the Annual Financial Statements pertaining to labor disputes, on August 1, 2021, No new events have occurred as of the date of approval of the Financial Statements. The Company continues to operate by holding discussions with the employees’ union and the State for the continued implementation of the reform and the settlement of differences and disagreements with the employees' representatives and the National Labor Federation (Histadrut), as they come to light.

d. Transactions with related parties and interested parties

Loan to the Coal Company

During the months of February-March 2023, the Coal Company repaid a loan in the amount of NIS 510 million which was received from the Company in October 2022 for financing its operation. For details of the repayment of the counter loan taken by the Company from Hapoalim Bank, see Note 8 above.

e. Investment in CyberGym Control Ltd.

Further to that stated in Note 11b2 to the Annual Financial Statements, the first part of the fundraising round was completed during the three months ended on March 31, 2023, in which 4 investors joined with a total amount of USD 6.5 million plus an option for a year for an additional raising of up to approximately USD 3 million. After completion of this part, the Company holds 38.35% of Cyber Gym’s issued and paid-up capital. The profit deriving from dilution for the Company from this part is approximately NIS 10 million. Insofar as Cyber Gym will raise the full amount of the fundraising round, as aforesaid, the Company will hold approximately 33% of Cyber Gym’s issued and paid-up capital, subject to further possible dilutions.

NOTE 11:- FINANCIAL INSTRUMENTS

a. **Financial instruments measured at fair value for disclosure purposes only**

The book value of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, current and long term assets, short term investments, deposits, long and short term credit, trade payables, other current liabilities are presented close to their fair value.

	Book value			Fair Value		
	As of March 31		As of December 31	As of March 31		As of December 31
	2023	2022	2022	2023	2022	2022
	(in NIS millions)					
	Unaudited		Audited	Unaudited		Audited
Financial liabilities – level 1						
Long term debentures (including current maturities and interest payable)						
Fixed interest negotiable debentures in Israel	17,869	11,713	17,738	17,241	12,698	17,344
Financial liabilities – level 2						
Debentures and long term loans (including current maturities and interest payable)						
Long term loans at fixed interest	1,922	1,838	1,894	1,886	2,046	1,867
Long term loans at variable interest	2,103	2,188	2,056	2,132	2,221	2,086
Fixed interest non-negotiable debentures in Israel	919	2,264	1,622	962	2,456	1,671
Fixed interest non-negotiable debentures abroad..........................	16,062	14,225	15,580	16,151	15,351	15,766

For details regarding the policy of determining fair value see Note 26j to the Annual Financial Statements.
For details of classification of the financial instruments according to levels see section b below.

NOTE 11:- FINANCIAL INSTRUMENTS (continued)

b. Hierarchy of Fair Value of Instruments Measured at Fair Value

Following are details of the financial instruments of the Company that are measured at fair value through profit and loss according to levels:

Classification of the financial instruments that are measured at fair value is based on the lowest level in which substantial use is made for measuring the fair value of the instrument in general.

Level 1: Quoted (unadjusted) prices of assets and financial liabilities in active markets.
Level 2: Data that is not quoted prices included in level 1, but that are observed directly (i.e. prices) or indirectly (data derived from prices), regarding assets and financial liabilities.
Level 3: Data regarding financial assets and financial liabilities that are not based on observed market data.

The hedge transactions, located at level 2, are calculated according to fair value that is based on observed interest curves.

	As of March 31, 2023	As of March 31, 2022	As of December 31, 2022
	Level 2		
	(NIS in millions)		
	Unaudited		Audited
Financial assets			
Swap transactions designated for cash flow hedging .	404	-	244
Other swap and forward transactions........................	475	286	396
Financial liabilities			
Swap transactions designated for cash flow hedging .	333	1,198	491
Other swap and forward transactions........................	1,832	2,202	1,798
Total liabilities with respect to hedge transactions, net...	**1,286**	**3,114**	**1,649**

NOTE 12:- SEGMENTAL REPORTING

a. General

1. The Company implements International Financial Reporting Standard 8 (hereinafter: "IFRS 8").

2. Pursuant to Government Resolution 3859 of June 3, 2018, a team headed by the Government Companies Authority and the Electricity Authority was established, and it will determine, in consultation with the Company, the model for reporting on the activity in separate profit centers in the generation, transmission, distribution, supply segments and activity that is not within the framework of the electricity chain, in a manner that will allow transparency and attribution of costs. For details regarding the change in the format of reporting to the Chief Operating Decision Maker (Company CEO) as from the fourth quarter of 2021, see Note 36 to the Annual Financial Statements.

b. Detailed Reportable Operation Segments

The operations of the Company, according to the reports to the Chief Operating Decision Maker, comprised during the period of the Financial Statements of five main operational segments making up the entire electricity chain.
These operations are:

- Electricity generation and purchases - includes the operations at the electricity generating power stations and electricity purchases at extra-high voltage from the Noga Company.
- Transmission - includes the transmission and transformation system of high and ultra-high long distance electricity.
- Distribution– includes the electricity grids system and the transformation stations which supply the electricity to the end consumers, except for a limited number of customers that purchase extra-high voltage electricity directly from the transmission systems, as well as meter reading services (the cost of the meters and the reading of them) and costs and services related to communication with distribution consumers. In addition, this segment includes the costs of purchasing electricity from high voltage and low voltage private producers, including high-voltage and low-voltage renewable energy facilities.
- Consumer services - supply segment – includes the customer service and collection system of the Company.
- Operation that is not part of the electricity chain operation – includes the Company's operation within the framework of business development, the Company's operation within the communications enterprise, and investment in the CyberGym Company.

c. Income and Results according to Operational Segments

Segmental revenues are calculated based on a price model that serves the Electricity Authority to determine the electricity rates for the Company.
Segment revenues are calculated by multiplying these rates by the sold quantity (kW/h) to the end consumer, while making the required adjustments based on the activities defined by the Company for each of the segments: generation, transmission, distribution and consumer services-supply.
Segmental expenses that can be specifically identified are charged directly to the appropriate items. In addition, certain indirect expenses are recorded according to a specific allocation, which serves as a reasonable estimate for attributing these expenses. The other indirect expenses are recorded mainly according to the ratio of direct operating expenses in each sector.
The CODM receives the operational results of each segment up to the profit (loss) level before, financing, taxes, after movements in regulatory deferral account balances gross before tax and neutralizing movements relating to financing expenses and revenues/expenses that are not reviewed.

A segment's results include items that can be directly and indirectly allocated to a segment and are reviewed by the Chief Operating Decision Maker. Revenues and expenses not allocated are such that are not reviewed by the Chief Operating Decision Maker by operating segments and include other revenues, revenues from liabilities to pensioners, results of the reform agreement, financing expenses, tax expenses and movements in regulatory deferral account balances attributed to these components.

For additional segmental information, see sections d and e below.

NOTE 12:- SEGMENTAL REPORTING (continued)

d. Income and Results according to operating segments

1. Income and Results according to Operating segments

	For the Three Months ended March 31, 2023					
	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
			(NIS in millions) (Unaudited)			
Revenues from electricity	3,601	380	1,572	118	-	5,671
Other income	14	1	52	4	22	93
Total revenues	**3,615**	**381**	**1,624**	**122**	**22**	**5,764**
Cost of operating the electricity system:						
Fuels	2,227	-	-	-	-	2,227
Purchases of Electricity:						
Purchases of Electricity	4	-	581	-	-	585
Purchasing and accounting with Noga, net	705	1	-	1	-	707
	709	1	581	1	-	1,292
Operation of the generation system	947	-	-	-	-	947
Operation of the transmission, distribution system and others	-	228	527	-	18	773
Total cost of operating the electricity system	3,883	229	1,108	1	18	5,239
Profit (loss) from operating the electricity system	**(268)**	**152**	**516**	**121**	**4**	**525**
Other revenues, net	-	-	(21)	-	-	(21)
Sales and marketing expenses	-	-	101	101	-	202
Administrative and general expenses	95	22	73	18	-	208
	95	22	153	119	-	389
Profit (loss) from current operations	**(363)**	**130**	**363**	**2**	**4**	**136**
Company's share of the profit of associated companies	-	-	-	-	10	10
Profit (loss) before regulatory deferral accounts	**(363)**	**130**	**363**	**2**	**14**	**146**
Movements in regulatory deferral accounts balances, gross	609	(31)	(172)	-	5	411
Segmental profit	**246**	**99**	**191**	**2**	**19**	**557**

Unallocated revenues (expenses)

Other revenues, net	53
Income from liabilities to pensioners	69
Reform agreement and other agreements results	(62)
Financial expenses	(458)
Movements in deferral accounts, gross, that were not allocated to segments	288
Tax expenses included in net movement of regulatory deferral accounts	(160)
Income tax	56
Profit for the period in accordance with the consolidated statements	**343**

Additional details:

	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
Depreciation and amortization expenses	573	144	347	11	-	**1,075**

NOTE 12:- SEGMENTAL REPORTING (continued)

d. Income and Results according to operating segments

1. Income and Results according to Operating Segments (continued)

	For the Three Months ended March 31, 2022					
	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
			(NIS in millions) (unaudited)			
Revenues from electricity	3,610	451	1,618	111	-	5,790
Other income	1	-	36	13	26	76
Total revenues	**3,611**	**451**	**1,654**	**124**	**26**	**5,866**
Cost of operating the electricity system:						
Fuels	2,251	-	-	-	-	2,251
Purchases of Electricity:						
Purchases of Electricity	16	-	526	-	-	542
Purchasing and accounting with Noga, net	581	-	418	-	-	999
	597	-	944	-	-	1,541
Operation of the generation system	990	-	-	-	-	990
Operation of the transmission, distribution system and others	-	199	504	-	19	722
Total cost of operating the electricity system	3,838	199	1,448	-	19	5,504
Profit (loss) from operating the electricity system	**(227)**	**252**	**206**	**124**	**7**	**362**
Sales and marketing expenses	-	-	95	98	-	193
Administrative and general expenses	89	21	73	20	-	203
	89	21	168	118	-	396
Profit (loss) from current operations	**(316)**	**231**	**38**	**6**	**7**	**(34)**
Company's share of the profit of associated companies	-	-	-	-	2	2
Profit (loss) before regulatory deferral accounts	**(316)**	**231**	**38**	**6**	**9**	**(32)**
Movements in regulatory deferral accounts balances, gross	809	(131)	185	(4)	-	859
Segmental profit	**493**	**100**	**223**	**2**	**9**	**827**

Unallocated revenues (expenses)	
Other revenues, net	3
Income from liabilities to pensioners	32
Reform agreement and other agreements results	(58)
Financial expenses	(662)
Movements in deferral accounts, gross, that were not allocated to segments	231
Tax expenses included in net movement of regulatory deferral accounts	(251)
Income tax	163
Profit for the period in accordance with the consolidated statements	**285**

Additional details:						
Depreciation and amortization expenses	684	133	346	4	-	**1,167**

NOTE 12:- SEGMENTAL REPORTING (continued)

d. Income and Results according to operating segments

1. Income and Results according to Operating Segments (continued)

	For the Year ended December 31, 2022					
	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (audited)					
Revenues from electricity	14,223	1,911	6,221	479	-	22,834
Other income	8	1	117	39	106	271
Total revenues	**14,231**	**1,912**	**6,338**	**518**	**106**	**23,105**
Cost of operating the electricity system:						
Fuels	9,561	-	-	-	-	9,561
Purchases of Electricity:						
Purchases of Electricity	50	-	2,809	-	-	2,859
Purchasing and accounting with Noga, net	2,877	22	168	7	-	3,074
	2,927	22	2,977	7	-	5,933
Operation of the generation system	4,094	-	-	-	-	4,094
Operation of the transmission, distribution system and others	-	845	1,929	-	66	2,840
Total cost of operating the electricity system	16,582	867	4,906	7	66	22,428
Profit (loss) from operating the electricity system	**(2,351)**	**1,045**	**1,432**	**511**	**40**	**677**
Other allocated revenues, net	(22)	-	(7)	-	-	(29)
Sales and marketing expenses	-	-	419	400	-	819
Administrative and general expenses	407	85	290	74	-	856
	385	85	702	474	-	1,646
Profit (loss) before regulatory deferral accounts	**(2,736)**	**960**	**730**	**37**	**40**	**(969)**
Movements in regulatory deferral accounts balances, gross	3,636	(461)	210	(16)	(20)	3,349
Segmental profit	**900**	**499**	**940**	**21**	**20**	**2,380**

Unallocated revenues (expenses)	
Other income, net	1,376
Income from liabilities to pensioners	148
Reform agreement and other agreements results	(212)
Financial expenses	(1,356)
Movements in deferral accounts, gross, that were not allocated to segments	(24)
Tax expenses included in net movement of regulatory deferral accounts	(764)
Income tax	226
Profit for the year in accordance with the consolidated statements	**1,774**

Additional details:

	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
Depreciation and amortization expenses	**2,783**	**555**	**1,374**	**49**	**-**	**4,761**

NOTE 12:- SEGMENTAL REPORTING (continued)

e. Assets and Liabilities according to Operating Segments

Assets and liabilities that can be specifically identified are directly allocated to the appropriate segments. Unidentified assets and liabilities are included in the report as balances that have not been directly allocated. Liabilities that can be directly attributed include credit balances of regulatory deferral accounts without deferred taxes. The Chief Operating Decision Maker reviews the assets and liabilities divided into the five operating segments of the Company in accordance with the aforesaid. Comparative information was restated accordingly.

