The Israel Electric Corporation Ltd.

Financial Reports

For The Six and Three Months Ended June 30, 2022

FILES INDEX

The financial reports, for the six and three months ended June 30, 2022, 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 2021 Annual Report

For the Period Ended
June 30, 2022

Prominent Disclaimer

This English translation of the "**Updated Chapter A (Description of the Company's Business Affairs) for the 2021 Annual Report**" for the period ended June 30, 2022 ("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 2021 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 six months ended on June 30, 2022 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.

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 Impact of COVID-19 and the Russia – Ukraine War

In light of the sharp rises in global coal prices, inter alia due to the conflict between Russia and Ukraine, and as a result of the impact of these costs on the electricity prices, on July 28, 2022, the Electricity Authority published a decision regarding an amendment to the annual update of the electricity rate for the Company's consumers. It is noted that in light of the ongoing trend of rising coal prices, deriving mainly as a result of the conflict between Russia and Ukraine, the timing differences between the dates of payments the Company will be required to make for the coal purchase and the rate collection dates, may adversely affect the Company's financial position if the 2023 annual rate will not be updated accordingly. For additional details regarding this decision see Note 3a to the Company's Financial Statements.

As this is an event that is not under the Company's control, and factors such as continued 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.

That stated in this report and in the Financial Statements regarding the Company's estimate pertaining to the possible implications on the Company's results, insofar as the Company will not be compensated with respect to the rise in coal prices in the 2023 annual rate, constitutes Forward Looking Information, as it is defined in the Securities Law. This estimate may not materialize or may materialize partially, as a result of factors not under the Company's control, such as the actual rate of rise in coal prices in the relevant period, the amount of compensation given to the Company in the rate (if compensated), and events which may have an offsetting effect on the aforesaid timing differences, such as the sale of the Company's power stations.

For further details regarding the spread of the COVID-19 virus and the Russia-Ukraine war, see Note 1i of the Company's Financial Statements of June 30, 2022 (the "**Financial Statements**").

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

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

1.1. **Section 1.2: Diagram of the holding structure of the Company**

On June 26, 2022, the Company sent a notice exercising the options to receive shares of CyberGym Control Company Ltd. (hereinafter: "**CyberGym**"). As of this date, the Company holds 500,000 shares, which constitute approximately 43% of the issued share capital of CyberGym (after the exercise).

After exercising the options, and pursuant to CyberGym's Articles of Association, the Company is entitled to appoint 2 Directors, and as of the date of the report, they will constitute, after their appointment, 50% of the members of the company's Board of Directors. In accordance with the aforesaid, as of the exercise date, CyberGym is a subsidiary (non-governmental) of the Company, and the Company is considered a controlling shareholder of CyberGym, as these terms are defined in the Securities Law, 1968 (the "Securities Law"). For further details, see Note 10d to the Financial Statements.

2. **Generation segment**

2.1. **Section 7.4: Competition**

2.1.1. **Section 7.4.1: General: private electricity generation – the Government policy and the resolutions of the Electricity Authority**

2.1.1.1. **Section 7.4.1.1: General**

On March 17, 2022, the Electricity Authority published a decision proposal for a hearing regarding a market model for generation and storage facilities connected with or integrated into the distribution grid, in which the Authority seeks to regulate the activities of the generation facilities in the distribution grid, and in particular their ability to sell electricity directly to suppliers. This decision proposal further determines the obligation of high-voltage generation facilities to submit production plans and proposes to open the supply segment to competition while removing quotas set for this issue in the past. The Company submitted its response on May 10, 2022.

Furthermore, and as part of promoting the competition in the generation segment, on June 12, 2022, the Electricity Authority published a decision proposal for a hearing regarding an invitation to bid in the no. 1 competitive proceeding for setting a protective rate for generation of electricity from renewable energies in installations connected to the distribution grid. The Company submitted its response on July 3, 3022.

2.2. **Section 7.9: Raw Materials and Suppliers**

2.2.1. **Section 7.9.2**

The table below presents the generation distribution rate in the Company (in percentages) according to types of fuels used in the generation segment for generating electricity in the six months ended on June 30, 2022 and on June 30, 2021:

	For the Six Months Ended June 30	
	2022	**2021**
Coal	41.9%	44.7%
Natural Gas	57.4%	50.9%
Liquid Gas	0.4%	4.3%
Diesel Oil	0.3%	0.1%
Crude Oil	0.1%	0.0%
Total	100.0%	100%

2.2.2. Section 7.9.3:

The table below presents the total fuel costs (including related items and attributed wages) used to generate electricity in the generation segment in the three months ended on March 31 2022 and on March 31, 2021:

	For the Six Months Ended June 30	
	2022	**2021**
	in NIS millions	
Coal	2,385	963
Natural Gas	1,548	1,071
Liquid Gas	149	198
Diesel Oil	110	55
Costs of maintaining diesel oil for emergencies for the electricity sector	15	16
Crude Oil	20	18
Methanol	-	1
Movement in provision for impairment of crude oil	-	(25)
Credit from the Tamar Agreement Addendum of 2020	-	(70)
Total	4,227	**2,227**

2.2.3. Section 7.9.9: Natural gas

2.2.3.1. Section 7.9.9.2(a): Contracts for the purchase of natural gas – the "Tamar" Agreement

Following the contents of Section 7.9.9.2 (a) of the Chapter of Description of the Company's Business Affairs in the Periodic Report regarding the signing of the amendment to the Tamar agreement of January 24, 2022, on July 22, 2022, all the contingent conditions were fulfilled (approval of the authorized organs and required regulatory approvals) and the agreement entered into effect. The accounting between the parties will be carried out retroactively as of July 1, 2021. For further details, see Note 10a1 to the Financial Statements.

2.2.3.2. Section 7.9.9.2(b): Short-term agreement for the purchase of gas from the "Leviathan" field

Following the contents of section 7.9.9.2(b) of the Chapter of Description of the Company's Business Affairs in the Periodic Report regarding the Company's contractual engagement of July 4, 2021 by a SPOT agreement for the purchase of natural gas from the "Leviathan" reserve which is in effect for one year, on June 23, 2022, the SPOT agreement for the purchase of natural gas from the Leviathan reserve was extended by an additional year. For additional details of the agreement, see Note 35a2 to the Financial Statements.

2.2.3.3. Section 7.9.9.2(c): Entering a SPOT agreement for the purchase of natural gas from the "Karish" reserve

Following the contents of Section 7.9.9.2 (c) of the Chapter of Description of the Company's Business Affairs in the Periodic Report regarding the engagement in a Spot agreement for the purchase of natural gas from the "Karish" reserve, on April 28, 2022, all the required procedures were completed, and the Company's authorized bodies' approval was received, and the agreement entered into effect. For further details, see Note 35a4 to the Annual Financial Statements.

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

2.3.1. Section 7.12.2.1: The Clean Air Law

In accordance with the Eshkol site emission permit, the site's generation units C-D are limited to 9,200 operating hours per year and 7,000 hours from January 1, 2016 to December 31, 2023.

In view of the fact that the annual operating hours quota for the current year has been exhausted, and in accordance with the position of the System Management Company ("**Noga**") regarding the urgent network need to continue operating the units and to increase the annual operating hours quota by an additional 7,000 hours, the Company applied to the Ministry of Environmental protection requesting to divert 7,000 hours out of the total emission permit quota (70,000 hours in total) to the 2022 annual quota. On July 19, 2022, the Ministry of Environmental protection approved to divert 2,000 hours from the general hours quota to the 2022 annual quota (in this section – the "**Approval**"). The approval was given in light of reasons given by Noga, regarding the immediate network need. With regard to the Company's full request to divert 7,000 hours, the Ministry of Environmental protection requested additional data and details and also noted that insofar as it will consider the request to divert additional hours, it intends to request the public's opinion on this issue. The Company is in contact with the Ministry of Environmental Protection, the Ministry of Energy, the Electricity Authority, and the Noga Company regarding the issue, and for the purpose of responding to the Ministry's request for data as aforesaid. It is noted that within the approval, the Ministry of Environmental Protection clarified once more that Eshkol's units C-D do not meet with the best available technique, and due to this, the office is considering refusing the renewal of the emission into the air permit for these units after September 2023.

2.3.2 Section 7.12.3: Land and water

In light of the disqualification of drilling for drinking water at Caesarea 6, which belongs to the Mekorot site, and under the instruction of the Water Authority, in February 2022, the quality of groundwater at the Orot Rabin site was sampled, and on March 30, 2022, a report on the results of the groundwater monitoring was delivered to the Water Authority, under which at some of the sampling points at the site, a high concentration of substances from the PFAS family was found. In correspondence with the Water Authority, it was noted that the Company will have to rehabilitate the groundwater at the site. The Company expressed its reservation regarding this requirement, inter alia due to the need to understand the source of the pollution and scope of its spread, and in light of the fact that the knowledge existing in Israel regarding the distribution of PFAS substances in the environment is limited. The Company is presently working to carry out a groundwater investigation and is in contact with the Water Authority regarding this issue.

2.3.3 Section 7.12.7: Asbestos

On March 22, 2022, a query was received from the Ministry of Environmental Protection, regarding gaskets that contain friable asbestos at the Reading and Orot Rabin site. As part of the query, the Company was requested to examine the presence of gaskets containing friable asbestos at additional stations and to act to remove the gaskets located at Reading and Orot Rabin by April 21, 2022. The Company responded on March 30, 2022, in which it claimed that to its understanding this is not thermal insulation and therefore the provisions of the Asbestos Law relating thereto are not relevant. The Company is acting to carry out surveys at additional sites and is in contact with the Ministry of Environmental Protection in this matter.

In accordance with the Prevention of Asbestos Hazards and Harmful Dust Law, 2011, it is required to stop the use of the friable asbestos components that were installed for thermal isolation in the exterior parts of the Reading power station structure by July 1, 2022. In light of delays in construction of the Atidim switching station and the Noga Company's position that the operation of the Reading generation units is required until activation of the switching station, the Company applied to the Ministry of Environmental Protection requesting to postpone this date to October 15, 2022. On June 28, 2022, the Ministry of Environmental Protection's approval of the Company's request was received, with clarification that the approval granted does not constitute approval to postpone the date set for completing the removal of the external components. It was also noted in the approval that the_time window allocated for the removal of the asbestos components should be used as much as possible. The Company is preparing to execute the project and is in contact with the Ministry of Environmental Protection and the Noga Company regarding this issue.

2.3.4 Section 7.12.9 – Preservation of the costal environment and prevention of marine pollution

Following the contents of Section 7.12.9 of the Description of the Company's Business Affairs in the Periodic Report regarding the Ministry of Environmental Protection's demand that the current 24" Eshkol marine pipeline will be shut down, removed from the sea and completely replaced by December 2022, the Company applied to the Ministry of Environmental Protection and the Ministry of Energy. As part of these applications, the Company noted that the deadline set for construction and operation of the 24" mooring is unrealistic. In order not to disrupt the activity in the fuel economy and enable the completion of the sale process of the pipelines, the Ministry's approval was requested for the continued operation of this pipeline beyond 2022.

On July 4, 2022, The Company notified the Ministry of Energy that in the absence of a decision and approval by the authorized State entities regarding the preferred alternative for extending the use of the pipelines and in the absence of a guarantee for some source of financing to replace the pipelines, the Company is stopping the procurement process for the pipeline required to replace the pipelines with all that it implies regarding continued operation of the pipeline beyond 2022. The Company is in contact with the Ministry of Energy and the Ministry of Environmental Protection regarding this issue.

3. The Transmission Segment

3.1. General information on the transmission segment

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

Towards the end of the process of preparing the development plan for the delivery grid for 2023-2030, on April 28, the Minister of Energy applied to the Electricity Authority with regard to formulation of policy principles pertaining to burying high voltage lines. In reply to the Minister's application, on May 24, 2022, the Electricity Authority published a decision proposal for a hearing, in which it examined the expansion of the use of burying technology in relation to the existing policy as a means of solving environmental, planning and engineering challenges. The Authority presented an economic sensitivity scenario for the criteria and places where it might be beneficial to bury high voltage lines, this despite the high financial cost, estimated at an addition of up to approximately 4 percent, in the long term, to the electricity rate, depending on the scope of the decision and subject to required engineering and planning criteria. On June 22, 2022, the Company submitted its response to this proposal, within which it noted that the normative cost of burying as presented by the Electricity Authority in the decision proposal for a hearing does not reflect the full costs of establishing high voltage liners. Pursuant to the Electricity Authority's consents, the Company will provide examples of costs that will be examined by the Authority.

Additionally, on June 15, 2022, a decision proposal for a hearing was published regarding incentives to bury high voltage lines existing in a built-up area in which the Authority offers a positive incentive for burying existing high-voltage lines in an existing built-up area or a negative incentive insofar as it does not meet the annual goal of 30 km, and this following an assessment that there is long-term economic viability in burying the high-voltage grid in the areas of improving the reliability of electricity supply and quality, reducing the cost of maintenance and reducing risks to the grid from external hazards. The Company submitted its response to the hearing on July 24, 2022.

Furthermore, on August 3, 2022, the Electricity Authority published a decision proposal for a hearing which includes a normative cost for the 400 kV lines and a recognized cost for the Company's improvements and changes projects. The Company is studying the implications and will submit its response accordingly.

4. The Distribution Segment

4.1. General information on the distribution segment

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

On May 23, 2022, the Electricity Authority made a decision regarding establishing criterion number 35al – Infrastructure Transfer Between Distributors. This criterion is intended to regulate the transfer of responsibility for the distribution and supply activity, including the transfer of the infrastructure, from the historical distributor who chooses to do so to the dominant electricity distributor (the Electric Company) in a quick and efficient manner while maintaining the continuity of electricity supply to consumers. On the one hand, the new regulation removes a barrier created by the Authority's decision from 2015, but on the other hand, the Company is required to face a new challenge in the form of transferring private electricity grids, some of which, according to the Company's opinion, do not comply with the provisions of the law, to the responsibility of the Electric Company, on short schedules that do not correspond to the complexity related to it. The Company forwarded its response to the Authority, including the Company's demand for a re-examination of the wording of the regulation and the updating of the standards and schedules mentioned therein, so that they correspond to the state of affairs in the field and the legislative and safety requirements to which the Company is subject as detailed in the Company's application. For further details regarding historical distributors, see section 9.4 in the Chapter of Description of the Company's Business Affairs in the Periodic Report.

On July 3, 2022, the Electricity Authority's reached a decision regarding incentives for the development of the distribution grid, following a previous decision from 2020, in the decision the Authority sets goals for the Company in order to improve the level of service to its consumers with the aim of reducing the non-supply minutes to the consumer in the coming decade by 30% at a national level compared to the average minutes of non-delivery in the years 2013-2021, while reducing the variance between the different regions by about 60%. It also sets incentives for meeting the goals, with the maximum annual incentive amounting to NIS 30 million.

In 2026, the Authority is expected to examine the change in the measurement method of non-supply minutes from a calculation based on the supplier to a calculation based on terminated customers, and if it decides to change the measurement method, the goals will be updated at the national level and for each district.

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

4.2.1. 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 2022 is 83.3 minutes, compared to 91.7 minutes in the corresponding period last year.

The count of non-supply minutes caused by the high voltage grid and the transmission and transformation segments in the first quarter of 2022 is 61.7 minutes, compared to 65.4 minutes in the corresponding period last year.

The standard deviation between the districts for the first quarter of 2022 is 19.5 minutes for the components of this count, compared to 26.4 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.

5. The Supply Segment

5.1. Section 10.4: Competition

For details regarding a decision proposal for a hearing on the market model for generation and storage facilities connected with or integrated into the distribution grid, which allows direct sale of electricity to suppliers, see section 2.1 above. The decision proposal proposes to open the supply segment to competition while removing the quotas set for this matter in the Authority's previous decisions.

For details regarding the Electricity Authority's decision regarding the provision of supply licenses to suppliers without generation facilities, as well as the increase of quota for suppliers, see Note 3c of the Financial Statements.

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

6.1. Section 15: Human capital

6.1.1. Section 15.2: Employee roster by areas of operation

As of June 30, 2022, the Company employs 10,848 employees, of which 6,742 are permanent employees, and 4,106 are temporary employees (out of which, 377 are special employment employees). With regard to the expected retirement plan up to and including 2025, see Note 6f to the Financial Statements.

6.1.2. Section 15.5: Employee compensation plans, benefits and employment agreements

6.1.2.1. Section 15.5.1: Employment agreements

For details concerning collective agreements and consents including the agreement on remote work, see Note 6f to the financial statements.

6.2. Section 20: Financing

6.2.1. Section 20.1: 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.

6.3. Section 23: Restrictions and control over the operations of the Company

6.3.1. Section 23.1: Provisions of the Electricity Sector Law, relevant regulations, licenses issued accordingly and Resolutions of the Electricity Authority

6.3.1.1. Section 23.1.6: 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.

6.4. Section 25: Legal proceedings – pending actions

6.4.1. Section 25.1: 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.

Ram Erlichman	**Shlomo Arbiv**
Acting Chief Executive Officer	**External Director***

Date of approval: August 18, 2022

*** 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 August 18, 2022, 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 June 30, 2022, 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 Six and Three Months Ended
June 30, 2022

<u>Prominent Disclaimer</u>

This English translation of the "**Company's Board of Directors' Report on the Status of the Corporation's Affairs**" for the six and three months ended June 30, 2022 ("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 six and three months ended on June 30, 2022, ("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). 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, 2021 (hereinafter: the “Annual Financial Statements”).

b) Condensed Review of the Changes in the Business Environment

1) For details of the Company’s credit rating, and of material fundraising and repayments, see Note 8 to the Financial Statements.
2) For details regarding electricity tariff amendments and regulations, and particularly the amendment to the 2022 electricity tariff Annual Update, as well as the Electricity Authority’s decisions during the report period including the rate increase in the decision of July 28, 2022, and the Company’s position in this matter, see Note 3 to the Financial Statements.
3) For details regarding the entry into effect of the amendment to the agreement for gas supply from the “Tamar” reserve, see Note 10a to the Financial Statements.
4) For details regarding class actions and other material actions, see Note 10b to the Financial Statements.
5) For details regarding debts of the East Jerusalem Electricity Company and the Palestinian Authority, see Note 4 to the Financial Statements.
6) For details regarding the impact of COVID-19 and its implications with respect to the Company’s financial position and work plan during the reporting period and thereafter, as well as for details of the effects of the Russia-Ukraine war, see Note 1i of the Financial Statements.
7) For details regarding the Company’s actions to implement the structural change during the report period, and particularly the sale of the Hagit site and extension of the Company’s licenses for the Reading site, see Note 1e to the Financial Statements.
8) For details regarding changes in the Company’s Board of Directors and Management, see Section c below.
9) 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.

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)

10) 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 affect the value of the Company's assets in accordance with IAS 36.

The Company continually monitors 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 the 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 14-16, 2021 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 4.6. In practice, as of June 30, 2022, the ratio is approximately 4.2 (the ratio is based on the net financial debt of the Company as of June 30, 2022, in the amount of NIS 33,618 million and on normalized EBITDA which includes movement in regulatory accounts and neutralizing special and non-current events) for the four quarters ended June 30, 2022, in the amount of NIS 8,041 million). With regards to non-GAAP financial indicators, see Section a6 below.

b) The ratio of total debt to total assets (leverage) will gradually decrease to 65%.
In practice, as of June 30, 2022, the ratio stands at approximately 68%.

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 June 30, 2022, the Company is in compliance with the target.

e) The net real financial debt will not exceed NIS 31 billion in 2025, and NIS 34 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 June 30, 2022, see Section 1 above and Section a6 below.

On the same date, the Company's Board of Directors approved additional targets pursuant to the circular of the Government Companies Authority (see section a5c 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 June 30, 2022, the ratio stands at 9.7%.

g) FFO + interest expenses divided by interest expenses ratio greater than 3.
In practice, as at June 30, 2022, the ratio stands at 3.96.

h) Return on Capital Employed (ROCE) ratio of 4.2% for the short-term.
In practice, as at June 30, 2022, the ratio stands at 5.2%.

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 June 30, 2022 and December 31, 2021 are as follows:

	NIS in millions			
	June 30, 2022	December 31, 2021	Increase (decrease)	Percent %
CURRENT ASSETS				
Cash and cash equivalents	2,827	2,454	373	15%
Short term investments	357	332	25	8%
Trade receivables for sales of electricity	4,391	4,290	101	2%
Other current assets	930	665	265	40%
Inventory – fuel	2,204	1,489	715	48%
Inventory – stores	140	128	12	9%
Assets of disposal groups classified as held for sale	-	160	(160)	(100%)
Total current assets	**10,849**	**9,518**	**1,331**	**14%**
NON-CURRENT ASSETS				
Inventory - fuel	1,554	1,624	(70)	(4%)
Long-term receivables	2,220	2,294	(74)	(3%)
Investment in associate companies	11	4	7	175%
	3,785	**3,922**	**(137)**	**(3%)**
Assets with respect to benefits after employment termination:				
Excess pension plan assets over pension liability	8,086	6,787	1,299	19%
Funds in trust	1,313	1,493	(180)	(12%)
	9,399	**8,280**	**1,119**	**14%**
Fixed assets, net:				
Fixed assets in use, net	52,291	51,863	428	1%
Fixed assets under construction	7,034	7,260	(226)	(3%)
	59,325	**59,123**	**202**	**0%**
Intangible assets, net	1,175	1,188	(13)	(1%)
Total assets	**84,533**	**82,031**	**2,502**	**3%**
Debit balances of regulatory deferral accounts	10,038	8,581	1,457	17%
Total assets and debit balances of regulatory deferral accounts	**94,571**	**90,612**	**3,959**	**4%**

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 June 30, 2022 and December 31, 2021 are as follows: (continued)

	NIS in millions			
	June 30, 2022	December 31, 2021	Increase (decrease)	Percent %
CURRENT LIABILITIES				
Credit from banks and other credit providers	6,863	5,425	1,438	27%
Trade payables	3,211	2,786	425	15%
Other current liabilities	1,520	1,238	282	23%
Customer advances, net of work in progress	788	740	48	6%
Provisions	692	686	6	1%
Total current liabilities	**13,074**	**10,875**	**2,199**	**20%**
NON CURRENT LIABILITIES				
Debentures	26,766	24,488	2,278	9%
Liabilities to banks	3,572	5,155	(1,583)	(31%)
Liabilities with respect to other benefits after employment termination	5,787	6,874	(1,087)	(16%)
Deferred taxes, net	7,701	7,198	503	7%
Liability to the State of Israel	1,833	1,793	40	2%
Lease liabilities	482	542	(60)	(11%)
Other liabilities	485	592	(107)	(18%)
Total non-current liabilities	**46,626**	**46,642**	**(16)**	**(0%)**
EQUITY				
Share capital	908	908	-	0%
Capital reserves	742	684	58	8%
Capital remeasurement reserve	(1,482)	(2,074)	592	(29%)
Retained earnings	30,167	29,307	860	3%
	30,335	**28,825**	**1,510**	**5%**
Total liabilities and equity	**90,035**	**86,342**	**3,693**	**4%**
Credit balances of regulatory deferral accounts and taxes with respect to regulatory deferral accounts	4,536	4,270	266	6%
Total liabilities, equity and credit balances of regulatory deferral accounts	**94,571**	**90,612**	**3,959**	**4%**

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 increase in cash and cash equivalents is mainly derived from the proceeds received from the sale of the Hagit site, issue of debentures during the period offset by fuel purchases, and with respect to deposits to the insuring company which manages the reform pension supplement funds for the entitled employees. For additional details see Note 6f1a3 to the Financial Statements and the Company's Cash Flow Statement in the Financial Statements.
2) 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.
3) The increase in current fuel inventory is mainly due to an increase in coal prices due to the Russia-Ukraine war, for additional details see Note 1i to the Financial Statements.
4) The decrease in assets held for sale derives from the sale of the Hagit site, for further details see Note 5.
5) 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 offset by the negative returns in the plan's assets, during the report period.

