The Israel Electric Corporation Ltd.

Financial Reports

For The Year Ended
December 31, 2022

FILES INDEX

The financial reports, for the year ended December 31, 2022, are presented in a primary order.

Each chapter is numbered separately by its internal sequence.

The Israel Electric Corporation Ltd.

Chapter A

Description of the Company's Business Affairs

For the Year Ended
December 31, 2022

<u>Prominent Disclaimer</u>

This English translation of the **“Description of the Company's Business Affairs”** for the year ended December 31, 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.

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Chapter A – Description of the Company's Business Affairs

Positions, estimates or opinions of the Company are presented in this report. The positions, estimates or opinions presented as being those of the Company are the Company's only and should not be construed as a position, estimate or opinion of the State or any of its authorities. Therefore, these positions, estimates or opinions do not tie the hands of the State of Israel or any of its authorities to act and/or decide and/or express an opinion in a manner differing from the positions, estimates or opinions of the Company as set forth.

Part 1: Description of the General Development of the Business Affairs of the Company

1. The Company’s operations and a description of the development of its business affairs

1.1 General

The Israel Electric Corporation Ltd. (“**Company**” or “**the Electric Company**”) was incorporated in Israel on March 29, 1923, under the name of the Palestine Electric Corporation Ltd. In 1961, the Company was renamed to its current name. The Company is engaged in the generation, transmission, distribution and supply (sale) of electricity to the consumers in Israel. See Section 2 for details on the fields of activity of the Company.

In 1926, the authorities in the British Mandate for Palestine granted the Company a concession that is known as the “Jordan Concession”, and a concession that is known as the “Yarkon Concession” (which was granted to Pinchas Rutenberg, the founder of the Company) was endorsed to it (hereinafter: the “**Concessions**”).

The Concessions received statutory validity within the framework of the Electricity Concessions Order - 1927 (hereinafter: the “**Electricity Concessions Order**”).

The validity of the Concessions was set for a period of seventy (70) years, which ended on March 3, 1996, and from that time on, the provisions of the Electricity Sector Law - 1996 (hereinafter: the “**Electricity Sector Law**”), which replaced the Electricity Concessions Order, and the regulations that have been promulgated thereunder, apply to the operations of the Company. See Section 22.1 for details on the highlights of the Electricity Sector Law.

As of the publication date of the report, the Company generates, transmits, distributes and supplies electricity that is consumed in the Israeli national economy pursuant to the licenses that have been granted to it in accordance with the Electricity Sector Law and which have been extended over the years. The Company also engages in the setup of the infrastructures that are required for the stated operations. The Company holds an electricity distribution license which entered into effect on January 16, 2023, as well as an electricity transmission and distribution license in the area of the State of Israel, by virtue of the General License (a license that lists all the activities in the transmission, distribution and supply segments, while the field of distribution was arranged as stated in a separate license of January 16, 2023). Given that the Company is a holder of distribution and transmission licenses, it is defined under the Electricity Sector Law as the holder of an “essential service supplier” license (as this term is defined in the Electricity Sector Law). For further details regarding the Company’s licenses see section 22.1.2 below.

On May 10, 2018, after consultation with the employee representatives and the Histadrut, relevant Government entities and the Company reached understandings regarding the outline of principles with respect to the Company’s structural change (the “**Outline of Structural Change**”), within which was approved by the Board of Directors of the Company on the same date. On June 3, 2018, Government Resolution 3859 was adopted, regarding the reform in the electricity sector and the structural change in the Company, and amendment of a government resolution (“**Government Resolution on the Reform**”), and on July 26, 2018, the Electricity Sector Law (Amendment no. 16 and Temporary Order), 2018 (the “**Amendment to the Electricity Sector Law**” or the “**Amendment to the Law**”) was approved by the Knesset. The Amendment to the Law includes, inter alia, amendments regarding the validity of the Company’s licenses and reference regarding the Outline of Structural Change. For additional details regarding the Structural Change Outline and the Company’s license and their validity, and the collective agreement, that was signed on May 17, 2018 between the Company and the New Labor federation and the national union of the employees of the Electric Company regarding the reform and structural and organizational change in the Company, see sections 1.3 and 22.1.2 as well as Note 1e and Note 12 in the Consolidated Financial Statements for the year ended on December 31, 2022 (the “**Financial Statements**”).

The Company is a Government and public company and is regulated by a series of regulators, inter alia by the Electricity Authority which determines, inter alia, the electricity rates and the manner of their update, and this pursuant to the provisions of the Electricity Sector Law, and as detailed in section 7.11. In January 1999, the Director General of the

Competition Authority[1] declared the Company a monopoly in the electricity sector. For additional details see section 22.8.

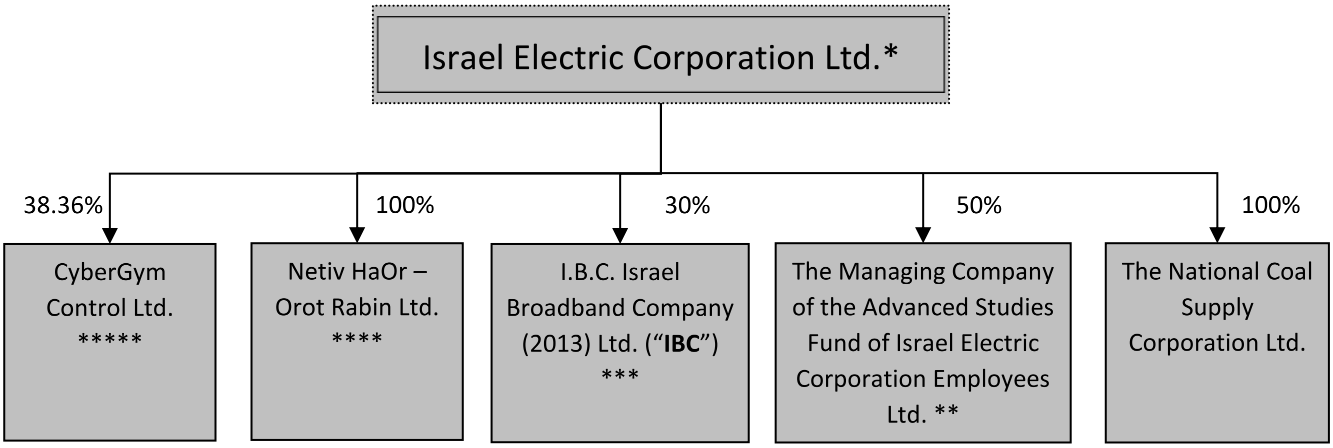
The shares of the Company were traded for a certain period[2] on the Tel Aviv Stock Exchange Ltd. (hereinafter: the "**Stock Exchange**"), but following a purchase offer that the State of Israel published on September 30, 1986 to the shareholders of the Company, which was accepted by a majority of the shareholders at the time, the shares of the Company ceased to be traded on the Stock Exchange. As of the date of the report, the Company has bonds that are traded on the stock exchange. For additional details see section 19.2. As of the date of the report, the State of Israel holds approximately 99.85% of the issued, paid-up share capital of the Company, and therefore, the Company is a "Government Company" as this term has been defined in the Government Companies Law - 1975, (hereafter: the "**Government Companies Law**") and the Company and its operations are also subject to the provisions of that law. The balance of the issued and paid up capital of the Company is held by approximately 120 individuals.

In February 2005, following an application that was made by the Company to the Government Companies Authority "**Companies Authority**" or "**Government Companies Authority**"), in order to clarify the issue of the status of the Company as a public or private company, as per the meaning of these terms in the Companies Law, 1999 (the "**Companies Law**"), the Company was provided with an expert opinion by the legal adviser to the Companies Authority, according to which, in the opinion of the Companies Authority, the Company is a public company. In accordance with the expert opinion, the fact that the source of the shares that are held by the public cannot be identified with certainty does not warrant the denial of the protections that are conferred upon the shareholder public pursuant to the Companies Law, and the Company bears the burden of proving that all of its shares in accordance with that which has been stated above originate merely from private issues. In view of the above-mentioned expert opinion and in view of the definition of the term "public company" in the Companies Law, the Company operates as a public company. Pursuant to its status as a public company and pursuant to the issue of Bonds by prospectus as detailed above and their holdings by the public, the Company is subject to the provisions of the Securities Law - 1968 (hereafter: the "**Securities Law**").

[1] On January 1, 2019, the Antitrust Law, 1988 was amended, and its name was changed to the "Economic Competition Law". The name of the Antitrust Authority was changed to the "Competition Authority", the name of the Commissioner of Antitrust was changes to "Commissioner of Competition", and the Name of the Antitrust Tribunal was changed to the "Competition Tribunal".

[2] The Company does not currently have in its possession information as to the time and manner in which the shares were offered to the public.

1.2 Diagram of the holding structure of the Company[3]



* In addition, the Company has holdings at a rate of 49.99% of the shares and equity interest in the PMA (Energy Resources Development) Company Ltd., which to the best of the Company's knowledge and as of the date of the report is inactive. Additional subsidiaries of the Company, which are inactive, and have not been included in the diagram: "Jordan Properties Ltd." ****** and "Migrashei Hakablanim Ltd."

** The Company holds 50% of the management shares and of the rights to appoint directors, without rights to share profits. The remaining 50% is held as follows: The Mutual Help Society of Israel Electric Corporation Employees in the Southern Region (Final Holder) (25%), the Society of Israel Electric Corporation Workers in the Northern Region (RA) (Final Holder) (16.667%) and the Savings and Mutual Help Fund of Israel Electric Corporation Workers in Jerusalem Ltd. (Final Holder) (8.333%). The casting share, which enables its holder to decide in any case of equal votes at the General Meeting or on the Board of Directors, was assigned personally to Mr. David Hagoel, former Chairman of the Electric Company's Board of Directors. Following the passing of Mr. Hagoel in August 2019, the management company is working to transfer the casting share to another agreed public personality, in accordance with the provisions of the Articles of Association of the management company.

*** The Company holds 30% of I.B.C. Company's shares. Under the shareholders' agreement and IBC's updated Articles of Association, every shareholder holding (together with its authorized transferees) 11% of IBC's shares will be entitled to appoint one director to the Board of Directors of the Company. Notwithstanding the aforesaid, as long as the Company (together with its authorized transferees) holds at least 7% of IBC's shares, it will be entitled to appoint one director to the Board of Directors of IBC. As of the date of the report, eight directors are serving in IBC, two of which have been appointed by the Company. During voting at the Board of Directors' meetings, each director or group of directors appointed by the same shareholder will be vested, together, with the same voting power as the holding rate of IBC shares of the shareholder appointing him/them. For additional details regarding the investment in IBC, see Note 11b1 to the Financial Statements.

**** Netiv HaOr – Orot Rabin Company Ltd. ("**Netiv HaOr**") was established as part of the implementation of the structural change (as defined in Section 1.3) and pursuant to Government resolution no. 4682 of September 3, 2019, regarding "Granting approval for establishment of a Government subsidiary of the Electric Corporation Ltd – Netiv HaOr Company Ltd". The Company holds 100% of the rights attached to the shares, including voting at the company's General Meetings, the right to appoint directors, the right to participate in the company's profits, and the distribution of the company's assets in liquidation, all subject to the provisions of the Government Companies Law and the Articles of Association of Netiv HaOr. According to the Articles of Association of Netiv HaOr, out of 7 members of the Board of Directors, 3 directors are appointed as directors who are public representatives and 4 are appointed from among the Company's employees. For additional details see Note 1e9 to the Financial Statements.

****** Following the exercise of the options held by the Company for receiving shares of CyberGym Control Ltd. ("**CyberGym**"), as of June 26, 2022, the Company holds 500,000 ordinary shares, which constitute 38.36% of CyberGym's issued share capital. In addition, the Company appointed 2 directors as directors at CyberGym, which as of the date of the report, and pursuant to CyberGym's Articles of Association, constitute 50% of CyberGym's Board of Directors. In light of the aforesaid, CyberGym is a (non-Governmental) subsidiary of the Company, and the Company is considered the controlling shareholder of CyberGym, as these terms are defined in the Securities Law. For additional details see Note 11b2 to the Financial Statements.

[3] Regarding the loan convertible into shares granted by the Company to companies of the KARAT technological incubator see section 13.

****** "Jordan Properties Ltd." has two fully owned subsidiaries, both of which are inactive: "Banks of the Jordan Ltd." and Palestine Construction Company Ltd. (the "**Granddaughter Companies**"). In August 2021, the General Meeting of the Granddaughter Companies reached a decision to regarding their liquidation. The liquidation of the Granddaughter Companies is subject to regulatory procedures and approvals that have not yet been completed as of the date of the report, including the Government's approval that to the best of the Company's knowledge has not yet been given.

For additional information, see Chapter D of the Periodic Report – Additional Details of the Corporation ("**Chapter D**") under "Additional Details Pursuant to Circular 2020-5-1 of the Government Companies Authority", section E.

1.3 The nature and the results of each significant structural change, merger or acquisition

Over the years, discussions have been held between the relevant bodies, teams have been appointed, and a number of possible outlines for implementation of structural change in the Electric Company have been discussed.

On May 10, 2018, after consultation with the employee representatives and the Histadrut, relevant Government entities and the Company reached understandings regarding the outline of the structural change, which was determined for a period of eight years. The outline of the structural change was approved on the same date by the Company's Audit Committee and Board of Directors as a transaction by the Company with its controlling shareholder, for the sake of caution alone (in this section: the "**Decision of the Board of Directors**").

The decision of the Board of Directors and the fulfillment of the Company's liabilities under the outline of the structural change were subject to and contingent upon, without exception, the Government's decision in accordance with the outline of the structural change, anchoring the arrangements required by primary and/or secondary legislation and/or administrative decisions and/or regulation by the Electricity Authority, and granting licenses by the competent bodies in the State, to the extent required by law.

In accordance with the aforesaid, on May 17, 2018, the Minister of Energy (the "Minister") published policy principles regarding structural changes in the electricity sector and in the Company (the "**Minister's Policy Principles**"), on June 3, 2018, a Government Resolution was adopted on the subject of the reform. On July 19, 2018, the Knesset approved the amendment to the law.

The outline of the structural change, the Government decision regarding the reform, the amendment to the Electricity Sector Law, the Minister's policy principles, and the decision of the Board of Directors, will be hereinafter referred to together as the "**Structural Change**".

Following are the main actions taken as part of the implementation of the structural change in the Company: in 2019, the sale of the "Alon Tavor" site was completed and a Transmission Control System began operating., In 2020, the sale of the "Ramat Hovav" site was completed and Netiv HaOr Company, the subsidiary, was established, which is constructing the two combined cycle gas turbines ("**CCGT**") as described in section 7.1.1. In 2021, the Company's activity to promote the sale of the Eshkol power station began and on November 1, 2021, it sold the full activity of the system management unit to the "Noga" company and ceased to operate as the electricity system manager. In 2022, the sale of the East Hagit site was completed, and an agreement wording ready for signing for the transfer of the D area (at the Rutenberg site) to the Israel Lands Authority was approved. As of the date of approval of the Financial Statements, the agreement has not yet been signed. In accordance with the regulation set by the Electricity Authority, the supply segment is expected to be fully opened to competition in the beginning of 2024. In addition, the Company has begun to promote the construction of energy storage facilities at the substations; and is going through a material process of structural change and an efficiency program within which the Company's workforce decreased.

For additional details regarding the structural change, and additional actions taken as part of implementation of the structural change, see Notes 1e and 12 to the Financial Statements.

Within the framework of the Minister's policy principles, and in accordance with the response of the Electricity Authority within the framework of the Minister of Energy's obligation to consult, it was clarified that the costs of implementation of the reform are estimated at approximately NIS 7.2 billion, which consist of approximately NIS 6.5 billion in capitalized value for 2017, with respect to efficiency in the Company and increased managerial flexibility in accordance with the collective agreement, and approximately NIS 0.7 billion with respect to additional reform costs.

In accordance with the provisions of section 31(b) of the Electricity Sector Law, when implementing the cost principle for the purpose of determining rates, the Electricity Authority will recognize the costs deriving from the policy principles set by the Minister of Energy, when the entry into effect of the Minister's policy principles is conditioned upon the adoption of a government resolution and required legislative amendments. In accordance with the aforesaid, the Government resolution and the amendment to the law were adopted.

It should be noted that in accordance with the outline of the structural change, on May 10, 2018, the Company's Board of Directors approved a business plan that forms the basis for the financial model presented to the Board of Directors on the date of approval of the said structural change, based on the principles of the outline of the structural change that were formulated during the reform discussions, including the following financial objectives:

(a) The ratio of total liabilities to the Company's balance sheet as it is defined within the framework of the outline of structural change, will not exceed 68% by the end of 2021 and the ratio of net financial debt to adjusted EBITDA of the Company, as defined in the outline of the structural change, will not exceed 5.5 until the end of 2021.

(b) The ratio of total liabilities to the Company's balance sheet as defined in the structural change outline will not exceed 66% until the end of 2025, and the ratio of net financial debt to adjusted EBITDA of the Company, as defined in the outline of the structural change, will not exceed 4.6 until the end of 2025.

For details regarding the Company's compliance with the targets defined for it by the Company's Board of Directors, see section a1c1 of Chapter B of the Periodic Report – Board of Directors Report on the Status of the Corporation's Affairs of December 31, 2022 (the "Board of Directors' Report").

The information included in this report, and within the framework of the Financial Statements of the Company, with respect to the manner of implementation of the structural change and its cost, within which, inter alia, the reduction of the Company's operation in the generation segment and existing gas-operated Company generation sites will be sold, the construction of two new CCGTs by the Netiv HaOr Company, the gradual opening of the supply segment to competition, recognition of the costs of implementing the reform and meeting the detailed financial objectives, as well as the aforesaid regarding the existing and expected licenses of the Company, and the material process of organizational change and efficiency plan in the Company, as well as the information included in this report and within the financial statements regarding decisions of the regulatory entities required in connection thereto, and relating to the Company's expectation with respect to extension of its licenses and the extended period, constitutes forward looking information, as per its definition in the Securities Law. This information is based on information the Company has as of the date of the report as well as on future data, and its realization is not certain and is not under the control of the Company, but is dependent on receiving regulatory approvals and agreements in regulation by the Electricity Authority and in granting licenses by the State's authorized bodies, insofar as required by law. Such estimates may not be realized or may be realized partially or differently than expected and this due to, inter alia, if the required regulations will not be established and/or the required licenses will not be received and/or insofar as the required consents and approvals as aforesaid will not be received or that will be received in a manner or format different from that described above, all of which are not under the Company's control.

2. Fields of Activity

The Company operates, as mentioned, as a single combined, coordinated system that engages in all stages of the electricity chain, from the generation of electricity in the power stations, its transmission, transformation, distribution, to its supply (sale) to consumers. In addition, the Company engages in the establishment of infrastructures that are required for the operations that have been set forth above.

As of the time of the report, the Company has five primary fields of activity, which are known as segments in the Financial Statements, in accordance with that which has been stated below:

Generation of Electricity in Power stations activity – the operations of the Company in this field includes all of the operations that are involved in the generation of electricity at the generation sites of the Company. See Section 7 for additional details.