	As on March 31, 2023						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Assets and liabilities not directly classified	Total Company
	(NIS in millions) (unaudited)						
Inventory – fuels	3,276	-	-	-	-	-	3,276
Assets held for sale	1,866	-	-	-	-	-	1,866
Investment in associated companies	-	-	-	-	23	-	23
Fixed assets, net	18,703	16,458	20,741	-	-	2,777	58,679
Intangible assets, net	8	117	716	-	-	315	1,156
Debit balances of regulatory deferral accounts	5,873	(1,324)	475	23	-	6,662	11,709
Other assets not classified	-	-	-	-	-	21,884	21,884
Total assets	**29,726**	**15,251**	**21,932**	**23**	**23**	**31,638**	**98,593**
Credit balances of regulatory deferral accounts, without deferred taxes	**1,950**	**159**	**140**	**-**	**15**	**851**	**3,115**
Investments in fixed assets for the period	**531**	**421**	**574**	**-**	**-**	**163**	**1,689**

	As on March 31, 2022						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Assets and liabilities not directly classified	Total Company
	(NIS in millions) (unaudited)						
Inventory – fuels	3,019	-	-	-	-	-	3,019
Assets held for sale	165	-	-	-	-	-	165
Investment in associated companies	-	-	-	-	11	-	11
Fixed assets, net	21,082	15,267	19,569	-	-	2,948	58,866
Intangible assets, net	-	-	-	-	-	1,158	1,158
Debit balances of regulatory deferral accounts	1,912	19	870	27	-	6,328	9,156
Other assets not classified	-	-	-	-	-	20,475	20,475
Total assets	**26,178**	**15,286**	**20,439**	**27**	**11**	**30,909**	**92,850**
Credit balances of regulatory deferral accounts, without deferred taxes	(199)	1,241	722	-	-	1,336	3,100
Investments in fixed assets for the period	**320**	**237**	**333**	**-**	**-**	**66**	**956**

NOTE 12:- SEGMENTAL REPORTING (continued)

e. Assets and Liabilities according to Operating Segments (continued)

	As on December 31, 2022						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Assets and liabilities not directly classified	Total Company
	NIS in millions (Audited)						
Inventory – fuels	3,825	-	-	-	-	-	3,825
Assets held for sale	-	-	-	-	-	-	-
Investment in an associated company	-	-	-	-	13	-	13
Fixed assets, net	20,282	16,141	20,476	-	-	2,712	59,611
Intangible assets, net	7	107	821	160	-	58	1,153
Debit balances of regulatory deferral accounts	5,273	(1,263)	582	20	-	6,772	11,384
Other assets not classified	-	-	-	-	-	22,978	22,978
Total assets	**29,387**	**14,985**	**21,879**	**180**	**13**	**32,520**	**98,964**
Credit balances of regulatory deferral accounts, without deferred taxes	1,987	230	159	-	20	858	3,254
Investments in fixed assets for the year	**1,773**	**1,334**	**1,879**	**-**	**-**	**468**	**5,454**

NOTE 12:- SEGMENTAL REPORTING (continued)

e. **Additional details for reporting on segment operation in the generation, transmission, distribution, supply and other segments.**

Details of fuels cost according to fuel type:

	For the three months ended March 31		For the year ended December 31
	2023	2022	2022
	Generation		
	(NIS in millions)		
	Unaudited		Audited
Coal	1,450	1,302	6,310
Natural gas	703	881	2,965
Diesel oil	60	57	218
Crude oil	14	11	68
Total fuel consumption costs	2,227	2,251	9,561

Details of electricity purchases in the distribution segment according to generation technology:

	For the three months ended March 31		For the year ended December 31
	2023	2022	2022
	Distribution		
	(NIS in millions)		
	Unaudited		Audited
Photovoltaic	550	491	2,689
Wind turbine	4	4	21
Hydroelectric	1	2	7
Biogas	25	24	84
Diesel oil generator	1	5	8
Total electricity purchases	581	526	2,809

Details of kWh generated

	For the three months ended March 31		For the year ended December 31
	2023	2022	2022
	(kWh in millions)		
	Unaudited		Audited
Generated by the Company	9,099	10,955	39,286
Supplied by the Company	11,175	12,794	48,681

NOTE 12:- SEGMENTAL REPORTING (continued)

e. Additional details for reporting on segment operation in the generation, transmission, distribution, supply and other segments (continued)

Details of operation of the generation system according to type of expense

	For the three months ended March 31		For the year ended December 31
	2023	2022	2022
	Generation		
	(NIS in millions)		
	Unaudited		Audited
Wages	210	228	891
Depreciation	540	609	2,505
Other	197	153	698
Total operation of the generation system	**947**	**990**	**4,094**

Details of operation of the transmission and distribution system and others according to type of expense

	For the three months ended March 31, 2023			
	Transmission	Distribution	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)			
Wages	30	146	2	178
Depreciation and amortization	139	297	-	436
Other	59	84	16	159
Total operation of the transmission and distribution system and other	**228**	**527**	**18**	**773**

	For the three months ended March 31, 2022			
	Transmission	Distribution	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)			
Wages	31	158	6	195
Depreciation and amortization	126	288	-	414
Other	42	58	13	113
Total operation of the transmission and distribution system and other	**199**	**504**	**19**	**722**

	For the year ended December 31, 2022			
	Transmission	Distribution	Operation not within the electricity chain	Total Company
	(NIS in millions) (audited)			
Wages	122	539	17	678
Depreciation and amortization	535	1,172	-	1,707
Other	188	218	49	455
Total operation of the transmission and distribution system and other	**845**	**1,929**	**66**	**2,840**

NOTE 12:- SEGMENTAL REPORTING (continued)

e. **Additional details for reporting on segment operation in the generation, transmission, distribution, supply and other segments (continued)**

Details of administrative and general expenses according to type of expense

	For the three months ended March 31, 2023				
	Generation	Transmission	Distribution	Supply	Total Company
	(NIS in millions) (unaudited)				
Wages	52	12	39	13	116
Depreciation and amortization	15	5	16	2	38
Other	28	5	18	3	54
Total administrative and general expenses	**95**	**22**	**73**	**18**	**208**

	For the three months ended March 31, 2022				
	Generation	Transmission	Distribution	Supply	Total Company
	(NIS in millions) (unaudited)				
Wages	51	9	40	12	112
Depreciation and amortization	12	7	16	4	39
Other	26	5	17	4	52
Total administrative and general expenses	**89**	**21**	**73**	**20**	**203**

	For the year ended December 31, 2022				
	Generation	Transmission	Distribution	Supply	Total Company
	(NIS in millions) (audited)				
Wages	206	43	150	48	447
Depreciation and amortization	65	20	66	10	161
Other	136	22	74	16	248
Total administrative and general expenses	**407**	**85**	**290**	**74**	**856**

NOTE 12:- SEGMENTAL REPORTING (continued)

e. Additional details for reporting on segment operation in the generation, transmission, distribution, supply and other segments (continued)

The direct costs recognized in each segment are mainly the expenses of operating the electricity system and sales and marketing expenses.
Direct salary costs are mainly composed of salary reported directly to the targets.
The indirect costs are mainly administrative and general costs.

Details of direct and indirect costs

	For the three months ended March 31, 2023					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)					
Direct costs						
Wages	228	27	173	45	2	475
Depreciation and amortization	544	134	295	-	-	973
Others	197	59	104	40	16	416
Fuels	2,177	-	-	-	-	2,177
Purchases of Electricity	4	-	581	-	-	585
Accounting with Noga	705	1	-	1	-	707
Other revenues	-	-	(21)	-	-	(21)
Total direct costs	**3,855**	**221**	**1,132**	**86**	**18**	**5,312**
Indirect costs						
Wages	66	15	59	20	-	160
Depreciation and amortization	29	10	52	11	-	102
Others	28	5	18	3	-	54
Total indirect costs	**123**	**30**	**129**	**34**	**-**	**316**

	For the three months ended March 31, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)					
Direct costs						
Wages	248	29	175	51	6	509
Depreciation and amortization	660	122	297	-	-	1,079
Others	153	42	66	40	13	314
Fuels	2,157	-	-	-	-	2,157
Purchases of Electricity	16	-	526	-	-	542
Accounting with Noga	581	-	418	-	-	999
Total direct costs	**3,815**	**193**	**1,482**	**91**	**19**	**5,600**
Indirect costs						
Wages	62	11	68	19	-	160
Depreciation and amortization	24	11	49	4	-	88
Others	26	5	17	4	-	52
Total indirect costs	**112**	**27**	**134**	**27**	**-**	**300**

NOTE 12:- SEGMENTAL REPORTING (continued)

e. Additional details for reporting on segment operation in the generation, transmission, distribution, supply and other segments (continued)

Details of direct and indirect costs (continued)

	For the year ended December 31, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (audited)					
Direct costs						
Wages	971	112	649	188	17	1,937
Depreciation and amortization	2,657	515	1,170	-	-	4,342
Others	698	188	322	151	49	1,408
Fuels	9,224	-	-	-	-	9,224
Purchases of Electricity	50	-	2,809	-	-	2,859
Accounting with Noga	2,877	22	168	7	-	3,074
Other revenues	(22)	-	(7)	-	-	(29)
Total direct costs	16,455	837	5,111	346	66	22,815
Indirect costs						
Wages	250	53	219	70	-	592
Depreciation and amortization	126	40	204	49	-	419
Others	136	22	74	16	-	248
Total indirect costs	512	115	497	135	-	1,259

NOTE 12:- SEGMENTAL REPORTING (continued)

e. Additional details for reporting on segment operation in the generation, transmission, distribution, supply and other segments (continued)

Details of salary costs divided according to profit centers

	For the three months ended March 31, 2023					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)					
Wage costs	388	174	486	65	2	1,115
Charged to fixed assets including remeasurements	(101)	(142)	(271)	-	-	(514)
Remeasurements charged to reduction of fixed assets	7	10	17	-	-	34
Wage expenses in profit and loss	**294**	**42**	**232**	**65**	**2**	**635**

Wage costs not attributed to sectors

Wage costs charged to joint fixed assets	39
Wage costs charged to joint fixed assets from remeasurements	(3)

	For the three months ended March 31, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)					
Wage costs	322	54	267	70	6	719
Charged to fixed assets including remeasurements	(114)	(139)	(234)	-	-	(487)
Remeasurements charged to reduction of fixed assets	102	125	210	-	-	437
Wage expenses in profit and loss	**310**	**40**	**243**	**70**	**6**	**669**

Wage costs not attributed to sectors

Wage costs charged to joint fixed assets	34
Wage costs charged to joint fixed assets from remeasurements	(30)

NOTE 12:- SEGMENTAL REPORTING (continued)

e. Additional details for reporting on segment operation in the generation, transmission, distribution, supply and other segments (continued)

Details of direct and indirect costs divided according to profit centers (continued)

	For the year ended December 31, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (audited)					
Wage costs	1,525	562	1,553	258	17	3,915
Charged to fixed assets including remeasurements	(426)	(557)	(960)	-	-	(1,943)
Remeasurements charged to reduction of fixed assets	122	160	275	-	-	557
Wage expenses in profit and loss	**1,221**	**165**	**868**	**258**	**17**	**2,529**

Wage costs not attributed to sectors	
Wage costs charged to joint fixed assets	135
Wage costs charged to joint fixed assets from remeasurements	(39)

NOTE 12:- SEGMENTAL REPORTING (continued)

e. Additional details for reporting on segment operation in the generation, transmission, distribution, supply and other segments (continued)

Details of fixed assets divided according to segments

	As on March 31, 2023					
	Generation	Transmission	Distribution	Supply	Joint assets	Total Company
	(NIS in millions) (unaudited)					
Direct fixed assets						
Balance at the beginning of the period	16,582	12,970	20,041	-	2,540	52,133
Investments during the period	151	60	328	-	106	645
Classification	(48)	64	166	-	8	190
Classification as held for sale and regulatory liability	(1,486)	-	-	-	-	(1,486)
Deduction	(26)	(1)	(10)	-	(1)	(38)
Depreciation	(545)	(134)	(295)	-	(99)	(1,073)
Balance at the end of the period	**14,628**	**12,959**	**20,230**	**-**	**2,554**	**50,371**
Assets under construction						
Balance at the beginning of the period	3,700	3,171	435	-	172	7,478
Additions, net	380	361	246	-	57	1,044
Deduction	-	(13)	(6)	-	-	(19)
Classification as held for sale	(5)	-	-	-	-	(5)
Classification	-	(20)	(164)	-	(6)	(190)
Balance at the end of the period	**4,075**	**3,499**	**511**	**-**	**223**	**8,308**

	As on March 31, 2022					
	Generation	Transmission	Distribution	Supply	Joint assets	Total Company
	(NIS in millions) (unaudited)					
Direct fixed assets						
Balance at the beginning of the period	17,924	11,780	19,275	-	2,884	51,863
Investments during the period	140	(2)	160	-	50	348
Classification	108	435	118	-	3	664
Deduction	(33)	(2)	(7)	-	-	(42)
Depreciation	(660)	(121)	(297)	-	(85)	(1,163)
Balance at the end of the period	**17,479**	**12,090**	**19,249**	**-**	**2,852**	**51,670**
Assets under construction						
Balance at the beginning of the period	3,550	3,365	264	-	81	7,260
Additions, net	175	239	173	-	16	603
Deduction	(2)	(1)	-	-	-	(3)
Classification	(120)	(426)	(117)	-	(1)	(664)
Balance at the end of the period	**3,603**	**3,177**	**320**	**-**	**96**	**7,196**

NOTE 12:- SEGMENTAL REPORTING (continued)

e. Additional details for reporting on segment operation in the generation, transmission, distribution, supply and other segments (continued)

Details of fixed assets divided according to segments (continued)

	As on December 31, 2022					
	Generation	Transmission	Distribution	Supply	Joint assets	Total Company
	(NIS in millions) (audited)					
Direct fixed assets						
Balance at the beginning of the period	17,924	11,780	19,275	-	2,884	51,863
Reclassification	6	11	276	-	(293)	-
Investments during the period	705	146	1,124	-	340	2,315
Classification	707	1,554	578	-	46	2,885
Deduction	(103)	(6)	(42)	-	(16)	(167)
Depreciation	(2,657)	(515)	(1,170)	-	(421)	(4,763)
Balance at the end of the period	**16,582**	**12,970**	**20,041**	**-**	**2,540**	**52,133**
Assets under construction						
Balance at the beginning of the period	3,550	3,365	264	-	81	7,260
Reclassification	(110)	92	16	-	2	-
Additions, net	1,068	1,188	755	-	128	3,139
Deduction	(1)	(10)	(25)	-	-	(36)
Classification	(807)	(1,464)	(575)	-	(39)	(2,885)
Balance at the end of the period	**3,700**	**3,171**	**435**	**-**	**172**	**7,478**

NOTE 12:- SEGMENTAL REPORTING (continued)

f. Additional details of major events included within operation not within the framework of the electricity chain

For the three months ended March 31, 2023

1. A gross profit of approximately NIS 8 million was recorded during the period for the provision of unloading and loading services at moorings at the Eshkol generation station.
2. The Company's share in profits of associate companies during the period amounted to approximately NIS 10 million.
3. A gross profit of approximately NIS 5 million was recorded during the period for the provision of consultation, management and supervision services for the construction of voltage lines and substations in Angola.

For the three months ended March 31, 2022

1. The Company's share in losses of associate companies during the period amounted to approximately NIS 2 million.
2. A gross profit of approximately NIS 10 million was recorded during the period for the provision of unloading and loading services at moorings at the Eshkol generation station.
3. Revenues of approximately NIS 1.1 million were recorded during the period for the provision of services from the Orot Rabin generation station to the desalination facility in the area of the station.