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 six months ended on	
	June 30, 2022	June 30, 2021
	In NIS millions	
Power stations, CCGTs, structures	376	407
Sub-stations and high voltage lines	379	291
Switching stations and ultra-high 400 Kilowatt voltage lines	261	207
Distribution grids and meters	528	548
Inventory – stores	564	507
CCGTs 70-80	437	753
Joint property and others	177	181
Total	**2,722**	**2,894**

The main decrease in investments derives from a decrease in investments in the 70-80 CCGTs project; there is an increase in investments when neutralizing the abovementioned project.

c) **Current and Non-Current Liabilities**

1) The increase in the total amount of financial liabilities is mainly due to the issue of bonds, during the report period. For additional details, see Note 8 to the Financial Statements.
2) The decrease in liabilities due to other post-employment benefits is mainly due to the transfer of funds to the company that manages the funds of the reform pension supplement and the increase of the interest rate for capitalizing liabilities, for additional details see Note 6f1a3 to the Financial Statements.
3) The increase in suppliers is mainly due to an increase in fuel suppliers due to an increase in the price of coal.

d) **Regulatory deferral account**

For details regarding 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:**

Statements of Profit (Loss)	For the six months ended on June 30, 2022 In NIS millions	%	June 30, 2021 In NIS millions	%	Change In NIS millions	%	Paragraph
Revenues	10,581	100%	10,026	100%	555	6%	b
Cost of operating the electricity system	10,527	99%	9,007	90%	1,520	17%	c
Profit from operating the electricity system	**54**	**1%**	**1,019**	**10%**	**(965)**		
Other revenues	(1,378)	(13%)	(2)	(0%)	(1,376)		
Sales and marketing expenses	397	4%	436	4%	(39)	(9%)	
Administrative and general expenses	419	4%	365	4%	54	15%	
Expenses (income) from liabilities to pensioners, net	(70)	(1%)	(30)	(0%)	(40)	133%	
Reform agreement and other agreements' results	135	1%	147	1%	(12)		f2
Profit from current operations	**551**	**5%**	**103**	**1%**	**448**		
Financial expenses (income)	750	7%	920	9%	(170)	(18%)	e
Loss before income tax	**(199)**	**(2%)**	**(817)**	**(8%)**	**618**		
Income with respect to tax on income	(41)	(0%)	(186)	(2%)	145		
Loss after income tax	**(158)**	**(1%)**	**(631)**	**(6%)**	**473**		
Company's share of the profit of associate companies	2	0%	(9)	(0%)	11	(122%)	
Loss before regulatory deferral accounts	**(156)**	**(1%)**	**(640)**	**(6%)**	**484**		
Movement in regulatory deferral accounts balances, net of tax	1,016	10%	692	7%	324		
Profit for the period	**860**	**8%**	**52**	**1%**	**808**		
Consolidated Reports of Other Comprehensive Income (Loss):							
Profit with respect to cash flow hedging, net of tax	58	1%	15	0%	43		
Remeasurements of a defined benefit plan, net of tax	737	7%	645	6%	92	14%	f3
Movement in regulatory deferral accounts balances, net of tax	(145)	(1%)	8	0%	(153)		
Other Comprehensive Income for the period	**650**	**6%**	**668**	**7%**	**(18)**		
Comprehensive Income for the period	**1,510**	**14%**	**720**	**7%**	**790**		

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 10,581 million compared to NIS 10,026 million for the corresponding period of last year, an increase of approximately NIS 555 million deriving mainly from an increase in the electricity tariff compared to the corresponding period the previous year.

c) Cost of Operating the Electricity System

The cost of operating the electricity system in the reported period amounted to approximately NIS 10,527 million, as compared to approximately NIS 9,007 million in the corresponding period of last year, an increase of approximately NIS 1,520 million mainly deriving from an increase in fuels cost and 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 4,227 million, compared to approximately NIS 2,227 million in the corresponding period of last year, an increase of approximately NIS 2,000 million, which constitutes an increase of approximately 90%.

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

Following are details of the changes in NIS millions

Fuel Type	**Change in Consumption**	**Change in Prices**	**Total**
Crude	4	-	4
Coal	123	1,309	1,432
Diesel oil	52	3	55
Natural gas	307	171	478
Liquid gas - LNG	(258)	201	(57)
Total	**228**	**1,684**	**1,912**
Change in the provision for cruel oil impairment, emergency diesel oil cost and associated fuel costs.			18
Credit with respect to the Tamar agreement supplement in a corresponding period			70
Total			**2,000**

2) A decrease in electricity purchases of approximately NIS 416 million deriving mainly from a decrease in the volume of electricity purchased due to the transfer of activity from private suppliers to operating directly with Noga (the System Manager).

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)

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 six months ended June 30 2022	2021	Difference	Change in %
	NIS in millions			
Electricity system operation general	2,201	2,165	36	2%
Sales and marketing	84	85	(1)	(1%)
Administrative and general	80	71	9	13%
Other expenses (*)	-	10	(10)	(100%)
Total depreciation expenses and changes in impairment	**2,365**	**2,331**	**34**	**1%**

(*) Includes changes in provision for impairment with respect to disposal groups held for sale. For details of these disposal groups see Note 5 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)

e) Financial Expenses

	For the six months ended June 30		
	2022	**2021**	**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 12.54%	1,323	43	1,280
Revaluation of hedging transactions resulting from changes in the exchange rates during the period	(1,489)	(72)	(1,417)
Revaluation of hedging transactions resulting from changes in the Consumer Price Index during the period	425	164	261
Revaluation of hedge transactions to their fair value due to capitalization interest rates and credit risk	(103)	270	(373)
Linkage differentials due to index linked financial liabilities which increased at a rate of 3.13% in the report period compared to an increase of 1.4% in the same period the previous year	434	173	261
Total expenses due to exchange rate differences and linkage differences and revaluation of hedge transactions	**590**	**578**	**12**
b. Interest and Other Expenses			
Interest expenses	534	568	(34)
Other financing income	(115)	(80)	(35)
Total interest and other expenses:	**419**	**488**	**(69)**
Total financing expenses before capitalization	**1,009**	**1,066**	**(57)**
c. Capitalization of credit costs			
Financing expenses which were capitalized on projects under construction	259	146	113
Total financing expenses	**750**	**920**	**(170)**

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) The increase in revenues compared to the corresponding period last year derives from the sale of the Hagit site. For details see Note 1e3 to the Financial Statements.

2) 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 135 million, see Note 6f to the Financial Statements.

3) 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 92 million, deriving mainly from actuarial profits 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 during the report period.

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

4. **Comparison and Analysis of Operating Results for the Quarter compared to the Corresponding Quarter in the Previous Year:**

a) **Statements of Operations and Other Comprehensive Income in NIS Millions:**

	For the three months ended on				Change		
	June 30, 2022		June 30, 2021				Paragraph
Statements of Operations	**In NIS millions**	**%**	**In NIS millions**	**%**	**In NIS millions**	**%**	
Revenues	4,715	100%	4,956	100%	(241)	(5%)	b
Cost of operating the electricity system	5,023	107%	4,767	96%	256	5%	c
Profit (loss) from operating the electricity system	**(308)**	**(7%)**	**189**	**4%**	**(497)**	**(263%)**	
Other expenses (income)	(1,375)	(29%)	(7)	(0%)	(1,368)		
Sales and marketing expenses	204	4%	212	4%	(8)	(4%)	
Administrative and general expenses	216	5%	164	3%	52	32%	
Income from liabilities to pensioners, net	(38)	(1%)	(12)	(0%)	(26)	217%	
Results of the reform agreement	77	2%	59	1%	18		
Profit (loss) from current operations	**608**	**(13%)**	**(227)**	**(5%)**	**835**		
Financial expenses	88	2%	456	9%	(368)	(81%)	e
Profit (loss) before income tax	**520**	**11%**	**(683)**	**(14%)**	**1,203**		
Tax on income	122	3%	(156)	(3%)	278	(178%)	
Profit (loss) after income tax	**398**	**8%**	**(527)**	**(11%)**	**925**		
Company share in loss of associated companies	-	0%	(9)	0%	9	(100%)	
Profit (loss) before regulatory deferral accounts	**398**	**8%**	**(536)**	**(11%)**	**934**		
Transactions in balances of regulatory deferral accounts, net of tax	177	4%	503	10%	(326)	(65%)	
Income (loss) for the period	**575**	**12%**	**(33)**	**(1%)**	**608**		
Consolidated Reports of Other Comprehensive Income (Loss):							
Profit (loss) with respect to hedge of cash flow, net of tax	58	1%	(10)	(0%)	68	(680%)	
Re-measurements of a defined benefit plan, net of tax	(769)	(16%)	630	13%	(1,399)	(222%)	f3
Movement in regulatory deferral accounts balances, net of tax	(89)	(2%)	(6)	(0%)	(83)		
Other Comprehensive income (loss) for the period	**(800)**	**(17%)**	**614**	**12%**	**(1,414)**		
Comprehensive income (loss) for the period	**(225)**	**(5%)**	**581**	**12%**	**(806)**		

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

4. Comparison and Analysis of Operating Results for the Quarter compared to the Corresponding Quarter in the Previous Year (continued)

b) Revenues

The revenues for the reporting period amount to a sum of approximately NIS 4,715 million compared to approximately NIS 4,956 million for the corresponding period of last year, a decrease of approximately NIS 241 million, mainly deriving from the decrease in demand for electricity and the exit of the system management activity to the Noga Company which includes sales to private suppliers and system services partially offset by the increase in the tariff.

c) Cost of Operating the Electricity System

The cost of operating the electricity system in the reported period amounted to approximately NIS 5,023 million, as compared to approximately NIS 4,767 million compared to the corresponding quarter in the previous year, an increase of approximately NIS 256 million (approximately 5%), mainly deriving from an increase in fuel costs mainly offset by 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 1,976 million, compared to approximately NIS 1,109 million in the corresponding quarter in the previous year, an increase of approximately NIS 867 million.

The change to the cost of fuels consumption derives mainly from an increase in the coal price.

Following are details of the changes in NIS millions

Fuel Type	**Change in Consumption**	**Change in Prices**	**Total**
Crude	1	-	1
Coal	(189)	777	588
Diesel oil	29	1	30
Natural gas	144	87	231
Liquid gas - LNG	(139)	99	(40)
Total	**(154)**	**964**	**810**
Change in cost of emergency diesel oil associated with fuels and provisions			57
Total			**867**

2) A decrease in electricity purchases in the amount of NIS 550 million mainly deriving from a decrease in the volume of electricity purchased due to the transfer of activity from private suppliers to operating directly with Noga (the System Manager).

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

4. Comparison and Analysis of Operating Results for the Quarter compared to the Corresponding Quarter in the Previous Year (continued)

d) Depreciation and Amortization

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

	The three months ended June 30			
	2022	2021		
Depreciation and Amortization Expenses	NIS in millions		**Difference**	**Change in %**
Electricity system operation general	1,115	1,106	9	1%
Sales and marketing	42	43	(1)	(2%)
Administrative and general	41	35	6	17%
Other expenses (*)	-	5	(5)	(100%)
Total depreciation expenses and impairment changes	**1,198**	**1,189**	**9**	**1%**

(*) Including changes in impairment provisions with respect to disposal groups classified as held for sale. For details regarding these disposal groups, see Note 5 to the Financial Statements

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

4. Comparison and Analysis of Operating Results for the Quarter compared to the Corresponding Quarter in the Previous Year (continued)

e) Financial Expenses

	For the three months ended June 30 2022	2021	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 as a result of an increase of the dollar exchange rate of approximately 10.2%.	1,193	(310)	1,503
Revaluation of hedging transactions resulting from changes in the exchange rates during the period	(1,345)	298	(1,643)
Revaluation of hedging transactions resulting from changes in the Consumer Price Index during the period	274	152	122
Revaluation of hedge transactions to their fair value mainly deriving from changes of capitalization interest rates and credit risk which occurred during the report quarter	(330)	(5)	(325)
Linkage differentials due to index linked financial liabilities which increased at a rate of 1.93% in the quarter compared to an increase of 1.3% in the same quarter the previous year	279	163	116
Total expenses due to exchange rate differences and linkage differences and revaluation of hedge transactions	**71**	**298**	**(227)**
b. Interest and Other Expenses			
Interest expenses	265	271	(6)
Other financing income	(92)	(23)	(69)
Total interest and other expenses:	**173**	**248**	**(75)**
Total financing expenses before capitalization	**244**	**546**	**(302)**
c. Capitalization of credit costs			
Financing expenses which were capitalized on projects under construction	156	90	66
Total financing expenses	**88**	**456**	**(368)**

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)

4. Comparison and Analysis of Operating Results for the Quarter compared to the Corresponding Quarter in the Previous Year: (continued)

f) Additional Business Results during the Quarter:

1) The increase in other revenues compared to the corresponding period last year derives from the sale of the Hagit site. For additional details see Note 1e3 to the Financial Statements.

2) For details regarding the results of the reform agreement in the amount of approximately NIS 77 million and other agreements, see Note 6f to the Financial Statements.

3) 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 1,399 million, deriving mainly from losses in the plan's assets offset by an increase in the interest vector used to capitalize the actuarial liability in the three months ended on June 30, 2022, compared to an increase in revenue with respect to the plan's assets in the corresponding period of last year.

5. Liquidity for the Reporting Period

a) General:

1) Cash Flow from Operating Activities:

Cash flow from Operating Activities for the six months ended June 30, 2022 amounted to NIS 223 million, compared to NIS 2,633 million deriving from operating activities in the corresponding period last year. The change primarily derives from consumer refunds with respect to the sale of sites, fuel purchases and deposits to the insuring company. For details of the change, see Appendix A to the Cash Flow Statement in the Financial Statements.

2) Cash Flow for Investment Activities:

Cash flow used for investment activities in the three months ended June 30, 2022 reached NIS 929 million, compared to NIS 2,622 million in the corresponding period last year.
The change in the cash flow from investment activity of approximately NIS 1,693 million derives mainly from the proceeds received from the sale of the Hagit site.

3) Cash Flow from Financing Activity:

Cash flow deriving from financing activities in the three months ended June 30, 2022 amounted to NIS 1,039 million, compared to NIS 2,867 million that was used for financing activities in the corresponding period last year.
The change in the cash flow from financing activity of NIS 3,906 million derives mainly from the issue of debentures during the report period and a decrease in repayments of debentures, an increase in short-term credit repayments and transition from payment to receipt with respect to derivative disposal.

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)

5. 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 June 30, 2022 and December 31, 2021, is approximately NIS 32,171 million, and approximately NIS 31,436 million, respectively, detailed as follows:

		As at June 30, 2022	As at December 31, 2021
		Millions in NIS	
Liabilities in Index-Linked NIS			
Negotiable debentures		11,265	8,982
Non-negotiable debentures		2,186	2,786
Loans from the State of Israel		1,896	1,858
Total		**15,347**	**13,626**
Non-linked NIS Liabilities			
Negotiable debentures		1,902	1,902
Loans		1,500	1,500
Total		**3,402**	**3,402**
Dollar Linked Liabilities			
Debentures in the US		13,965	10,854
Loans	*	334	339
Total		**14,299**	**11,193**
Liabilities denominated in other foreign currencies:			
Debentures in Japan in Yen		1,411	1,486
Loans in Euros		316	340
Total liabilities		**34,775**	**30,047**
Coal Company's USD loan		-	27
Premiums, discount and deferred expenses		465	595
Classification into current maturities		(4,682)	(2,366)
Long term hedge transactions		1,613	3,133
Total debentures, liabilities to banks and long term liabilities to the State of Israel		**32,171**	**31,436**

* Including loans guaranteed by the State of Israel in the sum of NIS 156 million as of June 30, 2022, and NIS 162 million as of December 31, 2021.

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

5. Liquidity for the Reporting Period (continued)

b) Financing Sources (continued)

3) Average Long Term Credit for the three months ended June 30, 2022

Credit is taken from banking corporations, debenture issuances and others. The average credit for the reporting periods was approximately NIS 35,198 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 June 30				As of December 31	
	2022		2021		2021	
	Days	Credit average **	Days	Credit average **	Days	Credit average **
Trade payables	39	2,684	40	1,260	38	1,876
Trade receivables *	62	3,538	61	3,374	56	3,437
Trade receivables excluding the debts of the Palestinian Authority and the East Jerusalem Electricity Company (see Note 4 to the Financial Statements)*	46	2,338	48	2,392	44	2,441

(*) 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)

6. 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 on December 14-16, 2021 (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 six months ended on June 30		For the year ended on December 31
	2022	2021	2021
	(NIS in millions)		
Profit (loss) before tax	(199)	(817)	(1,286)
Financial expenses (income)	750	920	1,912
Depreciation and reductions	2,365	2,331	4,664
Total	2,916	2,434	5,290
Movement in regulatory deferral accounts	855	650	2,352
Neutralizing special and non-current events	(119)	-	(169)
Normalized EBITDA	**3,652**	**3,084**	**7,473**

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

6. **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 June 30		As of December 31
	2022	2021	2021
	(NIS in millions)		
Credit from banking corporations and other credit provider	6,863	3,682	5,425
Debentures	26,766	25,255	24,488
Liabilities to banking corporations	3,572	2,838	5,155
Liabilities to the State of Israel	1,833	1,771	1,793
Liabilities for leases	482	634	542
CPI linkage differentials regulatory account	(1,448)	(599)	(913)
Real financial debt, gross	**38,068**	**33,581**	**36,490**
Less:			
Cash and cash-equivalents	2,827	1,252	2,454
Hedging transactions and deposits for securing the swap transactions	1,266	1,070	1,275
Short-term investments	357	357	332
Real financial debt, net	**33,618**	**30,902**	**32,429**

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 six months ended June 30,		For the year ended December 31
	2022	2021	2021
	(in NIS millions)		
Real net financial debt (see section b above)	33,618	30,902	32,429
Neutralizing regulatory asset for linkage differential	1,448	599	913
Neutralizing hedge transactions debit balances and deposits to secure swap transactions	1,266	1,070	1,275
Plus interest and accrued expenses	725	591	658
Total debt pursuant to the Companies Authority circular	**37,057**	**33,162**	**35,275**

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

6. 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 six months ended June 30,		For the year ended December 31,
	2022	2021	2021
	(in NIS millions)		
EBITDA before normalizations (see section a above)	2,916	2,434	5,290
Change in employee benefits according to cash flow report	134	176	426
Other expenses (revenues), net	(1,378)	(2)	15
Interest and taxes paid according to the cash flow report	(566)	(670)	(1,316)
FFO	**1,106**	**1,938**	**4,415**
Plus interest and taxes paid according to the cash flow report	566	670	1,316
Less depreciation and amortization	(2,365)	(2,331)	(4,664)
Plus movement in regulatory deferral accounts	2,018	440	1,990
Return (ROCE)	**1,325**	**717**	**3,057**

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

	For the six months ended June 30,		For the year ended December 31,
	2022	2021	2021
	(in NIS millions)		
Equity	30,335	27,448	28,825
Debt pursuant to the circular of the Companies Authority	37,057	33,162	35,275
Plus cash and short-term investments	3,184	1,609	2,786
Capital employed	**70,576**	**62,219**	**66,886**

b. Linkage Basis Report

	As on June 30, 2022 (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	424	86	-	-	2,317	-	2,827
Short term investments	175	182	-	-	-	-	357
Trade receivables for sale of electricity	-	-	-	-	4,391	-	4,391
Other current assets	214	-	-	239	346	131	930
Inventory – fuels	-	-	-	-	-	2,204	2,204
Inventory – stores	-	-	-	-	-	140	140
Long term inventory – fuels	-	-	-	-	-	1,554	1,544
Long term receivables	1,570	-	-	151	499	-	2,220
Investment in associates	-	-	-	-	-	11	11
Assets with respect to benefits after employment termination	-	-	-	-	-	9,399	9,399
Fixed assets, net	-	-	-	-	-	59,325	59,325
Intangible assets, net	-	-	-	-	-	1,175	1,175
Debit balances of regulatory deferral accounts	-	-	-	-	-	10,038	10,038
Total	**2,383**	**268**	**-**	**390**	**7.533**	**83,977**	**94,571**

* 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 June 30, 2022 (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	2,594	65	(1)	2,448	1,757	-	6,863
Trade payables	1,094	211	-	-	1,906	-	3,211
Other current liabilities	131	-	14	182	1,193	-	1,520
Customer advances from work orders, net of work in progress	-	-	-	-	-	788	788
Provisions	-	-	-	-	-	692	692
Debentures, liabilities to banks and other liabilities	11,876	224	1,406	12,491	2,737	476	29,210
Long term Lease liabilities	52	-	-	428	2	-	482
Liabilities with respect to long term hedging transactions	(14,605)	(316)	(1,416)	14,817	3,133	-	1,613
Liability to the State of Israel	-	-	-	1,833	-	-	1,833
Liabilities with respect to benefits after employment termination	-	-	-	-	-	5,787	5,787
Deferred taxes, net	-	-	-	-	-	7,701	7,701
Equity	-	-	-	-	-	30,335	30,335
Credit balances of regulatory deferral accounts, net of tax	-	-	-	-	-	4,536	4,536
Total	**1,142**	**184**	**3**	**32,199**	**10,728**	**50,315**	**94,571**
Total, net	**1,241**	**84**	**(3)**	**(31,809)**	**(3,175)**	**33,662**	-
Exposures covered by the electricity tariff**	(777)	-	-	777	-	-	-
Total exposure, net	**464**	**84**	**(3)**	**(31,032)**	**(3,175)**	**33,662**	-

* 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 LNG Regasification Vessel and in respect of the lease of the Coal Company ships, the balance of which as of June 30, 2022 is approximately NIS 64 million and approximately NIS 76 million, respectively. 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 917 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, 2021, 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 June 2022, 57 reports were prepared in total.
During this period, the Audit Committee of the Board of Directors held 5 discussions on the internal audit reports on: January 27, 2022, February 24, 2022, April 7, 2022, May 26, 2022, and June 23, 2022.

As of May 2022, the Public Complaints Commission, which handles customer complaints in the consumer sector, and which was subordinate to the Internal Auditor, was transferred to the Service, Marketing and Regulatory Division, which coordinates the handling of customer inquiries and complaints.

2. Directors with Accounting and Financial Expertise and External Directors

On April 6, 2022, the meeting of the Company’s shareholders resolved to appoint Mr. Michael Schnider as an external director in the Company for a term of three years. After the aforesaid appointment, and as of the date of publication of the report, there are two external directors serving in the Company as required by the Companies Law, 1999.
As of the report date, 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).

It is further noted that 4 of the members of the Company’s Board of Directors are expected to end their term in office during September 2022. Upon the end of their service, and insofar as additional Directors will not be appointed and/or the term in office of serving Directors will not be renewed, the number of Directors serving in the Company will decrease to six Directors only, which does not meet the required legal quorum set in the Company’s Articles of Association under which the number of Directors serving in the Company will not be less than 7 Directors (“Legal Quorum”). In the absence of a Legal Quorum, regular and continuous conduct of the Company's Board of Directors and its Committees will not be possible.
In light of the aforesaid, the Company applied to the Government Companies Authority with requests to act urgently to appoint additional Directors to the Company (above the Legal Quorum), and in particular to act to appoint Directors with accounting and financial expertise, in order to allow the Board of Directors and its Committees, and the Company, to act in a continuous and proper manner, noting that a Chairman of the Board of Directors has not yet been appointed and the appointment of the Company’s CEO has not yet been completed, as detailed in section 3 below.

3. Appointments and Termination of Offices:

a) On April 6, 2022, the Company’s Board of Directors decided to elect the director Mr. Dov Baharav as Chairman of the Company’s Board of Directors, subject to the approval of the Minister of Energy and the Minister of Finance (the “Ministers”). On April 26, 2022, before the approval by the Ministers as foresaid, Mr. Dov Baharav announced his resignation from the position of Director in the Company, while raising claims regarding the correctness of the proceedings for selecting a CEO for the Company and the procedure for locating a Secretary of the Company's Board of Directors, as detailed in an immediate report of April 26, 2022 (reference no.: 2022-01-051172), which is included in this report by way of reference.

b) On April 14, 2022, the Company’s Board of Directors unanimously decided to adopt the recommendations of the search committee and appoint Mr. Meir Spigler to the position of Company CEO.

   On June 20, 2022, the Committee for Reviewing Appointments in Governmental Companies, chaired by the Honorable Retired Judge Bilha Gilor, approved the appointment of Mr. Spigler to the position of the Electric Company’s CEO. The completion of Mr. Spigler’s appointment as Company CEO requires the approval of the Ministers, which as of the date of publication of the report, has not yet been received.

   The Company applied to the Head of the Government Companies Authority and the Ministers with an urgent request to assist it in advancing the appointment of the Chairman of the Board of Directors and completing the appointment procedure of Mr. Spigler as Company CEO.