Activity in the transmission and transformation segment of electricity – the operations of the Company in this field includes the transmission of electricity from the Company's and the private electricity producers' ("**PEPs**") generation sites, using high voltage lines to the Company's switching stations[4], where the process of transformation to extra-high voltage is carried out and from there the continuation of the transmission of electricity is carried out via extra-high voltage lines to the substations[5]. An additional second transformation from extra-high voltage to high voltage is carried out in the substations, and the energy is transferred to a high voltage grid through output transformers. In addition, supervision,

[4] A switching station is a station that has 400 kV input voltage or which is connected to a power station with an output exceeding 400 megawatts and with a 161 kV voltage.

[5] In accordance with Section 2 of the Electricity Sector Law, a "**substation**" is a transformation station that connects electricity grids of different types that has transformers that increase or decrease voltage.

management and control of the transmission and transformation system through the transmission control unit and operating, maintenance and malfunction handling. See Section 8 for additional details.

Activity in the electricity distribution segment – the operations of the Company in this field includes the transfer of electricity from substations to consumers via high voltage lines and low voltage lines, including metering the consumed energy at the customers' installations (the electricity meters). This segment includes transformation from high voltage to low voltage through tens of thousands of transformers. See Section 9 for additional details.

Electricity supply - the operations of the Company in this field includes the collection and service system of the Company, which is responsible for the preparation and production of invoices, collection activities and consumer services, including customer call service centers, customer reception and customer file coordinators. For additional details, see section 10.

Other – includes the operations of the Company as part of business entrepreneurship (see section 13), investment in the CyberGym Company, and the Company's operation in the IBC communications enterprise (see Note 11 to the Financial Statements).

For details with respect to financial information on the fields of operation of the Company, the principles and results of the attribution of profit and loss and balance statements according to the segments of operation, see Section 5 below and Note 36 to the Financial Statements.

For details regarding the structural change in the Company see Note 1e to the Financial Statements and section 1.3.

3. Investments in the Company's equity and transactions in its Shares

To the best of the Company's knowledge, during the two years that preceded the date of the report, no investments were made in its equity and nor were there any material transactions in its shares.

4. Distribution of dividends

4.1 Assignment of Profits

For details of assignment of profits, dividend distribution policy, the Board of Directors' decision regarding the assignment of the 2022 profits, and additional details, see Note 25 of the Financial Statements.

4.2 Distributable profits

The balance of the distributable profits of the Company as of December 31, 2022, is approximately NIS 31,081 million.

Part 2: Other Information

5. Financial information of the Company's fields of activity (in NIS million)

Details on variable costs and fixed costs by segments follow:

	For the year ended December 31, 2022					
	Segments					
	Generation	Transmission	Distribution	Supply	Activity not within the electricity chain	Total
Fixed:						
Wages	1,221	165	868	258	17	2,529
Depreciation and amortization	2,783	555	1,374	49	-	4,761
Others	812	210	389	167	49	1,627
Total fixed	4,816	930	2,631	474	66	8,917
Variable:						
Fuels	9,224	-	-	-	-	9,224
Purchases of electricity and accounting with Noga, net	2,927	22	2,977	7	-	5,933
Total variable	12,151	22	2,977	7	-	15,157
Total assigned costs	**16,967**	**952**	**5,608**	**481**	**66**	**24,074**

	For the year ended December 31, 2021						
	Segments						
	Generation	Transmission	Distribution	Supply	Activity not within the electricity chain	Others	Total
Fixed:							
Wages	1,310	152	952	271	26	46	2,757
Depreciation and amortization	2,757	498	1,335	48	-	10	4,648
Others	749	148	356	156	32	11	1,452
	4,816	798	2,643	475	58	67	8,857
Variable:							
Fuels	5,492	-	-	-	-		5,492
Purchases of electricity and accounting with Noga, net	270	(5)	2,456	-	-	4,151	6,872
	5,762	(5)	2,456	-	-	4,151	12,364
Total assigned costs	**10,578**	**793**	**5,099**	**475**	**58**	**4,218**	**21,221**

The main types of expenses that the Company has are: fuels, depreciation, wages, equipment and materials and other expenses. The costs of fuels in the Company are mainly variable costs.

Depreciation, wage, supplier, contractor, equipment and material expenses are mostly fixed costs that the Company cannot materially influence in the short term, for the following reasons:

(a) The costs of fixed assets that the Company has (depreciation).
(b) Employment agreements with most employees (wages and others).
(c) Purchase agreements from suppliers and other inevitable costs (such as municipal rates and guarding).

See the explanations in Board of Directors' report section a3 and a4 for descriptive details provided by the Board of Directors with respect to the developments that occurred in the financial results of the Company.

For details regarding the Company's revenues, profits, assets and liabilities, broken down by operating segments, see Note 36 to the Financial Statements.

6. The general environment and the impact of external factors on the Company's operations

The assessments of the Company with respect to the trends, events and developments in the macroeconomic environment of the Company that have or may have a material impact on developments in the Company or on its business results as well as the implications in respect of them on the Company.

6.1 Regulation in the Company's fields of activity

The operations of the Company are affected to a great extent by the regulation applying to its operations, including the provisions of the Electricity Sector Law and its regulations, pursuant to which it is given licenses for operations, the policy and resolutions of the Government (including resolutions of the Ministry of Energy, Ministry of Environmental Protection, and the Ministry of Finance), the criteria (as published from time to time in the Official Gazette) and Resolutions of the Electricity Authority[6] (including with respect to the electricity charge rate that is fixed by the Electricity Authority and collected from the customers of the Company), the provisions of the Companies Law and its regulations (inter alia, regarding the manner of the Company's conduct as a public company), the provisions of the Government Companies Law and the regulations thereunder and resolutions of the Government Companies Authority (*inter alia*, on the matter of the conduct of the Company as a Governmental Company, the manner of adoption of resolutions by its organs, the manner of preparation of its Financial Statements, appointment of directors and special functionaries and so on), the provisions of the Natural Gas Sector Law – 2002 ("**Gas Sector Law**") and resolutions of the Natural Gas Authority ("**Gas Authority**"), provisions of the Economic Competition Law, 1988 ("**Economic Competition Law**"), and decisions of the Competition Authority and the General Director of the Competition Authority (pursuant to the Company being a monopoly or pursuant to its execution of agreements that require the receipt of approval from the Competition Authority), the provisions of the Budget Foundations Law, 1985 ("**Budget Foundations Law**") (the Company is a "budgeted entity" as per its meaning in the aforesaid law), the provisions of the Securities law and the regulations thereunder, and the regulations and directives of the Securities Authority (by virtue of the Company being a reporting corporation and a public company, as these terms are defined in the Companies Law), the provisions of the Law of Promotion of Competition and Reduction of Centralization - 2013 ("**Centralization Law**"), and regulation pertaining to business licensing, planning and construction and environmental protection (See Sections 7.12.8, 7.12, 9.9 and 21.3), and additional legislation, as also detailed in Section 22.4.1. See Section 22 for details on restrictions to and regulation of the activity of the Company.

6.2 Geopolitical, economic and security situation in Israel and its surroundings

The economic, political and security situation in the State of Israel directly affects the Company, whose assets and operations are located in Israel. For additional details, see the risk factor in section 29.1.2.

6.3 Natural gas

For the purpose of the generation of electricity, the Company depends to a great extent on the supply of natural gas from the "Tamar", "Leviathan" and "Karish" fields. There are risks of natural gas supply shortages due to gas supplier limitations and/or limitations associated with the natural gas transmission system and/or gas export policy in relation to local demand. These risks are compounded by the fact that the Company has no facilities for the storage of natural gas.

For details of the possible implications of the disruptions in the supply of natural gas, the depletion of or malfunctions in natural gas deposits in Israel, and violations of the purchase contracts by the gas suppliers, see section 29.2.2.

[6] Within the Amendment to the Electricity Law, which entered into effect on January 1, 2016, a new authority, named the "Electricity Authority", was established at the Ministry of Energy (then the Ministry of National Infrastructures, Energy and Water), instead of the Public Utilities Authority - Electricity and the Electricity Administration at the Ministry of Energy. According to the aforesaid, in this report, the term "Electricity Authority" should be construed while paying attention to the dates it relates to - if it is about information relating to dates prior to January 1, 2016, it means the Public Utilities Authority - Electricity, and if it is about information relating to dates as of January 1, 2016, onward, it means the Electricity Authority which was established within the aforesaid Amendment to the Electricity Sector Law.

6.4 The effect of market data

6.4.1 Changes in the exchange rates

Because almost all of the revenues of the Company are quoted in NIS, while approximately 39% of the long term financial liabilities of the Company without leases and before executing hedging transactions, as of December 31, 2022, are quoted in foreign currencies (Dollars, Euros and Japanese Yen), the Company is exposed to changes in the exchange rates of these currencies. The weighted devaluation rate of the shekel against the currencies in which the financial liabilities of the Company are quoted, less foreign currency deposits and except for a loan to finance the gas transmission project with respect to which the Company is not exposed to changes in exchange rates, in 2022 is 11.3% compared with the weighted revaluation rate in 2021 of approximately 4.6%. The fluctuations in the exchange rates affect the expenses of the Company (financial and others) and the outcomes of its operation. However, most of these liabilities are hedged through hedging transactions. See Note 26 to the Financial Statements for additional details on the exposure of the Company to changes in exchange rates and the Company's policy in managing this exposure.

Additionally, the Company mainly purchases fuels in dollars, and the electricity rate includes recognition of the fuels expenses according to the exchange rate defined in the formula of the normative price. The Company executes partial hedging of the exchange rate of some of the fuel payments with respect to the time gap between the date of the rate recognition of the dollar price and the actual payment date.

See Note 3 to the Financial Statements for details on the electricity charge rate.

6.4.2 Index changes

The majority of the capital costs and part of the operation costs recognized in the electricity rate are linked to the Consumer Price Index (the "**Index**"). The Company has expenses that are linked to the Index, which principally derive from the financial liabilities of the Company which are denominated in Index linked NIS currency. Furthermore, the Company has NIS nominal financial liabilities that are not linked to the Index, regarding which the Company is periodically examining economic feasibility for hedging against change in the CPI. For additional details see Note 26c2) to the Financial Statements.

6.5 The policy of the Israeli Government with respect to increasing competition in the Electricity

The Company as a monopoly

As of the date of the report, the Company generates, transmits, distributes and supplies electricity in the State of Israel. In January 1999, the Company was declared by the Commissioner of Competition (the "Commissioner", and at the time – the Commissioner of Antitrust), a monopoly in the fields of supply of electricity (generation and sale of electricity), electricity transmission and distribution, and provision of backup services for electricity consumers and producers. However, in recent years, with the entry of private electricity producers, a steep decline has occurred in the Company's market share of electricity sales to large customers (ultra-high and high voltage), and in 2016 the Company's market share in electricity sales to large consumers dropped for the first time below 50%.

Renewable energies

In July 2020, the Minister of Energy stipulated policy principles regarding the increase of renewable energy electricity generation target to 30% by 2030. In October 2020, the Government adopted Government Resolution no. 465 regarding the advancement of renewable energy in the electricity sector, and the amendment of Government Resolutions, which adopted the policy principles stipulated by the Minister as stated. In addition, the Government stipulated an interim target of 20% renewable electricity generation by December 31, 2025. On March 14, 2022, as part of the State's response to the climate crisis, the Government approved the National Plan for the prevention and reduction of air pollution in Israel.

On May 29, 2022, the Electricity Authority and the Ministry of Energy published an operative action plan for reaching targets of generating electricity from renewable energies for 2025 and for 2030.

For further details see Note 1c.

The subsidiary – Netiv HaOr

On June 3, 2018, the Government adopted a resolution on the matter of the reform, under which, inter alia, the Company's activity in the generation segment will be reduced (mainly through the sale of the Company's existing gas-operated generation sites), and the Company will be permitted to establish a subsidiary fully owned by it which construct two new CCGT's with a comprehensive installed capacity of approximately 1,200 MW with a possibility of an upward deviation of 5%. The activation date of the first CCGT was set to be by June 2022, while its activation will allow the cessation of operation of units 1-4 at the Orot Rabin site. The construction of the second CCGT will begin only after the sale of the Alon Tavor site and the publication of a competitive procedure for the sale of the Ramat Hovav site. Within this framework, the sale of the generation site Alon Tavor was completed in December 2019, and the sale of the generation site Ramat Hovav was completed in December 2020. On January 18, 2022, the Company delivered a notice to the Electricity Authority regarding an update of the activation date of Unit 70 at the Orot Rabin CCGT. In its notice, the Company stated that it has monitored the events that are disrupting the project's advancement, among them the Corona crisis which has led to dealing with unexpected difficulties and obstacles as well as notifications from GE, the equipment supplier, regarding failures in identical equipment in their other units in the world. Further to the aforesaid, the Company updated the estimated forecast of stable operation of Unit 70 to September 2023, and the estimated forecast of stable operation of Unit 80 to June 2024. The estimated forecast for the commercial operation of Unit 70 is December 2023, and September 2024 for Unit 80.

In this regard:

"**Stable Operation**" - the operation of the generation unit that takes place, while synchronizing it to the transmission grid, after receiving an initial synchronization approval from the System Manager. The operation at this stage begins from a minimum load until reaching maximum load and operating at this load for a predetermined period of time.

Upon receipt of this synchronization approval as aforesaid, it is possible to begin the manufacturer's "self-operating tests" and upon their completion begin the "acceptance tests" of the System Manager, as stated in the Electricity Authority's criteria.

"**Commercial Operation**" - the date on which the generation unit successfully passed all the acceptance tests of the System Manager as defined in the criteria published by the Electricity Authority, and the generation license entered into effect.

After the Statement of Financial Position date, on February 14, 2023, the Company applied to the Director-General of the Ministry of Energy, the Director-General of the Ministry of Finance, the Director-General of the Government Companies Authority, the Chairman of the Electricity Authority, and the Head of the Budget Department at the Ministry of Finance, requesting to consider the closing of the Netiv HaOr Company and assimilating its activity in the Company. For additional details see Note 1e9 to the Financial Statements.

Furthermore, pursuant to the abovementioned government resolution, a new transmission control array was established by the Company, the supply segment is gradually opened to competition, and a material process of organizational change and an efficiency plan was carried out in the Company, the Alon Tavor, Ramat Hovav and Hagit (East) power stations were sold, and an initial screening process and the tender for the sale of Eshkol commenced. Furthermore, the sale of the operation of system management to the Noga Company Netiv HaOr was completed as aforesaid on November 1, 2021. For additional details, see Note 1e to the Financial Statements and sections 1.3 and 7.1.1.

For details regarding steps promote by the Company to meet the renewable energy generation goals, see Note 1c to the Financial Statements.

In addition, on December 1, 2021, the Electricity Sector Regulations (Promoting Competition in the Generation Segment) (Temporary Order) – 2021, enacted by the Minister of Energy, were published in the Official Gazette. They determine, inter alia, considering considerations of promoting the sectorial competition when a generation license is granted by the Electricity Authority. For additional details see Note 1e to the Company's Financial Statements.

Energy savings

The State of Israel is operating to save consumption (reduce demand). Thus, among other things, the Ministry of Energy is taking steps to increase the awareness of energy savings. The Company is also acting in accordance with this policy and encourages its consumers to "intelligent consumption" of electricity[7], and is also acting to reduce energy consumption at its sites.

[7] See the website of the Company: www.iec.co.il.

6.6 Raising finances

See Section 29.3.1 for details.

6.7 Prevailing weather conditions in Israel

Periods of “extreme” weather (a particularly harsh winter or hot summer) may affect the scope of demand for electricity, as well as the reliability of supply of electricity, and the Company’s capability to supply electricity to all its consumers.

The Company constantly makes arrangements under an organized methodology to deal with extreme situations that are characterized by, inter alia, peak demands for electricity. The Company is preparing for the summer in accordance with the Company procedure both in terms of availability of the generation units and in terms of available fuels inventory.

Additionally, the Company is preparing for summer and winter peak demands through maintenance and renovation of the generation units to the extent that ensures their reliability as required.

It should be noted that an increase in the installed production scope in the electricity sector has occurred in recent years, mainly as a result of the entry of private electricity producers into generation activity in the electricity sector.

It should be noted that a senior steering committee was established in the last quarter of 2021, headed by the CEO, for the Company’s preparation for natural disaster events as a result of the climate crisis. At the same time, 6 subcommittees, headed by Senior VP's, are working to coordinate the handling and preparation in the fields of generation, transmission and transformation, distribution, emergency economy, spokesmanship and service and computerization and communications.

For further details see section 29.1.3 below.

6.8 Global events

During the past three years, the world was dealing with an event with macroeconomic implications, originating from the spread of COVID-19. The Company is acting in accordance with the general restrictions applying to the public with regard to this issue, including the People's Health Ordinance (Novel Coronavirus) (Home Isolation and Various Provisions) (Temporary Provision), 2020.

For further details regarding the Company's preparations regarding the spread of the corona virus, see Note 1i1 to the Financial Statements.

In February 2022, a war broke out between Ukraine and Russia. For details regarding the effects of the fighting on the Company see Note 1i2 to the Financial Statements.

Part 3: Description of the Business Affairs of the Company by Fields of Activity

A separate breakdown of each field of activity of the Company follows. See Part 4 for a description of matters relating to the operations of the Company as a whole.

7. The Generation Segment

7.1 General information on the generation segment

7.1.1 The structure of the competition in the field and the changes that have occurred

As of December 31, 2022, the Company holds and operates fifteen sites of power stations with a total installed generation capacity of approximately 10,955 megawatts (instead of fifteen sites last year with a total installed capacity of 11,615 megawatts). The sites, which are located, in accordance with that which has been stated above, throughout the territory of the State of Israel, are located on land that is owned by the Company or leased to it by the State. Each of the sites of the power stations of the Company has a single unit or a number of separate units for electricity generation. As of December 31, 2022, the Company had fifty generation units, of which sixteen are steam generation units; nine are combined cycle gas turbine units; sixteen are jet gas turbine units[8], and nine are industrial gas turbine units[9] (instead of, as applicable, 52 generation units, of which eleven are CCGTs and nine are industrial gas turbine units last year).

As part of the implementation of the structural change, the Company is reducing its activity in the generation segment and within a period of five years from the date of the Government's resolution on the reform, the Company sold and is expected to sell five existing gas-operated generation sites to third parties (in total), including the infrastructure and land of each site (The "**Generation Sites to be Sold**"). Within this framework, and as part of the implementation of the outline of structural change, the Company sold the Alon Tavor, Hagit (East) and Ramat Hovav generation sites. For additional details, including with respect to the additional generation sites the Company is expected to sell within the implementation of the structural change, as well as regarding the postponement of the sale of the "Reading" power station and the Eshkol power station and extension of the Company's licenses at the site, see Notes 1e and 3 to the Financial Statements.

Under the structural change, the generation licenses of the Company's generation units that are not included in the generation sites to be sold will remain in force until the end of the engineering life of the generation units, with the Electricity Authority determining the engineering life of the generation units as stated. As of the date of the report, the decision of the Authority's plenum has not yet been received.