For the year ended December 31, 2022

1. Approximately NIS 4 million was recorded during the year from recognition of profit that has not yet been realized with respect to the Communications Company.
2. A gross profit of approximately NIS 9.5 million was recorded during the year for the provision of unloading and loading services at moorings at the Eshkol generation station.
3. A gross profit of approximately NIS 0.9 million was recorded during the year from business development work at the Nilit substation.
4. A gross profit of approximately NIS 2 million was recorded during the year for the provision of consultation services for the preparation of a master plan for the development of the electricity system in Rwanda.

ANNEX 1

Actuarial Liabilities of the Israel Electric Corporation as at March 31, 2023

June 01, 2023

Mr. Gilad Hassid
Senior Vice-President of Finance, Economics and Risk Management
Israel Electric Corporation Ltd.
P.O. Box 10
Haifa 31000, Israel

Dear Sir,

Re: **Actuarial Liabilities for Employee Benefits as at March 31, 2023 in Accordance with International Financial Reporting Standard IAS 19 Employee Benefits**

1. General

1.1 This report consists of the following sections and appendices:

1.2 We were asked by the Israel Electric Corporation Ltd. ("the Company") to prepare this actuarial valuation of the Company's employee benefit liabilities for the purpose of financial statement reporting in accordance with International Financial Reporting Standard IAS 19 Employee Benefits ("IAS 19"). The valuation was requested by Mr. Gilad Hassid, Acting Senior Vice-President, Finance, Economics and Risk Management. Our engagement agreement was signed on May 26, 2016. We agree that this report be published with the Company's financial statements.

1.3 On May 26, 2016, the Company also granted us a letter of indemnity in respect of the services that we are providing to the Company. Our position is that the letter of indemnity does not create a presumption of dependence of the Company, since the granting of a letter of indemnity and valuations of this kind are accepted practice and do not create a specific dependency on the Company.

We will receive fees for this engagement and for other consulting services that we provide to the Company, and this in no way changes our position regarding the absence of dependency as stated. Likewise, we confirm that the fees we receive from the Company are not dependent on the results of our work.

1.4 This valuation was performed solely for the purpose stated above and this report may not be used, nor may conclusions be based upon it, for any other purpose such as determining the level of contributions required for the funding of benefits, valuations of the net worth of the Company, etc. The actuarial results appropriate for any other purpose may differ materially from the results reported in this document.

1.5 This report is intended to present valuation results and to provide explanations regarding the valuation. The report is prepared for the purpose of its inclusion in the Company's financial statements.

1.6 The amounts reported herein were calculated in accordance with the Company's interpretation of IAS 19 and its accounting policies regarding its implementation (see section 3 below). The Company is solely responsible for any such interpretation and policies.

1.7 According to this valuation, there is a surplus of assets over liabilities in the pension plan. Based on the Company's instructions, this surplus is presented as an asset of the Company in whole. According to legal regulations of the Central Pension Fund for Employees of the Israel Electric Corporation Ltd. ("the Fund"), under certain circumstances a surplus will be returned to the Company, where the surplus is determined according to an actuarial valuation of the Fund. The actuarial valuation of the Fund differs from the Company’s valuation presented in this report, primarily due to different actuarial assumptions regarding interest discount rates and future salary increase rates. According to the most recent actuarial valuation of the Fund (as of March 31, 2023), liabilities were higher than those calculated in this valuation.

1.8 In order to calculate the amounts presented in this report, we relied on information concerning employee benefits terms and conditions (including constructive obligations) and on historical and current employee data, as provided to us by the Company, that were not verified by us. The Company bears full responsibility for the completeness and reliability of the information and data provided to us.

1.9 Valuation results are highly sensitive to actuarial assumptions. Actual demographic and economic experience is likely to differ from the assumptions, and assumptions are likely to change in future, which will affect the valuation of the liability for accrued benefits. Additional information is provided in Section 8 below.

1.10 The valuation was performed by Mr. Alan Fefferman, a qualified actuary, and his actuarial team at Alan Fefferman – Actuarial Services Ltd. Mr. Fefferman has a B.Sc. in Mathematics (with Distinction) from the University of Alberta in Canada, an M.B.A. (Beta Gamma Sigma) from the Booth School of Business of the University of Chicago in the United States, is a Fellow of the Society of Actuaries (F.S.A.) in the United States, and is a Fellow of the Israel Association of Actuaries (F.IL.A.A.). His approximately thirty eight years of professional experience include actuarial valuations of employee benefits similar to those of the Company, actuarial valuations of pension plans, and the determination of actuarial methods and assumptions for pension plans and insurance companies, in his various roles of valuation actuary, peer reviewing or audit actuary, and governmental regulatory actuary.

1.11 This report has been prepared in accordance with the following standards:

- International Standard of Actuarial Practice 1 – General Actuarial Practice, approved by Council of the International Actuarial Association on November 18, 2012 and revised on December 1, 2018;
- International Standard of Actuarial Practice 3 – Actuarial Practice in Relation to IAS 19 Employee Benefits, adopted by Council of the International Actuarial Association on April 11, 2015 and revised on December 1 ,2018.

1.12 Definitions:

- "salary" – pensionable salary
- "pension plan" – the set of benefits provided by the Fund
- "date of valuation" – March 31,2023
- "linked pensions agreement" – the collective bargaining agreement between the Company, the Histadrut (association of trade unions), and the permanent committee of Company employees, which inter alia changed the method of pension adjustments (by linking pensions to changes in the consumer price index ("the Index"), instead of linkage to salary promotions and wage agreements).

2. **Benefits Included in the Valuation**

2.1 Our calculations are based on information regarding the benefits and their terms (as presented in a Company document, which is included as Appendix F in December 2022 valuation). The information in that document, which we relied upon for the purpose of preparing this report, was not verified by us. Our calculations were also based on what is written in the special collective bargaining agreement (Retiring as a Pensioner from Generation C) which was signed in April 2022.

2.2 The valuation relates to benefits in respect of permanent employees, pensioners (including those who retired because of disability) and surviving spouses and orphans (for convenience sake, pensioners and survivors shall hereinafter be referred to as "pensioners"). Employees and pensioners are divided into two groups:

- those covered by the defined benefit pension plan (for whom benefits are identical), who commenced their employment at the Company on or before June 10, 1996;
- those included in employee-generation C, who are permanent employees that commenced their employment at the Company after that date.

The valuation also relates to benefits for non- permanent employees of the company, including supplementary severance pay benefit in respect of employees employed under a special agreement, and other grants (upon termination of their employment) for employees expected to be included in a special collective bargaining agreement (regarding continuing temporary employees).

2.3 The benefits to which the valuation relates are as follows:

2.3.1 Regarding employees and pensioners covered by the (“budgetary”) defined benefit pension plan, benefits include the following:

- Post-Retirement pension based on pensionable salary. Monthly pensionable salary is comprised of the following components, subject to each employee/pensioner's individual entitlement to each component: regular salary[1], shift work, home service, Arava additions, convalescence pay (one-twelfth of the annual amount), 13th salary (one-twelfth of annual salary) 14th salary (one-twelfth of annual salary) and "CPI increment";
- Disability pension;
- Survivors' pension in respect of employees who die while in Company

[1] includes combined salary, management increment, seniority increment, personal addition, continuing education addition, physical effort addition and administrative addition.

service[2] or after retirement (including employees who died after disability retirement);

- Grant paid upon retirement after 35 years of service or more, and to survivors in the event of the employee's death
- "Up to 35 Years" grant paid upon retirement, and to survivors in the event of the employee's death;
- Disability retirement grant (not to exceed 15 times salary);
- Grant for unutilized days of sick leave;
- Subsidized electricity for pensioners (includes VAT and is grossed up to cover the cost of other taxes);
- Holiday gifts for pensioners (grossed up to cover the cost of taxes);
- Grant after 20 years of service;
- Social welfare activities (valued at 0.49% of the cost of grants and pensions, excluding convalescence pay, reduced electricity costs, holiday gifts, and the two salary components of home service and Arava addition);
- Social welfare fund for pensioners of the defined benefit pension plan;
- Life insurance premium payments for pensioners[3].

2.3.2 Regarding generation C employees, the benefits consist of:

- Supplementary severance pay at the rate of 2.33% of regular salary (including 13th salary) for each year of service, for workers for whom Company contributions in lieu of severance benefits haven’t yet been deposited to savings schemes registered in their names.
- "Up to 35 Years" grant, paid upon retirement, or to survivors in the event of the employee's death;
- Grant for unutilized sick leave;
- Subsidized electricity for pensioners (includes VAT and is grossed up to cover the cost of other taxes);
- Holiday gifts for pensioners (grossed up to cover the cost of taxes);
- Grant after 20 years of service;
- Social welfare activities (valued at 0.49% of the cost of other benefits);
- Life insurance premium payments for pensioners [4].
- Disability grant.
- Retirement grant.
- Grant to survivors, payable upon death of the employee.

2.3.3 Regarding the collective bargaining agreement dated May 17, 2018[5] (and subsequent correcting agreements, etc.[6]), the benefits consist of:

[2] any lump-sum amount to be paid upon the employee's death as a result of a work-related accident, was not taken into consideration in the valuation.

[3] To the extent that there exists an arrangement with an insurer, the valuation also recognizes a margin for the cost of insurance.

[4] Ditto

[5] Special collective bargaining agreement (“reform, structural and organizational changes”)

[6] Including:

- Special collective bargaining agreement (“voluntary early retirements above age 64”), from 07/05/2019
- Special collective bargaining agreement (“reform, structural and organizational changes – correction 2”), from 21/01/2020
- Special collective bargaining agreement (“reform, structural and organizational changes – correction 3”), from 30/11/2020
- Special collective bargaining agreement (“early retirements, tenured employment limits, lump-sum benefits to employees whose services are lent to private electricity producers or who transfer to the System Management Company, and various other matters”), from 30/11/2020

- The special retirement program -
  - Special early retirement pension
  - Lump-sum retirement benefit
  - Early retirement budgetary pension, for generation A and B employees
  - “Bridge” pension for generation C employees
  - Continuing accrual of pension benefits for generation C employees.
- Additional retirement pension – upon separation from employment for any reason other than death, disability or early retirement under the special retirement program.
- Additional disability pension.
- Additional lump-sum pre-retirement death benefit.
- Additional benefits for employees whose services are being lent to private electricity producers -
  - Additional retirement pension for such employees
  - Lump-sum benefits only, for generation C employees who retire before meeting minimum age/service requirements.
  - Additional grant
- Additional benefits for employees who transfer to the System Management Company
  - Additional retirement pension for such employees
  - Additional grant
- Voluntary early retirement program for employees over the age of 64
  - Early retirement pension from “budgetary” defined benefit pension plan
  - Additional retirement pension

2.3.4 In respect of non-permanent employees who are employed by special agreement, or who are covered by a special collective bargaining agreement regarding continuing temporary employees:

- Regarding employees who are employed by special agreement, the benefits include supplementary severance pay upon termination of employment or old-age retirement, or at the end of the maximum period allowed for this type of employment, whichever comes first.
- Regarding continuing temporary employees who are covered by a special collective bargaining agreement, the benefits include[7] :
  - Grant after 20 years of service;
  - "Up to 35 Years" grant, paid upon retirement, or to survivors in the event of the employee's death;
  - Grant for unutilized sick leave;
  - Disability grant;
  - Retirement grant;
  - Grant if employment terminated, because of unsuitable job performance;
  - Grant to survivors, payable upon death of the employee;
  - For project-based employees - enhanced severance pay for the period of coverage under the special agreement.

- Collective bargaining agreement, between the System Management Company, workers’ committee and national trade union
- Agreement between the System Management Company and the Israel Electric Company, from 30/11/2020.

2.4 Pensions are adjusted every January, according to the rate of change in the consumer price index (the ratio of the index for the most recent month of December to the index for the previous December).

2.5 The valuation does not take into consideration the possible payment of other benefits or increases to existing benefits at Company discretion, except for the allowance for early retirements requiring Company approval, that is based on assumed early retirement rates (please see section 5.4 below).

3. Methodology and Actuarial and Accounting Principles

3.1 In accordance with IAS 19, liabilities were calculated using the Projected Unit Credit method. Under this method, the liability is calculated as the present value of projected payments to employees and pensioners in respect of the relevant benefits based on the accrued rights of employees and pensioners as of the valuation date (the "past obligation"). The calculation projects each employee and pensioner's expected benefit payment amounts and dates, while taking into account the projected salary growth rate, mortality, termination and disability rates of employees and pensioners, as well as labor agreements and the Company's benefit payment policy.

3.2 The liabilities and additional disclosures in this report were calculated and presented in accordance with the Company's accounting policy as detailed in sections 3.3-3.10 below.

3.3 Benefits are attributed to periods of employment, as follows:

Benefit	Benefit Accrual Percentage as at the Date of Valuation
Post-employment pension (including disability pension) and social welfare activities	Based on the benefit formula in the pension plan, including the pension percent per year of service and the number of years of past service.
Subsidized electricity and holiday gifts for pensioners, grossed up to cover the cost of taxes	For Generation A and Generation B employees: • Benefit is fully accrued after age 40 and 10 years of service. • Until then, benefit is accrued according to the ratio between: (1) actual service, and (2) service projected to the age of full accrual. For Generation C employees, the years of service to which the benefit is attributed, depend on age at start of employment: • Start on or before age 45 - 15 years of service beginning at age 45 • Start between ages 46 and 51 (males) or between ages 46 and 49 (females) - 15 years beginning at start of employment. • Start after age 51 (males) or after age 49 (females) - 10 years beginning at age 57 (males) or at age 54 (females).
Death-in-Service survivors' pension	Benefit fully accrued.
Severance pay upon termination of employment without entitlement to pension, and "up to 35 years" grant	Based on eligibility on the valuation date. Benefit is accrued based on service. For the "up to 35 years of employment" grant, there is a 35-year accumulation maximum.
Grant for service exceeding 35 years	Accrual begins upon reaching 35 years of service.