   On July 21, 2022, the Company’s Board of Directors decided to appoint Mr. Spigler as Acting CEO, subject to submission of an application and receiving the approval of the Government Companies Authority for it, which have not yet been fulfilled, and therefore the appointment of Mr. Spigler as Acting CEO has not entered into effect.

c. Aspects of Corporate Governance (continued)

3. Appointments and Termination of Offices: (continued)

c) On April 27, 2022, April 28, 2022, and May 1, 2022, the Company received letters from the Minister of Energy, the Government Companies Authority, and the Head of the Government Companies Authority, respectively, in which the Company was requested to submit clarifications and comments relating to the appointment procedures for the positions of the Company's CEO and Secretary of the Board of Directors, for the purpose of examining the correctness of the said appointment procedures. The Company’s position, as submitted to the Minister and the Government Companies Authority, is that both the CEO search procedure and the Secretary of the Board of Directors search procedure were conducted in a professional, proper, fair and appropriate, equitable, transparent, documented and reasoned manner and in accordance with all the provisions of the Law, rulings, the circular of the Government Companies Authority and its guidelines and/or Company procedures.

On May 3, 2022, the Head of the Government Companies Authority notified the Company that it has ordered an inspection, through an independent external examiner on behalf of the Authority, regarding the search procedures for the selection of a CEO and Secretary of the Board of Directors (hereinafter respectively: the “Examiner” and the “Special Inspection”).

The results of the Special Inspection were received by the Company on June 28, 2022, under which it was found that the search process for a CEO was conducted properly, while adhering to the provisions of the law and the Companies Authority circular for the appointment of a CEO in a Government company and closely accompanied by a placement company from the Government Companies Authority’s pool, a senior representative from the Government Companies Authority and representatives of the Company's legal office. The examiner also determined that none of the claims claimed by Mr. Baharav were true, regarding the search procedure and the work of the CEO Search Committee, and the same applies to the selection procedure for the Secretary of the Board of Directors. In light of the completion of the examiner's work and its conclusions, the appointment procedure for the Secretary of the Board of Directors has been completed and she has started her position.

d) In its meeting of May 1, 2022, the Company’s Board of Directors resolved to appoint Mr. Ram Erlichman as acting CEO from May 9, 2022 for periods that were extended from time to time, in accordance with the decisions of the Board of Directors which were made accordingly.

e) On May 2, 2022, Mr, Avi Doitchman, Senior VP Finances, Economics and Risk Management, announced the end of his term in the Company. The end of his term is as of September 1, 2022.

f) The term of office of the Company CEO, Mr. Ofer Bloch, ended on May 9, 2022.

g) On June 28, 2022, Ms. Yael Nevo, VP, Legal Counsel, announced the end of her term in office as of October 1, 2022.

h) Mr. Dov Cohen, VP Operations and Logistics, will end his term in the Company as of October 1, 2022.

i) In its meeting of August 18, 2022, the Company’s Board of Directors resolved to appoint Mr. Gilad Hassid as Acting VP Finances, Economics and Risk Management of the Company, as of September 1, 2022.

j) In its meeting of August 18, 2022, the Company’s Board of Directors resolved to appoint Mr. Gershon Berkowitz as Acting VP, Legal Counsel of the Company, as of October 1, 2022.

k) In its meeting of August 18, 2022, the Company’s Board of Directors resolved to appoint Ms. Tamar Pekler as Acting VP Operations and Logistics, as of the end of term in office of Mr. Dov Cohen.

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 which 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 2ac 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, 2021.
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:	June 30, 2022
The value of the subject of the valuation determined in accordance with the evaluation	NIS 36,980 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 - 2.01% 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 2013-3-1, 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 the date of this report, the Company has a working capital deficit, however, as the Company's Board of Directors determined that this does not indicate a liquidity problem for the Company, there is no warning sign for the Company as specified in Section 10(b)(14)(a)(4) of the Securities Regulations (Periodic and Immediate Reports) - 1970.

The Company’s Board of Directors, in its meeting on August 18, 2022, after hearing Management’s assessments regarding the possibility of receiving financing and to offer bonds on the capital markets and/or the banking system in Israel and/or abroad, and taking into consideration the balance of cash and the short-term investments as of the balance sheet date, amounting to approximately NIS 3.1 billion (see in addition the policy of the Company to hold a security cushion, in section a1c above), the plans to sell the Eshkol power station and the expected proceeds in accordance with that detailed in Note 1e1 to the 2021 Financial Statements, the rate coverage with respect to the coal price increase, as detailed in Note 3a to the Financial Statements, and in light of the measures taken by the Company, including the issuance and expansion of securities during the period of the Statement of Financial Position, as specified in Note 8 of the Financial Statements, as well as measures taken by the Company in order to raise additional required amounts, determined that the aforesaid working capital deficit does not indicate a liquidity problem for the Company. Therefore, the Company is not required to publish a projected cash flow report.

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

Following are details regarding the negotiable debentures as of June 30, 2022, 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	1,356	2,610	2,956	547	1,971	1,202	1,920
Index linkage basis	Unlinked	Linked	Linked	Unlinked	Linked	Linked	Linked
Nominal value including linkage to the CPI (in the linked series)	1,356	2,776	3,165	547	2,075	1,250	1,998
Accumulated interest	14	23	48	4	14	12	2
Stock exchange value (which also constitutes fair value)	1,403	3,278	3,651	555	2,264	1,285	1,872

For details on the expansion of the debentures of series 32 and 33 on May 2, 2022, see Note 8a to the Financial Statements.

For additional details see section D in the Report of the Board of Directors for the year ended December 31, 2021.

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.

Ram Erlichman	Shlomo Arbiv
Acting Chief Executive Officer	External Director*

Date of Approval: August 18, 2022

* **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 August 18, 2022, 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 June 30, 2022, 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 Six Months Ended
June 30, 2022

Prominent Disclaimer

This English translation of the **"Additional Report Regarding the Effectiveness of the Internal Control Over Financial Reporting"** for the six months ended June 30, 2022 ("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, 2021, 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 six months ended on June 30, 2022, 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.

Avi Doitchman	Ram Erlichman	Shlomo Arbiv
Senior Vice-President of Finance, Economics and Risk Management	Acting Chief Executive Officer	External Director*

August 18, 2022

*** 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 August 18, 2022, 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 June 30, 2022, 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 Six and Three Months Ended June 30, 2022

<u>Prominent Disclaimer</u>

This English translation of the **“Consolidated Interim Financial Statements”** for the six and three months ended June 30, 2022 ("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.

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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 June 30, 2022 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six and three month periods 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 interim periods of a consolidated company whose assets included in consolidation represent less than 1% of total consolidated assets as at June 30, 2022, and the income included in consolidation represents 0% of all consolidated income for the six and three month periods 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, August 18, 2022

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 August 18, 2022 on the condensed consolidated financial information of the Company as at June 30, 2022 and for the six and three month periods ended on that date.

Yours truly

Somekh Chaikin

Haifa, August 18, 2022

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, Avi Doitchman, 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 six and three months ended June 30, 2022 (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.

Avi Doitchman
Senior Vice-President of Finance, Economics
and Risk Management

August 18, 2022

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, Ram Erlichman, 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 six and three months ended June 30, 2022 (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.

Ram Erlichman
Acting Chief Executive Officer

August 18, 2022

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 six and three months ended June 30, 2022 (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.

Shlomo Arbiv
External Director *

August 18, 2022

*** 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 August 18, 2022, 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 June 30, 2022 in lieu of the signature of the Chairman of the Board of Directors.

(NEW ISRAELI SHEKELS, IN MILLIONS)

	Note	As of June 30 2022	As of June 30 2021	As of December 31 2021
		Unaudited	Unaudited	Audited
CURRENT ASSETS				
Cash and cash equivalents		2,827	1,252	2,454
Short term investments		357	357	332
Trade receivables for sales of electricity	4	4,391	4,406	4,290
Other current assets		930	801	665
Inventory - fuel		2,204	746	1,489
Inventory - stores		140	146	128
Assets of disposal groups classified as held for sale	5	-	118	160
Total current assets		10,849	7,826	9,518
NON-CURRENT ASSETS				
Inventory - fuel		1,544	1,689	1,624
Long-term receivables		2,220	2,224	2,294
Investment in associates		11	4	4
Assets with respect to benefits after employment termination:	6			
Excess pension plan assets over pension liability		8,086	6,263	6,787
Funds in trust		1,313	1,569	1,493
		9,399	7,832	8,280
Fixed assets, net:				
Fixed assets in use, net		52,291	52,199	51,863
Fixed assets under construction		7,034	6,321	7,260
		59,325	58,520	59,123
Intangible assets, net		1,175	1,217	1,188
Total non-current assets		73,684	71,486	72,513
Total assets		84,533	79,312	82,031
Debit balances of regulatory deferral accounts	7	10,038	7,037	8,581
Total assets and debit balance of regulatory deferral accounts		**94,571**	**86,349**	**90,612**

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

(NEW ISRAELI SHEKELS, IN MILLIONS)

	Note	As of June 30 2022	As of June 30 2021	As of December 31 2021
		Unaudited	Unaudited	Audited
CURRENT LIABILITIES				
Credit from banks and other credit providers	8	6,863	3,682	5,425
Trade payables		3,211	2,932	2,786
Other current liabilities		1,520	1,329	1,238
Customer advances, net of work in progress		788	671	740
Provisions		692	721	686
Liabilities of disposal groups classified as held for sale	5	-	146	-
Total current liabilities		13,074	9,481	10,875
NON-CURRENT LIABILITIES				
Debentures	8	26,766	25,255	24,488
Liabilities to banks	8	3,572	2,838	5,155
Liabilities with respect to other benefits after employment termination	6	5,787	6,630	6,874
Deferred taxes, net		7,701	6,769	7,198
Liability to the State of Israel	8	1,833	1,771	1,793
Lease liabilities		482	634	542
Other liabilities		485	572	592
Total non-current liabilities		46,626	44,469	46,642
Total liabilities		59,700	53,950	57,517
EQUITY				
Share capital		908	908	908
Capital reserves		742	773	684
Capital remeasurement reserve		(1,482)	(2,307)	(2,074)
Retained earnings		30,167	28,074	29,307
Total equity		30,335	27,448	28,825
Total liabilities and equity		90,035	81,398	86,342
Credit balances of regulatory deferral accounts and deferred taxes with respect to regulatory deferral accounts	7	4,536	4,951	4,270
Total liabilities, equity and credit balance of regulatory deferral accounts		**94,571**	**86,349**	**90,612**

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

Mr. Avi Doitchman **Senior Vice-President of Finance, Economics and Risk Management**	**Mr. Ram Erlichman** **Acting Chief Executive Officer**	**Mr. Shlomo Arbiv** **External Director***

Date of approval of the Financial Statements: August 18, 2022

* **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 August 18, 2022, 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 June 30, 2022, in lieu of the signature of the Chairman of the Board of Directors.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)
(NEW ISRAELI SHEKELS, IN MILLIONS)

	Note	For the Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
		2022	2021	2022	2021	2021
		Unaudited		Unaudited		Audited
Consolidated Statements of Profit (Loss)						
Revenues	9	10,581	10,026	4,715	4,956	22,150
Cost of operating the electricity system:						
Fuels		4,227	2,227	1,976	1,109	5,875
Purchases of electricity		2,868	3,284	1,327	1,877	6,872
Operation of the generation system		2,026	2,119	1,036	1,098	4,086
Operation of the transmission and distribution system and others		1,406	1,377	684	683	2,740
		10,527	9,007	5,023	4,767	19,573
Profit (loss) from operating the electricity system		54	1,019	(308)	189	2,577
Other expenses (revenues), net	1e3	(1,378)	(2)	(1,375)	(7)	15
Sales and marketing expenses		397	436	204	212	853
Administrative and general expenses		419	365	216	164	782
Income from liabilities to pensioners	6n	(70)	(30)	(38)	(12)	(47)
Reform agreement and other agreements' results	6f	135	147	77	59	348
		(497)	916	(916)	416	1,951
Profit (loss) from current operations		551	103	608	(227)	626
Financial expenses, net		750	920	88	456	1,912
Income (loss) before income taxes		(199)	(817)	520	(683)	(1,286)
Income tax expenses (income)		(41)	(186)	122	(156)	(266)
Income (loss) after income tax		(158)	(631)	398	(527)	(1,020)
Company's share of the profit (losses) of associate companies		2	(9)	-	(9)	(9)
Income (loss) before regulatory deferral accounts		(156)	(640)	398	(536)	(1,029)
Movement in regulatory deferral accounts balances, net of tax	7	1,016	692	177	503	2,314
Profit (loss) for the period		**860**	**52**	**575**	**(33)**	**1,285**
Consolidated Statements of Other Comprehensive Income (Loss):						
Amounts that will be attributed in the future to the Statement of Profit (Loss):						
Profit (loss) with respect to cash flow hedging, net of tax		58	15	58	(10)	(74)
Amounts that will not be attributed in the future to the Statement of Profit (Loss):						
Remeasurement of a defined benefit plan, net of tax	6l	737	645	(769)	630	776
Movement in regulatory deferral accounts balances, net of tax	7	(145)	8	(89)	(6)	110
		592	653	(858)	624	886
Other comprehensive income (loss) for the period, net of tax		**650**	**668**	**(800)**	**614**	**812**
Comprehensive income (loss) for the period		**1,510**	**720**	**(225)**	**581**	**2,097**

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

(NEW ISRAELI SHEKELS, IN MILLIONS)

	For the Six Months ended on June 30, 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	-	-	-	860	860
Other comprehensive income for the period	-	58	592	-	650
Balance as of June 30, 2022	**908**	**742**	**(1,482)**	**30,167**	**30,335**

	For the Six Months ended on June 30, 2021				
	Paid-up share capital	**Capital reserves**	**Capital remeasurement reserves**	**Retained earnings**	**Total**
			Unaudited		
Balance as of January 1, 2021	908	758	(2,960)	28,022	26,728
Profit for the period	-	-	-	52	52
Other comprehensive income for the period	-	15	653	-	668
Balance as of June 30, 2021	**908**	**773**	**(2,307)**	**28,074**	**27,448**

	For the Three Months ended on June 30, 2022				
	Paid-up share capital	**Capital reserves**	**Capital remeasurement reserves**	**Retained earnings**	**Total**
			Unaudited		
Balance as of April 1, 2022	908	684	(624)	29,592	30,560
Profit for the period	-	-	-	575	575
Other comprehensive income (loss) for the period	-	58	(858)	-	(800)
Balance as of June 30, 2022	**908**	**742**	**(1,482)**	**30,167**	**30,335**

	For the Three Months ended on June 30, 2021				
	Paid-up share capital	**Capital reserves**	**Capital remeasurement reserves**	**Retained earnings**	**Total**
			Unaudited		
Balance as of April 1, 2021	908	783	(2,931)	28,107	26,867
Loss for the period	-	-	-	(33)	(33)
Other comprehensive income (loss) for the period	-	(10)	624	-	614
Balance as of June 30, 2021	**908**	**773**	**(2,307)**	**28,074**	**27,448**

	For the Year Ended on December 31, 2021				
	Paid-up share capital	**Capital reserves**	**Capital remeasurement reserves**	**Retained earnings**	**Total**
			Audited		
Balance as of January 1, 2021	908	758	(2,960)	28,022	26,728
Profit for the year	-	-	-	1,285	1,285
Other comprehensive income (loss) for the year	-	(74)	886	-	812
Balance as of December 31, 2021	**908**	**684**	**(2,074)**	**29,307**	**28,825**

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

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

	For the Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	**2021**	**2022**	**2021**	**2021**
	Unaudited		Unaudited		Audited
Cash flow from operating activities:					
Income (loss) before regulatory deferral accounts according to the statement of profit and loss	(156)	(640)	398	(536)	(1,029)
Adjustments required to present cash flow from operating activities - Annex A	379	3,273	(38)	1,815	5,789
Net cash deriving from operating activities	**223**	**2,633**	**360**	**1,279**	**4,760**
Cash flow for investing activities:					
Investment in fixed assets and intangible assets	(2,632)	(2,650)	(1,289)	(1,213)	(5,502)
Proceeds from sale of fixed assets	1,713	17	1,705	5	149
Loan to an associate company	(5)	-	-	-	-
Long-term receivables, net	(6)	11	2	26	106
Repayment of bank deposits, net	1	-	-	-	-
Net cash deriving from (used for) investing activities	**(929)**	**(2,622)**	**418**	**(1,182)**	**(5,247)**
Cash flow from financing activities:					
Issuance of long-term debentures	3,558	-	1,960	-	1,200
Receipt of other long-term loans	-	-	-	-	1,500
Repayment of long-term debentures	(697)	(1,279)	(29)	(28)	(2,504)
Repayment of other long-term loans	(127)	(102)	(126)	(101)	(181)
Proceeds (payment) from settlement of derivatives	101	(1,229)	103	(1,070)	(1,412)
Repayment (depositing) deposits to secure swap transactions, net	506	(433)	489	(425)	(822)
Changes in short-term credit from banks, net	(1,597)	975	(1,330)	924	2,633
Repayment of lease liabilities	(146)	(136)	(77)	(67)	(275)
Interest and commissions paid, net	(559)	(663)	(345)	(360)	(1,302)
Net cash deriving from (used for) financing activities	**1,039**	**(2,867)**	**645**	**(1,127)**	**(1,163)**
Increase (decrease) in cash and cash equivalents	333	(2,856)	1,423	(1,030)	(1,650)
Effect of exchange rate fluctuations on cash and cash equivalent balances	40	1	14	(4)	(3)
Balance of cash and cash equivalents at the beginning of the period	**2,454**	**4,107**	**1,390**	**2,286**	**4,107**
Balance of cash and cash equivalents at the end of the period	**2,827**	**1,252**	**2,827**	**1,252**	**2,454**

(NEW ISRAELI SHEKELS, IN MILLIONS)

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

	For the Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	Unaudited		Unaudited		Audited
Income and expenses not affecting cash flow:					
Company's share in losses (profit) of associates	(2)	9	-	9	9
Depreciation and amortization and changes in impairment	2,365	2,331	1,198	1,189	4,664
Income tax expenses (income)	(41)	(186)	122	(156)	(266)
Change in liabilities with respect to employee benefits, net	134	176	81	75	426
Financing expenses recognized in Statement of Profit and Loss	750	920	88	456	1,912
Capital loss (gain) on disposal and sale of fixed assets	(1,364)	28	(1,372)	19	51
	1,842	**3,278**	117	**1,592**	**6,796**
Changes in assets and liabilities:					
Change in trade receivables for sales of electricity	(101)	194	689	81	310
Change in other current assets (including long-term receivables)	(66)	(65)	109	164	171
Change in inventory (including noncurrent inventory)	(657)	(113)	(746)	58	(814)
Deposits in funds, and non-fund payments	(1,234)	(615)	(524)	(244)	(1,130)
Change in customer advances for work ordered, net of work in progress	48	93	(11)	46	172
Change in trade payables (including long-term)	251	476	154	223	400
Change in other current liabilities (including those presented in long-term)	303	32	179	(101)	(102)
	(1,456)	**2**	**(150)**	**227**	**(993)**
Taxes on income, which have been paid	(7)	(7)	(5)	(4)	(14)
	379	**3,273**	**(38)**	**1,815**	**5,789**

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") 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, 2021, 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

Over the years, Israeli Governments have made decisions that concern the electricity sector. Some of the decisions have not yet been implemented due to various considerations.

For issues concerning material Government Resolutions, 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. The Generation Subsidiary

Further to the contents of Note 1e9 of the Annual Financial Statements, as of the approval date of the Financial Statements, the contingent condition for approval of the agreements by the authorized organs has not yet been fulfilled. It is noted that the comments of the Governmental Team to the agreements have been received and a response to these comments was sent by the Company to the Team. However, the discussions with the Governmental Team have not yet been completed.

2. Construction of Combined Cycle Power Stations (CCGTs)

Further to the contents of Note 1e9 of the Annual Financial Statements, regarding the expected forecast for activation of the CCGTs at the Orot Rabin site, as of the approval date of the Financial Statements there are delays to the activation dates. The Company estimates that the expected forecast for stable activation of unit 70 will be postponed to April 30, 2023 and that of unit 80 will be postponed to January 31, 2024.
As of the Statement of Financial Position date, the Company has invested an amount of approximately NIS 3,002 million in the construction of the two CCGTs at the Orot Rabin site.

3. Sale of Sites

East Hagit

On June 1, 2022, all the contingent conditions for the completion of the transactions were fulfilled, and inter alia, the Electricity Authority reached a decision to grant generation licenses to the purchaser of the East Hagit site (East Hagit Power Plant Limited Partnership), whose members are: Shikun & Binui Energy, Edeltech Energy & Infrastructure and Edeltech Renewable Energy. The licenses entered into effect following the approval of the Minister of Energy, and a total of approximately NIS 1,641 million (including linkage and without VAT) was received from the purchaser. Possession of the site was transferred to the purchaser upon receipt of the payment. As a result, the Company recorded a profit from the sale of approximately NIS 1,376 million in the other revenues items, and against that a regulatory liability was recorded in the amount of approximately NIS 1,257 million, since, in accordance with the Electricity Authority's decision, the consideration exceeding the site's rate value plus the land value will be refunded to customers.

Reading

Further to the contents of Note 1e9 of the Annual Financial Statements, regarding the approval of the Minister of Energy and the Electricity Authority's Plenum to extend the Company's licenses for the Reading site by six months, until June 3, 2022, on June 1, 2022, on the Company received licenses for the Reading site signed by the Minister of Energy, up to December 3, 2022, after the Economic Affairs Committee of the Knesset approved the extension of the licenses by an additional (third) six-month extension period, until this date, in accordance with the provisions of section 60A(c) of the Electricity Sector Law, 1996, and after receiving the approval of the Minister of Energy and the Electricity Authority's Plenum for the aforesaid extension. The aforesaid extension is pursuant to the position of the system manager, under which the extension of the licenses is necessary for maintaining the electricity supply reliability and the system's survivability.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

3. Sale of Sites (continued)

Reading (continued)

In addition, following the Company's applications to the Ministry of Energy and the Electricity Authority, requesting the regulation of the issue of the future and advancement of the Reading site's operation, after the Statement of Financial Position date, on July 3, 2022, the Company received a letter from the Ministry of Energy and the Electricity Authority, stating that even though the conditions for reaching a final decision regarding the continuation of the units' activity have not yet been met, chief among them the mandatory condition of NOP 10/A/3/3 approval, an approval was granted to execute the preliminary preparatory works required during the second half of 2022, at a scope not exceeding a cost of approximately NIS 15 million, in order to reduce the risk of non-supply of electricity and in order to enable the existence of one of the two alternatives that are up for decision by the National Council. It was clarified in the letter that cost recognition will be carried out in accordance with an orderly procedure of cost control by the Electricity Authority, as customary.

Eshkol

Further to the contents of Note 1e1 of the Annual Financial Statements, after the Statement of Financial Position date, on July 5, 2022, a decision proposal for a hearing was published, including rate regulation for the activity of the generation unit at the Eshkol site after its sale. See Note 3g below.

Further to the contents of Note 1e9 of the Annual Financial Statements, as of the date of approval of the Financial Statements, the Company is unable to estimate the precise implications of the additional regulations and approvals which have not yet been formulated or given, with regards to its financial state and the results of its operations.

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. The Orot Rabin emission permit:

Following the contents of Note 1g of the Company's Annual Financial Statements concerning the date of placing units 1-4 at the Orot Rabin site into preservation, the 2022 shut-down plan and the coal basket contents, on March 16, 2022, the Company submitted an application to the Ministry of Environmental Protection (hereinafter: the "Ministry"), requesting changes in these issues in the emission permit of Orot Rabin. Following discussions with the Ministry, the Company submitted an updated application on April 14, 2022.

With regard to the date of placing units 1-4 into preservation and in light of the Noga Company's position regarding the reliability of the electricity supply, the Company requested an update of the emission permit so that the first two units will be shut-down and placed into preservation after the commercial activation of CCGT unit 70, and two additional units will be shut-down and placed into preservation after the commercial activation of CCGT unit 80.

Regarding the coal basket for Orot Rabin, due to severe disruptions in the supply of coal from Russia, the global shortage of coal, and the sharp increase in demand for coal, the Company requested an update of the conditions of the sulfur content of coal in the site's emission permit, so that the sulfur content of the coal will not exceed 0.8% by weight at any time.