In addition, as part of the implementation of the structural change, the Netiv HaOr Company was established in March 2020, which is a wholly-owned subsidiary of the Company, which is constructing, through the company, two H technology CCGTs operated by natural gas at the Orot Rabin site with an installed capacity of approximately 1200 megawatts with a possible upward deviation of 5%. According to the Company's forecast, the first CCGT will commence stable operation in September 2023. The commercial operation is expected in December 2023. The operation of the CCGTs will allow the shutdown of operation of Units 1-4 at the Orot Rabin site and their preservation in the first half of 2023. As part of this, the sale of the generation site at Alon Tavor was completed in December 2019, the sale of the generation site at Ramat Hovav was completed in December 2020, and the sale of the eastern part of the Hagit power station was completed in June 2022. The sale of the Eshkol power station has been postponed and is expected to be completed by the end of 2023, and the Company is expected to transfer its possession to the purchaser in the fourth quarter of 2023. For additional details see Note 1e9.

Except as specified above, in accordance with the outline of the structural change, the Company or the Netiv HaOr Company will not construct, replace, operate, plan, strengthen or engage in development of power stations in Israel, whether by itself or as a contractor for a third party, nor will it engage in electricity generation, including in the framework of micro-generation or renewable energies in Israel. In addition, the Company will not act to receive new generation licenses or to construct new electricity generation stations or replace existing stations and will not act to obtain permits for the operation of power stations for other parties in Israel. However, the aforesaid does not prevent the Company or Netiv HaOr from engaging in the operation and maintenance of their power stations and the planning required for such operations. As stated, Netiv HaOr Company may construct and operate two CCGTs and apply for generation licenses for

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8 A turbine consists of a diesel powered aviation jet engine connected to a generator for generating electric energy. The costs of generation of these units are especially high due to the high cost of diesel fuel and the use made in stressful situations and at peak demand only. See Section 7.1.1.1 (B) for further details.

9 A turbine that is run by industrial jet engines, which are diesel powered, with an option for conversion to natural gas operation.

them. For additional details regarding the Netiv HaOr Company and the actions carried out for its construction of two CCGTs, see Note 1e9 to the Financial Statements.

For details regarding the possible effects of the implementation of the outline of structural change on the Company, and with regard to the Company's actions relating to the implementation of the outline of the structural change, see Note 1e to the Financial Statements. For details of the manner in which the structural change is expected to affect the Company in the area of competition, see section 7.4.3.

The Company runs the generation units in accordance with instructions delivered from the Noga Company. These instructions are based, inter alia, on environmental restrictions, the cost of fuels per generated kWh[10], operational and system constraints. In general, the Company's units are operated based on the following priorities: coal powered steam generation units at minimum load, natural gas-powered combined cycle units, gas converted steam generation units, natural gas-powered open gas turbine units, and finally increasing generation in coal units up to maximum load, and diesel oil, while these priorities change in accordance with system constraints and/or environmental constraints. If need be, primarily in peak demand periods, backup units of industrial gas turbines and jet gas turbines are operated with diesel oil, whose operation may be initiated and stopped in a short time relative to the steam generation units, albeit at a higher cost of operation. The entity that decides on the mix of the operating stations at any time is the Noga Company, subject to the regulation that applies to the Company, which is regulated, inter alia, by the criteria[11] and decisions of the Electricity Authority, decisions of the Minister of Energy, and regulation by the Ministry of Environmental Protection.

For details of the directives of the Minister of Energy regarding the decrease of electricity generation at the coal powered generation and regarding emission permits under the Clean Air Law, 2008 ("**Clean Air Law**") for the Orot Rabin and Rutenberg coal powered power stations and conversion to gas, see section Note 1g to the Financial Statements.

The electricity generation volumes and timing are dictated by the figures of electricity consumption by the end consumers at any given moment. See Section 12 for details on seasonality in the consumption of electricity. See Section 7.5 for details on developments in electricity consumption, recorded peak demands and trends in demands.

The use of natural gas for the generation of electricity reduces air pollution and greenhouse gas emissions that form during the process of generation of electricity.

Despite the transition process to the use of natural gas for producing electricity and the conversion of the steam generation units to natural gas power, which started in February 2004 in accordance with what is stated below, the Company decided to maintain the ability of the steam driven power stations to be "dual-fuel"[12], and they will be able to generate electricity using both natural gas and liquid fuel this is in addition to "dual-fuel" stations that can be operated both by coal (as a main fuel) and by crude as detailed in section 7.1.1.1. This is in order to preserve their ability to generate electricity even during time of shortage in natural gas or because of a disruption in its supply.

For additional details regarding the policy of the Government to increase competition in the Electricity Sector, see section 6.5. In addition, in accordance with the Electricity Sector Law, as an essential service supplier, the Company is committed to purchasing electricity that is generated by private electricity producers. See Section 7.4 for further information on private producers of electricity and the competition in the field of activity of electricity generation.

Fuel oil serves as the secondary fuel in the following units:

Units 6-9 at Eshkol are operated with natural gas, the use of fuel oil as secondary fuel is according to need and subject to the provisions of the emission permits. These units are intended for sale to a private producer as part of the implementation of the structural change in the Company during 2023.

Units 5-6 at the Orot Rabin site and Units 1-4 at the Rutenberg site are operated with coal, with fuel oil as a backup fuel. These units are intended to undergo a gradual conversion to work on natural gas. The ability to work with fuel oil will be eliminated as part of the process of conversion to gas. The conversion project began in March 2022 and is expected to continue for several years until mid-2026, so that by the end of 2025, the date of the last unit to be converted, the period of using fuel oil in the Electric Company is expected to end completely. For additional details see Note 1g to the Financial Statements.

On January 24, 2022, the Company and the Tamar Partners signed an amendment to the original agreement of 2012 for the supply of natural gas from the "Tamar" reserve. All the contingent conditions have been fulfilled on July 22, 2022, (approval by the parties' authorized bodies and regulatory approvals that were required), and the amendment to the

[10] Kilowatt hour (kWh). A "**kilowatt**" (kW) is a unit for measuring output. One kilowatt equals a thousand watts. A "**kWh**" is an energy unit that is equal to continuous consumption of a kilowatt for one hour.

[11] The book of criteria is published for the public on the website of the Electricity Authority: http://www.pua.gov.il/31-339-he/Electricity.aspx. See section 22.1.3.1 for details of the book of criteria

[12] A generation unit that can be powered by at least two types of fuel.

agreement entered into effect. The accounting between the parties was carried out retroactively from July 1, 2021. For additional details see Note 35a to the Financial Statements.

A table follows that lists the generation units of all types, and the generation capacity in megawatts as of December 31, 2022:

Type of unit	Site	Number of units	Installed generation capacity (in MW)
Steam driven power station generation units			
Coal powered units			
Coal primary fuel, fuel oil secondary fuel (only at units 5-6)	Orot Rabin (Maor David A, B)	6	2,590
Coal primary fuel, fuel oil secondary fuel	Rothenberg	4	2,250
Total coal units		**10**	**4,840**
Natural gas converted units			
Natural gas primary fuel, fuel oil secondary fuel	Eshkol	4	912
Natural gas primary fuel	Reading	2	428
Total gas converted steam units		**6**	**1,340**
Total steam driven power station generation units		**16**	**6,180**
Gas turbines			
Industrial gas turbine			
	Tzafit	2	220
	Eilat	1	34
	Atarot	2	68
	Gezer	4	592
Total industrial gas turbines		**9**	**914**
Jet gas turbines			
	Hartov	1	40
	Eitan	1	40
	Ra'anana	1	11
	Caesarea	3	130
	Haifa	2	80
	Kinarot	2	80
	Orot Rabin	1	15
	Rothenberg	2	40
	Eshkol	1	10
	Eilat	2	58
Total jet gas turbine		**16**	**504**
Total gas turbines		**25**	**1,418**
Combined cycle gas turbines			
	Hagit	2	734
	Eshkol	2	771
	Gezer	2	744
	Tzafit	1	360
	Haifa	2	748
Total combined cycle units		**9**	**3,357**
Total generation units in the Company		**50**	**10,955**

7.1.1.1 A breakdown of the generation units of the Company follows:

(A) Steam generation units

The steam generation units of the Company, which generate electricity using gas turbines, are powered, in accordance with what has been stated above, using coal or natural gas as their primary fuel. Some of the generation units, in accordance with that which has been depicted in the table above, are “dual fuel”, that is can be powered both by coal (as a primary fuel) and fuel oil, or may be powered both by natural gas (as a primary fuel) and fuel oil.

(B) Open cycle[13] gas turbines

Gas turbines are divided into two types: jet gas turbines and industrial gas turbines.

The construction of industrial and jet gas turbines (all at open cycle) entails relatively low investments and their construction time is short. However, the generation of electricity using jet gas turbine units is more expensive than its generation using steam generation units or industrial gas turbines. The operation of gas turbines may be initialized and shut down in a relatively shorter time than the startup and shutdown of steam generation units. Because of this, the Company usually runs the jet and industrial gas turbine units at open cycle primarily in periods of peak demand.

(C) Combined cycle generation units

The combined cycle is a combination of an industrial gas turbine and a steam turbine. Using combined cycle technology, the residual heat that is emitted from industrial gas turbines is exploited and used to run an additional steam turbine with no addition of fuel for generation, meaning that instead of the gases being emitted into the air (in a high temperature), they are used for additional generation of electricity. This action contributes to considerable saving (in specific fuel consumption) in the utilization of fuel and protection of the environment, because production capacity increases without an increase of emission of pollutants into the air.

7.1.1.2 Generation with natural gas

As of December 31, 2022, approximately 56% of the total installed generation capacity of the Company is by units that may be powered by natural gas.

7.1.1.3 Duration of use of the generation units

For details of the useful lifetime of the Company's generation units, including as regards the Electricity Authority's decisions on this matter, see Note 2k to the Financial Statements.

7.1.2 **Restrictions, legislation, regulation and special constraints applying to the field of activity**

The operations of the Company in the generation segment, like its other fields of operation, are contingent upon the receipt of licenses pursuant to the Electricity Sector Law and is subject to various restrictions set in Section 6A of the Electricity Sector Law (while paying attention to the transitory provisions set in Section 60A of this Law) and various Laws. See Section 22 for additional details.

For details regarding the Electricity Sector Law concerning the structural change, see Note 1e to the Financial Statements and section 1.3.

As of the date of the report, the Company has 50 generation licenses, that have been granted separately for each generation unit (hereinafter: the "**Generation Licenses**"). For details of the amendment to the Electricity Sector Law, which includes, inter alia, amendments to the validity of the Company licenses, see section 1.3 and Note 1e to the Financial Statements.

Pursuant to the outline of structural change, and as detailed in Note 1e to the Financial Statements, the Company is working to sell a number of existing Company gas-operated generation sites, pursuant to the schedules set in the outline of structural change. The Company's Licenses in these sites will be in effect or all the activities to be carried out under the licenses, until the last date for transferring the possession thereof, under and subject to the conditions specified in them and the provisions of Section 60A of the Electricity Sector Law. The generation licenses of the Company's generation units that are not included in the generation sites to be sold as aforesaid will be in force until the end of the engineering life of the generation units, with the Electricity Authority determining the engineering life of the generation units as stated. For additional details, including with respect to the sale of the Ramat Hovav, Alon Tavor, and the eastern part of the Hagit power station generation sites, and the progress of sale of the Eshkol power station, as well as with respect to the possibilities of extending the Company licenses in the generation sites that are to be sold, see Note 1e1 to the Financial Statements. Additionally, pursuant to the outline of structural change, the Company will operate in the generation segment through a separate profit center. For additional details see section 22.1.3.6.

The revenues of the Company in the generation segment are affected by the electricity rate which is determined by the Electricity Authority in accordance with the Electricity Sector Law. For details regarding the electricity rate and the manner of its determination, see Note 3 to the Financial Statements.

[13] Open cycle – jet or industrial gas turbine type generation unit that operates on gas or diesel, that does not include a steam addition to utilize the heat emitted from the unit.

7.1.3 **Changes in the volume of the operation in the field of electricity generation and in its profitability**

The Company estimates that the primary factors that may affect the volume of operation in and the profitability of the field are the implementation of the structural change, which includes reduction of the Company's operation in the generation segment (including through the sale of existing Company gas-operated generation sites) and the establishment of two new CCGTs by the Generation Subsidiary, the closing of coal-fired power stations, their conversion to gas and/or reduction of their operation, and a change in the electricity charge rates that are established by the Electricity Authority, and the nature and scope of the Electricity Authority's regulations, which will enable the integration and connection of new generation installations in all types of technology that will be connected to the electricity grid.

7.1.4 **Critical success factors in the field of activity and the changes that have occurred therein**

The Company assesses that the business success of the generation segment, as well as the Company's compliance with the rate outline of the generation segment, depends, inter alia, on the availability of the gas from the suppliers of the Company, , on the recognition of the total costs required for the generation of electricity in the electricity charge rate, and on the decisions of the relevant regulatory entities with respect to the operation of the Company in the generation segment, as well as the Company's coping with the competition in this segment (for additional details see section 7.4). Additionally, the Company's success will be influenced by its success in meeting the schedules set for execution of the structural change, both with regard to the sale of the generation units and with regard to the construction of two CCGTs at the Orot Rabin site. For details of the main points of the structural change in the generation segment see Note 1e1 to the Financial Statements.

7.1.5 **Changes in the array of suppliers and raw materials for the field of activity**

The suppliers and the raw materials for this field of operation are suppliers of coal, natural gas, diesel oil and fuel oil, which are used for the generation of electricity. See Section 7.9 for details with respect to the array of suppliers and raw materials.

For further details regarding the end of fuel oil use upon the completion of the conversion of a generation unit at the Orot Rabin and Rutenberg sites to natural-gas operation, see section 7.1.1 above.

7.1.6 **The main barriers to entry and to exit for the field of operation and the changes that have occurred therein**

7.1.6.1 Entry barriers

By the Company's assessment, entities that operate with a significant production volume in the field of electricity generation are required primarily to make an initial investment of significant amounts of capital, whether by way of investment in shareholders' equity or by way of banking or other financing, for the purpose of the construction of generation facilities, and are later required to have the financial strength for the purpose of their regular maintenance. In addition, the field has complicated regulation, owing to which an entity that wishes to generate electricity is required to undergo a procedure for receiving an electricity generation license from the Electricity Authority (which is performed in a number of stages over a long period), to comply with strict quality requirements and standards, to receive permits with respect to environmental protection, the location of sites and the receipt of construction permits, to ensure the availability of raw materials, including fuels, and their costs. In addition, professional knowledge and experience in the field of electricity generation, a good reputation in the industry and availability of land for constructing the electricity generating facilities are important.

7.1.6.2 Exit barriers

The primary exit barrier of the field of operation is the regulation regulating the operations of the Company and the fact that it is an "essential service supplier" license holder, in accordance with the Electricity Sector Law.

7.1.7 **Alternatives to the products in the field of operation and the changes that have occurred**

Electric energy generation can be carried out with fuels, alternative technologies for fuels and the technologies existing in the Company, such as solar energy, wind turbines, pumped storage, stored energy, and distributed electricity generation systems.

7.1.8 **The structure of the competition in the field and the changes that have occurred**

As of the date of the report, the field of electricity generation in Israel features a significant growth in the market share of renewable energies and private electricity producers. Additionally, as part of the outline of structural change, the Company sold the Alon Tavor, Ramat Hovav and Hagit East generation sites and is expected to sell two additional existing natural gas-operated generation sites to third parties, pursuant to the schedule set in the outline of the structural change.

For additional details regarding the structure of the competition in the field and the continuing increase in the volume of activity of the private electricity producers and renewable energies in the generation segment, see section 7.4. For details regarding the actions taken by the Company to implement the structural change (including the sale of Alon Tavor, Ramat Hovav and Hagit East and construction of the two CCGTs by the Netiv HaOr Company) and the expected impacts in this context on the structure of the competition in the generation segment, see Note 1e to the Financial Statements and sections 1.3 and 7.1.

7.2 Products and services

In accordance with what has been stated above, the Company operates for the supply of electricity to customers, from the generation of electricity at the generation sites, continuing through its transmission and transformation, to its distribution and supply to the end points of all consumers. The electricity that is generated at the generation sites of the Company is not sold to outside parties but is moved to the end consumers via the transmission segment, and is supplied to them through the distribution segment as well as serving as backup for the private electricity producers.

7.3 The distribution of revenues from products and services:

For details regarding the Company's revenues from sales of electricity that were assigned to the generation segment in 2022 see Note 36a to the Financial Statements.

7.4 Competition

7.4.1 General; private electricity generation – the Government policy and the resolutions of the Electricity Authority

7.4.1.1 General

Since the enactment of the Electricity Sector Law, it has been the policy of the Government of Israel to encourage competition in the Electricity Sector while increasing the electricity generation capacity by private electricity producers. Accordingly, the Government of Israel and the Electricity Authority have been taking steps, including legislative changes, promulgation of resolutions, adoption of resolutions and other arrangements (including publication of tenders) whose aim is to encourage the entry of private electricity producers into the Electricity Sector, thus encouraging competition in the generation sector.

Pursuant to the Government's Resolution regarding the reform, the Company will not operate in the field of electricity generation in Israel, except for the existing operation and the construction of two new CCGTs at the Orot Rabin site (through the Netiv HaOr Company). Additionally, the Company is committed to sell five generation sites with an installed output of approximately 4,500 megawatts. As on the date of the report, the Company has sold three (out of five) generation sites with an installed capacity of approximately 2,380 megawatts, and is in the process of selling the Eshkol site. For details regarding the rate regulation of the operation of the generation units at the Eshkol site after its sale, see Note 3z to the Financial Statements.

See section 6.5 for additional details regarding the policy of the State of Israel with respect to increasing competition in the electricity sector. For the main points of the structural change and its impact on the Company's operation in the generation segment, see Note 1e to the Financial Statements and section 1.3 above.

As part of the policy of encouraging competition in the electricity sector, in 2005 the Electricity Authority added Chapters E and F to the Book of Criteria (which is updated from time to time)[14], which regulate, *inter alia*, the provision of infrastructure services by which private electricity producers may sell energy either to Noga or to suppliers, in order to supply electricity to end users through the Company's transmission grid, the manner of operation of private electricity producers in the Electricity Sector and the charge rate that the Company will charge for transmission of electricity in accordance with the charge rate that will be determined from time to time by the Electricity Authority (hereafter: the "**Criteria**").

In recent years, the Electricity Authority published a number of arrangements and decisions aimed at achieving the Government's objectives to increase competition in the electricity sector and to generate electricity with renewable energy, as detailed in section 6.5. See section 7.4.1.2 for additional details regarding major decisions by the Electricity Authority.

To the best of the Company's knowledge, the Company's major competitors in the field of electricity generation are the private electricity producers: "O.P.C Energy Ltd", "Dorad Energy Ltd.", "Dalia Power Energies Ltd.", MRC Alon Tavor Power

[14] The Book of Criteria is publicized for the public at the site of the Electric Company: http://www.pua.gov.il/31-339-he/Electricity.aspx. See section 22.1.3.1 for details regarding the Book of Criteria.