Benefit	Benefit Accrual Percentage as at the Date of Valuation
Grant for unutilized sick leave	According to the number of unutilized sick leave days as of the valuation date.
Grant for disability retirement	Based on the number of years of past service, up to a maximum of 30 years.
20-year grant	Based on the ratio of accrued service to 20 years. (There is no liability in respect of employees with over 20 years of service, as they would have already received the grant).
Supplementary severance pay for non-permanent employees (employed under special agreement)	Benefit accrual percentage based on the ratio of the number of years of past service to the number of years of past and future service up to the end of the maximum period allowed for this type of employment or until retirement age 67, whichever comes first.
Social welfare fund	Benefit accrual percentage based on the ratio of the number of years of past service to the number of years of past and future service up to the date that the employee reaches age 50/55 (male/female) or reaches 30 years of service, whichever comes last.
Life insurance benefits	Benefit accrual percentage based on the ratio of the number of years of past service to the number of years of past and future service until the average retirement age of 66.
The special retirement program - special early retirement pension; additional disability pension; additional lump-sum pre-retirement death benefit	Benefits are fully accrued.
The special retirement program - lump-sum retirement benefit, early retirement budgetary pension for generation A and B employees, and “bridge” pension for generation C employees insured under “old” multiemployer pension plans	Benefits accrue according to service.
The special retirement program - “bridge” pension for generation C employees insured under “new” multiemployer pension plans, and continuing accrual of pension benefits for generation C employees	“Bridge” pension – accrued percentage equals the ratio between the current account balance in a “new” pension plan with projected interest up to early retirement date, and the same account balance with projected notional contributions and interest up to the statutory retirement date; Continuing accrual of pension benefits - accrue on a “straight line” basis, from the date that the collective bargaining agreement entered into effect (November 4, 2018), until the date of retirement.
Additional retirement pension (separation from employment for reasons other than death, disability or early retirement under the special retirement program)	Each employee’s entitlement is determined according to a “coordinated amount” comprised of the “milestones” that will be realized by the date of retirement (based on statutory retirement age) or by the end of a subsequent extension period. The maximum entitlement is the “base amount” ascribed to the date of retirement. Each “milestone” is accrued on a “straight line” basis, from November 4, 2018, to the expected date of its realization, or to the statutory retirement date, if earlier.

Benefit	Benefit Accrual Percentage as at the Date of Valuation
Employees whose services will be lent to private electricity producers - lump-sum retirement benefit, early retirement ("budgetary") pension for generation A and B employees, "bridge" pension and continuing accrual of pension benefits for generation C employees, and additional grant.	Benefits accrue on a "straight line" basis, from the date that the May 17 2018 collective bargaining agreement went into effect (November 4, 2018), until 5 years after the date on which services start to be lent.
Employees transferring to the System Management Company	Additional retirement pension, and additional grant – Regarding employees in the "system management unit", benefits are accrued on a "straight line" basis from the date that the collective bargaining agreement went into effect and until the expected transfer date (December 2021). Regarding employees in the "planning, development and technology unit", the entitlement to an additional retirement pension has accrued completely, and there remain no further additional grants to be paid.
Voluntary early retirement for employees over age 64	Benefits have accrued completely

3.4 For post-employment benefits[8], actuarial gains or losses are credited or charged directly to owners' equity. For employee benefits that are not post-employment benefits, actuarial gains or losses are credited or charged to profit and loss.

3.5 Valuation results are presented in Appendix A on a nominal basis. Consequently, the interest cost and the expected return on assets are calculated according to nominal interest rates at the beginning of the year.

3.6 Current service cost is calculated in respect of benefits accrued during the reporting period using the attribution method described in section 3.3. For example, for the post-retirement pension benefit:

- until an employee reaches 35 years of service, the current service cost reflects the incremental pension percentage;
- after an employee reaches 35 years of service, the current service cost reflects the incremental grant.

After a benefit is accrued fully, the current service cost for that benefit is zero. The current service cost for a calendar year is calculated once a year, based on the actuarial assumptions in effect as at the end of the previous year. At the end of each calendar quarter, one-quarter of the annual current service cost is charged to profit and loss. Any difference between the current service cost charged to profit and loss, and the actual current service cost based on updated actuarial assumptions and plan experience, constitutes an actuarial gain or loss.

3.7 The interest cost and expected return on plan assets, are based on a nominal annual interest rate of 5.43%; that is, the uniform discount rate inherent to the defined benefit obligation as at December 31, 2022.

[8] As the term is defined in IAS 19R

3.8 The current service cost presented in this report has been reduced in respect of employees' contributions[9]. That is, a net service cost is presented.

3.9 The value of assets presented in Appendix A was disclosed to me by the Company and was not checked by me.

3.10 Termination benefits[10] presented in Appendix A, are defined as payments to existing pensioners until they reach the average expected age of retirement (as derived from actuarial assumptions regarding the probability of retirement at each age). Actuarial gains or losses from termination benefits are not included in those presented in appendix A, but are credited or charged to the Company's profit and loss statement.

4. **Data on which the Valuation is Based**

The valuation is based on data that we received from the Company. We have not performed detailed checks of the data nor have we compared them to the original data source. We have checked the reasonability of the data in general and by comparison to the previous quarter's data. The primary data that we received is described as follows (for additional details, please see Appendix D):

4.1 Employee and pensioner data[11] – we received files on April 9, 2023, containing data for each employee and pensioner entitled to their relevant benefits. The data includes information regarding age, gender, pension or salary components, rank, service, etc. as at the valuation date. In addition, these files include data for the average monthly value of the holiday gift (grossed up to cover the cost of taxes).

4.2 We made the following adjustments to the data as per the Company's instructions[12]:

4.2.1 Increase of salaries and pensions by 0.49% to cover the cost of social welfare activities. This increase applies to all components of salary and pension, except for convalescence pay, the Arava addition, home service, holiday gifts and reductions in the cost of electricity.

4.2.2 We received a file from the Company, containing a list of employees who retired soon before the date of the valuation, and therefore we assumed immediate retirement for them.

4.2.3 Salary adjustments to senior employees of salary-grade 70, as per Company instructions.

[9] Data regarding the sum of employees’ contributions were received from the company.

[10] As the term is defined in IAS 19R

[11] There are possibly a few pensioners who may have died, and whose death has not yet been reported to the Company. Such a possibility is not expressed in the actuarial valuation.

[12] The manner and rates of adjustment, were stipulated in the Company's instructions, and were not determined or checked by us.

4.3 Below is a summary of the data described above:

Before the adjustments mentioned in section 4.2 above

Group	Number	Monthly salary/pension in NIS	Average age	Average service (years)
Defined benefit pension plan *				
Employees	**3,555**	**69,459,494**	**57.3**	**31.9**
Pensioners – former employees	**6,420**	**92,339,830**	**71.3**	
Pensioners – survivors (including orphans)	**1,900**	**15,443,438**	**76.8**	
Generation C**				
Employees	**3,151**	**34,701,070**	**46.3**	**16.3**
Pensioners – former employees	**86**	**12,979**	**70.8**	
Pensioners – survivors (including orphans)	**18**	**2,717**	**54.6**	
Employees under special agreements (non-permanent employees) ***				
Employees	**348**	**2,366,486**	**39.5**	**4.4**
Employees covered under special collective bargaining agreement regarding continuing temporary employees ******				
Employees	**601**	**3,745,234**	**40.1**	**6.9**

After the adjustments mentioned in section 4.2 above

Group	Number	Monthly salary/pension in NIS	Average age	Average service (years)
Defined benefit pension plan *				
Employees	**3,546**	**69,767,261**	**57.3**	**32.0**
Pensioners – former employees	**6,429**	**93,008,191**	**71.3**	
Pensioners – survivors (including orphans)	**1,900**	**15,513,413**	**76.8**	
Generation C**				
Employees	**3,140**	**34,468,484**	**46.2**	**16.3**
Pensioners – former employees	**97**	**14,639**	**69.3**	
Pensioners – survivors (including orphans)	**18**	**2,717**	**54.6**	
Employees under special agreements (non-permanent employees) ***				
Employees	**348**	**2,378,081**	**39.5**	**4.4**
Employees covered by special collective bargaining agreement regarding continuing temporary employees ********				
Employees	**601**	**3,763,585**	**40.1**	**6.9**

* Monthly salary and pension data presented for employees and pensioners covered by the defined benefit pension plan include all the components to which the employee or pensioner is entitled, including regular salary[13], shift work, home service, Arava addition, convalescence pay, 13th salary (one-twelfth of the annual amount), 14th salary (one-twelfth of the annual amount) and value of holiday gifts (grossed up for tax). The amounts of the 13th and 14th salaries were calculated by

[13] Includes ″combined salary″, ″managerial increment″, ″service addition″, ″personal addition″, ″continuing education addition″ and ″physical effort″ addition.

dividing the regular salary by 12 in respect of all those qualifying based on service data.

** The generation C monthly salary (for the purpose of calculating grants and severance pay) includes all the components to which the employee or pensioner is entitled, including regular salary, 13th salary (one-twelfth of the annual amount) and grossed up value of holiday gifts. The amount of the 13th salary was calculated by dividing the regular salary by 12.

*** The disclosed salary for non-permanent employees who are employed under a special agreement, is the salary eligible for severance pay only. (In the data file there are two salary fields – regular salary and severance pay. The field that is used for calculations is the severance pay.)

**** The disclosed salary for employees non-permanent employees who are employed by special agreement, or who are covered by a special collective bargaining agreement regarding continuing temporary employees is regular salary only.

4.4 The data received regarding assets, payments and contributions (in nominal terms), include all of the following:

	Data item	NIS '000
	Assets as at the valuation date	
4.4.1	Balance of plan assets for post-employment benefits	38,269,048
4.4.2	Balance of assets according to paragraph 116 of IAS 19	1,162,286
	Benefit Payments during the reporting period (1/1/2023-31/03/2023)	
4.4.3	Increased severance pay benefits to employees under special agreements	960
4.4.4	Supplemented severance pay benefits (2.33%) to generation C employees	–
4.4.5	"20-year grant"	315
4.4.6	Termination benefits – for paid benefits by the Fund, and for benefits not paid by the Fund (electricity discount, holiday gifts)	9,359
	Termination benefits – for paid benefits by the Fund only	8,867
4.4.7	Post-employment benefits (excluding termination benefits)	281,828
4.4.7.1	Grant for unutilized sick leave	11,301
4.4.7.2	"up to 35 years" grant	1,452
4.4.7.3	Electricity discount and holiday gifts	22,070
4.4.8	Withdrawals from plan assets for payment of benefits	319,337
4.4.9	Withdrawals from trust assets for payment of benefits	24,800
	Contributions during the reporting period	
4.4.10	Company's contributions to plan assets, or to assets according to paragraph 116 of IAS 19	64,000
4.4.11	Employees' contributions to plan assets, or to assets according to Section 116 of IAS 19	4,056

5. Actuarial Assumptions

The assumptions detailed below represent the Company's assumptions – the Company being the entity authorized to set assumptions according to IAS 19. The financial assumptions (section 5.1 below) are based on generally accepted market data as published by an external party. The remaining assumptions were set by the Company, partially with the advice of the previous actuary, and in my opinion they are reasonable.

In the future, there may be changes to the assumptions, because of checks of demographic data regarding employees and pensioners or of other relevant data, that are performed from time to time, and/or because of the publication of new mortality or morbidity tables by the ministry of finance or other relevant body, to the extent that it will be decided that such tables are relevant to the Company.

5.1 Financial assumptions

5.1.1 Inflation rate – the difference between the nominal spot interest rate (rate of return to maturity for non-indexed, high quality government bonds) and the real spot interest rate (rate of return to maturity for CPI-indexed, high quality government bonds). For the actuarial valuation, there is essentially no requirement for an explicit assumption for inflation, since, according to the Company's accounting policy, the interest discount rate is set according to CPI-indexed bonds (please see below), and since the assumed salary increases are mostly set in real terms. The rate of inflation is relevant for calculating the anticipated erosion in value of pension payments and the electricity discount, convalescence pay and holiday gift components of salary, since they are all linked to CPI on a yearly basis (and not monthly). The future rate of inflation that was derived for the purpose of evaluating the erosion in real values, is based on a duration of 14.3 years, and stands at 2.8%.

An adjustment to pension amounts and to the electricity discount, convalescence pay and holiday gift components of salary, is made in respect of the change in the CPI index from the time of their last update until the date of valuation.

From a technical perspective, the cash flows that we calculated for the valuation are the projected future payments of pensions and other benefits in real-terms (without future inflation). Therefore, the real discount rates described below (based on the CPI-indexed corporate bonds) are appropriate for discounting the cash flows.

5.1.2 Discount rates – on November 25, 2014, the Israel Securities Authority published its position that in Israel there exists a deep market in high quality CPI-indexed corporate bonds. In accordance with Company's accounting policy, the discount rates used in the valuation are taken from a yield curve based on market data for high quality, CPI-indexed corporate bonds as at March 31, 2023 as determined by Mervach Hogen Ltd. The use of these interest rates is required by IAS 19, given the Company's opinion (which coincides with that of other Israeli corporations) regarding the existence of a deep market in high quality corporate bonds in Israel.

If plan assets yield lower real returns than the discount rates, based on their fair value, the net liabilities (total liabilities minus the value of plan assets) will increase, and vice versa.

See Appendix B for details of the projected benefit cash flows.
See Appendix C for information regarding the interest rates.

5.1.3 The interest cost and expected return on plan assets and trust assets for the reporting period were based on a yearly interest rate of 5.43% as explained in paragraph 3.7 above.

5.2 Salary and Benefit Increases

The actuarial valuation was performed in accordance with IAS 19, which requires that liabilities should be calculated based on existing labor and pension agreements on the valuation date. Accordingly, the valuation took into consideration that salary components will increase according to the framework of salary increases and increases in salary grade which is found in the Company's existing labor agreements and policies and according to general salary and cost-of-living agreements (as described in paragraph 5.2.1.1), without the possibility of creating new salary grades or other changes to employment terms and to the existing system of salary increases and increases in salary grade.

5.2.1 For employees covered by the defined benefit pension plan and for generation C employees, it is assumed that future salary and benefit increases will be as follows:

5.2.1.1 Assumed salary increases from collectively bargained agreements:

- For the years 2018-2025: the percentage increase in salary will equal the actual change in the cost of living index between January 1, 2018 and March 31, 2023 and the projected increase in the cost of living index between March 31, 2023 and December 31, 2025, minus 0.3% for each of those eight years (that is, salary grades will erode by 0.3% per year, in real terms). Employees who have already retired, or who will retire before the end of 2025, will receive a commensurate share of the salary increase.
- For each year after 2025: the percentage increase in salary will equal the projected change in the cost of living index, minus 0.3%.
- These assumptions affect almost all salary components, but do not affect the electricity discount, holiday gifts and convalescence pay components (it is assumed that the Arava and home-service components of salary will be included in the salary agreements).