Regarding the shut-down of one of the 1-4 units for 300 days in 2022, following the Noga Company's position, according to which for network considerations the 1-4 units can only be shut-down for a period of 177 days, in previous applications to the Ministry, the Company requested a reduction of the shut-down days to 177 days. The Ministry of Environmental Protection gave the Company approval to shut-down units 1-4 for 240 days pursuant to section 5(h) of the emission permit and clarified that an additional reduction requires the amendment of the emission permit. Accordingly, as part of its application to amend the permit, the Company requested that it will be clarified that 300 shut-down days apply to the entire year of 2022, and additionally that the Noga Company will be allowed to operate the units in a state of emergency.

In light of the Ministry's clarifications regarding the schedules for amending the emission permit, on June 2, 2022, the Ministries of Energy and the Environment, the Noga Company, and the Company agreed that the activation of the units will be carried out in times of electricity emergency, in accordance with the Noga Company's written instruction to the Electric Company pursuant to a procedure agreed upon between the parties. The Ministry of Environmental Protection has clarified that activation of the units according to Noga Company's instruction and according to the procedure will not constitute a violation of the emission permit. On July 17, 2022, a response was received from the Ministry of Environmental Protection regarding the request for changes in the emission permit pertaining to the coals basket. The response included a request for the Company to deliver additional data, the Company is in contact with the Ministry of Environmental Protection regarding this issue.

2. Emissions permits for the coal-fired units:

Following the contents of Note 1g of the Company's Annual Financial Statements regarding the emission permits for the coal-fired units, on May 15, 2022, the Company notified the Ministry of Environmental Protection that Rutenberg unit 3 complies with the emission values set in the emission permit given to it, and that the emission reduction project was completed in all the generation units at the site.

3. Converting units to gas

Following the contents of Note 1g of the Company's Annual Financial Statements regarding the Minister's order pertaining to the conversion of coal fired units to use of natural gas, and the Company's preparation for carrying out conversion to gas for the Rutenberg unit 1, the Rutenberg unit 1 was shut-down on March 28, 2022 for commencement of execution of the gas conversion project.

NOTE 1:- GENERAL (continued)

g. <u>Environmental Protection Laws</u> (continued)

4. Underground fuel pipelines

Following the contents of Note 1g4 of the Company's Annual Financial Statements regarding the manner of handling the onshore fuel pipelines exiting and entering the Reading power plant and the presence of asbestos fibers along the lines, on March 31, 2022, the Company forwarded to the Ministry of Environmental Protection updated mapping results of some of the lines. The Company is in contact with the Ministry on the subject, and after the Statement of Financial Position date, on July 31, 2022, submitted principles of a plan for handling the pipelines to the Ministry for its approval. As of the date of approval of the Financial Statements, the Ministry's approval as to the manner and scope of handling it has not yet been received, and as a result, the Company cannot estimate what implications there may be on the Company, if any, in this matter, and therefore no provision was included in the financial statements.

h. <u>The Economic Competition Law, 1988:</u>

Further to that stated in the Economic Competition Law, in Note 1h to the Annual Financial Statements, the appeal hearing date was postponed and set for September 15, 2022.

i. <u>Global events</u>

1. The impacts of COVID-19

For details regarding the spread of the COVID-19 virus, please see Note 1i of the Annual Financial Statements.

As of the approval date of the Financial Statements, the spread of the COVID-19 virus has had no material impact on the Company's activity and financial results.

The Company is following the law's updates and regulation provisions regarding this matter, and is acting in accordance with up-to-date instructions and in coordination with the authorized authorities.

Since this event is outside the Company's control, and factors such as the continued spread of the virus or its stoppage may affect the Company's estimations, the Company is continuing to follow market changes in Israel and around the world, and is regularly examining the implications with regards to its business results in the medium and long term.

As of the approval date of the Financial Statements, the Company is unable to assess the impact of this event, including its prospective impact on the capital and currency markets in Israel and globally, on its financial position, loans, and work plans for the coming year.

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, and section g1 above.

In light of the sharp rises in global coal prices, inter alia due to the conflict between Russia and Ukraine, and as a result of the impact of these costs on the electricity prices, after the Statement of Financial Position date, on 28 July, 2022, the Electricity Authority published a decision regarding an amendment to the Annual Update of the electricity rate for the Company's consumers. It is noted that in light of the ongoing trend of rising coal prices, deriving mainly as a result of the conflict between Russia and Ukraine, the timing differences between the dates of payments the Company will be required to make for the coal purchase and the rate collection dates, may adversely affect the Company's financial position if the 2023 annual rate will not be updated accordingly. See Note 3a below for further details regarding this decision.

NOTE 1:- GENERAL (continued)

i. Global events (continued)

2. The Russia-Ukraine war (continued)

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 August 18, 2022.

b. Operating cycle period

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

c. Main points of the accounting policy

Except as specified below, the accounting policies of the Company in these Interim Financial Statements are the accounting policies applied in the Annual Statements. The following is a description of the principal changes in the accounting policies in these Interim Financial Statements and their effect:

1. Initial implementation of new Standards, amendments of Standards and interpretations:

a) Amendment to IAS 16 – Property, Plant and Equipment

The Amendment eliminated the requirement according to which when calculating costs that can be directly attributed to fixed assets, the net proceeds from the sale of any items made during the process of the inspection of the asset's operating integrity (such as samples made during the checking the equipment testing) should be deducted from the costs. Instead, the proceeds from selling the items and the cost of the sold items will be recognized in the profit and loss.

The implementation of the Amendment did not have a material impact on the Financial Statements.

b) Amendments to IAS 37 Provisions and Contingent Liabilities

This amendment discusses the cost of fulfilling a contract, and emphasizes that such costs include costs that relate directly to a contract that can either be incremental costs of fulfilling that contract (salary and materials) or an allocation of other costs of fulfilling that contract (depreciation charge of fixed assets used in fulfilling the contract).

Contract fulfillment costs are discussed in the amendment with regards to onerous contracts and their assessment. When assessing all costs related directly to the contract, which comprise the lowest cost for exit from the contract.

The implementation of the Amendment did not have a material impact on the Financial Statements.

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

c. Main points of the accounting policy (continued)

2. New Standards, amendments of Standards, and interpretations not yet adopted:

a) <u>Amendment to IAS 12 – Income Taxes</u>

This Amendment narrows the applicability of the exemption from recognition of deferred taxes as a result of temporary differences created on the date of the initial recognition of assets and/or liabilities, so that the exemption will not apply to transactions creating equal temporary differences on the date of recognition that may be offset.

Thus, the Group will recognize deferred tax assets and/or liabilities in the amount of the temporary differences on initial recognition of transactions creating equal off-setable temporary differences. Any accumulated effect of the initial implementation of the Amendment will be recognized as an adjustment to the surplus balance or other capital components on the initial implementation date.

The Amendment will enter into force in report periods starting January 1, 2023; early application is optional.

In accordance with an initial assessment made by the Group, this Amendment is not expected to have a material impact on the Financial Statements.

b) <u>Amendment to IAS 1 – Presentation of Financial Statements: Classification of Liabilities as Current or Non-current</u>

The amendment replaces certain requirements of classifying 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 settlement for a period of at least 12 months after the reporting period, which is "substantial", and which exists at the end of the reporting period. This is instead of the requirement to a right that is “unconditional”. In accordance with the amendment, a right exists on the reporting date only if an entity meets the conditions for deferring payment as of that date. In addition, the amendment clarifies that the conversion right of a liability will affect the classification of the instrument as a whole as current or non-current, unless the conversion component is equity.

The amendment will be implemented in reporting periods beginning on January 1, 2023, with the possibility of early implementation. The amendment will be applied retrospectively, including an amendment to comparative figures.

In accordance with an initial examination performed by the Group, the amendment is not expected to have implications on the financial statements.

d. <u>Use of estimates and judgment</u>

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 Corporation 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 2022 Annual Update, the Rate Base for the generation segment, the grid segments' Rate Base for 2018-2022, the system Rate Base update for 2020-2024, the reform in the electricity sector, the project for the preservation of coal fired units 1-4 at the Orot Rabin site, 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. Amendment to the 2022 electricity rate annual update for the Electric Company's consumers

On February 21, 2022, the Ministry of Finance published the customs and exemptions tariff and purchase tax on goods draft order and the fuel excise tax draft order, according to which the rate of purchase tax and excise tax on coal will be reduced from NIS 105.4 per ton to NIS 1 per ton, by temporary order. These orders were signed on April 5, 2022, and are valid from April 10, 2022 to February 12, 2023.

Accordingly, on April 12, 2022, the Electricity Authority published a decision regarding an amendment to the 2022 electricity rate annual update for the Company's consumers, under which the reduction of the excise tax is expected to lead to a reduction in the rate for the domestic consumer of approximately 2.4% (without the fixed payment component). The rate entered into effect on May 1, 2022.

In light of the ongoing worldwide trend of rising coal prices, it became necessary to update the recognized cost for the Company and the electricity rates. After the Statement of Financial Position date, on July 28, 2022, the Electricity Authority published a decision regarding the update of the electricity rate for the Electric Company's consumers, under which the total cost recognized for the Company will increase at a rate of 8.8%, which constitutes less than half of the total price increases according to the various indices that affect the price of the generation factors in the electricity sector. According to the decision, this is not non-coverage of costs but rather a postponement of collection from the consumers. The Authority noted that in light of the expected significant decrease in coal consumption in the coming years, it is expected that the electricity generation costs will decline in the coming years and therefore the rate that will be determined could cover the current price level over a period of several years. It was also stated in the decision that the Authority's reference to the deficit accumulated in the months preceding the decision in light of the increase in coal prices and other rate components, will be reflected in the 2023 Annual Update. In addition, the decision states that the Authority will examine the classification of the excess cost deriving from the systemic constraints of using coal. Furthermore, as of this date, and in order to reduce the short-term use of coal, the Company received the Ministry of Environmental Protection's approval for an addition of 2,000 operating hours for the Eshkol power station, and simultaneously the parties are examining the increase of the station's volume of activity. For additional details see Note 1g above.

The Company's position, as presented to the Authority's plenum, is that this decision of the Authority contradicts the provisions of the Electricity Sector Law as well as previous decisions of the Authority, and therefore the Company objected to it. This decision by the Electricity Authority imposes on the Company the need to raise additional foreign capital beyond the financing of the extensive development plans that the Company is supposed to carry out. In light of the ongoing trend of rising coal prices, if the Company will not be compensated in the 2023 annual rate on account of the rising coal prices, timing differences between the payment dates that will be required by the Company for the purchase of coal and the rate collection dates may have a negative impact on the Company's financial position.

b. Amendment to the Electric Company's Agreement for Gas Acquisition from the Tamar reserve

On May 22, 2022, the Electricity Authority published a decision under which the Authority will recognize gas costs for the Company in accordance with the amendment to the agreement that was signed between the Company and the Tamar Partnerships on January 24, 2022, subject to the Company operating reasonably to minimize the agreement's costs and meet its obligations, while exhausting all the tools at its disposal. According to the decision, the incentive for the Electric Company for reducing from the base price beyond the 15% will be limited to 25% and will apply to the Take or Pay quantities only. This amendment will apply retroactively from July 1, 2021.

For additional details regarding the agreements reached by the Company with the Tamar Reserve Partnership and the agreement's entry into effect after the Statement of Financial Position date, see Note 10a below.

NOTE 3:- THE ELECTRICITY RATE AND REGULATION (continued)

c. Competition in the supply segment

On June 29, 2022, the Electricity Authority published a decision updating its previous decision on the subject of January 24, 2022, which approves the first phase quota increase for attribution from a volume of 500 MVA to a volume of 540 MVA insofar as the System Manager will approve the transfer for all the submitted attribution requests. In addition, after the Statement of Financial Position date, on July 6, 2022, the Electricity Authority published a decision, according to which supply licenses are granted to two additional corporations that do not own generation facilities, so that cumulatively approximately 33 supply licenses were granted to corporations without generation facilities.

d. Providing services at the East Hagit site

On April 6, 2022, the Authority published a decision regarding the approval of activity to provide services at the East Hagit site. According to the decision, the Company will supply the site purchaser with various services such as: diesel fuel storage and transportation, water supply, sewage removal and more. Following the Company’s application, requesting permission to provide the ancillary services at the site, on May 1, 2022, a permit was received for providing the services, signed by the Minister of Energy and the Minister of Finance.

e. Applying the criteria to the Company’s generation units

Following the sale of the system management activity to the Noga Company and in light of the need to regulate the activity of the Company’s generation units with the Noga Company, on May 15, 2022, the Electricity Authority published a decision regarding application of the criteria on the Company’s generation units. The criteria do not relate to payments due to the Company but to operating and technical processes with the Noga Company. However, there are some criteria pertaining to the producer’s conduct which are not applied to the Company at this stage but will be examined by the Authority after determining a new generation rate base.

f. Providing Noga with collateral

On May 16, 2022, the Electricity Authority published a decision regarding the update of criteria 50. In this decision, the Authority regulated the issue of securing the Company’s payments to Noga. As part of the decision, it was decided that insofar as the Company will meet the payment dates set in criteria 223, it is not obligated to provide collateral. However, from the first deviation, the Company will be required to provide collateral in favor of Noga in accordance with the schedules and amounts specified in the Authority's decision.

g. Storage facilities

Further to the proposed decision for a hearing published by the Electricity Authority on March 6, 2022, on the subject of principles for the integration of the Company in the field of energy storage and the Company's response, due to the importance of the issue and although the hearing does not constitute a final decision and its principles can change, after the Statement of Financial Position date, on August 1, 2022 the Electricity Authority granted the Company approval to promote the establishment of storage facilities in a scope that will not exceed the scope established within the proposed decision for the hearing.

For additional details regarding the decision proposal for a hearing see Note 3ab to the Annual Financial Statements.

h. Regulating the operation of the Eshkol site generation units

After the Statement of Financial Position date, on July 5, 2022, a decision proposal for a hearing was published, including the rate regulation of the activity of the generation units at the Eshkol site, after its sale, including the availability payments and the length of entitlement to the rate. The Company submitted its response to the hearing.

i. Consumerism criteria

After the Statement of Financial Position date, on July 13, 2022, a decision proposal for a hearing was published regarding updates, amendments and supplements to the Consumers Criteria – Collection Policy July 2022, which includes update of the criteria regarding policy of debt collection with respect to domestic consumer electricity consumption. This decision proposal implements the High Court of Justice ruling 4988/19 of January 20, 2022. The Company is studying the decision proposal and its implications.

NOTE 3:- THE ELECTRICITY RATE AND REGULATION (continued)

j. The Electric Company's distribution license

After the Statement of Financial Position date, on July 11, 2022, the Electricity Authority published a decision proposal for a hearing regarding a distribution license for the Company, following Government Resolution 3859 "Reform in the electricity sector and structural change in the Electric Company" of June 3, 2018, and following Amendment 16 to the Electricity Sector Law, in which it was determined that the Company will preserve its operation in the distribution segment as an essential service provider licensee for a period of 20 years. The license details the various Company roles and fields of responsibility in the distribution segment. The Company submitted its response for the hearing.

NOTE 4:- TRADE RECEIVABLES FOR SALES OF ELECTRICITY

a. Composition

	As of June 30		As of December 31
	2022	2021	2021
	NIS in millions		
	Unaudited		Audited
Open debts	4,229	3,903	4,050
Provision for doubtful debts	(485)	(494)	(467)
Unrecognized income (1)	(961)	(783)	(881)
	2,783	2,626	2,702
Income receivable (2)	1,608	1,780	1,588
Total customer receivables with respect to electricity sales	**4,391**	**4,406**	**4,290**

(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.

Regarding the ruling by the Supreme Court, the petition filed against the Minister of Energy, the Electricity Authority and the Company, regarding criteria for disconnecting electricity supply, see Note 35b5c of the Annual Financial Statements. Following the Supreme Court's ruling, on July 13, 2022, the Electricity Authority published a decision proposal for a hearing regarding updates, amendments and supplements to the consumerism criteria. For details see Note 3i to the Financial Statements.

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 June 30		As of December 31
	2022	2021	2021
	NIS in millions		
	Unaudited		Audited
Open invoices	1,393	1,155	1,189
Receivables	192	166	208
Total debt	1,585	1,321	1,397
<u>Less</u>:			
Provision for doubtful debts as of January 1	(104)	(104)	(104)
Income not recognized as of January 1	(881)	(781)	(781)
Income with respect to previous periods	60	60	120
Income not recognized this period	(140)	(62)	(220)
Total debt with respect to sale of electricity	**520**	**434**	**412**

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), see Note 6c2 of the Annual Financial Statements.

NOTE 4:- TRADE RECEIVABLES FOR SALES OF ELECTRICITY (continued)

b. The Palestinian Authority and the East Jerusalem Electricity Company (continued)

Furthermore, in accordance with the EJEC agreement, as of August 2022, a monthly payment of approximately NIS 12 million, before interest, will be added to the monthly payments balance, for the payment of an additional total debt amount of approximately NIS 303 million, in addition to the monthly payment with respect to the original debt amount according to which the first 24 payments were calculated. As of the approval date of the Financial Statements, except for the payment of August 2022 which was paid without the aforesaid supplement, the first payments due have been made, with added interest, in accordance with the EJEC Agreement, as specified in Note 6c2 of the Annual Financial Statements, as of August 2020.

In light of the scope of EJEC's accumulated current debt, on November 3, 2021, the Company commenced rounds of current restrictions, which are continuing up to the date of approval of the 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, some of the generation units in the Hagit site were classified in 2021 as a disposal group held for sale. On June 1, 2022, the transaction was completed and possession of the site was transferred to the purchaser (for additional details see Note 1e3 above).

a. Composition:

	As of June 30, 2022	As of June 30, 2021	As of December 31, 2021
		NIS in millions	
	Unaudited	Unaudited	Audited
		System Management	Hagit
Assets			
Inventory – fuel	-	-	41
Fixed assets	-	122	119
Other assets	-	22	-
Advance paid on account of benefits to employees	-	26	-
Total assets	-	170	160
Impairment to rate value	-	(52)	-
Total assets of disposal groups classified as held for sale	**-**	**118**	**160**
Liabilities			
Employee benefits	-	(146)	-
Total assets and liabilities, net, of disposal groups classified as held for sale	**-**	**(28)**	**160**

The Hagit site assets were 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).

b. Revenues and expenses recognized in Other Comprehensive Income:

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 June 30		As of December 31
	2022	2021	2021
	NIS in millions		
	Unaudited		Audited
Fair value of plan assets (see section j2 below)	39,279	40,411	42,703
Present value of pension obligations (see section i1 below)	(31,068)	(34,077)	(35,770)
	8,211	**6,334**	**6,933**
Present value of pension obligations with respect to special agreements on early retirement (see section i3 below)	(125)	(166)	(146)
Excess of pension plan assets over pension obligations (prior to classification to disposal group classified as held for sale)	**8,086**	**6,168**	**6,787**
Pension obligations – classified to disposal group held for sale – see Note 5 above	-	95	-
Excess of pension plan assets over the pension obligations	**8,086**	**6,263**	**6,787**

b. Funds in Trust

	As of June 30		As of December 31
	2022	2021	2021
	NIS in millions		
	Unaudited		Audited
Fair value of funds in trust (see section k2 below)	**1,313**	**1,569**	**1, 493**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

c. Liabilities with respect to other post-employment benefits

	As of June 30		As of December 31
	2022	2021	2021
	NIS in millions		
	Unaudited		Audited
Present value of obligation with respect to other post-employment benefits (see section i2b below)	**5,787**	**6,630**	**6,874**

Composed of:

	As of June 30		As of December 31
	2022	2021	2021
	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 i2a below):			
Discounted electricity	1,110	1,325	1,302
VAT and grossed up tax with respect to discounted electricity	442	492	519
Retirement benefits	845	921	936
Welfare Fund for pensioners insured in the budgetary pension	69	76	79
Holiday gifts including grossed up tax	425	483	485
	2,891	**3,297**	**3,321**
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 i2b below)	2,896	3,376	3,553
Total	**5,787**	**6,673**	**6,874**
Liability for other post-employment benefits - classified as disposal group held for sale – see Note 5 above	-	(43)	-
Total	**5,787**	**6,630**	**6,874**

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, 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 Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	NIS in millions				
	Unaudited				Audited
Amount recognized under the wage cost and fixed assets	**87**	80	**43**	40	162

For additional details also see Notes 12e, 12f1a and 13 to the Annual Financial Statements.

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 permanent employees retired in early retirements.
In 2019, 347 employees retired in early retirements.
In 2020, 204 employees retired in early retirements.
In 2021, 219 early retired in early retirements.
In 2022, 222 early retirements are expected.
In 2023, 192 early retirements are expected.
In 2024, 99 early retirements are expected.
In 2025, 61 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 June 30, 2022, 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.

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)

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

(3) On May 30, 2021, an agreement was signed with "Harel Ltd." as the insurance company managing the payment of the reform pension supplement for all entitled employees, as described in Note 12f1a2,5,6 of the Annual Financial Statements. This agreement formulates the manner of conduct and services required from "Harel Ltd", including the method of calculating the coefficients, the management fees collected by it from the policy holders, the manner of adding employees, the process of depositing into policies, the manner of payments made from the policy, the scope of liability, the duty of confidentiality, and more. During the period of the Financial Statements, the Company transferred approximately NIS 506 million to the insurance company thus eliminating the obligation with respect to the eligible employees who retired by the date of the deposit. This amount includes a total of approximately NIS 5 million with respect to the realization of the East Hagit sale milestone. The Company continues to complete monthly deposits with respect to current eligible retirees as well as those who have retired in the past and have reached the age of 60.

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 early retirements are expected.
In 2023, 35 early retirements are expected.

During the six months ending on June 30, 2022, 182 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 six months ended June 30,						For the three months ended June 30,						For the Year Ended December 31,		
	2022			2021			2022			2021			2021		
	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	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	(88)	(3)	(91)	76	34	110	(37)	7	(30)	41	4	45	222	48	270
Pension supplement for mandatory retirees during and after the reform period	(38)	-	(38)	112	-	112	(46)	-	(46)	17	-	17	305	-	305
Current salary costs	9	-	9	10	-	10	4	-	4	5	-	5	20	-	20
Retirement plan for employees loaned to purchasers of the sold generation units	11	-	11	20	-	20	9	-	9	10	-	10	43	-	43
Costs with respect to disposal of the PTDD employees liability (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	52
Total	**(106)**	**(3)**	**(109)**	**218**	**34**	**252**	**(70)**	**7**	**(63)**	**73**	**4**	**77**	**590**	**48**	**690**
Total attributed to statement of profit and loss	*** 129**	**6**	**135**	*** 138**	**9**	**147**	*** 74**	**3**	**77**	**54**	**5**	**59**	*** 279**	**17**	**348**
Total attributed to fixed assets	*** (46)**	**(1)**	**(47)**	*** 69**	**12**	**81**	*** (29)**	**4**	**(25)**	**25**	**1**	**26**	*** 170**	**14**	**184**
Total attributed to other comprehensive income	*** (189)**	**(8)**	**(197)**	*** 11**	**13**	**24**	*** (115)**	**-**	**(115)**	**(6)**	**(2)**	**(8)**	*** 141**	**17**	**158**

(*) 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.

(**) For details regarding a regulatory asset with respect to liability disposal costs with regards to the PTDD employees attributed to the profit and loss report - see Note 15p of the Annual Financial Statements.

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 six months ended June 30,						For the three months ended June 30,						For the Year Ended December 31,		
	2022			2021			2022			2021			2021		
	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	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	39	5	44	39	5	44	20	3	23	19	3	22	81	11	92
Losses (profits) from remeasurement	(111)	(10)	(121)	24	12	36	(61)	(1)	(62)	35	(2)	33	64	19	83
Costs with respect to disposal of the PTDD employees liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	52
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	1	-	1	-	-	-	1	-	1	-	-	-	-	1	1
Current service cost and interest	160	4	164	158	9	167	95	1	96	53	7	60	323	14	337
Losses (profits) from remeasurement	(204)	(2)	(206)	(13)	8	(5)	(129)	4	(125)	(41)	(2)	(43)	102	3	105
Current Salary Costs	9	-	9	10	-	10	4	-	4	7	(2)	5	20	-	20
Total	**(106)**	**(3)**	**(109)**	**218**	**34**	**252**	**(70)**	**7**	**(63)**	**73**	**4**	**77**	**590**	**48**	**690**
Total attributed to statement of profit and loss	**129**	**6**	**135**	**138**	**9**	**147**	**74**	**3**	**77**	**54**	**5**	**59**	**279**	**17**	**348**
Total attributed to fixed assets	**(46)**	**(1)**	**(47)**	**69**	**12**	**81**	**(29)**	**4**	**(25)**	**25**	**1**	**26**	**170**	**14**	**184**
Total attributed to other comprehensive income	**(189)**	**(8)**	**(197)**	**11**	**13**	**24**	**(115)**	**-**	**(115)**	**(6)**	**(2)**	**(8)**	**141**	**17**	**158**

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 agreements regarding employment extensions for temporary employees

For more information regarding new collective agreements signed in 2020, see Note 12 of the Annual Financial Statements. In addition to extending the employment of temporary employees as specified in this Note, as of the date of the Financial Statements, the employment term of 1000 temporary employees was extended. After the Statement of Financial Position date, on August 3, 2022, a collective agreement was signed regarding a continuing temporary employee. The Commissioner of Wages' approval to the agreement was received on August 15, 2022. This agreement allows the Company to extend the employment of employees who have been hired for temporary work without a time limit, regardless of the limitations of the Company's tenure positions, and at the same time, the Management will be given flexibility to terminate the employment of employees in a situation where they are not suitable for work or where a position or profession is redundant in the Company, under the conditions defined in the agreement. The salary conditions of employees whose employment will extended in accordance with the agreement will be compared to those of permanent generation C employees. The Company is examining the implications of the agreement and its results that will be included in the financial statements for the third quarter of 2022.