Ltd., “Ramat Hovav Power Plant – Limited Partnership”, the “IPM Be’er Tuvia” power station and the Hagit East power station.

On March 6, 2022, the Electricity Authority published a decision regarding amendment of the criteria for the purpose of applying the market model to the existing private production and to renewable energies in transmission. This decision amends the existing regulation for producers in the transmission grid of all types of technology and applies the criteria that regulate the manner of operation of the energy market in Israel on them, while creating a uniform regulatory base for generation facilities on the transmission grid in terms of availability payments, how to submit production plans, and loading plan, and as far as possible payments for energy as well. Along with the creation of a uniform regulatory base, the Authority preserves the ability of producers operating in bilateral transactions to continue operating in this format, and on the other hand allows those producers to purchase electricity from the System Manager at a market price as they wish. The decision further regulates the possibility for the system manager to reduce the load of producers with renewable energy as well as the compensation mechanism for this operation.

On September 7, 2022, the Electricity Authority published a decision regarding a market model for generation and storage facilities connected with or integrated into the distribution grid, in which the Authority regulates the activities of the generation facilities in the distribution grid, and in particular their ability to sell electricity directly to suppliers. This decision also determines the obligation of high-voltage generation facilities to submit production plans as of January 1, 2023, and enables the opening of the supply segment to competition, while removing quotas set for this issue in the past. In accordance with the decision, the possibility of executing bilateral transactions between producers in distribution and private suppliers without generation facilities will only be possible from January 1, 2024.

A decision by the Electricity Authority was published on January 9, 2023, regarding the rate base update for the generation segment, which will apply retroactively from February 1, 2022, and determines, inter alia, the normative unavailability values that the Company’s generation units have to meet. For further details see Note 3 to the Financial Statements. This rate base prepares the rate infrastructure for the Company’s gradual transition to participating in a competitive market on the basis of monitored price offers that will compete with private units, should the Authority decide on this change in future.

On September 15, 2022, the Electricity Authority published a decision regarding the results of the competitive process No. 1 for setting a protective rate for generating electricity from renewable energy in facilities connected to the transmission grid, where the allocated capacity for the process was set to 241 megawatts. The rate set is uniform for all winning bids and stands at 11.7 Agorot per kWh, at the price of the lowest bid that was not designated as a candidate for winning.

7.4.1.2 **<u>Private electricity producers</u>**

The legislative and regulatory arrangements which apply to the private electricity producers were set while distinguishing between the various generation technologies used by the private electricity producers, and between the different voltage levels they will be connected to (according to the facility's capacity). Accordingly, the Electricity Authority set relevant arrangements which change in accordance with the types of major private electricity producers, as detailed below:

a. <u>Conventional private electricity producer</u>

A producer producing electricity with electro-mechanical power stations operated by fossil fuel, such as petroleum refinery products or natural gas.

b. <u>Private electricity producers that generate using cogeneration facilities</u>

A producer that operates facilities that produce from one energy source, simultaneously, electrical energy and useful thermal energy (that is mostly used for industrial and private purposes).

c. <u>Pumped energy (“Stored Energy”) private electricity producers</u>

A producer that generates electricity by using an electrical pump connected to the electricity grid for the purpose of pumping water from a lower to a higher water reserve, and transferring the water from the higher to the lower reserve while exploiting height differences between them in order to operate a turbine for generating electricity. The facilities will be connected to a “high voltage” transmission system.

d. Electric energy storage

Energy storage facilities make it possible to store energy which is generated in electricity generation facilities using various technologies, at a certain time period and for use at a later date. In this manner, it is possible to store energy created by facilities using photovoltaic technology and use it in the evening, when these facilities cannot generate electricity. On January 25, 2023, the Electricity Authority published a decision detailing the principles and scope in which the Company will be permitted to construct storage facilities until 2030. For additional details see Note 3y to the Financial Statements.

e. Renewable energy private electricity producers

A producer whose energy source is, inter alia: the sun, wind, water, waste, biomass, except fossil fuel. The timing of the electricity generation by these producers depends on the availability of the energy source on which they are based on. These production facilities may connect to the transmission system or the distribution system.

On July 29, 2020, following consultation with the Electricity Authority, and in accordance with its recommendations, the Minister of Energy has established the policy principles regarding the update of renewable electricity generation, such that the goal for renewable electricity generation will stand at a rate of 30% of all electricity consumption by 2030.

On October 25, 2020, a government resolution was adopted regarding the promotion of renewable energy in the electricity sector, according to which the goal for generating electricity with renewable energy for 2030 has been increased to 30% and an intermediate goal has been updated to 20% by December 31, 2025. The goal's update as aforesaid will result in the increase of the generation quotas set for generating electricity with renewable energy, accordingly. The Company is acting to implement the aforesaid resolution. For additional details see Note 1g to the Financial Statements.

The Electricity Authority has made a number of decisions in recent years, aimed at implementation of the various government resolutions regarding generation with renewable energies, including the Company's integration in the field of energy storage. For further details see Notes 1c and 3ab to the Financial Statements.

7.4.2 Private electricity producers – the actual situation

7.4.2.1 General

The Company, as an essential service provider, is obligated under the Electricity Sector Law as follows:

(a) To purchase electricity from generation license owners, storage license owners, or from those who generate or perform storage of electricity and are exempt from the duty to have a license pursuant to section 3(b)(1)(a) or (b) of the law, in full or in part, and to provide infrastructure services and backup services, all according to the terms of its license and the law.

It is noted that the obligation to purchase electricity from generation and storage licensees connected to the transmission grid as well as from private producers with generation and/or supply licenses has transferred to the Noga - Israel Independent System Operator Ltd. in accordance with its license, after completion of the sale of the system management unit by the Electric Company on November 1, 2021.

(b) To connect the private electricity producers to its distribution and transmission grid, in order to enable the private electricity producers, inter alia, to engage with suppliers[15] or to supply electricity themselves to end consumers.

(c) To provide the applicant connection or integration of a generation or storage facility to the distribution grid for the purpose of connecting or integrating it into the grid, subject to the facility's compliance with threshold conditions and while the Company, in its role as distributor, specifies the relevant restrictions that will be applied to the facility.

7.4.2.2 The Company's engagements with private electricity producers

As of November 2021, responsibility for the Company's agreements with private electricity producers at extra-high voltage were transferred to the Noga Company.

[15] "Supplier" – a holder of a license to sell electricity to consumers (supply license).

7.4.3 **Repercussions of the competition in the generation segment for the Company**

The Company assesses that in the upcoming years an additional increase can be expected in the installed generation volume of the private electricity producers, including generation using renewable energies, especially with the continued implementation of the outline of structural change. The Company assesses that such an increase may have a number of repercussions, including the following:

(A) Scope of the competition

Since the legislation of the Electricity Sector Law in 1996, the Government encourages the entry of private electricity producers into the Electricity Sector. Within this context, in the early 2000s, infant protection was given to the first private electricity producers, which included, inter alia, ensuring the purchase of energy while using the transmission and distribution system of the Company and maintaining the Company's commitment to serve as a backup source in case of inability of private electricity producers to supply electricity to consumers. Furthermore, pursuant to the outline of structural change, the Company was required to reduce its operation in the generation segment, and inter alia, sold 3 existing Company gas-operated generation sites, and is expected to sell the Eshkol power station during 2023 (for further details, including with regard to additional generation sites the Company is expected to sell within the framework of the implementation of the structural change, see Note 1e to the Financial Statements). All these, together with the Government's policy to encourage decentralized production and renewable energy are expected to cause a continued decline in the scope of the Company's production in the coming years, relative to total production in the sector.

For the main points of the outline of structural change and its impact on the Company's operation in the generation segment see Note 1e1 to the Financial Statements and section 1.3.

(B) Impact of the competition on the Company's profitability in the generation segment

The major rate components in the generation segment are the fuels costs, capital services costs and operating costs.

Following the entry of the private electricity producers (and the sale of the Alon Tavor, Ramat Hovav and Hagit East power stations as part of the implementation of the structural change), a decrease has occurred in the volume of actual production of electricity by the Company, which according to the Company's estimate is expected to continue and to lead to a decrease mainly in the fuels costs and partly in the variable operation expenses in the generation segment.

Within the regulation presently existing, the Company's profitability is derived from the structure of its active assets, and therefore it is not expected to be materially damaged as a result of the entry of private producers.

- Fuels costs - the Company is not expected to be damaged by the entry of the private electricity producers, since its income from this component is determined in accordance with its actual production volume. Insofar as the electricity production volume of the Company will decrease, the fuels costs will decrease and accordingly so will the Company's revenues, and therefore this will not have a material impact on the Company's profitability. Furthermore, based on the results of the analysis of the Company's gas consumption forecasts, the Company's profitability is also not expected to be adversely affected in relation to its liabilities within the Take or Pay mechanism. For details of the Take or Pay mechanism and details regarding the Electricity Authority's decisions in this context, see Note 35a1 to the Financial Statements. For details of the amendment to the Tamar agreement, see Note 35a1 to the Financial Statements. For additional information regarding recognition of the fuels component in the generation rate, see Note 3h.

- Costs with respect to capital services - the income from this component is determined for the generation segment, pursuant to the cost of the assets recognized for each of the active generation units of the Company, according to the Spitzer method, and therefore, a decrease in the production volume does not damage the Company's income and its profits from capital services. However, since the costs are determined in accordance with the active assets of the Company and are not dependent on kWh, every decrease in the production volume of the Company will cause an increase in the rate per kWh produced.

  It is noted that the Government resolution regarding the reform determines that the Electric Company has to sell some of its generation sites and that it will not construct additional generation units in future (except for two CCGTs through the Netiv HaOr Company). Accordingly, and in light of the sale of the Alon Tavor, Ramat Hovav and Hagit East generation sites as aforesaid, the volume of the Company's assets in the generation segment has decreased and is expected to continue to decrease with the sale of the remaining generation sites to be sold in accordance with the structural change. Insofar as of the assets recognized for the Company within the rate decreases, the return on equity derived from these assets also decreases and erodes the Company's profitability in the generation segment.

- Operating costs - Pursuant to the new rate base for the generation segment for the years 2022-2027, the recognized operating costs were determined with separation by the generation units. In addition, the Electricity Authority separated the costs into fixed and variable costs. The fixed costs include fixed costs per kWh, site costs, and administrative and general costs. Variable costs include variable costs per kWh and renovation costs per equivalent hour (hours in which the unit generated energy that was supplied to the electricity grid regardless of the unit's load). Since the Company's income with respect to the fixed operating costs is not dependent on kWh, every decrease in in the Company's volume of generation will cause an increase in the rate per generated kWh.

  In view of this, as part of the current regulation, the fixed income of operating of the Company should not be affected as a result of a decrease in the volume of its generation, and the Company has not been damaged nor should it be materially damaged in the profitability of the Company in the operating component as a result of the entry of private electricity producers, or as a result of sale of the Company's generation sites as part of the implementation of the structural change.

  However, it was decided within the framework of the new rate base to impose availability risks on the Company, in such a manner that a direct connection will be created between the ability to recover the Company's fixed costs in the generation segment (capital services, operating, administrative and general costs) and the actual availability rate of the stations. The Company's units are usually used as "residual" units in the sector, with the aim of satisfying the gap between production and demand at any given moment. In light of this, the unavailability rates of the Company's units are expected to increase in future, in light of the continued entry of the renewable energies and the increase of the private generation's market share, in a manner that will significantly increase the switching on and off operations of the stations and will lead to an increase in the breakdown rates and the scope of maintenance. The above may damage the performance of the units and impact the Company's ability to meet the normative availability values set for it.

- Electricity purchases from private electricity producers and renewable energies are fully covered in the electricity rate which is updated every annual update - the Authority recognizes an advance for the Company with respect to the total electricity purchase expected for the coming year, and retrospectively compensates the Company, as required, with respect to the gap between the forecast and the costs of the electricity purchase which materialized in practice, subject to cost control. The aforesaid may have a cash flow impact as a function of the change in volume of purchases of electricity from private producers in practice compared to the forecast. As of the date of sale of the full system management activity from the Company to Noga, on November 1, 2021, the Company only purchases energy from producers at low voltage and high voltage. Accordingly, only electricity purchases from these producers will be recognized for the Company.

(C) Impact of the private producers on the Company's operation:

The rate mechanism which exists at present should ensure that the costs recognized for the Company will not be materially damaged as a result of entry of private producers. Nevertheless, the entry of private producers in ever growing numbers is expected to reduce the scope of operations of the Company in electricity generation and increase the reserve levels in the sector.

- The private electricity producers who sell electricity to the Company and Noga have an impact on volume of the Company's operation in the generation segment alone.
- The private electricity producers who also operate as suppliers and sell electricity to end users have an impact on volume of the Company's operation in the generation and supply segments only.
- The independent electricity and decentralized electricity producers who do not use the Company's infrastructure have an impact on the entire operation of the Company, in generation, transmission, distribution and supply segments.

The exposure of the Company, if any, to a situation in which the generation units it owns will no longer be required by the sector in the long term, as a result of a massive entry of private producers and increase of the volume of reserves in the sector beyond that which is required, has not yet been handled. The Company estimates that it will be compensated with respect to stranded costs (that is costs with respect to generation units which are not in use), insofar as will be created in future, even if legislation amendment will be required for this.

This information in this report and within the Financial Statements with respect to the estimations of the Company with respect to the expected increase in the installed volume of generation of private electricity producers as well as with respect to the expected volume of electricity consumption by private electricity producers, the consequences for the Company including the effect of the transition of Company customers to consumption from private electricity producers and the effect on the amount of revenues of the Company and its profitability, as well as the Company's estimates with respect to the expected decrease in the actual electricity generation by the Company including as a result of *implementation of the structural change, as well as with respect to the possible implications of the entry of private electricity producers into the generation, transmission, distribution and supply segments, as well as in all that relates to compensating the Company with respect to abandoned costs, insofar as will be created, is forward looking information, as per its definition in the Securities Law, which is based on information that is in the possession of the Company as of the date of the report and on forecasts of the Company whose materialization depends on factors over some of which the Company has no control, such as: the methodology of definition of operation regimes for the various generation technologies, an estimate of possible times for commencing the generation at the power stations of the various private electricity producers, and a change that may occur in them, agreements in which the private electricity producers will enter into with customers of the Company, and an estimate of the odds for implementation of each private electricity project, the scope of entry of private electricity producers into the electricity sector, the manner in which the rate will be determined, and the costs which will be recognized for the Company in practice. Therefore, the Company has no certainty that its estimates and expectations will indeed actually materialize in view of the existing uncertainty with respect to the future regulation, including new charge rate arrangements, to the extent that they are formed, the economic and political reality, including the consequences for the volume of electricity consumption on the national economy.*

7.5 Generating capacity

The table below shows the generation capacity, in megawatts, of the Company, and the peak demand of the Company, in megawatts, in 2022 and in 2021:

	For the year ended on December 31	
	2022	2021
	Megawatts	
Company's installed generation capacity at peak hours	(*) 11,615	(**) 11,615
Of which: generation by the Company at peak demand times	9,216	7,568

(*) This sectorial peak demand was measured on January 26, 2022. Prior to the sale of the Hagit East power station.
(**) This sectorial peak demand was measured on August 5, 2021.

Following the sale of the System Management operation to Noga, the Company does not publish data for the peak demand in the whole sector or the generation capacity available at peak demand times. For further details on the sale of the System Management operation to Noga see Section 1.1 above.

7.6 Fixed assets, land and facilities

7.6.1 General

All assets of the Company are divided into five (5) main types:

Power station – a generation facility that is used for the generation of electricity at an output exceeding 5 megawatts, including structures, machines, conductors, transformation facilities, cooling facilities and systems used for this purpose.

Substations and switching stations – facilities that are used in the transmission segment and connect the various electricity grids and have a process of transformation of electricity voltage from extra high voltage (400 kilovolts) to high voltage (161 kilovolts) or from high voltage (161 kilovolts) to medium voltage (33 or 24 kilovolts).

Transformation rooms – enclosed rooms that are used in the distribution segment and are in the street or in part of a residential building, containing transformers whose function is to adjust the voltage conveyed in medium voltage lines to a voltage that is usable by electricity consumers (low voltage).

Utility lines – overhead or underground power lines that are used in the transmission segment (up to the transformation station) or distribution segment (from the transformation station) of electricity and that include pylons.

Administrative logistic sites – warehouses, offices and other such properties that are used by the three activity segments of the Company, that is, generation, transmission and transformation and distribution.

The number of sites mentioned above that are used for all of the activity of the Company is extensive, including approximately 15 power stations; approximately 167 substations and switching stations; approximately 15,800 transformer rooms; approximately 900 pylons for which the Company is required by law to pay municipal tax as well as thousands of additional pylons on real estate regarding which the Company has no rights in the land and approximately 60 administrative logistic sites, and in total approximately 17,000 properties with rights in the land, which include dozens to hundreds of facilities and properties of various kinds.

7.6.2 **<u>The breakdown of the fixed assets and facilities described below relates to the property and assets that are held by the Company and/or that are used by it in its fields of operation.</u>**

A breakdown of the power stations used by the generation segment at the different sites follows:

	Name of site	Location	Type	Land rights
1	Rutenberg Power Station	Ashkelon	Power station	The area is leased from the Israel Land Authority (ILA) until 2032, some till 2054 (regarding the three lease contracts, the Company has an option for extension of the lease by 49 extra years); The coastal strip and the marine areas are by authorization from EAPC until 2017 (the end of the EAPC concession). The authorization contract defines that EAPC will extend the authorization to the Company if its contract with the State will be extended. Accordingly, as of the date of the report, negotiations are being held with EAPC for the regulation of all the Company's activities at the site following the law that regulated the continued operations of EAPC. Within the framework of the reform agreement, the Company undertook to transfer an area of approximately 60,000 m^2 in the station to the State; this area was designated for the construction of a Project. The Company is in the process of dismantling the facilities in the area and evacuating it for the purpose of transferring it to the State. As of the date of approval of the Financial Statements, the agreement to transfer the area to the ILA has not yet been signed.
2	Reading Power Station	Tel Aviv	Power station	The area is being leased from the State of Israel. Part of this area was expected to be transferred to the Municipality of Tel-Aviv in 2022 as part of the assets arrangement and NOP 10a3. In light of the provisions of the Arrangements Law and the need to extend the operation of the Reading D generation units, the Company is working in coordination with the Municipality of Tel-Aviv to postpone the dismantling and evacuation obligation. For additional details see Note 1e1a and 1e9 to the Financial Statements. The areas designated as the Delek sites 3, 1 and 4 were transferred to the State pursuant to the assets' arrangement.
3	Haifa Power Station	Shemen Beach, Haifa	Power station	Owned by the Company, except a certain plot being leased from ILA until 2016. The lease renewal is being handled with the Israel Land Authority
** 4	Hagit Power Station	Next to Elyakim Interchange	Power station	About half of the area is being leased from ILA until 2051, the rest is owned by the Company. The eastern part of the station was sold as part of the implementation of the structural change.
5	Gezer Power Station	Next to Nesher plant in Ramla	Power station	The area is being leased from ILA by contract until January 2046, with an option for extension by 49 additional years.
6	Eshkol Power Station	Ashdod	Power station	Owner by the Company. Is in the process of being sold as part of the implementation of the structural change.
7	Orot Rabin Power Station	Hadera	Power station	Most of the area is owned by the Company (ownership rights have not yet been registered to the title of the Company); about a fifth is being leased from ILA until 2040; the rest is being leased from the Caesarea Development Fund under two contracts, one until 2042 and the other until 2048. There is a cautionary remark to the benefit of the Company in the Land Registration Bureau for all of these lease agreements.
* 8	Substation[16] and gas turbine Raanana	Raanana Industrial Zone	Power station	Owned by the Company

16 Substation.

	Name of site	Location	Type	Land rights
* 9	Atarot substation and gas turbine	Atarot Industrial Zone	Power station	Leased from ILA until 2022. There is an option for the Company to extend the lease by 49 years more, The Company is in the process of renewing the lease from ILA. The lease rights are registered at the ILA only.
* 10	Kinarot substation and gas turbine	North of Tiberias	Power station	About half of the area is being leased from Mekorot[17].The rest is under authorization from Mekorot.
* 11	Hartov substation and gas turbine	Beit Shemesh Industrial Zone	Power station	Leased from ILA in three agreements until 2018, 2020 and 2021 (there is an option for the Company to extend the lease by 49 years more, the Company is negotiating to realize the 3 options).
* 12	Eitan substation and gas turbine	Moshav Eitan	Power station	The Company has lease rights registered in the Land Registration Bureau until 2056.
* 13	Eilat substation and gas turbine	Eilat	Power station	Leased from ILA until 2028 (there is an option for the Company to extend the lease by 49 years more). Lease rights are registered
* 14	Tzafit substation and gas turbine	Tzafit	Power station	Most of the area is leased from ILA until 2034 (there is an option for the Company to extend the lease by 49 years more); the rest is by authorization from Moshav Mevo Beitar
* 15	Caesarea substation and gas turbine	Caesarea	Power station	Subleased from the Caesarea Development Fund until 2048. The rights of the Company are registered with the Caesarea Development Fund. For part of the lease contracts a cautionary remark to the benefit of the Company has been registered at the Land Registration Bureau.