5.2.1.2 It is assumed that the average annual salary increase resulting from promotions (including promotion to senior management rank) and from changes in eligibility to new or increased salary components related to the "managerial increment", master's degree, "shift work", "home service", and additional salary grade at Eilat, will be according to the following annual rates:

Age	Employees Who are Not Senior Managers	Senior Managers
Up To 32	1.43%	1.27%
32 – 37	0.77%	1.27%
37 – 42	0.43%	1.27%
42 – 47	0.37%	1.27%
47 – 52	0.34%	1.27%
52 – 57	0.26%	1.65%
57 – 62	0.20%	0.91%
Over 62	0.17%	0.76%

5.2.1.3 For employees who at the valuation date are not entitled to continuing-education-payment A and/or continuing-education-payment B, the annual rate of eligibility is as follows:

Age	Eligible for payment A	Eligible for payment B
Until 40	7.8%	3.5%
40 – 50	3.5%	1.5%
50 – 60	1.1%	0.8%
Over 60	0.0%	0.4%

5.2.1.4 It is assumed that the ceiling for continuing-education-payment B for employees at professional salary grade 44 and above will be linked to salary and cost-of-living allowance agreements. As at the valuation date, the ceiling stands at NIS 1,066.74[14].

5.2.1.5 According to labor agreements, the value of holiday gifts (grossed-up for the cost of taxes) and convalescence pay will increase by the actual rate of increase in the CPI, and that the update (for CPI) of convalescence pay takes effect in January of each year, and the update of holiday gifts takes effect in January of each year. The cost of holiday gifts for pensioners is increased to cover the cost of taxes, at a rate of 18.20% (at all ages), and for pensioners who retired before statutory retirement age the cost is also grossed-up for National Insurance tax at a rate of about 19.26%, until they reach statutory retirement age.

5.2.1.6 The cost of the electricity discount is calculated according to the electricity tariff for a domestic consumer at the valuation date (the fixed monthly fee before VAT is NIS 20.71[15], the fixed monthly KVA fee before VAT is NIS 4.63[16] and the variable rate per kilowatt-hour before VAT is NIS 0.5134) and according to the following, forward-looking assumptions:

[14] This amount was received from the Company.

[15] Weighted average of NIS 19.71 for a single-phase base meter, and NIS 20.96 for a triple-phase base meter. Approximately 20% of employees/retirees use a single-phase base meter and 80% use a triple-phase base meter.

[16] This data was determined based on average connection size as reported by the Company.

- The change in tariff for discounted electricity (including VAT and grossing-up for other taxes) is in accordance with a forecast received from the Company that approximates actual costs.

- Towards the end of year 2021, we performed an experience study of subsidized electricity consumption among Company pensioners during the years 2016-2021. Actuarial assumptions were updated based on the results of the study, including assumptions regarding subsidized electricity consumption (in terms of kilowatt-hours) that vary according to age and type of pensioner: (a) old-age or disability pensioner, (b) recipients of survivors' pensions (excluding orphans). It is assumed that the average level of electricity consumption for a pensioner at any given age will remain constant:

Average Monthly Electricity Consumption (kilowatt-hours) by Age and Type of Pensioner

Age	Old-age or Disability Pensioners	Recipients of Survivors' Pensions	Age	Old-age or Disability Pensioners	Recipients of Survivors' Pensions	Age	Old-age or Disability Pensioners	Recipients of Survivors' Pensions
40	1,140	1,051	58	1,120	897	76	966	762
41	1,140	1,051	59	1,108	882	77	961	756
42	1,140	1,051	60	1,097	872	78	956	751
43	1,140	1,051	61	1,087	866	79	951	747
44	1,140	1,051	62	1,077	862	80	947	745
45	1,140	1,051	63	1,067	859	81	942	745
46	1,140	1,051	64	1,057	856	82	939	745
47	1,140	1,044	65	1,048	852	83	935	746
48	1,141	1,037	66	1,039	847	84	932	746
49	1,142	1,030	67	1,030	842	85	929	745
50	1,142	1,023	68	1,022	835	86	926	741
51	1,143	1,015	69	1,014	827	87	924	733
52	1,143	1,008	70	1,006	818	88	922	719
53	1,144	1,001	71	998	809	89	921	696
54	1,145	994	72	991	799	90	919	696
55	1,145	987	73	985	789	91	919	696
56	1,143	949	74	978	779	92	919	696
57	1,131	918	75	972	770	93+	919	696

- As noted above, towards the end of the year 2021 we performed an experience study based on data regarding electricity usage among pensioners during the 5 year period from 2016-2020. Actuarial assumptions were updated based on the experience study, including assumptions regarding the incidence of pensioners who are not eligible for or do not utilize the electricity subsidy benefit, that vary according to age and type of pensioner: (a) old-age or disability pensioner, (b) recipients of survivors' pensions (excluding orphans).:

Age	Old-age or Disability Pensioners	Recipients of Survivors' Pensions	Age	Old-age or Disability Pensioners	Recipients of Survivors' Pensions	Age	Old-age or Disability Pensioners	Recipients of Survivors' Pensions
21-46	8.2%	20.8%	65	3.7%	11.7%	84	5.1%	10.1%
47	7.8%	22.5%	66	3.6%	10.6%	85	5.4%	11.0%
48	7.4%	23.8%	67	3.6%	9.5%	86	5.6%	12.0%
49	7.1%	24.7%	68	3.6%	8.6%	87	5.9%	13.0%
50	6.8%	25.2%	69	3.5%	7.8%	88	6.2%	14.0%
51	6.4%	25.4%	70	3.5%	7.1%	89	6.5%	15.0%
52	6.1%	25.2%	71	3.5%	6.5%	90	6.8%	15.9%
53	5.9%	24.9%	72	3.6%	6.0%	91	7.1%	16.7%
54	5.6%	24.3%	73	3.6%	5.7%	92	7.5%	17.4%
55	5.3%	23.5%	74	3.7%	5.5%	93	7.9%	18.1%
56	5.1%	22.6%	75	3.7%	5.4%	94	8.2%	18.5%
57	4.9%	21.6%	76	3.8%	5.5%	95	8.6%	18.8%
58	4.7%	20.4%	77	3.9%	5.7%	96	9.1%	18.8%
59	4.5%	19.2%	78	4.1%	6.0%	97	9.5%	18.6%
60	4.3%	17.9%	79	4.2%	6.4%	98	9.9%	18.0%
61	4.2%	16.6%	80	4.3%	7.0%	99	10.4%	17.2%
62	4.0%	15.4%	81	4.5%	7.6%	100	10.9%	17.2%
63	3.9%	14.1%	82	4.7%	8.4%	101+	10.9%	17.2%
64	3.8%	12.9%	83	4.9%	9.2%			

5.2.1.7 It is assumed that there were no changes, and will not be any changes in future, to each employee's level of full or part-time employment, and that each employee's current level of full or part-time employment, also applied in the past and will also apply in the future.

5.2.1.8 There is a group of employees who were entitled in the past to a "shift-work addition" to their salary, and who are classified as entitled to this addition as part of their pensionable salary. It is assumed that their pensions will be increased accordingly.

5.2.1.9 An update for pension amounts takes place in the month of January each year, in accordance with the rate of annual change in the Consumer Price Index (the ratio of the index for the most recent month of December to the index for the previous December). In cases when the change in CPI is negative, pension amounts are not revised downwards. Instead, a future pension adjustment in respect of a positive change in the CPI index will be implemented only after offsetting the negative change in CPI that had accumulated since the previous pension update.

5.2.2 In respect of non-permanent employees under special agreements, as well as employees covered by a special collective bargaining agreement regarding continuing temporary employees, real annual salary growth of 2.0% is assumed, that includes both general salary increases as well as individual employee salary increases.

5.3 Mortality and Disability rates

5.3.1 See Appendix E below regarding changes made in the past to mortality assumptions.

5.3.2 Life Expectancy Improvements (Decline in Mortality Rates)

The mortality assumptions are significant for the valuation of actuarial liabilities. Life expectancy changes with changes in medical practice and lifestyles. The actuarial assumptions take into account a continuing increase in life expectancy for the future.

The base mortality rates detailed below are correct as of December 31, 2018.

The assumed rates of decline in mortality rates (leading to assumed, increased life expectancy) after December 31, 2018, are in accordance with Circular 2022-9-18 ("*Amended Provisions for Liability Measurements – Updated Demographic Assumptions for Life Insurers and Pension Plans*"), published on June 30, 2022 by the Capital Markets, Insurance and Savings Authority. Note that there is great uncertainty regarding future changes in mortality rates, and alternative assumptions may be just as reasonable (please see section 8.4 below).

5.3.3 Mortality Tables - Introduction

In the year 2019, a study was conducted of mortality experience among employees and pensioners of the Company during the years 2007-2017 ("the study"), with comparisons to the standard mortality tables published in Pension Circular 2017-3-6 ("*Amendment of the Consolidated Circular – Manner of Calculating an Actuarial Balance Sheet and Plan Document Factors, for a Pension Plan or Central Pension Provident Fund*"). On the basis of the study, the Company adopted the tables published in Pension Circular 2017-3-6, with adjustments that take into account the mortality experience of the Company. More weight was given to Company mortality experience (and less weight to the standard tables of Pension Circular 2017-3-6) to the extent that Company mortality experience was credible statistically. With the replacement of Circular 2017-3-6 by Circular 2022-9-18 (as noted above), the adjusted mortality rates were updated, so that standard mortality rates were taken from Circular 2022-9-18.

5.3.4 Pensioner Mortality Tables

The assumption consists of the following components:

Gender	Expression of Company Experience (percentages of mortality rates in tables of Circular 2017-3-6; tables projected with mortality improvement to 31/12/2018)	Weight Given to Company Experience	Standard Mortality Table from Circular 2022-9-18	Weight Given to Standard Table
Male	Until age 84: 114.9% of rates in table P3-E Ages 85+: 100.0% of rates in table P3-E	Until age 84: 56.9% Ages 85+: 100.0%	Table P3-C	Until age 84: 43.1% Ages 85+: 0.0%
Female	119.1% of rates in table P3-E	21.9%	Table P3-C	78.1%

Below are examples of remaining life expectancies for pensioners, based on the assumptions above including assumed future improvements in life expectancy:

Age and Year	**Male**	**Female**
Age 67 at end of year 2022	21.08	23.52
Age 67 at end of year 2032	21.83	24.20

5.3.5 Mortality Tables for Survivors

The assumption consists of the following components:

Gender	Expression of Company Experience (percentages of mortality rates in tables of Circular 2017-3-6; tables projected with mortality improvement to 31/12/2018)	Weight Given to Company Experience	Standard Mortality Table from Circular 2022-9-18	Weight Given to Standard Table
Male	110.9% of table P5-E rates	12.7%	table P5-D	87.3%
Female	97.2% of table P5-E rates	64.9%	table P5-D	45.1%

5.3.6 Mortality Tables for Active Employees

The assumption consists of the following components:

Gender	Expression of Company Experience (percentages of mortality rates in tables of Circular 2017-3-6; tables projected with mortality improvement to 31/12/2018)	Weight Given to Company Experience	Standard Mortality Table from Circular 2022-9-18	Weight Given to Standard Table
Male	49.5% of table P1-B rates	18.8%	table P1-B	81.2%
Female	38.9% of table P1-B rates	4.8%	table P1-B	95.2%

5.3.6 Mortality Tables for Disabled Employees

The assumption consists of the following components:

- Age 67+:

Gender	Expression of Company Experience (percentages of mortality rates in tables of Circular 2017-3-6; tables projected with mortality improvement to 31/12/2018)	Weight Given to Company Experience	Standard Mortality Table from Circular 2022-9-18	Weight Given to Standard Table
Male	132.9% of table P3-E rates	25.3%	table P3-C	74.7%
Female	119.1% of table P3-E rates	21.9%	table P3-C	78.1%

- Below age 67:

Gender	Expression of Company Experience (percentages of mortality rates in tables of Circular 2017-3-6; tables projected with mortality improvement to 31/12/2018)	Weight Given to Company Experience	Standard Mortality Table from Circular 2022-9-18	Weight Given to Standard Table
Male	1st year of retirement: 1040.2% of table P7 Each subsequent year: 87.8% of table P7	1st year: 28.4% Subsequent years: 12.5%	table P7	1st year: 71.6% Subsequent years: 87.5%
Female	First year after retirement: 1441.1% of table P7 Subsequent years: 92.6% of table P7	1st year: 11.1% Subsequent years: 6.9%	table P7	1st year: 88.9% Subsequent years: 93.1%

5.3.7 Disability Incidence

- In the year 2019, a study was conducted of the incidence of disability retirements among Company employees in the years 2008-2019, with comparisons to tables published in Pension Circular 2017-3-6. Based on the study, the company adopted the tables in Pension Circular 2017-3-6, with adjustments that take into account Company experience. That is, the assumed rate of disability retirement for each age and gender, is calculated by multiplying 99.1% by the following weighted-average:
  - 80% of the rate listed in table P8-B of Pension Circular 2017-3-6;
  - 20% of the rate listed in table P8-C of Pension Circular 2017-3-6.
- In the year 2021 a study was conducted of the incidence of disability retirements among Generation C employees in the years 2014-2019. In accordance with the study, the assumption is calculated by multiplying 40% by the following weighted average:
  - 80% of the rate listed in table P8-B of Pension Circular 2017-3-6;
  - 20% of the rate listed in table P8-C of Pension Circular 2017-3-6.

5.3.8 Recovery from Disability and Return to Work as an Active Employee
For purposes of the actuarial valuation, it is assumed that employees who retire because of disability will not return to work for the Company.

5.4 Normal Retirement Age, Termination of Employment, and Early Retirement

5.4.2 It is assumed that normal retirement will occur at the statutory mandatory retirement age of 67. Employees over age 67 are assumed to retire within 12 months of the valuation date.

5.4.3 Termination of Employment and Early Retirement (before normal retirement age), for **Generation C Employees**:

- Voluntary Termination
  In 2016 a study was conducted of withdrawal rates among Generation C employees during the years 2013-2016. Actuarial assumptions were set accordingly:

Rates of Voluntary Termination (without entitlement to employee benefits)		
Years of Service	**Age**	**Termination Rate**
Below 20	Up to 24	0.0%
Below 20	25-29	0.9%
Below 20	30-34	0.9%
Below 20	35-39	0.3%
Below 20	40-44	0.1%
Below 20	45-49	0.1%
Below 20	50 +	0.0%
20 and Above	All ages	0.00%

- Involuntary Termination
  In 2021 a study was conducted of withdrawal rates among Generation C employees during the years 2017-2021. Based on the study, the assumed annual rate of involuntary termination of employment (with entitlement to employee benefits), was set at 0.11%.

- Early Retirement

  50% of the rates of retirement (by age) for Generation A and Generation B employees (see paragraph 5.4.4. below), starting from the earlier of:

  - Age 60, or later age after completion of 15 years of service
  - Retirement age as defined in the Retirement Age law, or later age after completion of 10 years of service.

5.4.4 Terminations and Early Retirements (Prior to Normal Retirement Age), for Employees Covered by the Defined Benefit Pension Plan:

It is assumed that there will be no employment terminations, except for early retirement.