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. The agreement entered into effect on May 16, 2022, after receiving the approval of the Commissioner of Wages. As a result of the agreement's implementation, a past service cost was recorded in these Financial Statements of approximately NIS 36 million which was charged to profit and loss and fixed assets.

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) Regarding the estimated increase in expected salary, and the termination of the validity of the labor law, see Note 12f3-4 of the Annual Financial Statements.

g. **Main changes in actuarial assumptions**

Following the publication of a circular by the Commissioner of the Capital, Insurance and Savings Market on the subject of "Amending the instructions of the consolidated circular regarding the measurement of liabilities - updating the set of demographic assumptions in life insurance and pension funds" of June 30, 2022, an update was made to the mortality assumption.

This implementation increased the actuarial liability by approximately NIS 119 million.

h. The total liabilities' items, with respect to post-employment employee benefits according to the calculations of the Company as of June 30, 2022, June 30, 2021, and December 31, 2021, respectively, amount to a total of NIS 36,980 million, NIS 40,916 million and NIS 42,790 million, respectively.

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

i. Defined Benefit Liability

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

	For the Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	**2021**	**2022**	**2021**	**2021**
	NIS in millions				
	Unaudited				Audited
Present value of the obligation for pensions as of the beginning of the period	35,770	33,681	31,786	34,108	33,681
Cost of interest	595	494	299	247	992
Current service cost	111	128	55	66	255
Cost with respect to PTDD employees liability disposal	-	-	-	-	49
Past service cost – changes in the plan's terms following implementation of the collective agreements	2	4	-	1	4
Employee deposits	9	10	5	5	20
Payments with respect to PTDD employees liability disposal	-	-	-	-	(158)
Benefits paid	(575)	(539)	(292)	(274)	(1,069)
	35,912	**33,778**	**31,853**	**34,153**	**33,774**
Losses (gains) with respect to remeasurement:					
Actuarial losses (gains) deriving from changes in financial assumptions	(5,505)	189	(1,179)	(164)	1,899
Actuarial losses (gains) deriving from changes in demographical assumptions	107	-	107	-	(49)
Impact of differences between the previous actuarial assumptions and that which occurred in practice (hereinafter: "Adjustments based on past experience")	554	110	287	88	146
	(4,844)	299	(785)	(76)	1,996
Present value of the obligation for pensions as of the end of the period	**31,068**	**34,077**	**31,068**	**34,077**	**35,770**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

i. 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 Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	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	3,321	3,380	2,927	3,298	3,380
Cost of interest	56	48	28	24	96
Current service cost	34	28	15	14	57
Past service cost – generation C collective agreement	35	-	35	-	-
Profit from disposal of the liability for severance pay supplement	-	(6)	-	(1)	(6)
Costs with respect to disposal of PTDD and SMU employee liabilities	-	-	-	-	3
Payments with respect to PTDD employees liability disposal	-	(108)	-	(1)	(155)
Benefits paid	(69)	(67)	(32)	(30)	(135)
	3,377	3,275	2,973	3,304	3,240
Losses (gains) with respect to remeasurement:					
Actuarial losses (gains) deriving from changes in financial assumptions	(482)	15	(124)	(13)	224
Actuarial losses (gains) deriving from demographical assumptions	7	-	7	-	(12)
Adjustments based on past experience	(11)	7	35	6	(131)
	(486)	22	(82)	(7)	81
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	**2,891**	**3,297**	**2,891**	**3,297**	**3,321**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

i. 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 Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	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	3,553	3,338	3,017	3,416	3,338
Past service cost – changes in the plan's terms following implementation of collective agreements	1	-	1	-	1
Cost of interest	56	51	27	26	103
Cost of current service	108	116	69	34	234
Payments with respect to disposal of SMU liability	-	-	-	-	(5)
Benefits paid	(110)	(124)	(58)	(57)	(223)
Payments transferred to the insurance company*	(506)	-	(35)	-	-
	3,102	3,381	3,021	3,419	3,448
Losses (gains) with respect to remeasurement:					
Actuarial losses (gains) deriving from changes in financial assumptions	(210)	105	(129)	31	238
Actuarial losses (gains) deriving from changes in demographic assumptions	5	-	5	-	(21)
Adjustments based on past experience	(1)	(110)	(1)	(74)	(112)
	(206)	(5)	(125)	(43)	105
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	**2,896**	**3,376**	**2,896**	**3,376**	**3,553**
Total present value of the obligation for other post-employment benefits (before classification to disposal group held for sale)	**5,787**	**6,673**	**5,787**	**6,673**	**6,874**

* See section f1a3 above

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

i. Defined Benefit Liability (continued)

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

	For the Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	**2021**	**2022**	**2021**	**2021**
	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	146	190	138	175	190
Cost of interest	2	3	1	2	4
Additional provision with respect to employee retirement within the special retirement plan	11	13	3	11	19
Benefits paid	(32)	(37)	(15)	(18)	(81)
Actuarial losses (gains) with respect to the obligation charged to the Profit and Loss	(2)	(3)	(2)	(4)	14
Present value of the obligation with respect to special agreements for early retirement as of the end of the period	**125**	**166**	**125**	**166**	**146**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

j. 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 pension for 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.

After the Statement of Financial Position date, on July 4, 2022, the company's name was changed to the "Phoenix IEC Central Pension Fund Ltd.".

The name change follows the merger of Halman Aldubi Investment House with the Phoenix Holdings Company Ltd.

b) According to the Financial Statements of the Fund, the actuarial liability as of June 30, 2022, is NIS 39,916 million and the debt of the Company to the fund is approximately NIS 637 million. According to the Financial Statements of the Company, its actuarial liability for the pension obligations as of June 30, 2022, is NIS 31,193 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 12j1c-e 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 565 million during the six months ended on June 30, 2022.

e) The Fund approved its financial statements of June 30, 2022 on August 3, 2022.

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 2022 will amount to approximately NIS 389 million (not including forecast with respect to early retirement campaigns).

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

j. Plan's Assets (continued)

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

	For the Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	NIS in millions				
	Unaudited				Audited
Fair value of plan assets as of the beginning of the period	42,703	38,790	40,895	39,420	38,790
Interest income on plan assets	712	569	357	285	1,143
Deposits including costs of the plan assets	565	304	409	151	608
Benefits paid	(595)	(564)	(301)	(287)	(1,124)
Gains (losses) with respect to remeasurements of plan assets:					
Yield on plan assets (except for sums included in interest income)	(4,106)	1,312	(2,081)	842	3,286
Fair value of plan assets as of the end of the period	**39,279**	**40,411**	**39,279**	**40,411**	**42,703**

	For the Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	NIS in millions				
	Unaudited				Audited
Interest income on plan assets	712	569	357	285	1,143
Gains (losses) with respect to remeasurements of plan assets	(4,106)	1,312	(2,081)	842	3,286
Actual yield on plan assets	**(3,394)**	**1,881**	**(1,724)**	**1,127**	**4,429**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

k. 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 Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	NIS in millions				
	Unaudited				Audited
Fair value of funds in trust as of the beginning of the period	1,493	1,540	1,397	1,543	1,540
Interest income from funds in trust	25	23	13	12	45
Current refunds	(28)	-	(16)	-	(180)
Gains (losses) with respect to remeasurement:					
Yield on plan assets (except for sums included interest income)	(177)	6	(81)	14	88
Fair value of funds in trust as of the period end	**1,313**	**1,569**	**1,313**	**1,569**	**1,493**

3) Yield of funds in trust:

	For the Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	NIS in millions				
	Unaudited				Audited
Interest income from funds in trust	25	23	13	12	45
Gains (losses) with respect to remeasurement of funds in trust	(177)	6	(81)	14	88
Actual yield on funds in trust	**(152)**	**29**	**(68)**	**26**	**133**

l. 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 Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	NIS in millions				
	Unaudited				Audited
Balance as of the beginning of the period	(2,695)	(3,844)	(813)	(3,808)	(3,844)
Gains (losses) from remeasurements	957	840	(999)	821	1,008
Losses (gains) from remeasurements attributed to movement in the balance of a regulatory deferral asset due to the reform	(189)	11	(115)	(6)	141
Balance as of the end of the period	**(1,927)**	**(2,993)**	**(1,927)**	**(2,993)**	**(2,695)**

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

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

	For the Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	NIS in millions				
	Unaudited				Audited
Increase (decrease) in fixed assets	**(296)**	**(162)**	**171**	**(161)**	**(184)**

n. 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 Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	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	253	272	139	114	546
Past service cost – change in the plan's terms following implementation of the collective agreements	38	4	36	1	5
Costs with respect to settlement of PDT liability	-	-	-	-	52
Profit from disposal of liability for severance pay supplement	-	(6)	-	(1)	(6)
Cost of interest except for cost of interest with respect to early retirement	707	593	354	297	1,191
Interest revenues (*)	(737)	(592)	(370)	(297)	(1,188)
Costs due to early retirement and other costs	11	13	2	7	41
Total cost recognized in salaries cost with respect to liabilities to pensioners	**272**	**284**	**161**	**121**	**641**
2) **Income with respect to Liabilities to Pensioners only**					
Cost of interest except for cost of interest with respect to early retirement	363	295	182	147	594
Interest revenues (*)	(444)	(339)	(222)	(170)	(680)
Costs due to early retirement and other costs	11	14	2	11	39
Total cost recognized in income with respect to liabilities to pensioners	**(70)**	**(30)**	**(38)**	**(12)**	**(47)**

(*) For plan assets and funds in trust

NOTE 6:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

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

	For the Six Months ended June 30		For the Year Ended on December 31
	2022	2021	2021
	Unaudited		Audited
The weighted real discount rate for the end of the period grossed in the present value of the obligation	2.01%	1.23%	0.93%
Nominal rate of return used to calculate the interest cost	3.37%	2.97%	2.97%
Anticipated annual nominal rate of return grossed in the fair value of plan assets	3.37%	2.97%	2.97%
Average liability lifetime	15.06 years	16 years	15.78 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.

p. Analysis of sensitivity of main actuarial assumptions as of June 30, 2022 (in NIS millions):

Actuarial assumptions	Change %	Increase in liability	Change %	Decrease in liability
Rate of interest for capitalization	(0.1)	503	0.1	492
Future salary increase rate with respect to general salary agreements and cost of living increment less the CPI (real increase)	0.5	771	(0.5)	733

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.

q. 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 six months ended on June 30, 2022:**

	Balance	Transactions for the six months ended on June 30, 2022		Balance	Period remaining for refund / cancellation
	As of January 1, 2022	Creation / recognition	Refund / cancellation	As of June 30, 2022	Years
	(NIS millions)				
Debit balance of regulatory deferral accounts	Audited	Unaudited			
With respect to income balancing	225	7	(79)	153	1-2
With respect to non-consecutive update of the fuels component in the rate	1,396	1,495	(638)	2,253	1-2
With respect to social rate	271	147	(137)	281	1-2
With respect to load management arrangements	22	18	(24)	16	1-2
With respect to deemed interest	108	-	(3)	105	15-25
With respect to recognition of investments that were reduced in the past	114	-	(6)	108	1-14
With respect to gap between update date of fixed payment component	57	(3)	(16)	38	4
With respect to electricity purchases from private electricity producers and photovoltaic installations	-	421	216	637	1-2
With respect to retirement costs generation A and B	375	-	(135)	240	2-3
With respect to linkage differentials	913	657	(122)	1,448	10-45
With respect to reform costs	5,100	(38)	(303)	4,759	7-45
Total	**8,581**	**2,704**	**(1,247)**	**10,038**	
Credit balance of regulatory deferral accounts					
With respect to consumer participation in financing sites sold	578	-	(24)	554	12-18
With respect to the gap between actual rate update dates and the theoretical rate	567	427	(83)	911	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	1,269	(1,238)	1,233	1
With respect to the compromise agreement with the Egyptian Gas Companies	819	184	(87)	916	8
With respect to depreciation differences	273	1	(21)	253	1-45
Total	**3,541**	**1,881**	**(1,555)**	**3,867**	
Deferred taxes with respect to part of the regulatory deferral accounts	729			669	
Total credit balances of regulatory deferral accounts and deferred tax	**4,270**			**4,536**	
					Change (*)
Total balance of regulatory deferral accounts, net	**4,311**			**5,502**	**1,191**

(*) The change in the six months ended June 30, 2022 is divided as follows:

Change in regulatory deferral accounts before tax, attributed to profit and loss	1,320
Change in deferral taxes included in credit balances of regulatory deferral accounts and deferred tax	60
Movement in regulatory deferral accounts before tax attributed to other comprehensive income	(189)
Total	**1,191**

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 June 30, 2022:**

	Balance	Transactions for the three months ended on June 30, 2022		Balance	Period remaining for refund / cancellation
	As of April 1, 2022	Creation / recognition	Refund / cancellation	As of June 30, 2022	Years
	(NIS millions)				
Debit balance of regulatory deferral accounts	Audited	Unaudited			
With respect to income balancing	184	4	(35)	153	1-2
With respect to non-consecutive update of the fuels component in the rate	1,639	956	(342)	2,253	1-2
With respect to social rate	269	72	(60)	281	1-2
With respect to load management arrangements	24	2	(10)	16	1-2
With respect to deemed interest	106	-	(1)	105	15-25
With respect to recognition of investments that were reduced in the past	111	-	(3)	108	1-14
With respect to gap between update date of fixed payment component	49	(3)	(8)	38	4
With respect to past debt systemic costs	446	39	152	637	1-2
With respect to retirement costs generation A and B	300	-	(60)	240	2-3
With respect to linkage differentials	1,113	361	(26)	1,448	10-45
With respect to reform costs	4,915	(30)	(126)	4,759	7-45
Total	**9,156**	**1,401**	**(519)**	**10,038**	
Credit balance of regulatory deferral accounts					
With respect to the gap between actual rate update dates and the theoretical rate	933	52	(74)	911	1-3
With respect to consumer participation in financing sites sold	566	-	(12)	554	12-18
With respect to sale of sites	537	1, 262	(566)	1,233	1
With respect to the compromise agreement with the Egyptian Gas Companies	799	160	(43)	916	8
With respect to depreciation differences	265	(2)	(10)	253	1-45
Total	**3,100**	**1,472**	**(705)**	**3,867**	
Deferred taxes with respect to part of the regulatory deferral accounts	697			669	
Total credit balances of regulatory deferral accounts and deferred tax	**3,797**			**4,536**	
					Change (*)
Total balance of regulatory deferral accounts, net	**5,359**			**5,502**	**143**

(*) The change in the three months ended June 30, 2022 is divided as follows:

Change in regulatory deferral accounts before tax, attributed to profit and loss	230
Change in deferral taxes included in credit balances of regulatory deferral accounts and deferred tax	28
Movement in regulatory deferral accounts before tax attributed to other comprehensive income	(115)
Total	**143**

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

d. Details of the amounts and transactions in regulatory deferral accounts for the six months ended on June 30, 2021:

	Balance	Transactions for the six months ended on June 30, 2021		Balance	Period remaining for refund / cancellation
	As of January 1, 2021	Creation / recognition	Refund / cancellation	As of June 30, 2021	Years
	(NIS millions)				
Debit balance of regulatory deferral accounts	Audited	Unaudited			
With respect to gap between actual rate update dates and the theoretical rate	142	(43)	(99)	-	1-3
With respect to income balancing	186	92	(57)	221	1-2
With respect to non-consecutive update of the fuels component in the rate	-	20	78	98	1-2
With respect to social rate	336	137	(154)	319	1-2
With respect to load management arrangements	30	15	(26)	19	1-2
With respect to deemed interest	134	-	(18)	116	15-25
With respect to recognition of investments that were reduced in the past	126	-	(6)	120	7-15
With respect to gap between update date of fixed payment component	90	1	(20)	71	5
With respect to retirement costs generation A and B	581	10	(126)	465	2-3
With respect to linkage differentials	264	405	(70)	599	10-45
With respect to reform costs	5,046	163	(200)	5,009	7-45
Total	**6,935**	**800**	**(698)**	**7,037**	
Credit balance of regulatory deferral accounts					
With respect to consumer participation in financing sites sold	625	-	(24)	601	12-18
With respect to non-consecutive update of the fuels component in the rate	71	(71)	-	-	1-2
With respect to the gap between actual rate update dates and the theoretical rate	-	29	-	29	1-3
With respect to the GIS agreement	233	-	(110)	123	1-2
With respect to electricity purchases from private electricity producers and photo-voltaic installations	520	84	(206)	398	1-2
With respect to sale of sites	2,433	33	(585)	1,881	1-2
With respect to the compromise agreement with the Egyptian Gas Companies	977	48	(76)	949	8
With respect to depreciation differences	182	70	-	252	1-45
Total	**5,041**	**193**	**(1,001)**	**4,233**	
Deferred taxes with respect to part of the regulatory deferral accounts	750			718	
Total credit balances of regulatory deferral accounts and deferred tax	**5,791**			**4,951**	
					Change (*)
Total balance of regulatory deferral accounts, net	**1,144**			**2,086**	**942**

(*) The change in the six months ended June 30, 2021 is divided as follows:

Change in regulatory deferral accounts before tax, that was attributed to profit and loss	899
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	11
Total	**942**

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

e. **Details of the amounts and transactions in regulatory deferral accounts for the three months ended on June 30, 2021:**

	Balance	Transactions for the three months ended on June 30, 2021		Balance	Period remaining for refund / cancellation
	As of April 1, 2021	Creation / recognition	Refund / cancellation	As of June 30, 2021	Years
	(NIS millions)				
Debit balance of regulatory deferral accounts	Audited	Unaudited			
With respect to gap between actual rate update dates and the theoretical rate	91	(9)	(82)	-	1-3
With respect to income balancing	199	51	(29)	221	1-2
With respect to non-consecutive update of the fuels component in the rate	79	(21)	40	98	1-2
With respect to social rate	329	68	(78)	319	1-2
With respect to load management arrangements	28	4	(13)	19	1-2
With respect to deemed interest	125	-	(9)	116	15-25
With respect to recognition of investments that were reduced in the past	123	-	(3)	120	7-15
With respect to gap between update date of fixed payment component	78	3	(10)	71	5
With respect to retirement costs generation A and B	525	3	(63)	465	2-3
With respect to linkage differentials	370	252	(23)	599	10-45
With respect to reform costs	5,057	54	(102)	5,009	7-45
Total	**7,004**	**405**	**(372)**	**7,037**	
Credit balance of regulatory deferral accounts					
With respect to consumer participation in financing sites sold	613	-	(12)	601	12-18
With respect to the gap between actual rate update dates and the theoretical rate	-	29	-	29	1-3
With respect to the GIS agreement	179	-	(56)	123	1-2
With respect to electricity purchases from private electricity producers and photo-voltaic installations	677	(174)	(105)	398	1-2
With respect to sale of sites	2,172	18	(309)	1,881	1-2
With respect to the compromise agreement with the Egyptian Gas Companies	984	3	(38)	949	8
With respect to depreciation differences	221	31	-	252	1-45
Total	**4,846**	**(93)**	**(520)**	**4,233**	
Deferred taxes with respect to part of the regulatory deferral accounts	736			718	
Total credit balances of regulatory deferral accounts and deferred tax	**5,582**			**4,951**	
					Change (*)
Total balance of regulatory deferral accounts, net	**1,422**			**2,086**	**664**

(*) The change in the three months ended June 30, 2021 is divided as follows:

Change in regulatory deferral accounts before tax, that was attributed to profit and loss	652
Change in deferral taxes included in credit balances of regulatory deferral accounts and deferred tax	18
Movement in regulatory deferral accounts before tax attributed to other comprehensive income	(6)
Total	**664**

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

f. 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, 2021		Balance	Period remaining for refund / cancellation
Debit balance of regulatory deferral accounts	As of January 1, 2021	Creation / recognition	Refund / cancellation	As of December 31, 2021	Years
With respect to gap between actual rate update dates and the theoretical rate	142	-	(142)	-	1-3
With respect to income balancing	186	166	(127)	225	1-2
With respect to non-consecutive update of the fuels component in the rate	-	1,230	166	1,396	1-2
With respect to social rate	336	275	(340)	271	1-2
With respect to load management arrangements	30	49	(57)	22	1-2
With respect to deemed interest	134	-	(26)	108	14-23
With respect to recognition of investments that were reduced in the past	126	-	(12)	114	1-14
With respect to gap between update date of fixed payment component	90	7	(40)	57	5
With respect to generation A and B retirement costs	581	66	(272)	375	2-3
With respect to linkage differentials	264	725	(76)	913	10-45
With respect to reform costs	5,046	455	(401)	5,100	7-45
Total	**6,935**	**2,973**	**(1,327)**	**8,581**	
Credit balance of regulatory deferral accounts					
With respect to consumer participation in financing sites sold	625	-	(47)	578	12-17
With respect to non-consecutive update of the fuels component in the rate	71	(71)	-	-	1-2
With respect to a gap between actual rate update dates and the theoretical update	-	468	99	567	1-3
With respect to the GIS agreement	233	-	(233)	-	-
With respect to electricity purchases from private electricity producers and photo-voltaic installations	520	31	(449)	102	1-2
With respect to sale of sites	2,433	54	(1,285)	1,202	1
With respect to the compromise agreement with the Egyptian Gas Companies	977	5	(163)	819	7
With respect to depreciation differences	182	91	-	273	1-45
Total	**5,041**	**578**	**(2,078)**	**3,541**	
Deferred taxes with respect to part of the regulatory deferral accounts	750			729	
Total credit balances of regulatory deferral accounts and deferred tax	**5,791**			**4,270**	
					Change (*)
Total balance of regulatory deferral accounts, net	**1,144**			**4,311**	**3,167**

(*) The change in 2021 is divided as follows:

Change in regulatory deferral accounts before tax, that was attributed to profit and loss	3,005
Deferred taxes included in credit balances of regulatory deferral accounts and deferred tax	21
Movement in regulatory deferral accounts before tax attributed to other comprehensive income	141
Total	**3,167**

g. 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 3i of the Annual Financial Statements.

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

a. Raisings and Substantial Payments:

1. Material raisings during the Financial Statements period

a) On February 22, 2022, the Company completed the issuance of debentures through Barclays Bank PLC and BNP Paribas investment banks to Qualified Institutional Buyers in a total amount of USD 500 million par value from the comprehensive plan (GMTN) of issuing debentures in a total amount of up to USD 7.5 billion par value. The balance remaining for use by the Company within the GMTN plan is USD 1 billion par value.
The debentures were issued at a price of 99.686% so that the (gross) issue consideration was approximately USD 498 million. The nominal interest rate of 3.75% (effective yield to maturity 3.788%) will be paid in half-yearly installments. The debenture principal will be repaid in one installment on February 22, 2032. The debentures issued as aforesaid within the plan were listed for trade on the TASE institutional continuous trading market system ("Retzef Mosadi'im") as debentures of "Electric Dollar 2032" series.

b) On May 2, 2022, the Company raised a total of approximately NIS 2,000 million through expansion of negotiable debentures of Series 32 and 33 pursuant to a Shelf Prospectus of May 28, 2021 as detailed:

- Series 32 (index-linked) – in the amount of approximately NIS 669 million par value for a consideration of approximately NIS 724 million, prior to issuance expenses (a price of 108.2 Agorot to NIS 1 par value), at a nominal interest rate of 1% (effective yield to maturity – 0.11%). The Debentures principal shall be repaid in one payment on July 22, 2027.
- Series 33 (index-linked) – in the amount of approximately NIS 1,282 million par value for a consideration of approximately NIS 1,276 million, prior to issuance expenses (a price of 99.5 Agorot to NIS 1 par value), at a nominal interest rate of 1.25% (effective yield to maturity – 1.57%). The Debentures principal shall be repaid in one payment on May 30, 2036.