(*) At this power station there is also a substation.

(**) At this power station there is also a substation and switching station.

See Section 8.6 with respect to fixed assets and facilities in the transmission and transformation segment.

All of these properties and rights have floating charges applied to them, which the Company created as collateral for some of its liabilities. For details of floating and fixed charges created by the Company as collateral for its liabilities see Note 20g to the Financial Statements.

For details regarding the structural change and the actions taken by the Company to implement it, including decrease of its operation in the generation segment, including through sale of the following gas-operated generation sites of the Company: Eshkol and Reading, according to the schedules set in the outline of the structural change, as well as regarding the generation sites that were sold (Alon Tavor, Ramat Hovav, and the eastern part of the Hagit power station), see Note 1e to the Financial Statements and section 1.3.

Furthermore, as part of the implementation of the structural change, the Netiv HaOr Company, a subsidiary fully owned by the Company, was established in March 2020, and it is constructing, through the Company, two H-technology CCGTs that will be operated with natural gas at the Orot Rabin site.

[17] In accordance with an agreement with Mekorot dated March 1979, the Company has a right to possess and use "for a defined period under the condition that it does not exceed the primary lease period that will be registered to the benefit of Mekorot at the Land Registration Bureau". As of the time of this report, no primary lease has been registered to the benefit of Mekorot for the land.

7.7 The development of the generation segment

7.7.1 General

For details of the energy sector's objectives for 2030 and the policy principles of the Minister of Energy of November 20, 2019, after consultation with the Electricity Authority and under its recommendation for gradual conversion to use of natural gas by 2025 and no later than 2026 by generation units 1-4 at the "Rotenberg" power station, and generation units 5-6 at the "Orot Rabin" power station, for the purpose of stopping the routine use of coal, see Note 1g to the Financial Statements.

For details regarding the Minister of Energy's policy principles of February 8, 2021, pertaining to examination of the scope and manner of preserving the 1-4 generation units at the Orot Rabin power station, see Note 1g to the Financial Statements.

7.7.2 The expected development of additional generation capacity

As detailed in section 7.1.1, within the implementation of the structural change, the Company will reduce its operation in the generation segment and within a five-year period from the date of the Government's resolution on the reform, the Company will sell to third parties five existing Company generation sites operated by gas, including the infrastructures and land of each site. Additionally, according to the outline of the structural change, a generation subsidiary fully owned by the Company will be established, which will be permitted to construct two generation units operated with natural gas at the Orot Rabin site, with a combined cycle (CCGT) technology. As of the date of the report, as part of the implementation of the structural change, the Company has, inter alia, sold the Alon Tavor and Ramat Hovav power stations, and the eastern part of the Hagit power station. Additionally, the Company established the Netiv HaOr Company, and is acting to plan and construct the two CCGTs with a total installed capacity of approximately 1,260 megawatts. For additional details regarding the construction of the CCGTs, see Note 1e9 to the Financial Statements.

Except as detailed above, pursuant to the outline of structural change, the Company or the Netiv HaOr Company, will not construct, replace, operate, plan, strengthen or engage in development of power stations in Israel, whether by itself or as a contractor for a third party, nor will it engage in electricity generation, including in the framework of micro-generation or renewable energies in Israel. In addition, the Company will not act to receive new generation licenses or to construct new electricity generation stations and replacement of existing stations and will not act to obtain permits for the operation of power stations for other parties in Israel. However, the aforesaid does not prevent the Company or the Netiv HaOr Company, from engaging in the operation and maintenance of their power stations and the planning required for such operations.

For details regarding the actions the Company has taken and is taking to implement the structural change, and the possible effects of implementation of the structural change on the Company, see Note 1e to the Financial Statements.

7.7.3 Emission reduction plan

As part of development plan of the Company, and in accordance with instructions by the Ministry of Environmental Protection, the Company is required to take action to reduce airborne emissions.

For details regarding the amendment of the emission permit, and for further updates regarding the emission reduction project, see section 7.12.2.1 and Note 1g to the Financial Statements. For details regarding the rate recognition in the emission reduction project at the coal-fired power stations, see Note 3k to the Financial Statements.

7.7.4 **The major projects in the generation segment**

The following are the major projects of the Company within the Development Plan in the generation sector (data in NIS millions):

Project name	Scope of expected comprehensive investment*	Scope of Investment until the Balance Sheet Date **	Budget completion rate	Remainder of Investment
Emission reduction projects Rutenberg and Orot Rabin	7,108	6,874	97%	234
CCGT Orot Rabin unit 70-80 through the Netiv HaOr subsidiary	3,850	3,012	78%	838
***Conversion to gas – Rutenberg unit 1	280	218	78%	62
***Conversion to gas – Rutenberg unit 2	230	44	19%	186
Preservation Orot Rabin units 1-4	110	31	28%	79
Total	11,578	10,179	88%	1,399

* The "Scope of expected comprehensive investment" column is an updated estimate for 2023 which has been approved by the Board of Directors of the Company in December 2022. It is clarified that it is only an estimate, which even if approved, may change from time to time, inter alia according to the progress of the project, the duration of the project, and costs the Company will bear with respect to it. Additionally, the total investment is less costs with respect to remeasurements and capitalization of interest during construction.

** The "Scope of Investment until the Balance Sheet Date" column is composed of cumulative performance until the end of 2013 in December 2013 prices, and performance for 2014-2022 in current prices, pursuant to the IFRS principles. The data are compatible with the budgetary development plan.

*** The estimate of the scope of investment in the conversion to gas of the generation units 5-6 at the "Orot Rabin" power station and the generation units 3-4 at the "Rutenberg" power station has not yet been approved by the Company's Board of Directors.

For details of the decision published by the Electricity Authority in June 2020, regarding recognition of costs of installations for reducing emissions at the generation units, determining the lifespan of the installations, as well as determining the lifespan of the coal powered units to which the installations are connected, see Note 3k to the Financial Statements.

7.7.5 **The development budget of the generation segment for 2023**

In 2022, a sum of NIS 1,388 million was invested in the generation segment in current prices, including investment works in the active power stations and periodic renovations of the power stations (after deduction of remeasurements and depreciation)[18].

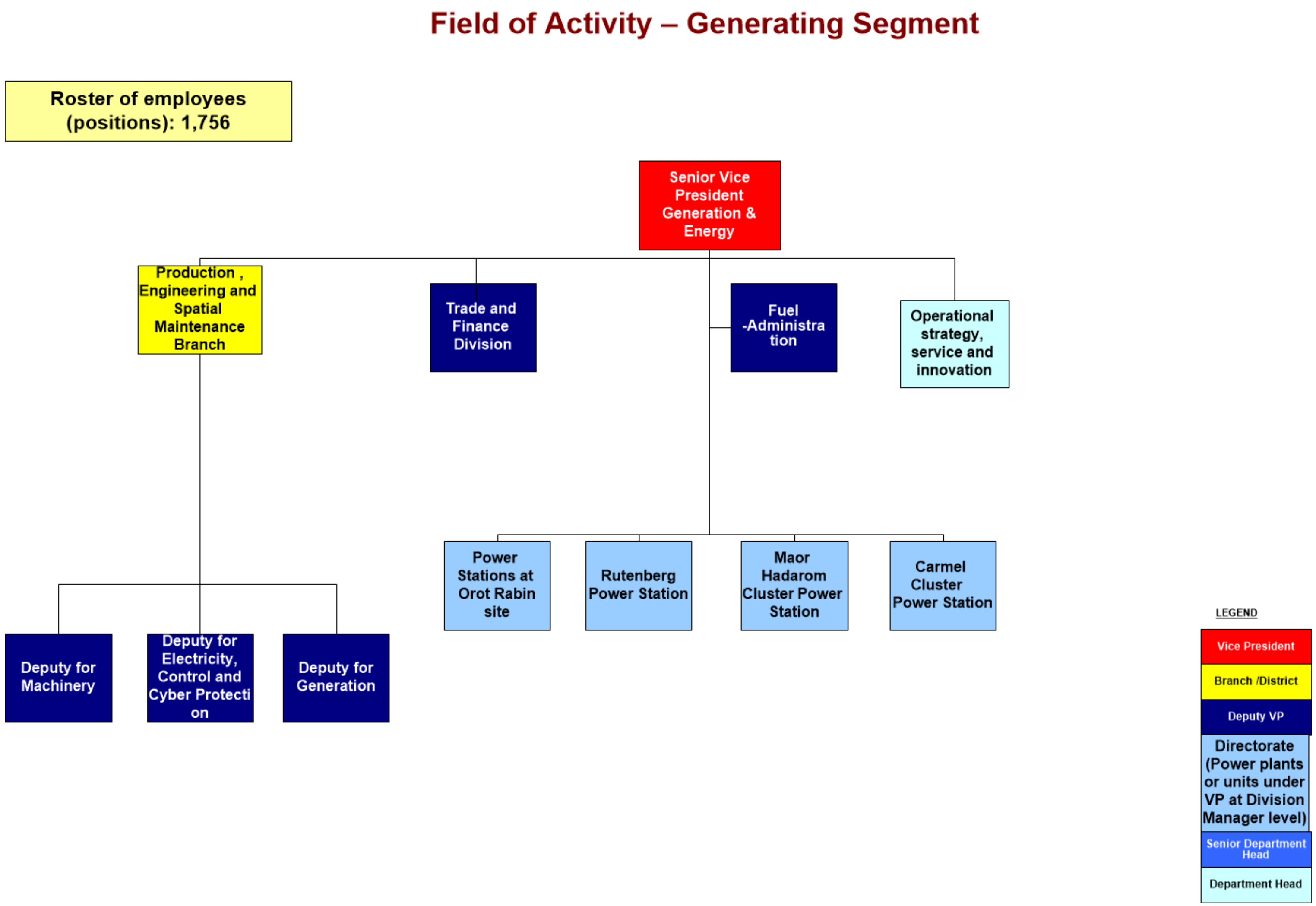
The data are compatible with the development plan.

Pursuant to the decision of the Board of Directors, the development budget for the generation segment for 2023 is approximately NIS 1.1 billion, and approximately NIS 449.8 billion of this amount are expected to be invested in the construction of CCGTs at the Orot Rabin site (units 70-80).

[18] Remeasurements is a term attributed to a net accounting datum related to actuarial measurements and estimates. For additional details see Note 2x to the Financial Statements.
The Company's budget data are adjusted for depreciation (excluding depreciation of transportation and mechanical equipment) as of 2018. The performance data were adjusted accordingly.

7.8 Human capital

The organizational structure of the generation segment:



As of December 31, 2022, the generating segment employs 1,355 permanent workers and 401 temporary workers, compared with 1,500 permanent workers and 400 temporary workers as of December 31, 2021. The number of employees relates to the organizational assignment in the division of production and energy, and the generation division, and does not include employees who are assigned to other branches who work for the segment. See Sections 14.4 and 14.5 for details on benefits and the nature of the employment and transaction agreements with workers of various kinds, the investment of the Company in training and instructing and further information.

7.9 Raw materials and suppliers

7.9.1 The raw materials that are used by the Company to generate electricity are fuels of various kinds: coal, natural gas, liquefied natural gas, fuel oil, and diesel oil.

7.9.2 **The table below shows the distribution rate of generation (in percent) by the types of fuels that have been used in the generating segment for electricity generation in 2022 and 2021:**

	For the year ended on December 31	
	2022	**2021**
Natural gas*	56.4%	53.1%
Coal	42.6%	44.3%
Liquefied natural gas (LNG)*	0.6%	2.4%
Diesel	0.3%	0.1%
Fuel oil	0.2%	0.1%
Total	**100%**	**100%**

* The calculation of the estimate of distribution of the electricity generation according to its sources (Tamar reserve, Leviathan reserve, and LNG) was executed according to the ratio of fuel quantities received from these three sources, under the assumptions that all the gas from LNG is consumed by the Company for the generation of electricity.

7.9.3 **The table below shows the total costs of fuels (including attributed salary costs) that were used for the generation of electricity in the generating segment in 2022 and 2021:**

	For the year ended on December 31,	
	2022	**2021**
	in NIS million	
Coal	6,310	2,791
Natural gas	2,756	2,632
Liquefied natural gas	326	369
Diesel fuel	187	100
Costs of holding emergency diesel fuel of the electricity sector	30	31
Fuel oil	69	42
Methanol	1	5
Change in provision for fuel oil impairment	(1)	(25)
Tamar agreement credit from 2020	(117)	(70)
Total	9,561	5,875

7.9.4 **<u>The following table shows the average costs of fuels used by the Company for 2022 and 2021:</u>**

<u>Power stations powered by:</u>	**For the year ended on December 31 in agorot per kWh**	
	2022	**2021**
Coal	37.7	16.5
Natural gas*	12.4	13
Liquefied natural gas	142.1	39.7
Diesel fuel	179.5	244.3
Fuel oil	113.6	196
Methanol	294.1	147.4

* Relative distribution on an energetic basis according to an identical calorific value for both types of gas.

A table showing the cost in 2022 and 2021, follows, for primary raw materials that the Company used:

<u>Power stations powered by:</u>	**For the year ended on December 31 Average annual cost per ton in nominal NIS**	
	2022	**2021**
Coal*	982	412
Natural gas **	788	808
Liquefied gas **	3,106	1,225
Diesel fuel	5,488	5,210
Fuel oil	2,588	2,605
Methanol	2,125	2,052

* A ton of coal is calculated according to a calorific value of 6,244 calories per ton.

** A ton of gas is calculated according to a conversion factor of 52.4 units of MMBTU per ton.

7.9.5 **<u>Fuel sources</u>**

As of the date of the report, the natural gas is purchased from the “Tamar” reserve partners and the “Leviathan” reserve partners. Diesel fuel is purchased from the refineries in Israel. The remainder of the types of fuels that are used by the Company in the generation field of activity, including coal and liquified natural gas, are purchased, directly or indirectly, from sources outside of Israel, and the Company and the State of Israel have almost no control over the availability of these fuels, and any disturbance in the supply of fuels, of which some are imported as stated, including in the case of a long war and closure of seaports and airports, whose occurrence may have an adverse effect over the ability of the Company to supply electricity in accordance with the criteria of availability and reliability and over the financial results of the Company. To reduce the adverse effect of such disturbances, the Company maintains limited reserves of all of the fuel types that are used for the generation of electricity. The Company estimates that its inventory of coal will suffice for 5 weeks of consumption at full load. In addition, the Company holds an inventory of diesel oil and fuel oil, while the period of consumption for which this inventory will be sufficient is dependent on the availability of other fuels and the demand curve. For further information on the holding of inventories, see Section 7.10. It is noted that in accordance with the Electricity Sector Law and the licenses of the Company, the Company is required to have a fuels inventory in accordance with the Managing Director of the Fuel Administration in the Ministry of Energy.

For details of diesel oil inventory for emergency see section 7.10.3.

For details regarding the purchase of natural gas from the "Tamar" reserve, the “Leviathan” reserve, and the “Karish” reserve, see Note 35a to the Financial Statements.

For details regarding the purchase of natural gas, see section 7.9.9.2.

See Section 17 for details of the material outputs of the Company.

The Company’s estimate according to which the coal inventory it has will suffice for 5 weeks at full load constitutes forward looking information, as the term is defined in the Securities Law. This information is based on assessments *and forecasts existing in the Company as of the date of the report and that may not materialize or may materialize partially or in a manner different than expected, and this, inter alia, for reasons not under the Company's control, such as the scope of actual electricity consumption in the relevant period and the coal inventory that the Company will have on that date.*

7.9.6 **Coal**

In each of the twelve-month periods ended on December 31, 2022 and 2021, the Company consumed approximately 6.3 and approximately 6.4 million tons of coal, respectively.

The Coal Company purchases all of the coal that it needs through the National Coal Supply Corporation Ltd. (hereafter: the "**Coal Corporation**"), which is a fully owned subsidiary of the Company.

The Company purchases coal from a number of sources overseas, the main ones being South Africa, Colombia, and Russia. The Coal Company enters into commitments with the coal suppliers based on contracts for a term of at least one year.

The coal purchases are made via the world's largest and most reliable coal suppliers. The policy of the Coal Corporation is to decentralize coal purchases between countries and within countries to the extent possible, in accordance with the restrictions as to the quality of the coal that can be burned at the power stations.

None of the Company's coal suppliers supplies more than 33% of its total annual coal purchases. The Company estimates that the Coal Company is not dependent on any of its coal suppliers.

Most of the purchases of coal in accordance with the documents for the purchase of coal are made by the Coal Corporation on a FOB[19] price basis, with all of the costs involved in the sea transportation and unloading of coal at the generation sites of the Company added to the purchase price, while the rest of the remaining purchases are made on a CIF price basis[20], while the purchase price includes the costs involved in the sea transport of the coal.