Rates of early retirement, constitute an assumption regarding early retirements that are not categorized as "termination benefits" under IAS 19. According to IAS 19, it is not permitted to recognize in advance the cost of terminations from employment, except under certain conditions. In practice, it is difficult to distinguish between early retirements that must be categorized as “termination benefits” and other early retirements, so that it is very difficult to set the actuarial assumption. It is even more difficult to set the assumption because employees' behavior regarding retirement is greatly affected by past special retirement programs and anticipated future special retirement programs.

The early retirement assumption is based on Company experience during the years 2002-2016, not including employees who retired under special early retirement programs. Assumed rates of early retirement vary by age and sex, as detailed in the two tables below:

Early Retirement Rates for Employees Covered by the Defined Benefit Pension Plan					
Age	**Female**	**Male**	**Age**	**Female**	**Male**
Up to 40	0.0%	0.0%	53	0.2%	0.1%
40	0.0%	0.1%	54	0.2%	0.1%
41	0.0%	0.1%	55	0.2%	0.1%
42	0.0%	0.1%	56	0.2%	0.1%
43	0.0%	0.1%	57	0.4%	0.1%
44	0.0%	0.1%	58	0.4%	0.1%
45	0.0%	0.1%	59	0.4%	0.2%
46	0.0%	0.1%	60	0.4%	0.4%
47	0.0%	0.1%	61	0.4%	0.6%
48	0.1%	0.1%	62	2.6%	1.0%
49	0.1%	0.1%	63	0.7%	1.3%
50	0.1%	0.1%	64	0.7%	1.6%
51	0.1%	0.1%	65	4.4%	1.9%
52	0.1%	0.1%	66	7.3%	2.3%

On November 4 2018, a collective bargaining agreement went into effect, that includes a special retirement program under which 1,803 employees will retire by the end of the year 2025. Similarly, on November 30 2020, a collective bargaining agreement went into effect that enlarges the special retirement program, so that 200 additional employees may retire voluntarily between the years 2021 – 2024. At the time of retirement, employees must be above age 55[17] and below age 64 in order to be eligible for the program. Therefore, it is assumed that there will be no other early retirements between ages 55-63, until the end of December 2025.

[17] Younger ages are allowed under certain circumstances.

5.4.5 Termination of Employment for Non-Permanent Employees Employed Under Special Agreements:

Assumed rates of termination with eligibility for the benefits included in this valuation, are detailed in the following table:

Service	**Rates of Involuntary Termination** (eligible for benefits)	**Rates of Voluntary Termination** (not eligible for benefits)
0	3.0%	0.0%
1	1.5%	0.0%
2+	0.0%	0.0%

- In addition to the rates specified above, for non-permanent employees employed under special agreements, it is assumed that their employment will be terminated at the end of the maximum working period according to those agreements, and that they will receive enhanced severance pay. For employees whose employment began before 5/11/2018, the maximum period of employment is 5 years. (A list of employees who received an extension until a specific date or until retirement age, was received from the Company.) For employees whose employment began on or after 5/11/2018, the maximum period of employment is 4 years. (Regarding employees who have already exceeded the maximum working period, it is assumed in the actuarial valuation that their employment will end immediately).

5.4.6 Termination of Employment for Employees Covered by a Special Collective Bargaining Agreement Regarding Continuing Temporary Employees

Assumed rates of involuntary termination as well as voluntary termination are similar to rates of involuntary and voluntary termination of Generation C employees, as detailed above.

In addition to the rates mentioned above, in coordination with the Company, rates of termination due to unsuitable job performance, are assumed as follows:

- Employees in their fifth year of employment: yearly rate of 0.70%
- Employees in their sixth year of employment: yearly rate of 0.50%
- Employees in their seventh year of employment: yearly rate of 0.30%
- Employees in their eighth year of employment: yearly rate of 2.0%
- Employees in their ninth year of employment or more: yearly rate of 1.0%.

5.5 Marriage Rates and Age Differences Between Spouses

At year-end 2021, an experience study was performed of the proportion of Company pensioners who are married, and of the age differences between spouses. The actuarial assumptions were updated accordingly, as detailed in the two tables below:

- Proportion of Married Pensioners, based on the study performed at the end of 2021:

Age	Males	Females	Age	Males	Females	Age	Males	Females	Age	Males	Females
30	60.6%	73.8%	53	83.9%	68.6%	76	81.4%	47.6%	99	39.9%	4.2%
31	65.3%	76.3%	54	84.0%	68.9%	77	80.4%	45.3%	100	37.2%	3.8%
32	69.3%	78.1%	55	84.2%	69.0%	78	79.3%	42.1%	101	34.4%	3.4%
33	72.6%	79.4%	56	84.9%	68.8%	79	78.2%	40.4%	102	31.5%	3.0%
34	75.7%	80.1%	57	85.4%	68.9%	80	77.0%	37.2%	103	28.6%	2.7%
35	77.1%	80.3%	58	85.9%	68.6%	81	75.8%	34.1%	104	25.6%	2.5%
36	78.9%	80.5%	59	86.3%	68.8%	82	74.4%	31.2%	105	22.5%	2.2%
37	80.8%	80.8%	60	86.6%	68.5%	83	73.0%	28.1%	106	19.3%	2.0%
38	81.4%	80.6%	61	86.8%	67.7%	84	71.5%	26.2%	107	16.1%	1.8%
39	82.2%	80.0%	62	87.0%	67.7%	85	69.9%	23.0%	108	12.7%	1.6%
40	84.1%	79.9%	63	87.1%	67.1%	86	68.2%	21.1%	109	9.3%	1.5%
41	84.3%	78.8%	64	87.1%	66.8%	87	66.5%	18.2%	110	5.9%	1.3%
42	84.1%	78.7%	65	87.0%	65.9%	88	64.7%	15.4%	111	2.3%	0.2%
43	84.2%	77.5%	66	86.9%	64.9%	89	62.8%	13.1%	112	0.0%	0.2%
44	84.3%	77.1%	67	86.7%	64.1%	90	60.9%	11.2%	113	0.0%	0.2%
45	84.0%	76.6%	68	86.4%	62.9%	91	58.9%	9.7%	114	0.0%	0.2%
46	84.0%	76.2%	69	86.0%	61.5%	92	56.7%	7.9%	115	0.0%	0.2%
47	83.9%	75.4%	70	85.6%	59.7%	93	54.6%	6.0%	116	0.0%	0.2%
48	84.0%	75.6%	71	85.1%	58.2%	94	52.3%	6.1%	117	0.0%	0.2%
49	83.8%	75.0%	72	84.5%	56.9%	95	50.0%	6.4%	118	0.0%	0.2%
50	83.8%	72.9%	73	83.8%	54.1%	96	47.6%	5.7%	119	0.0%	0.2%
51	84.0%	70.7%	74	83.1%	51.9%	97	45.1%	5.2%	120	0.0%	0.2%
52	83.8%	68.6%	75	82.3%	49.5%	98	42.5%	4.6%			

- For purposes of the actuarial valuation, it is assumed that widows will not remarry; that is, the payment of widow pensions will not stop because of remarriage.

- Age Differences Between Spouses, based on the study performed at the end of 2021:

Age	Age of Male Employee or Pensioner, Minus Spouse's Age	Age of Female Employee or Pensioner, Minus Spouse's Age	Age	Age of Male Employee or Pensioner, Minus Spouse's Age	Age of Female Employee or Pensioner, Minus Spouse's Age	Age	Age of Male Employee or Pensioner, Minus Spouse's Age	Age of Female Employee or Pensioner, Minus Spouse's Age
30	2.1	(3.0)	61	3.4	(3.0)	92	6.3	(3.0)
31	2.1	(3.0)	62	3.4	(3.0)	93	6.4	(3.0)
32	2.1	(3.0)	63	3.4	(3.0)	94	6.6	(3.0)
33	2.1	(3.0)	64	3.4	(3.0)	95	6.8	(3.0)
34	2.1	(3.0)	65	3.4	(3.0)	96	6.9	(3.0)
35	2.1	(3.0)	66	3.4	(3.0)	97	7.1	(3.0)
36	2.1	(3.0)	67	3.4	(3.0)	98	7.3	(3.0)
37	2.1	(3.0)	68	3.4	(3.0)	99	7.5	(3.0)
38	2.1	(3.0)	69	3.4	(3.0)	100	7.6	(3.0)
39	2.1	(3.0)	70	3.4	(3.0)	101	7.8	(3.0)
40	2.1	(3.0)	71	3.4	(3.0)	102	8.0	(3.0)
41	2.1	(3.0)	72	3.3	(3.0)	103	8.2	(3.0)
42	2.3	(3.0)	73	3.5	(3.0)	104	8.3	(3.0)
43	2.4	(3.0)	74	3.6	(3.0)	105	8.5	(3.0)
44	2.4	(3.0)	75	3.7	(3.0)	106	8.7	(3.0)
45	2.4	(3.0)	76	3.9	(3.0)	107	8.9	(3.0)
46	2.5	(3.0)	77	4.0	(3.0)	108	9.1	(3.0)
47	2.5	(3.0)	78	4.2	(3.0)	109	9.2	(3.0)
48	2.6	(3.0)	79	4.3	(3.0)	110	9.4	(3.0)
49	2.6	(3.0)	80	4.4	(3.0)	111	9.6	(3.0)
50	2.7	(3.0)	81	4.6	(3.0)	112	9.8	(3.0)
51	2.8	(3.0)	82	4.7	(3.0)	113	10.0	(3.0)
52	2.9	(3.0)	83	4.9	(3.0)	114	10.2	(3.0)
53	2.9	(3.0)	84	5.0	(3.0)	115	10.4	(3.0)
54	3.0	(3.0)	85	5.2	(3.0)	116	10.6	(3.0)
55	3.1	(3.0)	86	5.3	(3.0)	117	10.8	(3.0)
56	3.2	(3.0)	87	5.5	(3.0)	118	11.0	(3.0)
57	3.4	(3.0)	88	5.7	(3.0)	119	11.2	(3.0)
58	3.4	(3.0)	89	5.8	(3.0)	120	11.4	(3.0)
59	3.4	(3.0)	90	6.0	(3.0)			
60	3.4	(3.0)	91	6.1	(3.0)			

5.6 Orphans

The assumed number of children and their ages are in accordance with table P11 of Pension Circular 2017-3-6.

5.7 Utilization of Sick Leave Days (for calculating the grant for unused sick leave)

It is assumed that every employee's sick-leave utilization rate[18] in the future will be equal to his average utilization rate in the past.

5.8 It is assumed that all non-permanent employees employed under a special agreement will receive enhanced severance pay upon termination of their employment.

5.9 Future Company expenses for the administration of the Central Pension Fund for Employees of the Israel Electric Corporation Ltd. were not taken into account.

5.10 Additional actuarial assumptions for the valuation of employee benefits arising from the collective bargaining agreement of May 17, 2018 (and subsequent agreements):

- Special retirement program - assumed distribution of employees who will retire from the valuation date until the end of the year 2025, according to retirement year, age and service at the time of retirement, employee generation (A, B or C), company division, etc., in accordance with detailed eligibility requirements specified in the collective bargaining agreement.
- Additional disability pension – assumptions related to the cost of purchasing benefits from an insurer, including disability mortality assumptions and insurance margins.
- Employees whose services are being lent to private electricity producers – assumed distribution of permanent employees whose service will be lent.

5.11 The following conditions did not find expression in the actuarial valuation. In my opinion their overall impact would be immaterial:

- pensions for future "dependent orphans" over the age of 21;
- pensions for "dependent parents" of future deceased employees or pensioners;
- increases in pensions to future orphans of both parents;
- the actual dates on which pensions are paid for 13th and 14th salaries (we assumed that one-twelfth of the annual amount is paid monthly);
- possible grant of electricity discounts and holiday gifts to orphans (we assume that all orphans have a parent receiving such benefits);
- a few pensioners receive a temporarily reduced monthly pension in exchange for a lump-sum amount that was paid in the past. The valuation does not reflect any such temporary reduction;
- additional severance pay or grants in respect of the difference between the salary reported in the data file and minimum wage, to be paid to a small number of generation C employees who retire or leave with salary lower than minimum wage;
- a supplemental disability pension in respect of dependents was not taken into account for future disabled pensioners. On the other hand, for existing disabled pensioners, no reduction in the supplement to the disability pension with respect to dependents was taken into account (such a reduction would apply upon the future death of dependents);
- the liability in respect of the additional benefit for life insurance in the event of an

[18] number of sick-leave-days actually taken, divided by the number of sick-leave-days to which the employee was entitled

accident;

- the increased bereaved parent pension, in respect of active employees;
- the following additional benefits for pensioners or survivors:
    - bonuses upon marriage and the birth of a child (including grossed-up taxes);
    - gifts for children of pensioners or survivors, who are serving in the Israel Defense Forces (including grossed-up taxes);
    - Company participation in the cost of a tombstone and a bouquet of flowers – in cases of death as a result of a work accident;
    - compensation in cases of death as a result of a work accident, to the amount of 36 months of salary;
    - meals partially subsidized by the Company at Company facilities – up to 10 meals per month;
    - higher education grants for children of widows of employees who died while working for the Company;
    - outings for widows of workers who died while working for the Company;
    - discount from the cost of connecting electricity to a pensioner's apartment as well as transfer or increase of an existing connection; and
    - for a very small number of employees and pensioners, any possible effect of "the Division of Pension Savings Among Separated Spouses Law".

6. <u>Changes to the Valuation in the Current Reporting Year</u>

For changes made prior to the current valuation year, see Appendix E.

In the first quarter of the year 2023:

- The collective bargaining agreement of May 17, 2018, provides for an additional retirement pension, whose amount depends on achieving certain “milestones”. The target date for one such milestone was updated. This update decreased the Company’s liabilities by about NIS 15 million.

In this reporting year there were no other changes in the assumptions or conditions by which we performed the actuarial valuation, besides changes in interest discount rates and the changes listed above.

7. Valuation Results

The values of liabilities (in millions of NIS) as at March 31, 2023, without offsetting the value of benefit plan assets, are as follows:

7.1 Labilities for all the benefits included in this valuation, except for liabilities in respect of special agreements for early retirement, for the "20 year grant", and for enhanced severance pay for non-permanent employees covered under special agreements:

Active employees	**13,053.3**
Pensioners and survivors	**20,305.5**
Total	**33,358.8**

7.2 Liability in respect of special early retirement agreements:

Pensioners and survivors	**110.8**

7.3 Liability for the “20 year grant”:

Active employees	**12.7**

7.4 Liability for enhanced severance pay for non-permanent employees, employed under special agreement:

Active employees	**28.2**

7.4 Liability for employees covered by special collective bargaining agreement regarding continuing temporary employees:

Active employees	**9.1**

In Appendix A, additional information is provided for financial statement disclosure, as required by IAS 19.