2. Material repayments during the Financial Statements period

a) On January 18, 2022, private (non-negotiable) debentures from the series “Electric Linked 2022” were partially repaid in an amount of approximately NIS 617 million par value (an amount of approximately NIS 668 million, including linkage differentials) issued to institutional investors in 2011 and 2012.

b) During the Financial Statements period, the Company repaid short-term on-call loans in a total amount of NIS 1,600 million, net.

3. Material repayments after the Statement of Financial Position date

On July 18, 2022, private (non-negotiable) debentures from the series “Electric Linked 2022” were partially repaid in an amount of approximately NIS 617 million par value (an amount of approximately NIS 690 million, including linkage differentials) issued to institutional investors in 2011 and 2012.

b. Credit rating:

On March 17, 2022, local rating company Midroog published a rating follow-up report, stating that the Company’s local credit rating remains unchanged, a rating of Aa1.il with a stable outlook.

On May 26, 2022, the international rating company S&P Global Ratings and the local rating company Ma’alot S&P published rating reports, announcing that they are raising the Company’s international and local credit rating to ‘BBB+’ and ‘ilAAA’, respectively, with a stable outlook.

For additional details regarding the Company’s credit rating, see Note 20g 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 20e to the Annual Financial Statements.

To the Company's knowledge, 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.

NOTE 8:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

d. <u>State Guarantee:</u>

The State provided a guarantee to a financial institution for a Dollar loan raised by the Company with a balance of approximately NIS 156 million as of June 30, 2022.

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 Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	NIS in millions				
	Unaudited				Audited
Revenue from the sale of electricity	9,023	8,288	3,999	4,094	18,639
Revenue from the sale of infrastructure services and system management (1)	306	615	153	314	1,250
Revenue from the sale of electricity to the East Jerusalem Electric Company and the Palestinian Authority	1,113	1,008	500	472	2,034
Miscellaneous (2)	139	115	63	76	227
	10,581	**10,026**	**4,715**	**4,956**	**22,150**

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

Rate update

- On January 1, 2021, the average household consumer tariff decreased by 2.3% compared to the effective tariff of January 1, 2020.
- On February 1, 2022, the average household consumer tariff increased by approximately 5.7% compared to the effective tariff of January 1, 2021.
- On May 1, 2022, the average household consumer tariff decreased by approximately 2.4% compared to the tariff published on February 1, 2022.
- On August 1, 2022, the average household consumer tariff increased by approximately 8.6% compared to the tariff published on May 1, 2022.

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

NOTE 9:- REVENUES (continued)

c. Scope of sales arising from private producers and from Noga:

	For the Six Months ended June 30		For the Three Months ended June 30		For the Year ended December 31
	2022	2021	2022	2021	2021
	Unaudited				Audited
Total electricity sales of the Company (in millions of kWh) (*)	23,575	23,630	10,781	11,960	51,537
Scope of electricity purchases by the Company from private producers (in millions kWh) (**)	6,583	8,713	3,327	4,775	18,432
Their part of the total electricity sales of the Company (in %)	28%	37%	31%	40%	36%

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

(**) From November 1, 2021 through Noga, see Note 1e9 and 3l to the Annual Financial Statements.

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

a. Agreements

1. Agreement on the Supply of Gas from the “Tamar Field”

In March, 2012, the Company signed an agreement with the holders of the rights of the “Tamar” license (in this Section: the “Sellers” or the “Tamar Partners”) under which the Company undertook to purchase natural gas at a total minimal volume of approximately 42.5 Billion Cubic Meters (“BCM”) natural gas (hereinafter: the “Agreement” or the “Tamar Agreement”).

For additional details regarding the agreement, applications to the Competition Authority, decisions of the Audit Committee and the Board of Directors in this matter, "Take or Pay" mechanism, and regarding the agreement amendments, including the main points of the amendments of the Tamar Agreement, see Note 35a1 to the Annual Financial Statements.

On January 24, 2022, an amendment to the Tamar agreement was signed between the Company and the Tamar partners (hereinafter: the “Amendment to the Agreement”), whose entry into effect was subject to contingent conditions (approval by the parties' authorized organs and required regulatory approvals) which were completely fulfilled after the Statement of Financial Position date on July 22, 2022. The accounting between the parties will be executed retroactively commencing from July 1, 2021. For additional details regarding the Amendment to the Agreement and its main points see Note 35a1 to the Annual Financial Statements.

The gas purchases from Tamar from July 1, 2021 until the date of the Financial Statements were included until the entry into effect of the Amendment to the Agreement, in the 2021 Financial Statements and in these Financial Statements, according to the price in the Tamar agreement including maximum reduction under the agreement of 25%. The amendment to the agreement will be reflected in the third quarter of 2022 in the fuel expenses on the one hand and in the movement of regulatory deferral accounts on the other hand without a material consequential effect on the net.

2. Agreement for a short-term purchase of gas from the “Leviathan” field

On July 4, 2021, the Company contractually engaged with the Leviathan partners in a Spot agreement for the purchase of natural gas from the “Leviathan” reserve, which was in force for a year. On June 23, 2022, the Spot agreement for the purchase of natural gas from the Leviathan reserve was extended for an additional year. For additional details regarding the agreement, including the main points of the amendments to the Leviathan agreement, see Note 35a2 to the Annual Financial Statements.

3. L.N.G.

For details regarding LNG use and procurement, see Note 35a3 of the Annual Financial Statements.

4. Engagement in a Spot agreement to purchase natural gas from the Karish reserve

On March 14, 2022, the Company engaged with Energean Israel Limited in a SPOT agreement for the purchase of natural gas from the Karish reserve. The entry into effect of the agreement was subject to the completion of the required processes and approval by the authorized bodies of the Company, which were completed in full on April 28, 2022, and thus the agreement entered into effect. For additional details regarding the engagement in a Spot agreement for the purchase of natural gas from the Karish reserve, see Note 35a4 to the Annual Financial Statements.

5. Performance centers

Further to that stated in Note 22a1g to the Annual Financial Statements, during the second quarter of 2022, the Company received possession of the asset used for the Ayalon performance center and accordingly recognized a right-to-use asset against a liability with respect to a lease in an amount of approximately NIS 37 million.

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

a. Agreements (continued)

6. Contractual engagements by the subsidiaries

The Coal Company

Further to Note 35a6a3 to the Annual Financial Statements, on May 17, 2022, an agreement was signed between the Coal Company and its partner in ownership of the bulk ship and a third party for the sale of all the ownership rights of the bulk ship for a net total consideration of approximately USD 50 million (the Coal Company's share is 49% and a total of approximately USD 24.4 million). It was also agreed between the parties that simultaneously with the sale, the lease agreement will be immediately cancelled and the balance of the loan taken by the parties to finance the purchase of the ship will be repaid. The sale of the ship and its delivery to the buyer was completed on June 23, 2022, and on June 24, 2022, the loan balance was repaid, the balance as on the date of execution of the transaction (including accrued interest) was approximately USD 16.7 million (the Coal Company's share is approximately 49% and a total of approximately USD 8.2 million). In addition, the aforesaid lease agreement was cancelled. The profit resulting for the Coal Company with respect to the sale and cancellation of the lease amounted to approximately NIS 8 million.

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

b. Contingent Claims and Liabilities:

1. Following are the main changes that occurred during the reporting period 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 allegedly caused damage to the Company, which was passed on to the electricity consumers within the electricity rate, on May 3, 2022, the Court extended the stay of proceedings in the case until September 5, 2022. The parties are still conducting a mediation proceeding in the case. 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 35b1b of the Annual Financial Statements regarding the request to approve a class action regarding alleged entitlement of the applicants to pay the Company for electricity consumed by them, according to a "collective sale rate", as it is defined in the Criteria, and not according to the load and time rate. At the end of an evidentiary hearing that was held on December 1, 2021, the Court suggested that the parties examine a possibility of arrangement that will terminate the proceeding with consent. Since the negotiations led by the parties did not lead to a settlement, the applicant submitted its summaries on June 1, 2022. After the Statement of Financial Position date, on July 20, 2022, the Company submitted its summaries. A date for submitting a response on behalf of the applicant has not yet been scheduled. The Company's legal advisors estimate remained unchanged, that it is more likely than not that the application for approval will be rejected.

   c) Further to that stated in Note 35b1c of the Annual Financial Statements regarding an application to approve a class action regarding alleged discrimination against minority shareholders under the Companies Law, which is expressed by the non-distribution of dividends, prohibited distribution of benefits to the State while prioritizing it above all the Company's shareholders, management of the Company for political reasons, and more. On May 16, 2022, a judgment was rendered, within which the application to approve was rejected.

   d) Further to that stated in Note 35b1f 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, the Court rendered a judgment on May 19, 2022, approving the settlement arrangement. On June 29, 2022, the Company published the second notice in the newspapers. On June 19, 2022, the opponents of the settlement submitted to the Supreme Court an application for leave to appeal. The Secretary of the Supreme Court rejected the application in limine on the grounds that it does not comply with the requirements of the Civil Procedure Regulations regarding the deposit of a guarantee to secure the respondents' expenses; following this, the opponents submitted a disagreement to the Supreme Court over its decision. After the Statement of Financial Position date, on August 4, 2022, the Company's response to the disagreement was submitted. The Company's legal advisors estimate that at this preliminary stage of the application submission, it is not possible to assess its chances of being accepted.

   e) Further to that stated in Note 35b1g 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, on April 4, 2022, the Court decided that the Company must submit another update notice regarding the status of the petition filed with the High Court of Justice regarding the costs of the scrubbers project by June 20, 2022. On June 20, 2022, the Company submitted an additional update notice regarding the status of the petition. As part of the notice, the Company updated that pursuant to the Supreme Court's decision, the Electricity Authority's date for submitting a preliminary response to the petition was postponed until June 30, 2022. Under the Court's decision of June 20, 2022, the Company has to submit an additional update notice by September 6, 2022. According to the Company's legal advisors, at this stage and before the evidentiary proceedings began, it can be estimated that the application to approve will, more likely than not, be dismissed.

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

b. Contingent Claims and Liabilities: (continued)

1. (continued)

f) Further to that stated in Note 35b1h 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 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 April 4, 2022, the Court decided to cancel the evidentiary hearing scheduled for June 15, 2022, and an additional pretrial hearing of the proceeding was scheduled for October 26, 2022. In light of the preliminary stage of this procedure, and prior to the commencement of the evidentiary procedure, the Company’s legal advisors estimate that the application to approve will, more likely than not, be dismissed.

g) Further to that stated in Note 35b1j 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, on May 25, 2022, the Court decided that the parties will apply to receive the position of the Electricity Authority with regard to the issues arising in this proceeding, in wording detailed in the decision. The position of the Electricity Authority, submitted after the Statement of Financial Position date, on July 18, 2022, is that charging a rate for the meter reading component is carried out by the Company in accordance with the Law, both in circumstances of independent meter reading and in circumstances of remote meter reading by a smart meter, the two types dealt with by the application to approve. Pursuant to the Court’s decision of July 28, 2022, the applicants are required to submit their response to the position of the Electricity Authority by September 11, 2022, and the Company will be required to submit its response by September 25, 2022. A pretrial has been scheduled for October 3, 2022. At this preliminary stage of the proceeding, it can be estimated with extreme caution that it is more likely than not that the application to approve will be rejected.

h) 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, a pre-trial was held on March 14, 2022. In a decision of March 31, 2022, made without the presence of the parties, the court instructed the parties to serve the regulator with their pleadings, and determined that the regulator will submit its response within 150 days from the date it was served. On April 10, the Company presented its pleadings to the Ministry of Environmental Protection. An additional pretrial hearing has been scheduled for December 19, 2022. The Company’s legal advisors estimate that, in this preliminary stage and following the failure of the mediation process, the chances of the application being approved cannot be estimated.

i) 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, the hearing held after the Statement of Financial Position date, on July 10, 2022, focused on mapping the various possibilities to inquire into the proceeding, the issue of adding the State as a third party, the completion of preliminary proceedings, and the position of the respondents in relation to the applicant's response. At the end of the hearing, the Court set a date for reaching a procedural arrangement regarding the addition of the State as a third party, a date for the submission of requests by the respondents regarding the deletion of certain claims from the applicant's response, and the applicant's position regarding the disclosure of the documents. An additional hearing has been scheduled for October 24, 2022. The Company’s legal advisors estimate that, noting the preliminary stage of the proceeding, the chances of the of the application being approved cannot be estimated.

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 35b2c of the Annual Financial Statements regarding an application to approve a class action in an amount of NIS 2.5 million regarding the alleged publication of the privacy policy on the Company's website, as well as an argument regarding the collection of identifiable information concerning customers and its delivery to third parties without informed consent by the customers, the parties submitted to the Court from time to time update notices regarding the existence of the mediation procedure and its progress. Accordingly, the Court decided that the parties will provide updates regarding the results of the mediation proceeding by June 30, 2022 and that the pretrial was scheduled for November 24, 2022, if necessary. On June 30, 2022, the parties submitted a joint notice to the Court under which negotiations are taking place between the parties in an attempt to reach a consensus outside the Court. The Court ordered to postpone the date of submission of the update notice to September 15, 2022. In light of the preliminary stage of this procedure, the Company's legal advisors are unable to estimate the chances of the application to approve.

k) Further to that stated in Note 35b2d of the Annual Financial Statements in respect of a claim filed by four residents of the town of Maghar regarding alleged 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. Another pretrial hearing was held on April 12, 2022, within which the Court recommended that the parties try to reach consents regarding withdrawal that would make the continued hearing of the case redundant. It was determined that if the parties will not reach consents as aforesaid, the case would be transferred to another Judge, who will determine the manner of the continued hearing of the case. After the Statement of Financial Position date, on August 2, 2022, the case was transferred to another Judge, and in view of the parties' notice that they are still talking in an attempt to reach the aforesaid consents, the parties were given an extension to submit an update notice regarding the contact between them. At this stage, the Company's legal advisors are unable to estimate the application's chances of approval.

l) Further to that stated in Note 35b2e of the Annual Financial Statements regarding an application to approve a class action in an amount of NIS 502 million regarding the consideration paid by the Company to its customers who wish to connect to the electricity grid for establishing transformer rooms. Allegedly, the consideration paid by the Company to those who wish to connect does not constitute fair or real consideration, leading the Company to realize unjust enrichment on the account of those wishing to connect. A pretrial was held on April 27, 2022, and the Company is considering the Court's proposal to turn to mediation. After the Statement of Financial Position date, on July 7, 2022, the parties submitted an update notice under which they have agreed to turn to mediation. In accordance with the Court's decision of July 14, 2022, the parties have to submit a joint notice regarding the mediation proceeding by September 6, 2022. The Company's legal advisors estimate that at this preliminary stage of the proceeding, it is more likely than not that the application for approval will be rejected.

m) Further to that stated in Note 35b2f of the Annual Financial Statements regarding an application to approve a class action in an amount of NIS 2 million regarding prohibition of discrimination. According to the applicant, the Company, being a government entity providing a public service, has acted in violation of the Prohibition of Discrimination in Products, Services and Entry into Places of Entertainment and Public Places Law, 2000, as the information published on its website is not translated into Arabic. Thus, the claimant alleges, the members of the group were distressed and their autonomy was impaired. On May 30, 2022, a notice was submitted on behalf of the Haifa District Attorney's Office, according to which the professional bodies in the country did not find it appropriate to express a position regarding the request to withdraw, affirmatively or negatively. On the same day, the Court's decision was given, in which the Court addressed the difficulties faced by the application to approve, including regarding the question of the Court's substantive authority to hear the application, and ordered the applicant to notify by June 13, 2022 whether, in light of the arrangement he submitted with the Ministry of the Interior, he waives remuneration and fees in the case and requests unremunerated withdrawal, or requests a decision in principle. The applicant did not make a statement on his behalf. On June 14, 2022, a ruling was issued on the withdrawal application, in which the Court ordered the deletion of the application to approve.

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

b. Contingent Claims and Liabilities: (continued)

1. (continued)

n) Further to that stated in Note 35b3aa 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 March 1, 2022, a pretrial hearing was held in the proceeding, during which the judge proposed to the parties, with regard to document disclosure requirements and a questionnaire, that in the first stage general document disclosure affidavits will be mutually transferred and only then will each party have the right to request specific document disclosure, as well as questionnaires at the last stage if still necessary. Every party gave its consent to the Court's proposal. The Company's legal advisors maintain their estimation as specified in Note 35b3aa of the Annual Financial Statements.

o) Further to Note 35b3ab of the Annual Financial Statements regarding a class action of approximately NIS 21.7 million regarding the sending of periodical bills to customers based on estimations, while the Company should have classified the bill as an "initiated skip". Following an evaluation report that was submitted and a hearing held by the Court, the Company agreed to update the settlement amount according to the settlement amount found by the evaluator, and to change the compensation mechanism for the members of the group who are entitled to compensation. A judgment was rendered on June 19, 2022, approving the settlement agreement in accordance with the aforesaid. A provision was recorded in the Financial Statements with respect to the settlement amount.

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.

c. Labor disputes

Further to that stated in Note 35c to the Annual Financial Statements pertaining to labor disputes, following measures taken by the Employees' Union to delay the advancement of the sale of the Eshkol power station in Ashdod, the Company worked to resolve the disputes by negotiating with the Employees' Union and the State, and as a result these measures were removed by the Employees' Union.

d) Investment in CyberGym Control Ltd.

Further to that stated in Note 11b2 to the Annual Financial Statements, after the procedural proceedings required to exercise the option were completed, on June 26, 2022, the Company sent a notice of exercising the options to receive shares of CyberGym, and as of that date the shares were registered in the Company's name, so that after the exercise, the Company owns 500,000 ordinary shares, which constitute approximately 43% of the issued share capital of CyberGym. Holding the shares has no effect on the accounting treatment taken by the Company as detailed in Note 2i to the Annual Financial Statements.

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 June 30		As of December 31	As of June 30		As of December 31
	2022	2021	2021	2022	2021	2021
	(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	13,830	10,997	11,645	14,308	12,327	13,365
Financial liabilities – level 2						
Debentures and long term loans (including current maturities and interest payable)						
Long term loans at fixed interest	1,850	1,787	1,809	1,946	2,041	2,144
Long term loans at variable interest	2,120	802	2,173	2,153	843	2,208
Fixed interest non-negotiable debentures in Israel	2,308	3,609	2,940	2,433	3,910	3,200
Fixed interest non-negotiable debentures abroad	15,439	13,038	12,384	15,978	15,718	14,591

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 June 30, 2022	As of June 30, 2021	As of December 31, 2021
	Level 2		
	(NIS in millions)		
	Unaudited		Audited
Financial assets			
Swap transactions designated to hedge cash flow	238	-	-
Other swap and forward transactions	411	413	276
Financial liabilities			
Swap transactions designated to hedge cash flows	548	876	1,290
Other swap and forward transactions	1,841	1,324	1,867
Total liabilities with respect to hedge transactions, net	**1,740**	**1,787**	**2,881**

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.

   Comparative figures for the six and three months ended on June 30, 2021 were restated in order to reflect the change in the structure of the reportable segments and the manner of the Company's reporting.

b. Detailed Reportable Operation Segments

The operations of the Company, according to the reports to the Chief Operating Decision Maker, are comprised during the period of the Financial Statements of four 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 after the sale of the system management activity to the Noga Company.
- Transmission - includes the transmission and transformation system of the 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 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.
- Other – includes until October 31, 2021 the system management activity which was sold on November 1 to the Noga Company, a separate Government company. This activity was therefore not reviewed in these Financial Statements and in the Annual Financial Statements by the Chief Operating Decision Maker.

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.
The revenues of the consumer services–supply segment for comparative periods were calculated based on the network segment electricity rate in effect in 2021.
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.
The separation of income and expenses in comparative figures was made according to the aforementioned criteria.

NOTE 12:- SEGMENTAL REPORTING (continued)

c. Income and Results according to Operational Segments (continued)

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 section 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 Six Months ended June 30, 2022					
	Electricity generation and purchases	**Transmission**	**Distribution**	**Supply**	**Operation not within the electricity chain**	**Total Company**
			(NIS in millions) (Unaudited)			
Revenues from electricity	6,434	852	2,931	225	-	10,442
Other income	2	-	63	27	47	139
Total revenues	**6,436**	**852**	**2,994**	**252**	**47**	**10,581**
Cost of operating the electricity system:						
Fuels	4,227	-	-	-	-	4,227
Purchases of Electricity:						
Purchases of Electricity	44	-	1,320	-	-	1,364
Purchasing and accounting with Noga, net	1,235	10	259	-	-	1,504
	1,279	10	1,579	-	-	2,868
Operation of the generation system	2,026	-	-	-	-	2,026
Operation of the transmission, distribution system and others	-	404	976	-	26	1,406
Total cost of operating the electricity system	7,532	414	2,555	-	26	10,527
Profit (loss) from operating the electricity system	**(1,096)**	**438**	**439**	**252**	**21**	**54**
Sales and marketing expenses	-	-	198	199	-	397
Administrative and general expenses	190	42	148	39	-	419
	190	42	346	238	-	816
Profit (loss) from current operations	**(1,286)**	**396**	**93**	**14**	**21**	**(762)**
Company's share of the profit of associated companies	-	-	-	-	2	2
(*) Profit (loss) before regulatory deferral accounts	**(1,286)**	**396**	**93**	**14**	**23**	**(760)**
Movements in regulatory deferral accounts balances, gross	2,079	(252)	199	(8)	-	2,018
Segmental profit	**793**	**144**	**292**	**6**	**23**	**1,258**

Unallocated revenues (expenses)	
Other revenues, net	1,378
Income from liabilities to pensioners	70
Reform agreement and other agreements results	(135)
Financial expenses	(750)
Movements in deferral accounts, gross, that were not allocated to segments	(698)
Tax expenses included in net movement of regulatory deferral accounts	(304)
Income tax	41
Profit for the period in accordance with the consolidated statements	**860**

Additional details:

	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
Depreciation and amortization expenses	1,391	271	678	25	-	**2,365**

NOTE 12:- SEGMENTAL REPORTING (continued)

d. Income and Results according to operating segments

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

	For the Six Months ended June 30, 2021 *						
	Generation	**Transmission**	**Distribution**	**Supply**	**Operation not within the electricity chain**	**Others**	**Total Company**
			(NIS in millions) (Unaudited)				
Revenues from electricity	4,080	690	2,722	224	-	2,195	9,911
Other income	6	1	61	14	33	-	115
Total revenues	**4,086**	**691**	**2,783**	**238**	**33**	**2,195**	**10,026**
Cost of operating the electricity system:							
Fuels	2,227	-	-	-	-	-	2,227
Purchases of Electricity	-	-	1,056	-	-	2,228	3,284
Operation of the generation system	2,119	-	-	-	-	-	2,119
Operation of the transmission, distribution system and others	-	377	948	-	24	28	1,377
Total cost of operating the electricity system	4,346	377	2,004	-	24	2,256	9,007
Profit (loss) from operating the electricity system	**(260)**	**314**	**779**	**238**	**9**	**(61)**	**1,019**
Sales and marketing expenses	-	-	241	195	-	-	436
Administrative and general expenses	167	26	129	31	-	12	365
	167	26	370	226	-	12	801
Profit (loss) from current operations	**(427)**	**288**	**409**	**12**	**9**	**(73)**	**218**
Company's share in losses of associated companies	-	-	-	-	(9)	-	(9)
(*) Profit (loss) before regulatory deferral accounts	**(427)**	**288**	**409**	**12**	**-**	**(73)**	**209**
Movements in regulatory deferral account balances gross	753	(131)	(248)	(6)	-	73	441
Segmental profit	**326**	**157**	**161**	**6**	**-**	**-**	**650**
Unallocated revenues (expenses)							
Other revenues, net							2
Income from liabilities to pensioners							30
Reform agreement and other agreements results							(147)
Financial expenses							(920)
Movements in deferral accounts, gross, that were not allocated to segments							458
The tax expenses included in net movement of regulatory deferral account							(207)
Income tax							186
Profit for the period in accordance with the consolidated statements							**52**
Additional details:							
Depreciation and amortization expenses	1,389	254	653	21	-	4	2,321
Impairment of assets held for sale	-	-	-	-	-	-	10
Total depreciation, amortization and impairment of assets held for sale	1,389	254	653	21	-	4	**2,331**