In accordance with the provisions of the emission permit that applies to the Orot Rabin power station, the Company is subject to various regulations of quality of the environment pertaining to maximal sulfur content in coal, in order to minimize the power station's airborne emission of sulfur dioxide. Additionally, the permit determined a restriction on the ash content in the coal serving all the units at the Orot Rabin sites; for details regarding the preservation of units 1-4 at the "Orot Rabin" generation site until December 31, 2025, see Note 1g of the Financial Statements. In the Rutenberg site emission permit, a restriction on the maximal sulfur content in coal was also determined. Additionally, a restriction on the ash content for all the generation units at the Rutenberg site was determined, identical to that of the Orot Rabin site. The Company purchases coal with different sulfur and ash content and burns different coal types, which ensure compliance with these instructions. See Sections 7.12, 8.9 and 9.9 for additional details on the impact of the environmental protection laws with respect to the use of coal and additional fuels.

For details regarding the directives of the Minister of Energy pertaining to a decrease of electricity generation at the coal generation units and for details regarding the emission permits under the Clean Air Law for the coal-fired power stations Orot Rabin and Rutenberg sites, see section 7.12.2.1 and Note 1g to the Financial Statements.

In February 2022, a war broke out between Ukraine and Russia. For details on the possible effects of the fighting on the Company, see Note 1i2 of the Financial Statements.

[19] Free On Board – a term from the sea freight or international commerce field that refers to the delivery of the goods to the buyer once the goods cross the rail of the vessel at the port of origin, the rail of the vessel constituting the critical point at which the risks, expenses and responsibility are moved to the buyer.

[20] Cost Insurance and Freight – a term from the freight or international commerce field that means that the seller makes sure to transfer the goods to the vessel that will transport the goods to the buyer, insurance and freight and transport costs until the goods reach the port of the buyer.

7.9.7 **Fuel oil**

The Company uses fuel oil mainly for operational purposes at the coal and converted power stations.

In each of the twelve-month periods that ended on December 31, 2022 and December 31, 2021, the Company consumed approximately 21 and approximately 9 thousand tons of fuel oil, respectively.

See Sections 7.12, 8.9 and 9.9 for details on the application of the environmental protection laws to the use of fuel oil and additional oils.

7.9.8 **Diesel oil**

In each of the periods of twelve months that ended on December 31, 2022 and 2021, the Company consumed approximately 31 and approximately 16 thousand tons of diesel oil, respectively.

The Company uses diesel oil, for generation needs during peak demands, as a backup fuel and for competence tests in the dual fuel generation units.

In November, 2014, the Ministry of Environmental Protection issued temporary guidelines for the natural gas-operated units which, subject to certain terms, enable the use of liquid fuel, in a situation under which it is required due to restrictions or malfunction in gas supply and transmission, and for maintaining the system's survivability. These guidelines became permanent and constitute part of the emission permit for all the gas-operated units.

7.9.9 **Natural gas**

7.9.9.1 **General**

As of the date of the report, the Company has three sources for the supply of natural gas – the “Tamar” reserve which started to supply gas at the beginning of April, 2013, the “Leviathan” reserve which started to supply gas at the end of December, 2019, and the “Karish” reserve that started supplying gas at the end of October 2022.

In 2022, the Company consumed approximately 3.3 million tons of natural gas (not including liquefied natural gas), compared with approximately 3.0 million tons of natural gas in 2021. In addition, in 2022, the Company consumed approximately 0.1 million tons of liquified natural gas compared with approximately 0.2 million tons of liquified natural gas in 2021.

For details with respect to the liquified natural gas and the end of using it see section 7.9.9.2(d).

7.9.9.2 **Contracts for the purchase of natural gas**

(A) ”Tamar” Field

In March 2012, the Company signed an agreement with the holders of rights of the "Tamar" license for the purchase of natural gas (in this section - the “**Agreement**” or the “**Tamar Agreement**” and the “**Tamar Partners**”, as applicable). The agreement stipulates, inter alia, two dates on which each party to the agreement may demand the adjustment of the purchase price determined in the agreement.
In October 2020, the Company signed an addendum to the agreement with part of the Tamar partners who together hold 53% of the rights on the Tamar reserve (Tamar Petroleum Ltd., Isramco Negev 2 – Limited Partnership, Dor Gas Exploration – Limited Partnership, and Everest Infrastructures – Limited Partnership) 53 (hereinafter respectively: the “**Addendum to the Agreement**” and the “**Group of 53**”), which led to disputes between the Company and the Group of 53, on the one hand, and Noble Energy Mediterranean Ltd. (“Noble”), as the operator of the Tamar reserve, and Leviathan's partners (as defined below), on the other hand. Following negotiations between the parties, on January 31, 2021, the Company reached a settlement with all the Tamar partners (the Group of 53, Nobel, and Delek Drilling - Limited Partnership (“Delek”")) and with the Leviathan partners, and amendments were signed to the Tamar Agreement and the Leviathan Agreement (as defined below) (the “**Amendments to the Tamar and Leviathan Agreements”).** The Amendments to the Tamar and Leviathan Agreements were subject to the fulfillment of contingent conditions, which were fully complied with on May 27, 2021. For additional details regarding the amendments to the Tamar and Leviathan agreements and their entry into force, see Note 35a4 to the Financial Statements.

On January 24, 2022, the amendment to the Tamar agreement was signed between the Company and all the Tamar partners, including Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited, who purchased the full rights of Delek Drilling Limited Partnership in the Tamar reserve[21], upon the arrival of the first date for the adjustment of the purchase price provided in the Tamar Agreement (the “**Amendment to the Tamar**

[21] On December 13, 2021, the Company was informed that on December 9, 2021, the full rights of Delek Drilling in the Tamar reserve (at a rate of 22%) were sold and transferred to Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited.

Agreement"). The Amendment to the Tamar Agreement includes, inter alia, agreements with regards to price adjustments of the minimum quantity of natural gas which the Company is obliged to purchase pursuant to the Tamar Agreement (the TOP mechanism), which, according to the Company's estimations, reflect a forecasted saving of NIS hundreds of millions across the Agreement term, and all compared to the terms provided in the Tamar Agreement. The Company estimates that the total financial scope of all agreements is expected to stand at an amount of approximately NIS 5.6 billion. The estimated financial scope refers both to the minimum quantity and the Total Quantity of the Operational Undertaking (as such term is defined in Note 35a of the Financial Statements). 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 was carried out retroactively as of July 1, 2021. For the main points of the amendment to the Tamar agreement see Note 35a to the Financial Statements.

The aforementioned information concerning the expected savings and the total financial scope of the agreements as aforesaid constitutes forward looking information, as such term is defined in the Securities Law – 1968. This information is based on data and forecasts held by the Company on the date of publication of the report, as well as on Company estimates which may not come to pass, or come to pass in a manner and scope different from how the Company estimates, and all due to circumstances outside the Company's control, including non-compliance with contingent terms, including failure to obtain all required regulatory approvals, the scope of demand in the market and changes in the scope, pace, and timing of the Company's actual natural gas consumption.

For additional details of the agreement, including with regard to the amount of gas purchase by the Company therein, the options for its extension, the manner of determining the price of gas in the Agreement, the "Take or Pay" mechanism (TOP mechanism) included in the Agreement, and the Company's estimate under which as of the date of this report, the Company is not expected to bring forward payment with respect to gas, and the Electricity Authority's decisions relating to the TOP mechanism, and details regarding the main points of the consents arrived at by the parties within the framework of the first amendment to the agreement, the addendum to the agreement and amendments to the Tamar and Leviathan agreements, see Note 35a1 and Note 35a2 to the Financial Statements.

That stated in this report and in the financial statements regarding the Company's estimates and forecasts pertaining to the agreement and its amendments, the Company's estimates regarded expected savings as aforesaid from the amendments to the Tamar and Leviathan agreements, the TOP mechanism, the purchase of gas and its consumption by the Company, is forward looking information as per its meaning in the Securities Law. These estimates are based on data and forecasts held by the Company as of the date of publication of the report, and they may not materialize or may materialize in another manner and scope than the Company's expectations, inter alia as a result of circumstances which are not fully controlled by the Company, including the scope of the sector's electricity demands, the prices of coal at the relevant period, the price of gas in the Company's and the private electricity producers' gas acquisition agreements, and changes which may occur in them, the rate of actual throughput from the Tamar reserve and generation limitations from the Tamar field, the scope and rate of gas consumption by the Company in particular and rate of gas consumption in the electricity sector in general, changes in the demand for electricity in the sector, serviceability and mix of the various generation units in the Company's generation array, the impact of the emission reduction plan including with respect to the date of executing replacement of some of the Company's power stations, business license terms and personal orders applying to the generation sites, the inflation in the interim period, and the regulation which determines the order and extent of loading the generating units of the sector, the possibility of the Company selling surplus gas which will require approvals from regulatory factors and as of the date of the report, there is no certainty that they will be granted, and subject to the law, and with regard to the expected savings from the amendments to the Tamar and Leviathan agreements.

(B) <u>Agreement to purchase short-term gas from the "Leviathan" field</u>

For details regarding the Leviathan Agreement and the Company's engagement with the Leviathan Partners in a Spot agreement for the purchase of natural gas from the Leviathan Reserve, and the main points thereof, see Note 35a2 of the Financial Statements.

(C) <u>Entering a SPOT agreement for the purchase of natural gas from the "Karish" reserve</u>

For details of the engagement in a SPOT agreement for the purchase of natural gas from the "Karish" reserve see Note 35a to the Financial Statements.

(D) Importation of liquefied natural gas (LNG)

The Company's contractual engagement with the owners of the gasification ship ended on December 8, 2022. The LNG remaining on board the ship at that date was sold. For additional details regarding the importation of liquefied natural gas (LNG) see Note 35a3 to the Financial Statements.

(E) Natural gas transmission agreement

For details of an agreement entered into by the Company with IGL for the transmission of natural gas and the cost paid by the Company to IGL with respect to the aforesaid agreement, see Note 34b2d to the Financial Statements.

7.10 Working capital; inventory

As stated, the Company operates as a single combined, coordinated system, and therefore the working capital is examined in the terms of the Company as a whole (see Section 18 for details). However, details will be presented below with respect to policy and duties of the Company with respect to the holding of inventories of fuel that is assigned to the generating segment:

7.10.1 Coal – It is the policy of the Company to keep at each of the power stations inventory that is appropriate for seven weeks of average consumption, without falling below an inventory that is sufficient for five weeks. In the event of a break-down in the coal unloading system, coal will be transported from site to site in accordance with an emergency procedure that the Company has in place. See Section 7.9.6 for additional details.

7.10.2 Fuel oil – The policy of the Company is to maintain a total inventory of at least 90 thousand tons at the following Company sites: "Eshkol" site in Ashdod, where fuel oil can be used in the dual-fuel units, and at the "Orot Rabin" in Hadera and "Rotenberg" in Ashkelon for operating needs and storage. This inventory target will be gradually reduced to zero with the ending of fuel oil as a backup following the sale of the Eshkol site and the completion of the conversion of the coal units to gas. For further details, see Section 7.9.7 for details.

7.10.3 Diesel oil – The policy of the Company is to hold an inventory of at least 130 thousand tons, and this inventory includes the requirement by the Ministry of Energy that the Company maintain an emergency inventory of at least 117 thousand tons. This inventory target will be reduced after the sale of additional sites in accordance with the reform outline. For further information see section 7.9.8.

Diesel oil for functional continuity of the electricity sector – in accordance with the instruction of the Ministry of Energy, the Company holds diesel oil inventory for the backup of all the power stations, which will provide a solution in time of emergency. The calculation mechanism for this activity is anchored in a separate agreement with the Electricity Authority and not within working capital fuels. For additional details regarding this issue see Note 8b to the Financial Statements.

7.10.4 The inventory of liquid fuel has been set quantitatively and the duration of this inventory cannot be determined, as it depends on the actual generation state that varies by use of other fuels, compared with the use of coal that is determined by consumption time, as the coal consumption is predictable and fixed, give or take, over time.

7.10.5 The quantity of inventory that is held by the Company is subject to provisional orders of the Company, in accordance with the needs of the Company during emergencies, to the effect that while there is a shortage in the supply of natural gas, the Company is acting to increase the inventory of diesel oil that is available to it.

7.10.6 The Company policy for maintaining a fuels inventory is mainly for backup and availability of the electricity system in case of failure in the supply of gas and in time of emergency.

7.11 Restrictions on and supervision of the operations of the Company in the generating segment

The Company has licenses for generating electricity, pursuant to the Electricity Sector Law. See Section 22.1.2 for details on the validity of the generation licenses of the Company, the manner of their extension, the restrictions that apply to them, and sanctions that will apply due to non-compliance with the conditions of the licenses. For the purpose of the generation of electricity, the Company operates units for the generation of electricity and ancillary facilities that are required for the generation of electricity, whose construction and operation are subject to complex, extensive regulations, which include the receipt of licenses, permits and approvals (including pursuant to the Planning and Construction Law, 1965 (the "**Planning and Building Law**"), the Business Licensing Law, 1968 ("**Business Licensing Law**") and pursuant to environmental protection laws) with which the Company must comply. For details of the regulation applying to the Company, including the generation segment, see section 22.

Additionally, the Company is subject to the decisions of the Electricity Authority regarding the electricity rate.

For details of the manner of determining the rate, including the manner of calculating the costs, manner of calculating the recognized assets, depreciation, return on equity and return on the foreign capital, the rate update mechanism, and for details regarding the emission reduction project at the coal-fired power stations, and for additional details, see Note 3 to the Financial Statements.

7.12 Environmental risks and the ways in which they are managed – the generating segment

7.12.1 Environmental hazards and environmental regulation – general

The activity of the Company in the generating segment is exposed to various environmental hazards, which include the emission of pollutants into the air that include fuel combustion products, the storage and use of hazardous materials and fuels, the pollution of soil and water sources, use of seawater for cooling, industrial effluents, asbestos, coal ash, noise, non-ionizing radiation and more.

Therefore, the generation activity is subject to extensive regulation in the environmental protection field. Over the course of recent years, the applicable environmental requirements (or those pending legislation) for the operations of the Company and the supervision and enforcement of those requirements have become stricter. The Company estimates that this trend is likely to continue and even intensify in the coming years, in accordance with the awareness and international requirements and, *inter alia*, in accordance with the common practice in western countries.

Among the laws from the field of quality of the environment that apply to the generating operations of the Company include, *inter alia*, the Hazard Prevention Law 1961 (hereinafter: the "**Hazard Prevention Law**"); the Planning and Construction Law; the Business Licensing Law; the Water Law - 1959; the Prevention of Water Pollution from Land Sources Law - 1988 (hereafter: the "**Prevention of Water Pollution from Land Sources Law**"); the Hazardous Materials Law - 1993 (hereafter: the "**Hazardous Materials Law**"); the Coastal Environment Protection Law - 2004 (hereafter: the "**Coastal Environment Protection Law**"); the Clean Air Law; the Prevention of Hazards from Asbestos and Harmful Dust Law - 2011, (hereafter: the "**Prevention of Hazards from Asbestos and Harmful Dust Law**"); the Freedom of Information Law - 1998; the Non-Ionizing Radiation Law - 2006 (hereafter: the "**Non-Ionizing Radiation Law**"; the Energy Sources Law – 1989 ("**Energy Sources Law**"); Environmental Protection Law (Emissions and transmissions to the Environment - Reporting and Registering Duties) – 2012 ("**Register of Emissions to the Environment Law**"); the Pharmacists Regulations (Radioactive Elements and their Products) – 1980 ("**Pharmacists Regulations**";) and the relevant regulations and various bylaws (jointly hereafter: the "**Environmental Laws**").

The Company is studying the ramifications of the Environmental Laws, is acting to prevent or minimize the environmental risks that may occur during the course of its operations, is preparing for the financial, legal and operational consequences of the laws and is allocating money in its budgets for the purpose of fulfilling the provisions of the Environmental Laws applying to it and those that are expected to apply to it.

However, there is no confidence that the costs and commitments within the existing and anticipated Environmental Laws will not exceed the amounts that have been allocated by the Company for these purposes, particularly in view of the trend of stricter environmental regulation in recent years and the volume of investments that is required in order to comply with it. The Company estimates, as of the time of this report, and based on the provisions of the Electricity Sector Law, that the material costs that will be imposed on it as a result of new regulatory requirements in the field of environmental protection will be covered within the framework of the electricity charge rate. However, the resolution with respect to the recognition of costs is under the authority of the Electricity Authority.

The aforesaid with respect to the assessments of the Company regarding the stricter environmental requirements that apply to the Company's activity, as well as the estimations of the Company regarding the cover of the material costs that will be imposed on the Company as a result of these regulatory requirements within the framework of the *electricity rate, is forward looking information, as per its definition in the Securities Law, because their realization depends on various factors, and they are not under the control of the Company and whose realization is not certain.*

The Company assesses, as of the date of this report, that it is materially in compliance with the material provisions of the Environmental Laws. The Company possesses the environmental licenses required for its activity and where missing it is acting to obtain them. Non-compliance with the provisions of the Environmental Laws and the conditions of the permits and licenses provided to the Company by virtue of them may expose the Company and its managers to criminal and administrative exposure, including imposing fines and sanctions and issuing closing injunctions for installations, and exposure to expenses for cleaning and rehabilitation of environmental damage.

7.12.2 **Air**

7.12.2.1 **The Clean Air Law**

As required under the provisions of the Clean Air Law, the Company holds emission permits for emission sources it operates that require permits. For additional details regarding the emission permits for the sites of the coal-fired power stations, including the process of operating the emission reduction devices in unit 3 at the Rutenberg site ("**Emission Reduction Project**"), for details regarding preservation of units 1-4 at the Orot Rabin site; for details regarding operation of the coal fired generation units with the minimum required to operate them, and always giving priority to electricity generation with natural gas; for details regarding conversion of the coal-fired units to gas and additional details, see Note 1g to the Financial Statements.

The information included in this report and in the Company's financial statements regarding the estimate of the Company pertaining to the costs involved in fulfillment of the provisions of the emission permits, the expected decrease in the scope of actual electricity generation by the Company, is forward looking information, as this term is defined in the Securities Law. This information is based on forecasts and estimates existing in the Company as of the date of the report, which may not materialize or may materialize partially or in a manner other than that anticipated, and this, inter alia, in view of the fact that their materialization depends on various factors that in part are not under the control of the Company.

The law authorizes the Minister of Environmental Protection to set a levy with respect to emission of pollutants into the air, which will be levied on the emission permit holders. As of the date of the report, the said levy has yet to be set. For details of the Government's resolution regarding the transfer to a low-carbon economy, see Note 1c to the Financial Statements.

On November 1, 2021, the Company received an alert from the Ministry of Environmental Protection claiming the causation of strong or unreasonable air pollution with nitrogen oxide that exceeds the emission value of gasses emitted to the air from gas turbine chimney unit 6 at the Hagit power station. The Company submitted clarifications to the Ministry of Environmental Protection according to which the deviations from the permitted standard were carried out during calibration actions and it therefore does not constitute a deviation from the standard. As of the date of this report, a response from the Ministry of Environmental Protection regarding this issue has not yet been received.

For details regarding energy efficiency and Government resolutions in this matter, see section 21.5 and Note 1c3 to the Financial Statements. For details of the directive of the Minister of Energy pertaining to reducing the use of coal, see Note 1g to the Financial Statements.