8. Uncertainties and Risks

8.1 Due to the nature of the employee benefits and the long future period over which they will be paid, the level of future payments is uncertain and there may be a material difference between actual payments in the future and those assumed payments that underlie this valuation, despite the efforts made to assess the benefits as accurately as possible. For this reason, the Company is exposed to risk that the estimated liability does not properly represent future payments and, consequently, that additional costs will be incurred in the future for accrued benefits that are under-estimated or that additional revenues will be realized from accrued benefits that are over-estimated. Below are the main drivers of uncertainty and risk, in our opinion.

8.2 Interest, Inflation and Investment Returns

Future fluctuations in the market interest rates that are used to value liabilities (market interest rates are used to calculate the present value of forecasted future benefit payments) will change the gross value of the liabilities. Higher or lower rates of return on plan assets, by comparison to these interest rates, will lead to a decrease or increase in the net liabilities, respectively. At times, the effect of changes in market interest rates may be offset to a certain extent by the effect of changes in the rate of return on plan assets, depending on the level of matching between assets and liabilities.

Sensitivity analysis:

a) If the discount rate should fall by 1%, the liability would increase by approximately NIS 4,716 million (14.1%).
b) If the discount rate should fall by 0.1%, the liability would increase by approximately NIS 427 million (1.3%).
c) If the discount rate should increase by 0.1%, the liability would decrease by approximately NIS 418 million (-1.2%).

Actual changes in the rate of inflation, affect the value of the liability (indirectly due to the connection between salary / pension and inflation) and the value of plan assets (due to index-linked assets). The two effects may offset one another to a certain extent.

Anticipated changes in the future rate of inflation may affect the value of the liability and the value of plan assets, depending on the effect of the anticipated change in inflation on current market interest rates and on the current values of unlinked assets.

8.3 Future Salary Increases

Assumed general salary increases (in respect of salary and cost-of-living-allowance agreements) have considerable effect on cash flow projections. The assumption (described in section 5.2.1.1 above) is as follows:

- For the years 2018-2025: the percentage increase in salary will equal the actual change in the cost of living index between January 1, 2018 and March 31, 2023 and the projected increase in the cost of living index between March 31, 2023 and December 31, 2025, minus 0.3% for each of those eight years. Employees who have already retired, or who will retire before the end of 2025, will receive a commensurate share of the salary increase.
- For each year after 2025: the percentage increase in salary will equal the projected change in the cost of living index, minus 0.3%.

Sensitivity analysis:

a) If starting from the valuation date, actual general salary increases were higher than what is assumed by 0.5% per year[19], then the liability would increase by approximately NIS 699 million (2.1%).
b) If starting from the valuation date, actual general salary increases were lower than what is assumed by 0.5% per year[20], then the liability would decrease by approximately NIS 664 million (-2.0%).

[19] In addition to the period from January 1, 2018 until the date of the valuation.

[20] Ditto.

8.4 Life Expectancy

Although mortality rates are relatively stable, and the mortality assumption corresponds with current experience relatively well, there is considerable uncertainty regarding the level of mortality that will emerge in the long-term future, owing to the fact that future changes in life expectancy are very difficult to predict (and may differ significantly from the assumption underlying the valuation). The rate of change in life expectancy is affected by behavioral and social changes and by medical developments, both past and future, and any such future changes or developments are themselves difficult to predict.

Sensitivity analysis:

a) If annual rates of change in mortality rates would be double the assumed rate of change[21], then the remaining life expectancy of a 67 year-old male at the end of the year 2022 (for example) would rise from 21.08 to 22.91 years, the remaining life expectancy of a 67 year old woman would rise from 23.52 to 25.41 years, and liabilities would rise by approximately NIS 2,237 million (6.7%).

b) For comparison sake: if actual, base-table mortality rates would be 20% lower than assumed, then the remaining life expectancy of a 67 year-old male at the end of the year 2022 (for example) would rise from 21.08 to 22.76 years, the remaining life expectancy of a 67 year-old woman would rise from 23.52 to 25.05 years, and liabilities would increase by approximately NIS 1,495 million (4.5%).

8.5 Early Retirement

As stated in paragraph 5.4.3 above, early retirement constitutes a significant but unstable phenomenon, and setting the assumption regarding future rates of early retirement is highly problematical. Early retirements have a significant effect on the level of benefit payments and on the valuation of liabilities, because at the time of early retirement, the employee begins to receive his full pension without any deferral or reduction that could offset the extra cost of making pension payments in the years until normal retirement age.

Sensitivity analysis: in the event that actual early retirement rates are double the assumed rates (see paragraph 5.4.3 above), then liabilities would increase by approximately NIS 77 million (0.2%).

Yours truly,

Alan Fefferman, F.S.A., F.IL.A.A.

[21] Please see paragraph 5.3.2.

Appendix A – Additional Reports for Disclosure in the Financial Statements

Introduction

- In this section, the actuarial liability and additional results are divided into 3 sections:

  1. Amounts relating to all "post-employment benefits"[22] which are paid by the Fund, and assets of the Fund. See Tables 1, 4, 6 & 9 below.

  2. Amounts relating to other post-employment benefits (including severance pay, all grants after the termination of employment, electricity discounts, and holiday gifts to pensioners) and assets not in the Fund but dedicated to the payment of employee benefits. See Tables 2, 3, 5, 7 & 10 below.

  3. Amounts relating to "other long-term benefits"[23], including the "20 year benefit". See Table 12 below. (Table 8 relates to all pension and other post-employment benefits.)

- This report is presented on a nominal basis.

- All amounts are in millions of NIS.

[22] As the term is defined in IAS 19R

[23] Ditto

1. Surplus assets at end of the period

	31/03/2023	31/03/2022	31/12/2022
Fair value of plan assets	38,269	40,895	38,274
Present value of the gross pension obligation	(28,162)	(31,786)	(28,353)
Subtotal	10,107	9,109	9,921
Liability for special, early retirement, pension agreements	(105)	(138)	(105)
Surplus pension assets over pension liabilities	10,002	8,971	9,816

2. Funds held in trust and dedicated to the funding of employee benefits (as per paragraph 116 of IAS 19)

	31/03/2023	31/03/2022	31/12/2022
Funds in trust – dedicated to cover actuarial obligations (assets as per paragraph 116)	1,162	1,397	1,184

3. Liability at the end of the period for other post-employment benefits

	31/03/2023	31/03/2022	31/12/2022
Present value of obligations for other post-employment benefits (including liabilities for special retirement agreements)	2,644	2,920	2,693

4. Liability at the end of the period for Reform benefits[24]

	31/03/2023	31/03/2022	31/12/2022
Present value of obligations for Reform benefits	2,595	3,017	2,675

[24] As per the collective bargaining agreement of May 17, 2018, and subsequent, related collective bargaining agreements from the year 2020.

5. Reconciliation of the Beginning and Ending Values of the Pension Defined Benefit Obligation

	3 Months Ending 31/03/2023	3 Months Ending 31/03/2022	Year Ending 31/12/2022
Present value of the obligation –beginning of period	28,353	35,770	35,770
Interest cost	376	296	1,195
Current service cost	31	56	221
Employee contributions	4	4	18
Past service cost	-	2	2
Benefits paid	(315)	(283)	(1,158)
Losses (gains) on re-measurement:			
• **Demographic assumptions changes**	-	-	107
• **Financial assumptions changes**	(452)	(4,326)	(8,768)
• **Experience adjustments**	165	267	966
• **Total actuarial losses (gains) on re-measurement**	(287)	(4,059)	(7,695)
Present value of the obligation – end of period	28,162	31,786	28,353

6. Reconciliation of the Beginning and Closing Values of the Defined Benefit Obligation for Other Post-Employment Benefits (including special early retirement agreements)

	3 Months Ending 31/03/2023	3 Months Ending 31/03/2022	Year Ending 31/12/2022
Present value of the obligation – beginning of period	2,693	3,319	3,319
Interest cost	36	28	113
Current service cost	13	14	58
Past Service Cost	-	-	44
Benefits paid	(38)	(37)	(143)
Losses (gains) on re-measurement:			
Demographic assumptions changes	-	-	7
• **Financial assumptions changes**	(39)	(358)	(627)
• **Experience adjustments**	(21)	(46)	(78)
• **Total actuarial losses (gains) on re-measurement**	(60)	(404)	(698)
Present value of the obligation – end of period	2,644	2,920	2,693

7. Present Value of Reform Benefits[25]

	3 Months Ending 31/03/2023	3 Months Ending 31/03/2022	Year Ending 31/12/2022
Present value of the obligation – beginning of period	2,675	3,553	3,553
Interest cost	35	29	113
Current service cost	27	39	115
Past service cost	-	-	2
Benefits paid	(84)	(523)	(758)
Losses (gains) on re-measurement:			
• **Demographic assumptions changes**	-	-	5
• **Financial assumptions changes**	(42)	(81)	(271)
• **Experience adjustments**	(16)	-	(84)
• **Total actuarial losses (gains) on re-measurement**	(58)	(81)	(350)
Present value of the obligation – end of period	2,595	3,017	2,675

8. Reconciliation of the Beginning and Closing Fair Value of Plan Assets

	3 Months Ending 31/03/2023	3 Months Ending 31/03/2022	Year Ending 31/12/2022
Fair value of plan assets – beginning of period	38,274	42,703	42,703
Interest income from plan assets	507	355	1,434
Contributions	64	156	1,035
Benefits paid	(319)	(294)	(1,188)
Gains (losses) on re-measurement: return on plan assets (excluding amounts included in interest income)	(257)	(2,025)	(5,710)
Fair value of plan assets – end of period	38,269	40,895	38,274

[25] As per the collective bargaining agreement of May 17, 2018, and subsequent, related collective bargaining agreements from the year 2020.

9. Reconciliation of the Beginning and Ending Fair Values of Funds Held in Trust to Cover Actuarial Obligations (paragraph 116[26] assets)

	3 Months Ending 31/03/2023	3 Months Ending 31/03/2022	Year Ending 31/12/2022
Fair value of trust assets – beginning of period	1,184	1,493	1,493
Interest income from trust assets	16	12	49
Benefits paid	(25)	(12)	(118)
Gains (losses) on re-measurement: return on trust assets (excluding amounts included in interest income)	(13)	(96)	(240)
Fair value of trust assets – end of period	1,162	1,397	1,184

10. Total Period Costs

	3 Months Ending 31/03/2023	3 Months Ending 31/03/2022	Year Ending 31/12/2022
Current service cost	75	113	416
Employee participation	(4)	(4)	(18)
Net current service cost	71	109	398
Interest cost	447	353	1,421
Past Service Cost	-	2	48
Early retirement costs	11	7	12
Interest income on plan assets	(507)	(355)	(1,434)
Interest income on trust assets (par. 116 assets)	(16)	(12)	(49)
Total costs for the period	6	104	395

26 From accounting standard IAS19

11. Actual Returns on Plan Assets

	3 Months Ending 31/03/2023	3 Months Ending 31/03/2022	Year Ending 31/12/2022
Interest income on plan assets	507	355	1,434
Gains (losses) on re-measurement: plan assets	(257)	(2,025)	(5,710)
Actual return on plan assets	250	(1,670)	(4,276)

12. Actual Returns on Assets Held in Trust to Cover Actuarial Obligations (paragraph 116 assets)

	3 Months Ending 31/03/2023	3 Months Ending 31/03/2022	Year Ending 31/12/2022
Interest income on assets	16	12	49
Gains (losses) on re-measurement: plan assets	(13)	(96)	(240)
Actual return on assets	3	(84)	(191)

13. Obligation for Special Early Retirement Agreements (termination benefits)

	31/03/2023	31/03/2022	31/12/2022
Obligation at end of period - pensions	105	138	105
Obligation at end of period – other benefits	6	8	6
Obligation at end of period – total	111	146	112

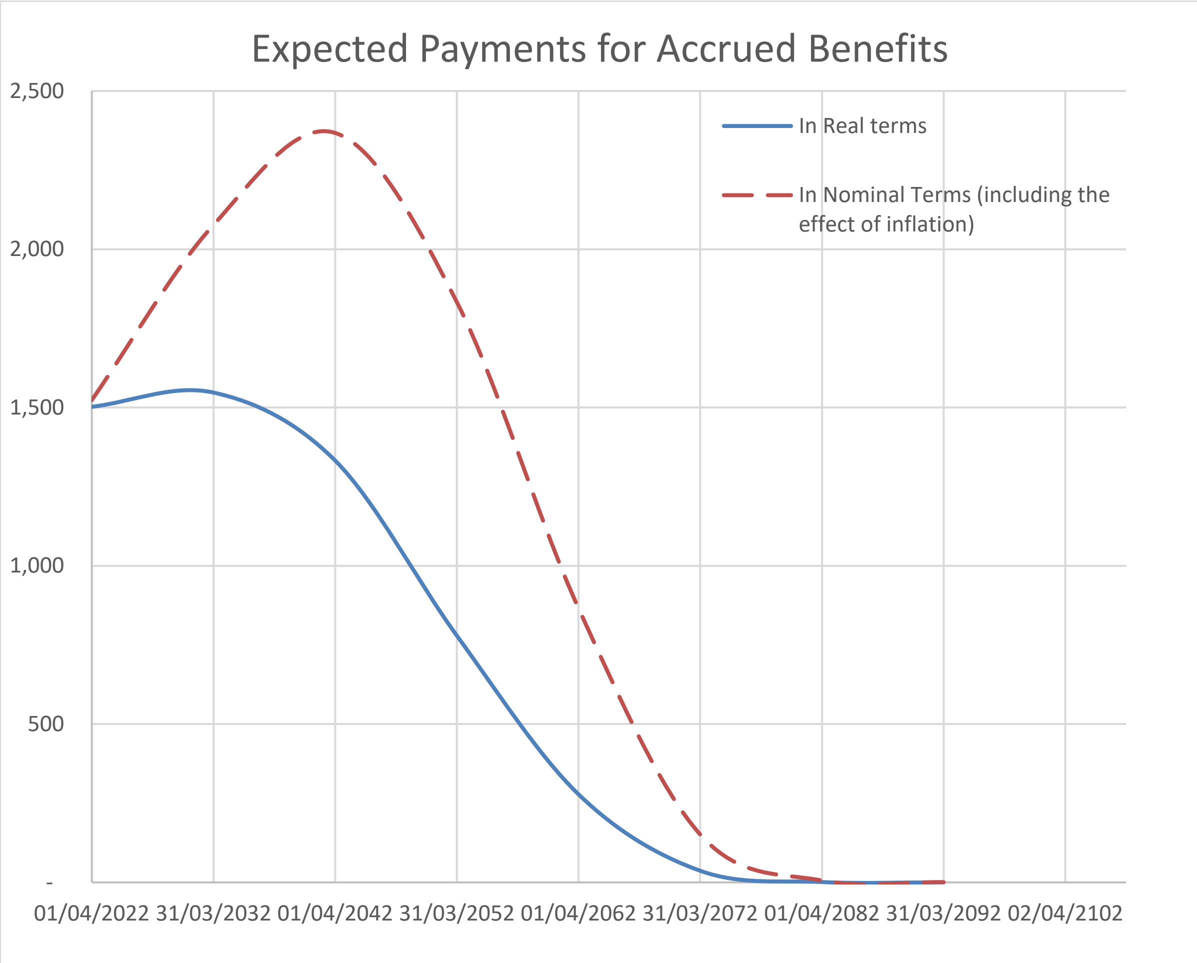
14. Obligation for "20 year grant" (other long-term employee benefits)

	31/03/2023	31/03/2022	31/12/2022
Obligation at end of period	13	14	12

Appendix B – Expected Future Payments of Employee Benefits

Below is a graph of the expected cash flows included in the valuation (including all benefits for employees and pensioners), in real terms and in nominal terms (including the expected future impact of inflation). Nominal cash flows are presented in red, while inflation-adjusted cash flows are presented in blue.