* Restated

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 June 30, 2022					
	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions)					
Revenues from electricity	2,824	401	1,313	114	-	4,652
Other income	1	-	27	14	21	63
Total revenues	**2,852**	**401**	**1,340**	**128**	**21**	**4,715**
Cost of operating the electricity system:						
Fuels	1,976	-	-	-	-	1,976
Purchases of Electricity:						
Purchases of Electricity	28	-	794	-	-	822
Purchasing and accounting with Noga, net	654	10	(159)	-	-	505
	682	10	635	-	-	1,327
Operation of the generation system	1,036	-	-	-	-	1,036
Operation of the transmission, distribution system and others	-	205	472	-	7	684
Total cost of operating the electricity system	3,694	215	1,107	-	7	5,023
Profit (loss) from operating the electricity system	**(869)**	**186**	**233**	**128**	**14**	**(308)**
Sales and marketing expenses	-	-	103	101	-	204
Administrative and general expenses	101	21	75	19	-	216
	101	21	178	120	-	420
(*) Profit (loss) before regulatory deferral accounts	**(970)**	**165**	**55**	**8**	**14**	**(728)**
Movements in regulatory deferral accounts balances, gross	1,270	(121)	14	(4)	-	1,159
Segmental profit	**300**	**44**	**69**	**4**	**14**	**431**
Unallocated revenues (expenses)						
Other revenues, net						1,375
Income from liabilities to pensioners						38
Reform agreement and other agreements results						(77)
Financial expenses						(88)
Movements in deferral accounts, gross, that were not allocated to segments						(929)
Tax expenses included in net movement of regulatory deferral accounts						(53)
Income tax						(122)
Profit for the period in accordance with the consolidated statements						**575**
Additional details:						
Depreciation and amortization expenses	707	138	332	21	-	**1,198**

* Restated

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 June 30, 2021 *						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Others	Total Company
	(NIS in millions) (Unaudited)						
Revenues from electricity	1,991	346	1,349	115	-	1,079	4,880
Other income	5	1	34	12	24	-	76
Total revenues	**1,996**	**347**	**1,383**	**127**	**24**	**1,079**	**4,956**
Cost of operating the electricity system:							
Fuels	1,109	-	-	-	-	-	1,109
Purchases of Electricity	-	-	668	-	-	1,209	1,877
Operation of the generation system	1,098	-	-	-	-	-	1,098
Operation of the transmission, distribution system and others	-	190	467	-	11	15	683
Total cost of operating the electricity system	2,207	190	1,135	-	11	1,224	4,767
Profit (loss) from operating the electricity system	**(211)**	**157**	**248**	**127**	**13**	**(145)**	**189**
Sales and marketing expenses	-	-	115	97	-	-	212
Administrative and general expenses	75	13	58	15	-	3	164
	75	13	173	112	-	3	376
Profit (loss) from current operations	**(286)**	**144**	**75**	**15**	**13**	**(148)**	**(187)**
Company's share in losses of associate companies	-	-	-	-	(9)	-	(9)
(*) Profit (loss) before regulatory deferral accounts	**(286)**	**144**	**75**	**15**	**4**	**(148)**	**(196)**
Movements in regulatory deferral account balances gross	311	(64)	(8)	(1)	-	120	358
Segmental profit (loss)	**25**	**80**	**67**	**14**	**4**	**(28)**	**162**
Unallocated revenues (expenses)							
Other revenues, net							7
Income from liabilities to pensioners							12
Reform agreement and other agreements results							(59)
Financial expenses							(456)
Movements in deferral accounts, gross, that were not allocated to segments							294
The tax expenses included in net movement of regulatory deferral account							(149)
Income tax							156
Profit for the period in accordance with the consolidated statements							**(33)**
Additional details:							
Depreciation and amortization expenses	715	130	318	19	2	-	1,184
Impairment of assets held for sale	-	-	-	-	-	-	5
Total depreciation, amortization and impairment of assets held for sale	715	130	318	19	2	-	**1,189**

* Restated

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, 2021						
	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Others*	Total Company
	(NIS in millions) (audited)						
Revenues from electricity	9,754	1,710	5,686	460	-	4,313	21,923
Other income	6	1	119	36	65	-	227
Total revenues	**9,760**	**1,711**	**5,805**	**496**	**65**	**4,313**	**22,150**
Cost of operating the electricity system:							
Fuels	5,875	-	-	-	-	-	5,875
Purchases of Electricity:							
Purchases of Electricity	2	-	2,216	-	-	4,165	6,383
Purchasing and accounting with Noga, net	268	(5)	240	-	-	(14)	489
	270	(5)	2,456	-	-	4,151	6,872
Operation of the generation system	4,086	-	-	-		-	4,086
Operation of the transmission, distribution system and others	-	741	1,909	-	45	45	2,740
Total cost of operating the electricity system	10,231	736	4,356	-	45	4,196	19,573
Profit (loss) from operating the electricity system	**(471)**	**975**	**1,440**	**496**	**20**	**117**	**2,577**
Other expenses, net	-	-	-	-	13	-	13
Sales and marketing expenses	-	-	452	401	-	-	853
Administrative and general expenses	347	57	282	74	-	22	782
	347	57	734	475	13	22	1,648
Profit (loss) from current operations	**(818)**	**918**	**706**	**21**	**7**	**95**	**929**
Company's share of the loss of associated companies	-	-	-	-	(9)	-	(9)
(*) Profit (loss) before regulatory deferral accounts	**(818)**	**918**	**706**	**21**	**(2)**	**95**	**920**
Movements in regulatory deferral accounts balances, gross	2,565	(344)	(125)	(10)	-	(145)	1,941
Segmental profit (loss)	**1,747**	**574**	**581**	**11**	**(2)**	**(50)**	**2,861**

Unallocated revenues (expenses)	
Other revenues, net	(2)
Income from liabilities to pensioners	47
Reform agreement and other agreements results	(348)
Financial expenses	(1,912)
Movements in deferral accounts, gross, that were not allocated to segments	1,064
Tax revenues included in net movement of regulatory deferral accounts	(691)
Income tax	266
Profit for the year in accordance with the consolidated statements	**1,285**

Additional details:

	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Others*	Total Company
Depreciation and amortization expenses	2,757	498	1,335	48	-	10	4,648
Impairment of assets held for sale	-	-	-	-	-	-	16
Total depreciation, amortization and impairment of assets held for sale	2,757	498	1,335	48	-	10	**4,664**

NOTE 12:- SEGMENTAL REPORTING (continued)

e. Assets and Liabilities according to Operating Segments

Assets and liabilities that can be specifically identified are directly charged to the appropriate segments. Unidentified assets and liabilities are included in the report as balances that have not been directly classified. 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 June 30, 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	3,758	-	-	-	-	-	3,758
Assets held for sale	-	-	-	-	-	-	-
Investment in associated companies	-	-	-	-	11	-	11
Fixed assets, net	20,880	15,686	19,796	-	-	2,963	59,325
Intangible assets, net	-	-	-	-	-	1,175	1,175
Debit balances of regulatory deferral accounts	2,586	19	964	22	-	6,447	10,038
Other assets not classified	-	-	-	-	-	20,264	20,264
Total assets	**27,224**	**15,705**	**20,760**	**22**	**11**	**30,849**	**94,571**
Credit balances of regulatory deferral accounts, without deferred taxes	(346)	1,329	735	-	-	2,149	3,867
Investments in fixed assets for the period	**938**	**751**	**866**	**-**	**-**	**177**	**2,732**

	As on June 30, 2021 *							
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Others	Assets and liabilities not directly classified	Total Company
	(NIS in millions) (unaudited)							
Inventory – fuels	2,435	-	-	-	-	-	-	2,435
Assets held for sale	-	-	-	-	-	118	-	118
Investment in an associated companies	-	-	-	-	4	-	-	4
Fixed assets, net	21,640	14,714	19,295	-	-	-	2,871	58,520
Intangible assets, net	5	61	289	166	-	-	696	1,217
Debit balances of regulatory deferral accounts	555	-	32	39	-	338	6,073	7,037
Other assets not classified	-	-	-	-	-	-	17,018	17,018
Total assets	**24,635**	**14,775**	**19,616**	**205**	**4**	**456**	**26,658**	**86,349**
Credit balances of regulatory deferral accounts, without deferred taxes	(377)	843	480	-	-	334	2,953	4,233
Investments in fixed assets for the period	**1,251**	**677**	**785**	**-**	**-**	**9**	**181**	**2,903**

* Restated

NOTE 12:- SEGMENTAL REPORTING (continued)

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

	As on December 31, 2021							
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Others	Assets and liabilities not directly classified	Total Company
	(NIS in millions) (Audited)							
Inventory – fuels	3,113	-	-	-	-	-	-	3,113
Assets held for sale	160	-	-	-	-	-	-	160
Investment in an associated companies	-	-	-	-	4	-	-	4
Fixed assets, net	21,474	15,145	19,539	-	-	-	2,965	59,123
Intangible assets, net	7	80	273	164	-	-	664	1,188
Debit balances of regulatory deferral accounts	2,056	60	46	31	-	-	6,388	8,581
Other assets not classified	-	-	-	-	-	-	18,443	18,443
Total assets	**26,810**	**15,285**	**19,858**	**195**	**4**	**-**	**28,460**	**90,612**
Credit balances of regulatory deferral accounts, without deferred taxes	149	1,144	196	-	-	31	2,021	3,541
Investments in fixed assets for the period	**2,421**	**1,383**	**1,661**	**-**	**-**	**14**	**491**	**5,970**

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 six months ended on June 30		For the three months ended on June 30		For the year ended on December 31
	2022	2021	2022	2021	2021
	Generation				
	(NIS in millions)				
	Unaudited				Audited
Coal	2,385	962	1,083	505	2,791
Natural gas	1,697	1,199	816	555	2,931
Diesel oil	125	72	68	39	137
Crude oil	20	(6)	9	10	16
Total fuel consumption costs	**4,227**	**2,227**	**1,976**	**1,109**	**5,875**

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

	For the six months ended on June 30		For the three months ended on June 30		For the year ended on December 31
	2022	2021	2022	2021	2021
	Distribution				
	(NIS in millions)				
	Unaudited				Audited
Photovoltaic	1,253	1,010	762	644	2,116
Wind turbine	10	10	6	6	21
Hydroelectric	4	3	2	1	6
Biogas	47	33	23	17	70
Diesel oil generator	6	-	1	-	3
Total electricity purchases	**1,320**	**1,056**	**794**	**668**	**2,216**

Details of kWh generated

In the six months ended on June 30, 2022, and in the six months ended on June 30, 2021, the Company generated 19,285 million kWh and 17,050 million kWh, respectively. For the three months ended on June 30, 2022, and on June 30, 2021, the Company generated 8,330 million kWh, and 8,190 million kWh respectively.

In the six months ended on June 30, 2022, and in the six months ended June 30, 2021, as a supplier, the Company supplied 23,575 million kWh and 23,630 million kWh, respectively. For the three months ended on June 30, 2022, and June 30, 2021, as a supplier, the Company supplied 10,781 million kWh and 11,960 million kWh respectively.

In the year to December 31, 2021 the Company generated 38,248 million kWh, and as a supplier, the Company supplied 51,537 million kWh.

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 six months ended on June 30		For the three months ended on June 30		For the year ended on December 31
	2022	2021 *	2022	2021 *	2021
	Generation (NIS in millions)				
	Unaudited				Audited
Wages	458	518	230	259	960
Depreciation	1,246	1,238	637	637	2,453
Other	322	363	169	202	673
Total operation of the generation system	**2,026**	**2,119**	**1,036**	**1,098**	**4,086**

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

	For the six months ended June 30, 2022				
	Transmission	Distribution	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (unaudited)				
Wages	62	289	6	-	357
Depreciation and amortization	260	576	-	-	836
Other	82	111	20	-	213
Total operation of the transmission and distribution system and other	**404**	**976**	**26**	**-**	**1,406**

	For the six months ended June 30, 2021*				
	Transmission	Distribution	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (unaudited)				
Wages	65	281	-	23	369
Depreciation and amortization	246	553	-	-	799
Other	67	114	24	5	209
Total operation of the transmission and distribution system and other	**377**	**948**	**24**	**28**	**1,377**

	For the three months ended June 30, 2022				
	Transmission	Distribution	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (unaudited)				
Wages	31	131	-	-	162
Depreciation and amortization	134	288	-	-	422
Other	40	53	7	-	100
Total operation of the transmission and distribution system and other	**205**	**472**	**7**	**-**	**684**

* Restated

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 transmission and distribution system and others according to type of expense (continued)

	For the three months ended June 30, 2021*				
	Transmission	Distribution	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (unaudited)				
Wages	32	135	-	12	179
Depreciation and amortization	124	279	-	-	403
Other	34	53	11	3	101
Total operation of the transmission and distribution system and other	**190**	**467**	**11**	**15**	**683**

* Restated

	For the year ended December 31, 2021				
	Transmission	Distribution	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (audited)				
Wages	119	558	26	38	741
Depreciation and amortization	486	1,124	-	-	1,610
Other	136	227	19	7	389
Total operation of the transmission and distribution system and other	**741**	**1,909**	**45**	**45**	**2.740**

Details of administrative and general expenses according to type of expense

	For the six months ended June 30, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)					
Wages	106	21	77	23	-	227
Depreciation and amortization	26	11	37	6	-	80
Other	58	10	34	10	-	112
Total administrative and general expenses	**190**	**42**	**148**	**39**	**-**	**419**

	For the six months ended June 30, 2021*						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (unaudited)						
Wages	117	16	79	24	-	6	242
Depreciation and amortization	24	7	33	3	-	4	71
Other	26	3	17	4	-	2	52
Total administrative and general expenses	**167**	**26**	**129**	**31**	**-**	**12**	**365**

* Restated

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 (continued)

	For the three months ended June 30, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)					
Wages	55	12	37	11	-	115
Depreciation and amortization	14	4	21	2	-	41
Other	32	5	17	6	-	60
Total administrative and general expenses	**101**	**21**	**75**	**19**	**-**	**216**

	For the three months ended June 30, 2021*						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (unaudited)						
Wages	52	7	37	12	-	3	111
Depreciation and amortization	13	5	14	1	-	2	35
Other	10	1	7	2	-	(2)	18
Total administrative and general expenses	**75**	**13**	**58**	**15**	**-**	**3**	**164**

	For the year ended December 31, 2021						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (audited)						
Wages	219	33	154	47	-	8	461
Depreciation and amortization	52	12	75	11	-	10	160
Other	76	12	53	16	-	4	161
Total administrative and general expenses	**347**	**57**	**282**	**74**	**-**	**22**	**782**

* Restated

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 six months ended June 30, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)					
Direct costs						
Wages	498	57	340	98	6	999
Depreciation and amortization	1,340	252	595	-	-	2,187
Others	322	82	153	68	20	645
Fuels	4,046	-	-	-	-	4,046
Purchases of Electricity	44	-	1,320	-	-	1,364
Accounting with Noga	1,235	10	259	-	-	1,504
Total direct costs	**7,485**	**401**	**2,667**	**166**	**26**	**10,745**
Indirect costs						
Wages	128	26	117	37	-	308
Depreciation and amortization	51	19	83	25	-	178
Others	58	10	34	10	-	112
Total indirect costs	**237**	**55**	**234**	**72**	**-**	**598**

	For the six months ended June 30, 2021*						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (unaudited)						
Direct costs							
Wages	543	59	361	100	-	22	1,085
Depreciation and amortization	1,332	239	573	-	-	-	2,144
Others	363	65	155	61	24	5	673
Fuels	2,029	-	-	-	-	-	2,029
Purchases of Electricity	-	-	1,056	-	-	2,228	3,284
Total direct costs	**4,267**	**363**	**2,145**	**161**	**24**	**2,255**	**9,215**
Indirect costs							
Wages	163	22	132	40	-	7	364
Depreciation and amortization	57	15	80	21	-	4	177
Others	26	3	17	4	-	2	52
Total indirect costs	**246**	**40**	**229**	**65**	**-**	**13**	**593**

* Restated

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 three months ended June 30, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)					
Direct costs						
Wages	250	28	165	47	-	490
Depreciation and amortization	680	130	298	-	-	1,108
Others	169	40	87	28	7	331
Fuels	1,889	-	-	-	-	1,889
Purchases of Electricity	28	-	794	-	-	822
Accounting with Noga	654	10	(159)	-	-	505
Total direct costs	**3,670**	**208**	**1,185**	**75**	**7**	**5,145**
Indirect costs						
Wages	66	15	49	18	-	148
Depreciation and amortization	27	8	34	21	-	90
Others	32	5	17	6	-	60
Total indirect costs	**125**	**28**	**100**	**45**	**-**	**298**

	For the three months ended June 30, 2021*						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (unaudited)						
Direct costs							
Wages	271	29	182	48	-	10	540
Depreciation and amortization	685	121	291	-	-	-	1,097
Others	202	31	80	22	11	3	349
Fuels	1,008	-	-	-	-	-	1,008
Purchases of Electricity	-	-	668	-	-	1,209	1,877
Total direct costs	**2,166**	**181**	**1,221**	**70**	**11**	**1,222**	**4,871**
Indirect costs							
Wages	76	10	55	21	-	5	167
Depreciation and amortization	30	9	27	19	-	2	87
Others	10	3	5	2	-	(2)	18
Total indirect costs	**116**	**22**	**87**	**42**	**-**	**5**	**272**

* Restated

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, 2021						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (audited)						
Direct costs							
Wages	1,043	110	723	203	26	38	2,143
Depreciation and amortization	2,650	469	1,172	-	-	-	4,291
Others	673	138	301	140	32	7	1,291
Fuels	5,492	-	-	-	-	-	5,492
Purchases of Electricity	2	-	2,216	-	-	4,165	6,383
Accounting with Noga	268	(5)	240	-	-	(14)	489
Total direct costs	**10,128**	**712**	**4,652**	**343**	**58**	**4,196**	**20,089**
Indirect costs							
Wages	267	42	229	68	-	8	614
Depreciation and amortization	107	29	163	48	-	10	357
Others	76	10	55	16	-	4	161
Total indirect costs	**450**	**81**	**447**	**132**	**-**	**22**	**1,132**

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 six months ended June 30, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)					
Wage costs	791	287	794	135	6	2,013
Charged to fixed assets including remeasurements	(230)	(284)	(469)	-	-	(983)
Remeasurements charged to reduction of fixed assets	65	80	132	-	-	277
Wage expenses in profit and loss	**626**	**83**	**457**	**135**	**6**	**1,307**

Wage costs not attributed to sectors

Wage costs charged to joint fixed assets	67
Wage costs charged to joint fixed assets from remeasurements	(19)

	For the six months ended June 30, 2021*						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (unaudited)						
Wage costs	883	304	832	140	-	29	2,188
Charged to fixed assets including remeasurements	(213)	(268)	(407)	-	-	-	(888)
Remeasurements charged to reduction of fixed assets	36	45	68	-	-	-	149
Wage expenses in profit and loss	**706**	**81**	**493**	**140**	**-**	**29**	**1,449**

Wage costs not attributed to sectors

Wage costs charged to joint fixed assets	77
Wage costs charged to joint fixed assets from remeasurements	(13)

* Restated

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 (continued)

	For the three months ended June 30, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions) (unaudited)					
Wage costs	469	233	527	65	-	1,294
Charged to fixed assets including remeasurements	(116)	(145)	(235)	-	-	(496)
Remeasurements charged to increase of fixed assets	(37)	(45)	(78)	-	-	(160)
Wage expenses in profit and loss	**316**	**43**	**214**	**65**	**-**	**638**

Wage costs not attributed to sectors

Wage costs charged to joint fixed assets	33
Wage costs charged to joint fixed assets from remeasurements	11

	For the three months ended June 30, 2021*						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (unaudited)						
Wage costs	421	130	378	69	-	15	1,013
Charged to fixed assets including remeasurements	(110)	(136)	(208)	-	-	-	(454)
Remeasurements charged to reduction of fixed assets	36	45	67	-	-	-	148
Wage expenses in profit and loss	**347**	**39**	**237**	**69**	**-**	**15**	**707**

Wage costs not attributed to sectors

Wage costs charged to joint fixed assets	39
Wage costs charged to joint fixed assets from remeasurements	(13)

* Restated

NOTE 12:- SEGMENTAL REPORTING (continued)

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

<u>Details of direct and indirect costs divided according to profit centers</u> (continued)

	For the year ended December 31, 2021						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions) (audited)						
Wage costs	1,699	647	1,753	271	26	46	4,442
Charged to fixed assets including remeasurements	(428)	(545)	(883)	-	-	-	(1,856)
Remeasurements charged to reduction of fixed assets	39	50	82	-	-	-	171
Wage expenses in profit and loss	1,310	152	952	271	26	46	2,757

<u>Wage costs not attributed to sectors</u>

Wage costs charged to joint fixed assets	144
Wage costs charged to joint fixed assets from remeasurements	(13)

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 June 30, 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	338	43	528	-	146	1,055
Classification	678	950	247	-	12	1,887
Deduction	(123)	1	(16)	-	(11)	(149)
Depreciation	(1,340)	(252)	(595)	-	(178)	(2,365)
Balance at the end of the period	**17,477**	**12,522**	**19,439**	**-**	**2,853**	**52,291**
Assets under construction						
Balance at the beginning of the period	3,550	3,365	264	-	81	7,260
Additions, net	590	708	338	-	31	1,667
Deduction	(5)	(1)	-	-	-	(6)
Classification	(732)	(908)	(245)	-	(2)	(1,887)
Balance at the end of the period	**3,403**	**3,164**	**357**	**-**	**110**	**7,034**

	As on June 30, 2021*						
	Generation	Transmission	Distribution	Supply	Operation not part of the electricity chain	Joint assets	Total Company
	(NIS in millions) (audited)						
Direct fixed assets							
Balance at the beginning of the period	19,219	11,756	18,801	-	-	2,850	52,626
Investments during the period	299	121	548	-	-	170	1,138
Classification	557	69	191	-	-	15	832
Deduction	(52)	(3)	(21)	-	-	(4)	(80)
Depreciation	(1,332)	(239)	(521)	-	-	(225)	(2,317)
Balance at the end of the period	**18,691**	**11,704**	**18,998**	**-**	**-**	**2,806**	**52,199**
Assets under construction							
Balance at the beginning of the period	2,586	2,504	250	-	-	62	5,402
Additions, net	952	556	237	-	-	11	1,756
Deduction	(5)	-	-	-	-	-	(5)
Classification	(584)	(50)	(190)	-	-	(8)	(832)
Balance at the end of the period	**2,949**	**3,010**	**297**	**-**	**-**	**65**	**6,321**

* Restated

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, 2021						
	Generation	Transmission	Distribution	Supply	Operation not part of the electricity chain	Joint assets	Total Company
	(NIS in millions) (audited)						
Direct fixed assets							
Balance at the beginning of the period	19,219	11,756	18,801	-	-	2,850	52,626
Investments during the period	644	232	1,216	-	-	462	2,554
Classification	785	279	431	-	-	34	1,529
Deduction	(74)	(18)	(35)	-	-	(68)	(195)
Depreciation	(2,650)	(469)	(1,138)	-	-	(394)	(4,651)
Balance at the end of the period	**17,924**	**11,780**	**19,275**	**-**	**-**	**2,884**	**51,863**
Assets under construction							
Balance at the beginning of the period	2,587	2,504	250	-	-	61	5,402
Additions, net	1,777	1,151	445	-	-	29	3,402
Deduction	(10)	-	-	-	-	(5)	(15)
Classification	(804)	(290)	(431)	-	-	(4)	(1,529)
Balance at the end of the period	**3,550**	**3,365**	**264**	**-**	**-**	**81**	**7,260**

NOTE 12:- SEGMENTAL REPORTING (continued)

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

For the six months ended June 30, 2022

1. The Company's share in profits 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. A gross profit of approximately NIS 1.5 million was recorded during the period from business development work at the Nilit substation and the Dorad substation.

For the six months ended June 30, 2021

1. The Company's share in losses of associate companies during the period amounted to approximately NIS 9 million.
2. A gross profit of approximately NIS 7 million was recorded during the period for the provision of unloading and loading services at moorings at the Eshkol generation station.