For details of the 2030 plan of objectives for the energy sector, see Note 1c to the Financial Statements.

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 70,000 hours from January 1, 2016 to December 31, 2023.

In view of the fact that the annual operating hours quota for 2022 has been exhausted, and in accordance with the position of 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 from the general quota of the emission permit (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 only 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. On September 1, 2022, the operation of the units was discontinued after the operating hours had been exhausted. It is noted that as part of the correspondence on the matter, the Ministry of Environmental Protection clarified 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, the current permit expiration date.

In addition, the Company submitted an application to renew the emission permit for the Eshkol site. On October 31, 2022, the Company was informed that the Ministry of Environmental Protection sees fit to reject the application for an emission permit for the converted steam units (units C and D). On November 9, 2022, the Company forwarded a detailed response to the Ministry's claims, and requested to re-examine the application to renew the emission permit for these units, in accordance with the Clean Air Law and all the documents and clarifications submitted pursuant to the requirements of the Law.

Following correspondence and discussions held pertaining to the continued operation of the Eshkol units C-D, on February 5, 2023, the Company submitted completion documents to the application for an emission permit, which include reference and application to continue operation of the Eshkol units C-D up to 500 hours per year for each unit, in accordance with the requirements of the System Manager. The submitted data corresponds to the position of the Noga Company in relation to the necessity of the units, which is also coordinated with the Ministry of Energy and the Electricity Authority and the systemic need to continue operating the units in a reduced manner after September 2023.

As part of correspondence with the Ministry of Environmental Protection regarding the use of backup fuel in the Haifa CCGT units pursuant to the directives received from the Noga Company, in its letter of October 3, 2022, the Ministry noted that the Company, as the permit holder, must verify that the circumstances of the Ministry of Environmental Protection's procedure for operation with backup fuel (to which the emission permit refers) are met and support the reference with appropriate documentation. In light of this, the Company and the Noga Company agreed that operation of the two units will be carried out subject to Noga Company's written instruction to the Electric Company which will be based on the procedure of the Ministry of Environmental Protection on operating with back-up fuel.

7.12.3 **<u>Land and water</u>**

The facilities of the Company store and contain hazardous materials, as well as infrastructures and facilities that contain and store fuels and hazardous materials. The Company is working on the prevention and treatment of soil and water pollution from these materials, infrastructures and facilities.

The Company may be required, at various sites, within the framework of various requirements, to seal spill containment pallets of fuel tanks in order to prevent leakages that may cause pollution of earth and water sources. These requirements may impose costs on the Company, which may even be material cumulative costs, in accordance with the conditions of the site and the infrastructures installed in it.

This estimate is forward looking information, as defined in the Securities Law, based on future data whose realization is not certain and not under the control of the Company, but depends on the manner of interpretation of these requirements by the Ministry of Environmental Protection, and their implementation, if and as far as will be required, as stated above.

During handling of a closure of a site, as well as under the instructions of the Ministry of Environmental Protection, the Company is sometimes required to dismantle old fuel infrastructures. During the dismantlement of fuel infrastructures, a need may arise to perform polluted soil and water sources rehabilitation works. These works may involve material costs for the Company.

As part of the Company's activities to fulfill the conditions required in its business licenses, the Company is implementing a multi-annual plan for executing tests of the intactness of the fuel installations it.

On October 3, 2021, the Company received a query from the commissioner under the Water Regulations (Prevention of Water Contamination) (Fuel Lines) 5766-2006 of the Ministry of Environmental Protection, according to which the Company must submit a mapping of the national fuel pipelines in its possession, attached with geological information, as well as additional detailed information. The Company responded that it does not possess fuel lines outside the Company sites except for the land fuel lines at the Reading area, and it is in the process of mapping them.

Regarding land fuel pipelines – see section 7.12.8 Planning and construction.

Regarding the leakage of diesel oil at the Hagit site of October 2017, and the plea bargain in this matter of May 2018, the Company acted and is acting in accordance with the plan it submitted to the Ministry of Environmental Protection to manage the risk at the site which includes, inter alia, measures to monitor the possible exposure routes which may cause pollution of the environments of the site and taking preventive action.

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 initial 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 and that the Drinking Water Regulations have no standards or values regarding this issue. The Company is presently working to carry out a groundwater investigation and is in contact with the Water Authority regarding this issue.

7.12.4 **Instructions of the Ministry for Environmental Protection for soil investigations**

From time to time, the Ministry for Environmental Protection updates the principles of the policy in the field of prevention of soil pollution and treatment of pollutants in the soil, and publishes professional instructions which deal with, inter alia, the subject of preventing the cause of soil pollution, instructions to report on soil pollution being caused, immediate treatment of leakage of pollutant material to the soil and instructions for reviewing and rehabilitating polluted soil. Insofar as the professional instructions will be integrated in binding permits or documents that will be received by the Company, this may have material implications for the Company.

In January 2020, the Ministry of Environmental Protection approved updated schedules for the Company, for executing land surveys at the Company's sites (not including the Alon Tavor and Ramat Hovav sites, which were sold to third parties as stated above). The land surveys are undertaken at all the sites in accordance with plans submitted for approval by the Ministry of Environmental Protection and schedules agreed upon with the Ministry of Environmental Protection.

The Company's estimates regarding the possible costs of the professional guidelines of the Ministry of Environmental Protection for the Company is forward looking information, as per its definition in the Securities Law which may not materialize, or materialize in a different manner than expected by the Company, and this is, inter alia, in light of the manner of integrating the principles and guidelines in binding documents.

7.12.5 **Effluents**

During the course of the generation of electricity, industrial effluents are formed in the generating segment facilities. The industrial effluents at coastal power stations are exploited, after treatment, for reuse for the purposes of the station, and those which are not exploited for reuse are removed to sanitary wastewater treatment facilities, or dumped into the sea in accordance with the offshore discharge permits that are given to individual sites pursuant to the Prevention of Sea Pollution from Land Sources Law.

As part of the offshore discharge permits for individual stations, the Company is required from time to time to improve the existing means in the effluents treatment facilities in the various sites. This may involve costs that may be significant.

This estimate is forward looking information as is defined in the Securities Law, which may not materialize or may materialize in a different manner that expected by the Company, and it is, inter alia, according to the decision of the Ministry for Environmental Protection, as stated in section 7.12.13.

7.12.6 **Hazardous materials**

The Company holds, uses and stores hazardous materials at the power station sites. The Company holds poison permits as required by law for the purpose of dealing with hazardous materials, and acts to obtain them when they are missing. The Company takes the actions for the purpose of compliance with the conditions of the permits.

Additional conditions to the toxins permits regarding tank farms were received in several Company sites. The conditions stipulate, among other things, obligations and prohibitions regarding the manner of operation and maintenance of fuel tanks in tank farms, the performance of watertightness tests, requirements with regards to reporting and handling of environmental events, making the American prototype standard (API 2610) mandatory, obligations with regards to the preparation of procedures, and obligations with regards to the characterization of existing spill containment pallets in the tank farm

In December 2020, a draft of additional general conditions regarding the toxins permit was distributed for comments. The Company submitted its comments to the Ministry of Environmental Protection.

On November 21, 2022, the Company received a draft of additional conditions for toxins permits for marine terminals, the Company delivered its comments to the Ministry of Environmental Protection. As on the report date, a response by the Ministry of Environmental Protection to the Company's comments has not been received.

7.12.7 **Asbestos**

According to the provisions of the Asbestos Hazard Prevention Law, the Company was required, inter alia, to remove and bury all brittle asbestos that has been installed for the purpose of thermal insulation in the Haifa, Eshkol and Reading sites until 2021.

On November 5, 2021, the Energy Chapter of the Arrangements Law was approved, allowing the continuation of the use of friable asbestos installed for the purpose of thermal insulation at the Reading power station for the minimum required period and no later than June 3, 2032, and all as subject to the receipt of all required approvals and the schedules specified in the memorandum.

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 Ministry of Environmental Protection's response was received on October 3, 2022, under which the Company's position as aforesaid is not accepted and their position is that the provisions of the Asbestos Law regarding dismantling and removal of asbestos used for thermal insulation in industrial facilities also apply to the matter of the aforesaid gaskets, and the Company is therefore required to submit a plan for the total removal of these components, which will meet various conditions specified in the letter. The Company has objections with regard to the determination that it is friable asbestos used for thermal insulation, with regard to the demand for removal, and with regard to the timetables detailed in the letter. On October 25, 2022, the company delivered its response to the Ministry, in which it requested that the complete removal requirement will be canceled and a treatment plan proposed by the asbestos inspectors will be adopted in its place.

Following discussions with the Ministry of Environmental Protection, the Company once again delivered its position under which it is not thermal insulation, along with a supporting opinion, and submitted a plan to remove the components. In accordance with the plan, some of the gaskets will be removed, and there will be risk-management for the others. The Company is in contact with the Ministry regarding these issues.

As part of surveys conducted in Company jet generation units, a number of gaskets, cables and additional items containing asbestos have been discovered. The Company is in contact with the Ministry of Environmental Protection regarding this issue.

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 has shut down the units, and has begun the project of removing the asbestos in accordance with the plan that was approved by the Ministry of Environmental Protection.

7.12.8 **Planning and construction**

Within the framework of the generation activity, in the environmental aspects of its activity, the Company is subject, inter alia, to the provisions of planning and construction laws. The power stations of the Company are subject to various environmental provisions that are described in outline plans and in construction permits. With the transfer of the system management activity to Noga, the responsibility for carrying out part of the statutory planning and environmental effect surveys was transferred to Noga.

On September 27, 2021, the Government approved the decision of the Ministerial Committee for Interior Affairs, Service, Planning and Local Government of September 19, 2021 to approve National Infrastructure Plan number 81 – fuel pipelines from the north to the Port of Ashdod. The plan allows the replacement of the two existing pipelines as well as changing the route of the fuel pipelines under the Company's responsibility.

For further details regarding the marine pipelines see section 7.12.9.

Reading Power Station

National Outline Plan – NOP 10

In 2014, an order was received from the National Council for Planning and Construction, to prepare a new National Outline Plan for two combined cycle generation units (hereinafter: the "New NOP"). In accordance with section 5.a of the Government's resolution on the reform, it was determined that the Company will promote statutory planning at the Reading site (up to a planning level that permits can be issued by virtue thereof, inclusive) with a view to completing the planning procedures for the construction of two generation units with combined cycle technology using natural gas and a substation. It was further determined that the Company will submit the documents for deposit confirmation, including environmental impact review, at the relevant planning institution, within 18 months from the date of the Government's resolution as aforesaid. In August 2019, the Company received updated guidelines from the Ministry of Environmental Protection for preparing an environmental impact review in relation to the new NOP. The Company was in contact with the various planning bodies and authorities regarding these guidelines which, as aforesaid, upon sale of part of the system management activity to Noga in December 2020, the handling of this issue was transferred to Noga.

In 2016, the Government approved a National (partial) Outline Plan, NOP 10/a/3, applying to the generation units existing at the site. This plan determines, inter alia, the termination of operation of the existing units by January 1, 2021, the phases of termination of operation of certain areas, transitional orders, etc.

Under the aforesaid NOP, the Company was required, inter alia, to make investments for clearing, construction, preservation and environmental costs in the site of hundreds of millions of NIS. Additionally, the NOP includes a land designation change and expropriation of land from the Company in amounts which according to an initial estimate are material amounts.

In December 2021, the National Planning and Building Council approved the continued operation of the generation units at Reading D until January 2026, as detailed in the decision.

For further details on the implementation of the structural change, see Note 1e to the Financial Statements.

On January 3, 2018, the Electric Company, the State, the Israel Land Authority, and the Municipality of Tel Aviv entered into agreements relating to the assets arrangement, (the "**Assets Arrangement**"). Preservation acts, financing of construction costs and handing over possession of public areas in the city-limits of the city of Tel Aviv to the Tel Aviv municipality in the city-limits of Tel Aviv were set in these agreements. For details of the main components of the Assets Arrangement, see Note 1f to the Financial Statements.

Some of the components of the assets arrangement include consideration and coverage of costs related to financial matters involved in the tasks of preservation, evacuation-construction, and evacuation of sites under the NOP plan. Issues not covered by the assets arrangement were included in the application to the Electricity Authority for rate recognition and have not yet been responded to.

Marine pipelines – Reading

In February 2020, the Company received the decision of the Ministry of Environmental Protection under which the full length of the three marine pipelines at Reading have to be disassembled and removed from the sea. According to the aforesaid, the Company is in contact with the Ministry of Environmental protection with regard to updating the schedules and is acting to remove the marine pipelines within the approved schedule.

Land fuel pipelines - Reading

There are inactive land fuel pipelines in the area of the Reading power station, exiting and entering the station. Asbestos fibers were found on some of these pipelines during several samplings carried out in October 2020 and in January and February 2021.

For additional details regarding the actions taken by the Company and the plan submitted to the Ministry of Environmental Protection in this matter, see Note 1g4 to the Financial Statements.

7.12.9 **Preservation of the coastal environment and prevention of marine pollution**

The Coastal Environment Preservation Law prohibits, inter alia, to harm the coastal environment as per its definition in the law (a strip of 300 meters from the shoreline), unless a duly issued permit to do so is issued. Within the framework of this law, the Coastal Environment Preservation Committee was established, and is required to approve various plans within the coastal environment. Within the framework of the law, the Company is sometimes charged with requirements with respect to and restrictions relating to Development Plans of coastal power stations.

A significant portion of the manufacturing facilities of the Company are along the coast of the Mediterranean Sea, and therefore the Company is preparing for the prevention of the pollution of the sea with fuel, increasing its preparedness for marine pollution incidents, and for protecting its facilities from sea pollution from an external source.

In January 2017, flushing oil which was at that time in the 24" pipeline leaked into the sea due to a crack which was formed in the marine mooring pipeline at Ashdod. The Company took immediate actions to handle the event and acted in accordance with the instructions of the Ministry of Environmental Protection in this matter. The Ministry of Environmental Protection has begun to a criminal investigation of the event. On June 26, 2022, the Company was notified of the closing of the investigation file in this matter.

The Ministry of Environmental Protection notified the Company that the operation of the current pipeline must not be continued beyond December 2022. The Ministry further stated that the Company must plan actions to properly abandon the pipeline and, simultaneously, to promote a new and proper underwater pipeline for the continued operation of Paz Ashdod Oil Refinery.

Following correspondence and meetings with the Ministry of Environmental Protection regarding the life of the 24" pipeline, the Company turned to an international company dealing with classification of this type of pipelines, for its opinion as to the possibility to continue to use the pipeline and as to the suitable conditions for the continued use as aforesaid. The Company delivered the findings of the examination to the Ministry of Environmental Protection, following which the position of the Ministry of Environmental Protection was received on December 20, 2022, under which the Ministry approves the continued use of the 24" pipeline until the end of 2027, subject to conditions including a requirement to meet conditions set by the international classification company as well as, inter alia, the Electric Company's complete responsibility for operating maintenance and preventing hazards from the pipeline and shutdown and dismantling the pipeline without any additional extensions at the end of 2027. On December 26, 2022, the Company submitted its position regarding the aforesaid conditions.

It is noted that simultaneously with the inspection and maintenance of the pipelines, works are performed for the advancement of planning and an outline plan for the construction of two new submarine pipelines with a different route, and all, among other things, due to the construction of the Southport. See section 7.12.8 for information regarding a National Infrastructure Plan for fuel pipelines to the north of the port of Ashdod.

On May 31, 2021, the Company received the environmental conditions for the temporary business license for the submarine fuel pipelines at the Eshkol site, which were in effect until December 31, 2022. A temporary business license for 3 months was received on January 3, 2023, for the continued operation of the pipelines at Eshkol, including conditions regarding the installment of a vapor extraction system in the 16" pipeline, as well as remote sensing means for the detection of a fuel spill. On January 17, 2022, the Company received additional conditions for the toxins permit of the Eshkol site regarding the marine fuel pipeline, which include conditions that overlap and sometimes contradict the conditions in the business license. The Company forwarded its comments to the Ministry of Environmental Protection in this matter.

On September 4, 2022, the Company received a summons for a hearing before prosecution and cancellation of the business license for the Eshkol marine pipeline for failure to submit a plan for vapor recovery measures as allegedly required by the license. The Company has objections regarding these claims that it presented to the Municipality of Ashdod, Ashdod-Hevel Yavneh Regional Association, and the Ministry of Environmental Protection. Following a discussion held on December 21, 2022, with the Regional Association and representatives of the Municipality of Ashdod, an outline was formulated for continued treatment and update of the matter and it was also agreed to postpone the date set for a hearing. The Company is in contact with the relevant entities regarding this matter. For details of possible implications in case of non-compliance with the provisions of the environmental Laws and the terms of the permits and licenses given to the Company by virtue thereof, see section 7.12.1 above.

On January 2021, the Company received a notice with regards to non-compliance with the terms of the permit for the discharge of groundwater into the sea at the Orot Rabin power station. The notice included claimed anomalies with regards to the criteria stipulated in the permit. According to the Company's position, this likely concerns sand penetrating into the pumping line. The Company has submitted its response to the Ministry of Environmental

Protection. The response of the Ministry of Environmental Protection has not yet been received as on the date of publication of the report.

On August 25, 2021, the Company received notice regarding a contamination of the beach near the output of a cooling water duct of Unit 3 at Rutenberg, as well as a violation of the provisions of the discharge to sea permit. This follows the stain seen on the beach close to the cooling water duct. As part of the notice, the Company was requested to submit information and take various actions. The Company submitted its response on September 5, 2021. As part of this, the Company argued, inter alia, that discharges were performed in accordance with the terms of the permit.

7.12.10 **Fly ash**

Within the framework of the generation of electricity at coal power stations "Orot Rabin" and "Rothenberg", fly ash is created. Since 1998, the fly ash formed has been sold by the Company for use in the construction and infrastructure industries and agriculture.

As of August 2018, the removal of the fly ash for uses is performed pursuant to the coal ash use permits of the Orot Rabin and Rutenberg power stations, which are renewed annually.

7.12.11 **Business Licensing**

Most of the generation units of the Company operate pursuant to business licenses that have been given permanently, or temporary licenses, and ancillary conditions of the licenses that are updated or renewed from time to time. These were intended to regulate the operation of the generation units and the generation sites in general, *inter alia*, with the goal of reducing or preventing environmental risks and hazards. The Company is acting to regulate the business licenses for the remaining generation units and for other licensable items in accordance with the provisions of the law and the requirements of the authorities, the regulation process for some of them being at advanced approval stages. The operation of the sites of the Company or part of them without a business license constitutes a violation of the Business Licensing Law and may lead to the termination of the operations of the business. See Section 22.7 for further information on the Business Licensing Law and the state of licensing of the various licensable items at the Company.

7.12.12 **Odor**

On June 19, 2019, a hearing was held for the Company at the Ministry of Environmental Protection, regarding claims by Kibbutz Zikim of odor hazards which were claimed to be caused from the coal storage site at the Rutenberg power station, which constitute alleged violations of the power station’s emission permit. In the hearing, the Company claimed, inter alia, that according to the tests carried out by the Company, the source of the odor is not in the operation of the station. In July 2019, the Company received the decision of the Ministry of Environmental Protection, recommending to open enforcement proceedings against the Company. As of the date of publication of the report, the Company is not aware of any opening of such enforcement proceedings.