The payments shown are annual.



Appendix C – Additional Detail Regarding Financial Assumptions (annualized rates)

	31/03/2023	31/12/2022
Weighted average real discount rate used to compute liabilities as at the end of the period*	2.89%	2.78%
Expected inflation rate	2.8%	2.6%
Nominal interest rate used to compute the interest cost on pension liabilities	5.43%	3.37%
Nominal interest rate used to compute the interest cost on other post-employment liabilities	Ditto	Ditto
Nominal interest rate used to compute the expected return on plan assets	Ditto	Ditto
Nominal interest rate used to compute the expected return on trust assets (assets according to paragraph 116 of IAS 19)	Ditto	Ditto

* In practice, the valuation was performed according to a vector of interest rates (yield curve) which was prepared by Mervach Hogen Ltd. (see section 5.1.2). Each rate shown in the table above, reflects the different yields to maturity contained in the vector, taking into consideration the expected liability cash flow at each future point in time. A valuation performed according to the interest discount rate shown in the table, would produce the same results that are presented in this report.

Appendix D – Additional Detail Regarding Data

List of data files received from the Company:

1. "ong0323" – 15,130 records – data including all employees / retirees / survivors (permanent workers of generations A, B, and C).
2. "פנסיונרים ושאירים דור ג מרץ 2023" – 104 records – file specifies whether each retiree is a pensioner or a surviving beneficiary
3. "actuarpizuisug13410323" - 348 records – data including all non-permanent workers (special agreements).
4. "עובד ממשיך מרץ 2023"- 601 records, general data regarding employees employed under the Continuing Employment Agreement
5. "פורשי ינואר 2023 כולל דור ג מעודכן"- 49 records, "פורשי פברואר 2023 מעודכן"- 42 records, "פורשי מרץ 2023 כולל דור ג"- 30 records
6. " change012023", "change022023" , "change032023", "change032023g" – files that describe status changes of employees / retirees in the months January-March 2023.
7. "חשמל מרץ 2023" – data regarding electricity rates, VAT rate and grossed-up taxes.
8. "שי מרץ 2023" – value of holiday gifts grossed-up for taxes.
9. "עובדים מדורות א ב ג שעברו להסכם אישי בכיר מרץ 2023" – 100 records – list of senior employees who have signed personal service contracts (instead of being covered by collectively bargained salary agreements).
10. "שכר רגיל של עובדים שעברו להסכם אישי בכיר מרץ 2023" – 100 records – list of regular salaries for senior employees who have signed personal service contracts.
11. " יעדי פרישות מוקדמות בחתך חטיבתי לפי שנים ל 032023 "
12. "פוטנציאל פרישה של פורשי רפורמה ומבצע 200 לשנת 2023 נכון ל 032023"- 211 records
13. "מועברים להראל רבעון 1 שנת 2023 – 01.01.23-31.03.2023" - 104 records

Appendix E – Changes to the Valuation that Took Effect in Years Preceding the Current Year

Changes that took effect in the course of 2022

In the first quarter of the year 2022:

- The collective bargaining agreement of May 17, 2018, provides for an additional retirement pension, whose amount depends on achieving certain "milestones". The target date for one such milestone was updated. This update decreased the Company's liabilities by about NIS 15 million.
- The Company entered into an agreement with Harel Insurance Ltd., which entered into effect in January 2022. The Company purchases life annuity policies, according to terms specified in the agreement, that provide pensions defined by the above-mentioned collective bargaining agreement[27]. The purchases of such policies during the first quarter of 2022, decreased the Company's liabilities by about NIS 471 million.

In the second quarter of the year 2022:

- Assumed future increases in electricity tariffs, were updated in accordance with Company expectations. This update increased the Company's liabilities (for subsidized electricity to pensioners) by about NIS 15 million.
- On April 13, 2022, a special collective bargaining agreement was signed (*Retirement as a Pensioner of Generation C employees*). The agreement increased the Company's liabilities by about NIS 36 million.
- Circular 2022-9-18 (*Amended Provisions for Liability Measurements – Updated Demographic Assumptions for Life Insurers and Pension Plans*), was published on June 30, 2022 by the Capital Markets, Insurance and Savings Authority.
- On June 30, 2022, the Capital Markets, Insurance and Savings Authority published Circular 2022-9-18 ("*Amended Provisions for Liability Measurements – Updated Demographic Assumptions for Life Insurers and Pension Plans*"). Implementation of the Circular increased the Company's liabilities by about NIS 119 million.
- In accordance with its agreement with Harel Insurance Ltd., the Company continues to purchase policies for retirees. The purchases of such policies during the second quarter of 2022, decreased the Company's liabilities by about NIS 35 million.

In the third quarter of the year 2022:

- Special collective bargaining agreement (regarding continuing temporary employees) was signed on August 3, 2022. The implementation of this agreement increased the Company's liabilities by about NIS 6 million.
- The collective bargaining agreement of May 17, 2018, provides for an additional retirement pension, whose amount depends on achieving certain "milestones". The target date for one such milestone was updated. This update decreased the Company's liabilities by about NIS 57 million.
- The assumed increase in future electricity tariffs was updated in accordance with revised Company expectations. This change caused an increase in liabilities of about NIS 13 million.

In the fourth quarter of the year 2022:

- The collective bargaining agreement of May 17, 2018 provides for an additional retirement pension, whose amount depends on achieving certain "milestones". The target date for one such milestone was updated. This update decreased the Company's liabilities by about NIS 33 million.

[27] and subsequent, related collective bargaining agreements from the year 2020

- The assumed increase in future electricity tariffs was updated in accordance with revised Company expectations. This change caused an increase in liabilities of about NIS 58 million.

Changes that took effect in the course of 2021

- In the first quarter of the year 2021:
  - On behalf eligible Generation C employees, one-time, lump-sum contributions were made to pension funds registered in their names, in lieu of severance benefit entitlements for pay and service up to 31/12/2020 (as per paragraph 14 of the Severance Benefits Law), in accordance with a collective Bargaining agreement of November 30, 2020. These contributions had the effect of reducing the Company's liabilities for employee benefits by approximately NIS 112 million.

- In the second quarter of the year 2021:
  - Similar to the first quarter, for additional eligible Generation C employees, one-time, lump sum contributions were made to pension funds registered in their names, in lieu of severance benefit entitlements for pay and service up to 31/12/2020 (as per paragraph 14 of the Severance Benefits Law), in accordance with a collective Bargaining agreement of November 30, 2020. These contributions had the effect of reducing Company liabilities for employee benefits by approximately NIS 112 million.
  - The collective bargaining agreement of May 17, 2018, provides an additional retirement pension, whose amount depends on achieving certain Company "milestones". The target dates for two such milestones were updated. These updates decreased the Company's liabilities by about NIS 47 million.
  - The Company entered into an agreement with a life insurer, in order to purchase annuities for pension benefits defined in the aforementioned collective bargaining agreement (and in subsequent, related collective bargaining agreements from the year 2020). The agreement with the life insurer, specifies its fee for administration as well as the demographic assumptions underlying the annuity prices. The agreed upon administration fee, being less than the previously assumed fee, led to a decrease in Company liabilities of about NIS 43 million.
  - The assumed increase in future electricity tariffs was updated in accordance with revised Company expectations. This change caused an increase in liabilities of about NIS 3 million.
  - There was an update of the assumed tax rate by which pensioner benefits are grossed-up, which resulted in a decrease in liabilities of approximately NIS 3 million.

- In the third quarter of the year 2021:
  - Similar to the first two quarters, for additional eligible Generation C employees, one-time lump sum contributions were made to pension funds registered in their names, in lieu of severance benefit entitlements for pay and service up to 31/12/2020 (as per paragraph 14 of the Severance Benefits Law), in accordance with a collective Bargaining agreement of November 30, 2020. There contributions had the effect of reducing Company liabilities for employee benefits by approximately NIS 5 million.
  - As mentioned above, the collective bargaining agreement of May 17, 2018 provides an additional retirement pension, whose amount depends on achieving certain Company "milestones". The target date for one milestone was changed. These changes decreased the liabilities by about 9 million shekels.
  - Pension purchase factors (the price of a monthly pension of NIS 1) were updated, for the purpose of valuing "Bridge Pensions" for Generation C employees. This adjustment increased liabilities by about NIS 0.5 million.

- The assumed increase in future electricity tariffs was updated in accordance with revised Company expectations. This change caused an increase in liabilities of about NIS 5 million.

- In the fourth quarter of the year 2021:
  - As mentioned above, the collective bargaining agreement of May 17, 2018 provides an additional retirement pension, whose amount depends in achieving certain Company "milestones". The target date for two milestones were changed. These changes decreased the liabilities by about NIS 25 million.
  - Assumptions regarding the probability of being married at the time of death, and the average age difference between spouses, were updated. This change increased the liabilities by about NIS 53 million.
  - Assumptions regarding electricity usage were updated. This change caused an increase in liabilities of about NIS 74 million.
  - Assumptions regarding disability retirement and involuntary termination of employment, among Generation C employees were updated. This change decreased liabilities by about NIS 28 million.
  - The assumed increase in future electricity tariffs was updated in accordance with revised Company expectations. This change caused a decrease in liabilities of about NIS 72 million.
  - The transfer of employees to the System Management Company reduced liabilities by about NIS 149 million.

Changes that took effect in the course of 2020

- In the first quarter of the year 2020:
  - The collective bargaining agreement of May 17, 2018, provides an additional retirement pension, whose amount depends on achieving certain Company "milestones". The target dates for two milestones were changed. These changes decreased the liabilities by about 128 million shekels.
  - The calculation of the multiplier defined in the above mentioned collective bargaining agreement was updated, in accordance to the amendments made to the agreement that was signed in 2020. This change decreased the liabilities by about 34 million shekels.
  - Salary increase assumptions were updated, as described in paragraph 5.2.1 above. The update increased liabilities by about 182 million shekels.

- In the second quarter of the year 2020:
  - The assumed increase in future electricity tariffs was updated in accordance with Company expectations. This change caused a decrease in liabilities of about 2 million shekels.

- In the third quarter of the year 2020:
  - The collective bargaining agreement of May 17, 2018, provides an additional retirement pension, whose amount depends on achieving certain Company "milestones". The target dates for one milestone was changed. These changes decreased the liabilities by about 10 million shekels.
  - The assumed increase in future electricity tariffs was updated in accordance with Company expectations. This change caused a decrease in liabilities of about 5 million shekels.

- In the fourth quarter of the year 2020:

    - The number of employees who are expected to retire under the special early retirement program in the years 2021-2024, was increased by 200. This increased net liabilities by about NIS 370 million.

    - The transfer of employees to the System Management Company, reduced liabilities by about NIS 142 million.

    - An additional grant of NIS 50,000 to employees whose services are being lent to private electricity producers, and to employees transferring to the System Management Company, increased liabilities by about NIS 0.8 million.

    - As noted above, the collective bargaining agreement of May 17 2018, provides an additional retirement pension, whose amount depends on achieving certain Company "milestones". The target dates for three milestones were changed, decreasing liabilities by about NIS 112 million.

    - Current electricity tariffs were updated, and future assumed increases in tariffs were updated in accordance with Company expectations, increasing liabilities by about 83 million shekels.

Changes that took effect in the course of 2019

- In the second quarter of 2019:

    - A collective bargaining agreement regarding voluntary early retirement of employees between the ages of 64 and 66, was signed on May 7, 2019. Recognition of the conditions of this agreement, for employees who have already applied and been accepted for retirement under its terms, caused an increase in liabilities of about 24 million shekels.

    - The maximum working period was changed for some workers employed under special agreements. This change caused an increase in liabilities of about 1 million shekels.

    - The assumed increase in future electricity tariffs was updated in accordance with Company expectations. This change caused a decrease in liabilities of about 6 million shekels.

- In the fourth quarter of the year 2019:

    - The electricity tariffs and forecast of changes in the electricity tariffs, starting from 01/01/2020 were updated. This changed increased the liabilities by about 30 million shekels.

    - Base Mortality rates (as at 31/12/2015) were updated. This change decreased the liabilities by about 60 million shekels.

    - Assumed rates of mortality improvements (after 31/12/2015) were updated. This change increased the liabilities by about 405 million shekels.

    - Assumed rates of disability retirement were updated. This change increased the liabilities by about 16 million shekels.

- The valuation technique for the post-employment, lump-sum, life insurance benefit, was updated. This change decreased the liabilities by about 79 million shekels.

- The collective bargaining agreement of May 17, 2018, provides an additional retirement pension, whose amount depends on achieving certain Company “milestones”. During 2019, the target dates for two milestones were changed. These changes decreased the liabilities by about 142 million shekels.

- The additional retirement benefit was updated, for employees whose service will be lent to private companies. This change decreased the liabilities by about 4 million shekels.

Changes that took effect in the course of 2018

- In the first quarter of 2018:

  There was an update of the assumed tax rate by which pensioner benefits will be grossed-up, which resulted in an increase in liabilities of approximately NIS 4 million.

- In the fourth quarter of 2018:

  - On November 4, 2018, there went into effect the collective bargaining agreement of May 17, 2018. The terms of the agreement resulted in an increase in liabilities of approximately NIS 3,901 million.

  - Updated assumptions regarding future electricity tariffs (as per Company expectations) and the structure of the fixed monthly electricity fee, resulted in an increase in liabilities of approximately NIS 17 million.