For the year ended December 31, 2021

1. Approximately NIS 4 million was recorded during the year for recognition of profit that has not yet been realized with respect to the communications company.
2. The Company's share in losses of associate companies during the year period amounted to approximately NIS 9 million.
3. Impairment of value of loans to PTI companies was recorded during the year in the amount of approximately NIS 13 million.

ANNEX 1

Actuarial Liabilities of the Israel Electric Corporation as at June 30, 2022

August 18, 2022

Mr. Avi Doitchman
Senior Vice-President, Finance and Economics
Israel Electric Corporation Ltd.
P.O. Box 10
Haifa 31000, Israel

Dear Sir,

Re: **Actuarial Liabilities for Employee Benefits as at June 30, 2022 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. General
2. Benefits included in the valuation
3. Methodology as well as actuarial and accounting principles underlying the valuation
4. Data on which the valuation is based
5. Assumptions on which the valuation is based
6. Valuation changes in the current reporting year
7. Valuation results
8. Uncertainties and risks

Appendix A – Additional reports for disclosure in the financial statements
Appendix B – Presentation of expected benefit cash flows
Appendix C – Additional details regarding financial assumptions
Appendix D – Additional details regarding data
Appendix E – Valuation changes made prior to the current year (in addition to changes made by previous actuaries)

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. Avi Doitchman, Senior Vice-President, Finance and Economics. 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. According to the most recent actuarial valuation of the Fund (as of June 30, 2022), liabilities were higher than those calculated in this valuation, and there were no surplus assets.

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 seven 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" – June 30,2022
- "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. **<u>Benefits Included in the Valuation</u>**

2.1 Our calculations are based on information regarding the benefits and their terms (as presented in a Company document, which is included in the annual report as Appendix F). The information in that document, which we relied upon for the purpose of preparing this report, was not verified by us.

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 the supplemental severance pay benefit in respect of employees employed under a special agreement.

The valuation does not relate to severance pay benefits for senior managers who are employed under personal contracts with the Government Companies Authority.

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 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

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

[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.

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 and 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.[5]
- Retirement grant termination.[6]
- Death grant.[7]

2.3.3 Regarding the collective bargaining agreement dated May 17, 2018[8] (and subsequent correcting agreements, etc.[9]), the benefits consist of:

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[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] Grant that was taken into account for the first time in this valuation, by virtue of a special collective agreement (Retirement as a pensioner of Dor C) that was signed in the month of April 2022.

[6] Ditto

[7] Ditto

[8] Special collective bargaining agreement ("reform, structural and organizational changes")

[9] 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
- Collective bargaining agreement, between the System Management Company, workers' committee and national trade union

- 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: supplementary severance pay upon termination of employment, retirement, or upon termination of the maximum period allowed for this type of employment, whichever comes first.

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. <u>Methodology and Actuarial and Accounting Principles</u>

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.

- Agreement between the System Management Company and the Israel Electric Company, from 30/11/2020.

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.
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;	Benefits are fully accrued.

additional lump-sum pre-retirement death benefit	
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.
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[10], 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 3.37%; that is, the uniform discount rate inherent to the defined benefit obligation as at December 31, 2021.

3.8 The current service cost presented in this report has been reduced in respect of employees' contributions[11]. 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[12] 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[13] – we received files on July 10, 2022, 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

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

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

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

[13] 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.

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[14]:

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.

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

[14] 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	3,840	74,433,155	57.0	31.3
Pensioners – former employees	6,260	85,602,485	71.2	
Pensioners – survivors (including orphans)	1,896	14,497,726	76.4	
Generation C**				
Employees	3,026	33,151,871	46.0	16.1
Pensioners – former employees	74	11,168	71.2	
Pensioners – survivors (including orphans)	16	2,415	52.4	
Employees under special agreements (non-permanent employees) ***				
Employees	512	3,545,467	40.6	5.1

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	3,833	74,823,934	57.0	31.4
Pensioners – former employees	6,267	86,179,259	71.2	
Pensioners – survivors (including orphans)	1,896	14,563,312	76.4	
Generation C**				
Employees	3,023	33,372,204	46.0	16.1
Pensioners – former employees	77	11,621	70.6	
Pensioners – survivors (including orphans)	16	2,415	52.4	
Employees under special agreements (non-permanent employees) ***				
Employees	512	3,562,840	40.6	5.1

* 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[15], 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 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.)

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	39,278,612
4.4.2	Balance of assets according to paragraph 116 of IAS 19	1,313,270
	Benefit Payments during the reporting period (1/1/2022-30/06/2022)	
4.4.3	Increased severance pay benefits to employees under special agreements	680
4.4.4	Supplemented severance pay benefits (2.33%) to generation C employees	–
4.4.5	"20-year grant"	908
4.4.6	Termination benefits – for paid benefits by the Fund, and for benefits not paid by the Fund (electricity discount, holiday gifts)	29,964
	Termination benefits – for paid benefits by the Fund only	28,500
4.4.7	Post-employment benefits (excluding termination benefits)	514,149
4.4.7.1	Grant for unutilized sick leave	22,946
4.4.7.2	"up to 35 years" grant	2,302
4.4.7.3	Electricity discount and holiday gifts	39,417
4.4.8	Withdrawals from plan assets for payment of benefits	595,133
4.4.9	Withdrawals from trust assets for payment of benefits	28,261
	Contributions during the reporting period	
4.4.10	Company's contributions to plan assets, or to assets according to paragraph 116 of IAS 19	565,000
4.4.11	Employees' contributions to plan assets, or to assets according to Section 116 of IAS 19	9,177

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

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 15.1 years, and stands at 2.5%.

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 June 30, 2022 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 3.37% 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 June 30, 2022 and the projected increase in the cost of living index between June 30, 2022 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[16].

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 16.34% (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 21.05[17], the fixed monthly KVA fee before VAT is NIS 4.22[18] and the variable rate per kilowatt-hour before VAT is NIS 0.4486) and according to the following, forward-looking assumptions:

[16] This amount was received from the Company.
[17] Weighted average of NIS 20.03 for a single-phase base meter, and NIS 21.31 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.
[18] 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, a real annual salary growth of 2.0% is assumed, that covers 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[19] 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.

[19] 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%

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).

5.5 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[20] 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

[20] 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. Changes to the Valuation in the Current Reporting Year

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

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[21]. 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 pesniones) 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*

[21] and subsequent, related collective bargaining agreements from the year 2020

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 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. <u>Valuation Results</u>

The values of liabilities (in millions of NIS) as at June 30, 2022, 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	**15,517.9**
Pensioners and survivors	**21,291.2**
Total	**36,809.1**

7.2	Liability in respect of special early retirement agreements:

Pensioners and survivors	**132.7**

7.3	Liability for the “20 year grant”:

Active employees	**12.8**

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

Active employees	**32.4**

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 5,577 million (15.1%).
b) If the discount rate should fall by 0.1%, the liability would increase by approximately NIS 503 million (1.4%).
c) If the discount rate should increase by 0.1%, the liability would decrease by approximately NIS 492 million (-1.3%).

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 June 30, 2022 and the projected increase in the cost of living index between June 30, 2022 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, then the liability would increase by approximately NIS 771 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, then the liability would decrease by approximately NIS 733 million (-2.0%).

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[22], 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 2,468 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 1,650 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 85 million (0.2%).

[22] Please see paragraph 5.3.2.

Yours truly,

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

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"[23] 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"[24], 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.

[23] As the term is defined in IAS 19R
[24] Ditto

1. Surplus assets at end of the period

	30/06/2022	30/06/2021	31/12/2021
Fair value of plan assets	39,279	40,411	42,703
Present value of the gross pension obligation	(31,068)	(34,077)	(35,770)
Subtotal	8,211	6,334	6,933
Liability for special, early retirement, pension agreements	(125)	(166)	(146)
Surplus pension assets over pension liabilities	8,086	6,168	6,787

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

	30/06/2022	30/06/2021	31/12/2021
Funds in trust – dedicated to cover actuarial obligations (assets as per paragraph 116)	1,313	1,569	1,493

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

	30/06/2022	30/06/2021	31/12/2021
Present value of obligations for other post-employment benefits (including liabilities for special retirement agreements)	2,885	3,295	3,319

4. Liability at the end of the period for Reform benefits[25]

	30/06/2022	30/06/2021	31/12/2021
Present value of obligations for Reform benefits	2,896	3,376	3,553

[25] 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

		Six Months Ending 30/06/2022	Six Months Ending 30/06/2021	Three Months Ending 30/06/2022	Three Months Ending 30/06/2021	Year Ending 31/12/2021
Present value of the obligation –beginning of period		35,770	33,681	31,786	34,108	33,681
Interest cost		595	494	299	247	992
Current service cost		111	128	55	66	255
Employee contributions		9	10	5	4	20
Past service cost		2	4	-	1	4
Service cost for settlement		-	-	-	-	49
Benefits paid		(575)	(539)	(292)	(274)	(1,069)
Benefits paid in settlement		-	-	-	-	(158)
Losses (gains) on re-measurement:						
• **Demographic assumptions changes**		107	-	107	-	(49)
• **Financial assumptions changes**		(5,505)	189	(1,179)	(164)	1,899
• **Experience adjustments**		554	110	287	88	146
• **Total actuarial losses (gains) on re-measurement**		(4,844)	299	(785)	(76)	1,996
Present value of the obligation – end of period		31,068	34,077	31,068	34,077	35,770

6. Reconciliation of the Beginning and Closing Values of the Defined Benefit Obligation for Other Post-Employment Benefits (including special early retirement agreements)

		Six Months Ending 30/06/2022	Six Months Ending 30/06/2021	Three Months Ending 30/06/2022	Three Months Ending 30/06/2021	Year Ending 31/12/2021
Present value of the obligation – beginning of period		3,319	3,378	2,921	3,296	3,378
Interest cost		56	48	28	24	96
Current service cost		31	28	17	14	59
Past service cost due settlement		35	-	35	-	-
Benefits paid		-	(6)	-	(1)	(3)
Benefits paid for settlement		(69)	(67)	(32)	(31)	(135)
Losses (gains) on re-measurement:		-	(108)	-	(1)	(155)
Demographic assumptions changes		7	-	-	-	(12)
• **Financial assumptions changes**		(482)	15	(124)	(13)	223
• **Experience adjustments**		(11)	7	42	6	(131)
• **Total actuarial losses (gains) on re-measurement**		(486)	22	(82)	(7)	79
Present value of the obligation – end of period		2,885	3,295	2,887	3,295	3,319

7. Present Value of Reform Benefits[26]

		Six Months Ending 30/06/2022	Six Months Ending 30/06/2021	Three Months Ending 30/06/2022	Three Months Ending 30/06/2021	Year Ending 31/12/2021
Present value of the obligation – beginning of period		3,553	3,338	3,017	3,416	3,338
Interest cost		56	51	27	24	103
Current service cost		108	116	69	34	234
Past service cost		1	-	1	-	-
Past service cost due to settlement		-	-	-	-	1
Benefits paid		(616)	(124)	(93)	(57)	(223)
Benefits paid for settlement						(5)
Losses (gains) on re-measurement:						
• **Demographic assumptions changes**		5	-	-	-	(21)
• **Financial assumptions changes**		(210)	105	(129)	31	238
• **Experience adjustments**		(1)	(110)	4	(74)	(112)
• **Total actuarial losses (gains) on re-measurement**		(206)	(5)	(125)	(43)	105
Present value of the obligation – end of period		2,896	3,376	2,896	3,376	3,553

8. Reconciliation of the Beginning and Closing Fair Value of Plan Assets

		Six Months Ending 30/06/2022	Six Months Ending 30/06/2021	Three Months Ending 30/06/2022	Three Months Ending 30/06/2021	Year Ending 31/12/2021
Fair value of plan assets – beginning of period		42,703	38,790	40,895	39,420	38,790
Interest income from plan assets		712	569	357	285	1,143
Contributions		565	304	409	151	608
Benefits paid		(595)	(564)	(301)	(287)	(1,124)
Gains (losses) on re-measurement: return on plan assets (excluding amounts included in interest income)		(4,106)	1,312	(2,081)	842	3,286
Fair value of plan assets – end of period		39,279	40,411	39,279	40,411	42,703

[26] 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[27] assets)

		Six Months Ending 30/06/2022	Six Months Ending 30/06/2021	Three Months Ending 30/06/2022	Three Months Ending 30/06/2021	Year Ending 31/12/2021
Fair value of trust assets – beginning of period		1,493	1,540	1,397	1,543	1,540
Interest income from trust assets		25	23	13	12	45
Benefits paid		(28)	-	(16)	-	(180)
Gains (losses) on re-measurement: return on trust assets (excluding amounts included in interest income)		(177)	6	(81)	14	88
Fair value of trust assets – end of period		1,313	1,569	1,313	1,569	1,493

10. Total Period Costs

		Six Months Ending 30/06/2022	Six Months Ending 30/06/2021	Three Months Ending 30/06/2022	Three Months Ending 30/06/2021	Year Ending 31/12/2021
Current service cost		259	282	144	119	564
Employee participation		(9)	(10)	(5)	(5)	(20)
Net current service cost		249	272	139	114	546
Interest cost		707	593	354	297	1,191
Past Service Cost		38	4	36	1	5
Service cost for settlement		-	(6)	-	(1)	46
Early retirement costs		13	13	2	7	40
Interest income on plan assets		(712)	(569)	(357)	(285)	(1,143)
Interest income on trust assets (par. 116 assets)		(25)	(23)	(12)	(12)	(45)
Total costs for the period		270	284	163	121	640

[27] From accounting standard IAS19

11. Actual Returns on Plan Assets

		Six Months Ending 30/06/2022	Six Months Ending 30/06/2021	Three Months Ending 30/06/2022	Three Months Ending 30/06/2021	Year Ending 31/12/2021
Interest income on plan assets		712	569	357	285	1,143
Gains (losses) on re-measurement: plan assets		(4,106)	1,312	(2,081)	842	3,286
Actual return on plan assets		(3,394)	1,881	(1,724)	1,127	4,429

12. Actual Returns on Assets Held in Trust to Cover Actuarial Obligations (paragraph 116 assets)

		Six Months Ending 30/06/2022	Six Months Ending 30/06/2021	Three Months Ending 30/06/2022	Three Months Ending 30/06/2021	Year Ending 31/12/2021
Interest income on assets		25	23	13	12	45
Gains (losses) on re-measurement: plan assets		(177)	6	(81)	14	88
Actual return on assets		(152)	29	(67)	26	133

13. Obligation for Special Early Retirement Agreements (termination benefits)

	30/06/2022	30/06/2021	31/12/2021
Obligation at end of period - pensions	125	166	146
Obligation at end of period – other benefits	8	11	9
Obligation at end of period – total	133	176	155

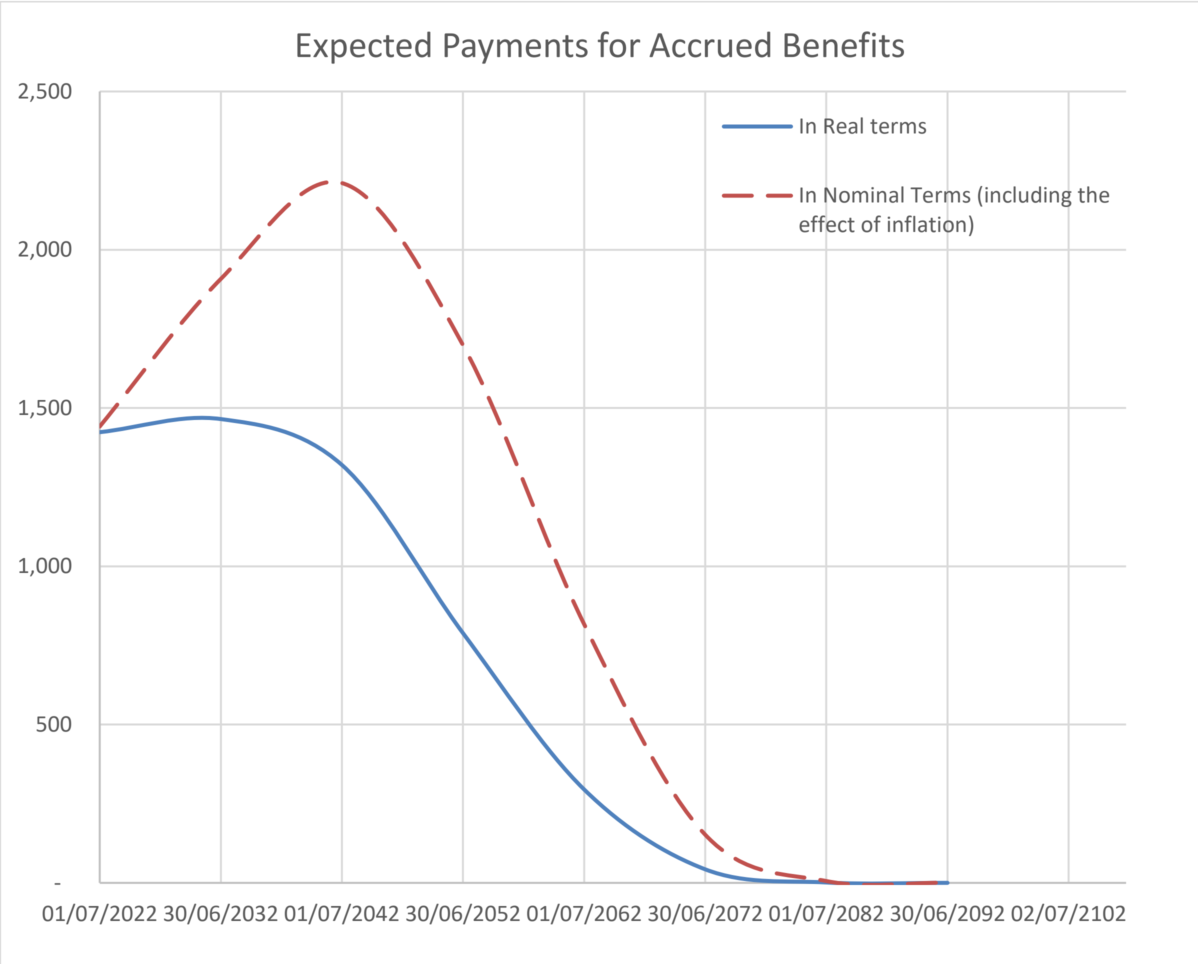
14. Obligation for “20 year grant” (other long-term employee benefits)

	30/06/2022	30/06/2021	31/12/2021
Obligation at end of period	13	14	14

<u>Appendix B – Expected Future Payments of Employee Benefits</u>

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.



<u>Appendix C – Additional Detail Regarding Financial Assumptions (annualized rates)</u>

	30/06/2022	**31/12/2021**
Weighted average <u>real</u> discount rate used to compute liabilities as at the end of the period*	2.01%	0.93%
Expected inflation rate	2.5%	2.4%
<u>Nominal</u> interest rate used to compute the interest cost on pension liabilities	3.37%	2.97%
<u>Nominal</u> interest rate used to compute the interest cost on other post-employment liabilities	Ditto	Ditto
<u>Nominal</u> interest rate used to compute the expected return on plan assets	Ditto	Ditto
<u>Nominal</u> 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. "ong0622" – 15,112 records – data including all employees / retirees / survivors (permanent workers of generations A, B, and C).
2. "פנסיונרים ושאירים דור ג יוני 2022" – 90 records – file specifies whether each retiree is a pensioner or a surviving beneficiary
3. "actuarpizuisug13410622" - 512 records – data including all non-permanent workers (special agreements).
4. "פורשי אפריל 2022 כולל דור ג מעודכן"- 34 records, "פורשי מאי 2022 כולל דור ג"- 37 records, "פורשי יוני 2022 מעודכן 1"- 29 records
5. " change042022", "change052022" , "change062022", "change062022g" – files that describe status changes of employees / retirees in the months April-June 2022.
6. "חשמל יוני 2022" – data regarding electricity rates, VAT rate and grossed-up taxes.
7. "שי יוני 2022" – value of holiday gifts grossed-up for taxes.
8. "עובדים שעברו להסכם אישי בכיר יוני 2022" – 99 records – list of senior employees who have signed personal service contracts (instead of being covered by collectively bargained salary agreements).
9. "שכר רגיל של עובדים שעברו להסכם אישי בכיר יוני 2022" – 99 records – list of regular salaries for senior employees who have signed personal service contracts.
10. " יעדי פרישות מוקדמות בחתך חטיבתי לפי שנים ל 23062022"
11. "פוטנציאל פרישה של פורשי רפורמה ומבצע 200 לשנת 2022 נכון ל 23062022"- 271 records

Appendix E – Changes to the Valuation that Took Effect in Years Preceding the Current Year

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.

Changes that took effect in the course of 2017

- In the first quarter of 2017:

  - The assumed increase in the future electricity tariff was updated in accordance with Company expectations. This change reduced the liability by about NIS 2 million.

  - The assumed tax rate was updated, according to which pensioner benefits will be grossed-up, leading to a reduction in liabilities of about NIS 12 million.

- In the second quarter of 2017:

  - The assumed increase in the future electricity tariff was updated in accordance with Company expectations. This change reduced the liability by about NIS 5 million.

- In the third quarter of 2017:

  - The assumed increase in the future electricity tariff was updated in accordance with Company expectations. This change increased the liability by about NIS 3 million.

  - The assumed early retirement rates for women ages 62-64 was updated. This change increased the liability by about NIS 3 million.

- In the fourth quarter of 2017:

  - The salary increase assumption was updated for the period starting from the year 2018[28]. This change increased the liability by about NIS 261 million.

  - The assumed increase in the future electricity tariff was updated in accordance with Company expectations. This change decreased the liability by about NIS 179 million.

  - The electricity tariff rates were updated. This change increased the liability buy about NIS 10 million.

  - Assumptions were updated regarding the expected number of children and their ages, when an employee or pensioner is deceased. The resulting change in liability was trivial.

[28] According to paragraph 5.2.1.1.

Changes that took effect in the course of 2016

- In the first quarter of 2016:
    - The assumed increase in the future electricity tariff was updated in accordance with Company expectations. This change reduced the liability by about NIS 2 million.
    - Following the ruling dated March 5, 2016 regarding salary irregularities in the "managerial increment" component, as well as in the "global overtime" component for management employees, the Company provided me with updated pensions and salary data, reflecting the correction of the salary irregularities. The change in salary and pensions data reduced the liability by about NIS 390 million.
- In the second quarter of 2016, the uniform shekel amount of salary increase, calculated in accordance with the collective bargaining agreement signed on April 18, 2016, was revised from NIS 356 to NIS 353.1. This change reduced the liability as at June 30, 2016 by approximately NIS 2 million.
- In the third quarter of 2016:
    - The uniform shekel amount of salary increase, calculated in accordance with the collective bargaining agreement signed on August 8, 2016, was updated from NIS 353 to NIS 382. This change increased the liability as at December 31, 2016 by approximately NIS 28 million.
    - The assumed increase in the future electricity tariff was updated in accordance with Company expectations. This change increased the liability as at December 31, 2016 by about NIS 2 million.
    - The characterization of life insurance benefits for retirees was updated. This change reduced the liability as at December 31, 2016 by about NIS 13 million.
- In the fourth quarter of 2016:
    - The “managerial increment” and "global overtime" components of salary were updated according to a collective bargaining agreement which was signed on December 11, 2016. This change decreased the liability as at March 31, 2017 by about NIS 134 million.
    - The uniform shekel salary increase and the percentage salary increase were updated according to a collective bargaining agreement which was signed on December 11, 2016 (from NIS 382 to NIS 357 and from 3.75% to 3.625%, respectively). This change decreased the liability as at March 31, 2017 by about NIS 44 million.
    - The assumed increase in the future electricity tariff was updated in accordance with Company expectations. This change decreased the liability as at March 31, 2017 by about NIS 51 million.
    - As part of a collective bargaining agreement that was reached with the company on December 11, 2016, 314 employees retired under a special retirement program. This change increased the liability for early retirement as at March 31,

2017 by about NIS 280 million and decreased the liability for other benefits by about NIS 27 million. An additional 36 employees are expected to retire under the conditions of this special retirement program, their retirement will increase the liabilities by about 27 million.

- The following actuarial assumptions were updated based on the results of experience studies:

  - Proportion of married pensioners - decreased liabilities by about NIS 5 million.

  - Age difference between spouses - increased liabilities by about NIS 13 million.

  - Subsidized electricity consumption for pensioners - increased liabilities by about NIS 24 million.

  - Early retirement rates for Generation A and Generation B employees - decreased liabilities by about NIS 57 million.

  - Withdrawal rates for Generation C employees - increased liabilities by about NIS 2 million.