7.12.13 **Integrative licensing**

The integrative licensing procedure is intended to comprehensively examine the environmental effects of the plant on the environment in all aspects (effluents, air, land, etc.), and accordingly determine detailed conditions for each plant, while considering its unique conditions and the integration between its various environmental effects.

Following the requirements by the Ministry of Environmental Protection, as part of the documents of applications for the first emission permits for the generation sites, documents were also submitted for an application for integrative licensing. To the best of the Company’s knowledge, at this stage, the integrative licensing procedure is not being advanced, and additional conditions on behalf of the Ministry with regard to the environmental aspects relevant to each industrial sector can be incorporated as additional conditions to the business license or as additional conditions to the toxins permit.

On February 6, 2022, a memorandum of law was published for public comment on streamlining environmental licensing procedures (legislative amendments), which seeks to amend licensing in existing environmental legislation. The proposed amendment includes a mechanism that allows for the issuance of a unified environmental permit that includes the requirements of emission permits, conditions in the business license, and toxins permits. The Company forwarded its comments to the memorandum of law.

On February 24, 2023, the Government reached a Resolution regarding Green Licensing, within which it was decided to amend the legislation amendments that were approved by a previous Government Resolution in this matter, including the Government’s Resolution of March 17, 2022, which dealt with approval of the draft Law for increasing efficiency of environmental licensing procedures (legislative amendments).

7.12.14 **Material events or matters with respect to environmental protection**

As of the date of the report, to the best of the Company's knowledge, it is not exposed to material events or matters with respect to environmental protection in the generating segment unless these have been stated above.

7.12.15 **Material legal or administrative proceedings with respect to environmental protection**

Various legal proceedings, criminal and civil alike, have been filed against the Company and directors thereof with respect to the generating segment, on grounds of violation of environmental laws.

The criminal proceedings relate primarily to water and land, seawater and air pollution, and those whose adjudication is over did not involve material fines for the Company or its directors. See Note 35b to the Financial Statements.

7.12.16 **Company policy in environmental risk management**

The Company considers itself to be responsible and committed in taking steps to protect the environment and reduce environmental hazards throughout the electricity chain.

The Company is operating in accordance with a strategic policy and environmental vision to protect the environment out of responsibility for society and the environment, with a long term, prospective sustaining view, for minimization of the environmental consequences that stem from its activity and for leadership in the field of hazard prevention and environmental effect abatement.

The principles of the environmental policy of the Company include the integration of environmental considerations throughout its fields of activity, including in decision making processes; design and operation of facilities; adopting the best proven and economical technologies; adoption of proven, advanced environmental criteria; intelligent use of raw materials and natural resources and encouraging economical use of electricity; the reduction and recycling of waste and byproducts; integration of landscape, regional and environmental considerations in the design of new facilities and maintenance of existing ones; the holding of an open, transparent dialog with the public, joint activity with environmentalist, state, public and international entities, including participation in environmental studies, in the development and initiation of advanced technologies and adoption of environmental values in the organizational culture.

7.12.17 **<u>Environmental costs and investments of the Company in environmental protection</u>**

A breakdown of the investments of the Company in environmental protection is as follows (the data are compatible with the development and operating plans):

NIS million, current prices (after remeasurement deduction)	For the year ended on December 31 in NIS millions		
	2022	**2021**	**2020**
Total investment in environmental protection facilities	Approx. 427	Approx. 426	Approx. 470
Current costs (without depreciation)	Approx. 169	Approx. 160	Approx. 156

(A) <u>Investments during 2022</u>

In 2022, the Company invested approximately NIS 435 million, in environmental protection aspects in the generating segment (in addition to approximately NIS 32 million in the transmission and distribution sectors and in special projects), inter alia, in the installation of air emission abatement measures at the Orot Rabin and Rutenberg Power Stations (such as, inter alia, "primary measures", scrubbers and construction of catalytic installations), and in conversion to gas at unit 1-2 of the Rutenberg power station.

In addition to the investments that have been described above, the Company spent in 2022 within the framework of costs of operation of the power stations and ancillary expenses to fuels, approximately NIS 165 million for compliance by the production system with environmental protection requirements (and in addition, a total of approximately NIS 4 million which are not attributed to the production system). The Company estimates that the environmental costs that the Company bore in 2021 were invested mostly in future prevention and reduction of environmental damage and the rest was invested in environmental repair and restoration.

(B) <u>Budget for 2023</u>

The Company is allocating in its budgets money for compliance with environmental conditions and laws. For 2023, the Company allocated within its current operation and development budgets a total of approximately NIS 809 million (after remeasurement and depreciation deduction) for compliance with environmental protection requirements including, among others, acts to protect fauna and flora, the air, land, underground water and surface water, asbestos removal, effluents treatment, noise reduction, protection from radiation and waste treatment. The main part of the increase in investments in 2023 compared to those of 2022 derives from energy storage facilities.

(C) <u>Gas conversion budget</u>

Within the framework of the five-year budget which was updated by the Board of Directors in December 2022, the Company allocated a sum of approximately NIS 1.4 billion for converting the coal-fired power stations to gas (6 generation units). In 2023, a sum of approximately NIS 212 million was allocated for the project of conversion to gas.

The estimates of the management of the Company with respect to the expected scope of investments in the field of environmental protection is forward looking information, as per its definition in the Securities Law, which is based on the Company's budget and work plans. The estimates of the Company with respect to the expected volume of investments in the environmental protection field may fail to materialize or materialize partially or differently than estimated, inter alia due to factors that are not under the control of the Company, including a change in the regulatory requirements applying to the Company, a change in the volume of generating operations of the Company and the fuels with which the Company generates and other events, including those that stem from the lateralization of risk factors of the Company.

7.13 <u>Legal proceedings</u>

With respect to other pending legal proceedings against the Company, including proceedings for the generation segment, see Note 35b to the Financial Statements. For details with respect to legal proceedings in which the Company is the plaintiff in the proceedings see section 24.

8. The Transmission Segment

8.1 General information on the transmission segment

8.1.1 The structure of the field and the changes that have occurred

As of the date of publication of the report, the electricity transmission and transformation activity is conducted under a license that the Company has received in 1997 “for transmission, distribution, supply, sale of electricity and trade thereof”, which is named under the Electricity Sector Law as the "Unified License" (the "**Unfied License**").

The Company has no separate license for activity in the transmission segment and the activity that is being conducted in accordance with the text of the Unifieed License above (which in accordance with that which has been stated above related to a number of activities). For additional details regarding the Unified License, see section 22.1.2.

Pursuant to the Structural Change Outline, the Company will continue to operate as an essential service provider and will carry out the transmission activities, inter alia, pursuant to the transmission license it will be given and pursuant to the development for the transmission and transformation system as will be approved from time to time by the Minister of Energy, with the agreement of the Minister of Finance and after consultation with the Electricity Authority. Additionally, and further to the principles of the Minister’s policy, on July 15, 2018, the Company received the Minister’s letter in which it was noted that the Minister accepts the position of the professional echelon of the Electricity Authority, under which the validity of the distribution and transmission licenses that will be given to the Company should be set for 20 years, in light of the nature of the Company’s operation and the long-term investments required of it. It should be noted that in accordance with the outline of structural change, only one license will be valid at any time for the transmission activity. For further details regarding the Structural Change Outline relating to the distribution license that was given to the Company and entered into effect on January 16, 2023 in accordance with the Structural Change Outline, see section 1.3 and Note 1e to the Financial Statements.

Within the framework of this field of activity, the electricity that is generated by the Company and by the private electricity producers, is transferred by the Company via its transmission grid. The transmission grid is deployed throughout the State of Israel and the territories that have been subject to its rule since June 1967 (East Jerusalem and the West Bank) (in this section, for the sake of convenience only, “**the country**”). The transmission grid consists of an extra high voltage grid (400 kV) and a high voltage grid (161 kV), as well as an old 110 kV grid at a reduced volume for providing private consumers. Through the transmission grids, electrical energy is transmitted from the generation units to the switching stations (stations of 400 kV voltage) and to the major substations (stations of 161 kV voltage) and from the switching stations and the major substations to substations that are built nationwide. At the switching stations and substations of the Company, transformation activity is performed, changing the electricity voltage levels from extra high or high voltage (through connection transformers at switching stations) and from high to medium (through the output transformers at the substations). The electricity transmission at extra high voltage facilitates the transfer of energy between the power stations generating the energy and the switching stations and substations of the transmission segment, at relatively low losses. After transformation to medium voltage (distribution grid), the energy is transferred to high voltage users and through grid transformers to low voltage users. See Section 9 for details on the distribution segment. Some of the customers of the Company are extra high voltage customers that include mainly big consumers such as industrial plants, the Mekorot Company, desalination facilities, and more (see section 11).

Operation, maintenance and handling malfunctions are also included in the execution of activity of the segment of electric energy transmission.

The Company has three types of substations: (1) permanent; (2) temporary, and (3) mobile. The mobile substations are stationed at various sites adjacent to the load center or at existing substation sites, usually until the construction of a permanent substation in the area, for a period (at planning level) of five to ten years. In addition, there are private substations that are divided into 2 types:

- New substations owned by a consumer or producer of high voltage or extra high voltage. The operational and maintenance responsibility of the high voltage and extra high voltage in these stations lies with the Electric Company.
- Old substations that are owned by a consumer of high voltage (enable to intake a private producer too after examination and accommodating the private substation to the new conditions).

In accordance with the outline of structural change and sale of the system management activity to Noga in November 2021 as part of the implementation of the structural change, the Company carries out transmission control for operation and control of the transmission and transformation system. The control is performed through the

Company's transmission control system (TMS). A transmission control unit, established in late 2019, includes a transmission control array which manages, operates and controls the transmission and transformation system.

Furthermore, pursuant to the Government's resolution regarding the reform, the Company intends to construct and operate energy storage installations within the physical infrastructure of the transmission grid. For additional details regarding the structural change, including with regard to the establishment of a transmission control array, see section 1.3 and Note 1e to the Financial Statements.

Towards the end of the process of preparing the development plan for the transmission and transformation grid for 2023-2030, on April 28, 2022, 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. Accordingly, it was agreed with the Electricity Authority that the Company will provide examples of costs that will be examined by the Authority.

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 normative cost for the Company's improvements and changes projects. The Company submitted its response on August 24, 2022.

8.1.2 **Restrictions, legislation, regulation and special constraints applying to the field of activity**

The activity of the Company in the transmission segment, like its other fields of activity, is subject to legislative provisions, such as those which have been stipulated in the provisions of the Electricity Sector Law, Electricity Law, 1954 and its regulations, rules and regulations issued by the Ministry of Energy and in the Book of Criteria Published by the Electricity Authority and to constraints that are related to licensing issues and requirements for permits from various authorities and government ministries such as the Electricity Authority, the Ministry of Energy and the Ministry of Environmental Protection and to the Development Plan in the Electricity Sector, which is approved by the Ministers of Energy and Finance, in consultation with the Electricity Authority, by virtue of their authority under section 19(A) of the Electricity Sector Law.

Pursuant to the outline of the structural change, the Company will continue to operate as an essential services provider and will carry out the transmission activity in accordance with the transmission license that will be given to it and in accordance with the development plan for the transmission system that will be prepared by a system management license holder and as will be approved by the Minister of Energy with the consent of the Minister of Finance and after consulting with the Electricity Authority, if the system management license holder is required to prepare such a development plan pursuant to section 19(A) of the Electricity Sector Law. Prior to submission of a development plan as aforesaid, the system management license holder has an obligation to consult with the Company as a transmission license holder regarding the schedules to perform the operations included in the plan and alternatives to those actions. In the event of disagreements between the said licensees regarding the feasibility of carrying out the operations, including the feasibility of carrying them out under such schedules, the system management license holder will submit to the Minister of Energy, in addition to the said development plan it has prepared, also the position of the transmission license holder regarding the dispute. In addition, the Minister of Energy, in his appeal to the Electricity Authority and the Finance Minister, will note the dispute, and forward them the positions as submitted to him. In addition, in accordance with section 19(A3) of the Electricity Sector Law, the Company, in its capacity as a distribution license holder, will prepare the development plan used for distribution and submit to the Minister of Energy for his approval with the consent of the Minister of Finance, and after consultation with the Electricity Authority; the plan will be prepared in accordance with the instructions of the system management license holder regarding the connection points and the reciprocal influences between the transmission system and the distribution system. For additional details regarding the distribution segment, see section 9.1.2.

For additional details on the structural change in connection with the transmission segment, including details regarding the amendment to the Electricity Sector Law which includes, inter alia, amendments to the validity of the Company's licenses including the unified license, and details regarding the transmission license that will be granted to the Company within the implementation of the structural change and the validity of the license as aforesaid, see section 1.3 and Note 1e to the Financial Statements.

See Section 22 for details on restrictions, legislation, regulation and special constraints applying to all of the activity of the Company.

8.1.3 **Changes in the scope of activity in and profitability of the field**

The main trends and changes that may affect the volume of transmission and transformation activity are the following:

(A) Pursuant to the outline of the structural change, the Company will continue to operate as an essential services provider and will carry out the transmission activities in accordance with the transmission license that will be given to it and in accordance with the development plan for the transmission and transformation system as will be approved. For additional details regarding the structural change outline with respect to the transmission segment, and details regarding the amendment to the Electricity Sector Law which includes, inter alia, amendments to the validity of the Company's licenses including the general license, and details regarding the transmission license that will be granted to the Company pursuant to the outline of the structural change and the validity of the license as aforesaid, see section 1.3 and Note 1e to the Financial Statements.

(B) Due to the increase in the generating capacity in the national economy, whether by private energy producers or by the Company, the entry of renewable energies and the increase in the reserve[22] of the electricity generating ability, the Company is required to build additional switching stations, substations and high and extra-high voltage lines, as well as upgrading existing power transmission lines to stronger ones. For further details regarding renewable energy goals see Note 1c to the Financial Statements.

(C) The Company expects that due to the constant increase in demand for electricity, it will be required to build additional substations and to increase transformation at existing switching stations and substations.

(D) Due to the strict environmental requirements and the restricted areas in the cities, the Company is expected to build internal substations (*that is,* a station in which all electrical equipment is enclosed in a building and isolated by gas) of larger scale. In addition, there are demands on the part of outside parties to bury overhead transmission lines underground and divert existing lines within the framework of "intelligent avoidance" policy, which is application of reasonable measures for reducing magnetic field levels where possible.

(E) The construction of a larger number of private switching stations and substations by private electricity producers and high voltage and extra high voltage customers will lead to a greater investment of the Company in introduction into utilization of the installations of the private producer and/or consumer, for tests and maintenance. This is in light of the Company being an essential service provider in the transmission field.

(F) Decentralized production generates challenges related to output flows in the transformation system, creating different operating regimes, depending on the production work regime (such as day/night).

(G) Changes in the Criteria for the level, standard and quality of service provided by a licensed essential service supplier in the field of transmission, which are determined by the Electricity Authority, may require the Company to make greater payments as indemnification to electricity producers and consumers that are connected to high voltage grids. The implementation of a criterion for high voltage may impose on the Company fines due to failure to meet the prescribed schedule for connecting a new consumer or failure to supply electricity for various reasons.

(H) Burying high voltage 161 kW lines in accordance with an outline plan (NOP) due to a demand by the Planning Administration at the Ministry of Finance, extends the time of construction of high voltage lines.

(I) Environmentalist requirements with respect to electromagnetic radiation and the difficulty to obtain expected line corridors will increase the volume of high and extra high voltage cables.

(J) Requirements stemming from laws, standards, and requirements and regulations of government entities, which may increase the Company's expenses in this field of activity.

(K) As part of the Government's Resolution 465 to promote renewable energy in the electricity sector – under which by 2030, 30% of the electricity generation will be with renewable energy, the Company is preparing to implement a multi-year plan to construct extra-high and ultra-high voltage lines, switching stations and substations, install and upgrade power transformers at substations, upgrade transmission circuits at the 161 kW grid and upgrade equipment at existing stations.

22 This refers to the difference between generation ability and the demand for electricity at that time from consumers.

8.1.4 **Technological changes that may materially affect the field of activity**

The technological changes that may materially affect the field of activity and which the Company has started a process of implementation of follow:

(A) Changing communication configuration that is reflected in the separation of infrastructure, in light of the structural change, for the purpose of transferring information from the Company systems for monitoring transmission, monitoring distribution, and for the system management. In addition, old equipment is being upgraded at existing stations.

(B) Replacements of transformers at existing substations to new transformers with capacities of 50-75 Megavolt-ampere transformer including the ancillary equipment.

(C) Addition of means of storing energy with the various technologies.

(D) Deployment of new technologies in the transmission field, such as wires with high energy transmission capability, relatively little weight, and high thermal ability compared to a regular wire with the same cross-sectional area, which are used for increasing the transmission capacity of existing transmission lines to avoid the construction of new lines.

(E) Upgrading and improving information security in order to meet the regulator's requirements and dealing with threats.

(F) Operating a transmission control system through intake of a GE-TMS system in transmission control that replaces the EMS system of the system management unit, which left the Company in November 2021.

(G) New mobile substations with a capacity of 30 MVA.

(H) Installation of short-circuit current limiters in high-voltage grids, resulting from short-circuit currents caused by the transmission and transformation system and distributed generation facilities in the distribution grid.

8.1.5 **Critical factors for success of the field of activity and changes applying therein**

The Company estimates that the business success of the transmission segment depends primarily on the Company's ability to carry out the investments required in this segment pursuant to the development plan, and on the level of demand for electricity, the costs of maintenance and operation of the transmission and transformation facilities, the equipment renewal project, the professionalism of its personnel in maintaining the distribution and transformation installations, recognition of the total costs that are required for electricity transmission within the electricity charge rate and the ability of the transmission and transformation segment to increase efficiency in structure and technology.

8.1.6 **The key entry and exit barriers of the field of activity and changes occurring therein**

(A) Entry barriers

The Company estimates that the key entry barrier in the field of activity is the need to receive a transmission license in accordance with the Electricity Sector Law. Pursuant to the amendment to the Electricity Sector Law, a transmission license will only be given to a government company and only one license for this activity will be in effect at any time. As aforesaid, it was determined within the outline of structural change that the Company will carry out the transmission operation in accordance with the transmission license that will be given to it and in accordance with the development plan for the transmission and transformation system as will be approved.

(B) Exit barriers

The regulation that regulates the activity of the Company and its status as an "essential service supplier license" holder in accordance with the Electricity Sector Law and the provisions of its licenses, requiring it to transmit electricity to the public at large, reliably and efficiently, in accordance with the terms of its license, are the key barriers preventing exit from the field of activity.

8.1.7 **The structure of competition in the field of activity and changes occurring therein**

As of the date of the report, the Company is acting as a monopoly in the field of electricity transmission and has no competitors. In addition, the Company is required to allow private electricity producers to use its transmission system. See Section 7.4 for details.

8.1.8 **Alternatives to products of the field of activity and changes occurring therein**

There is no alternative product to the Company's transmission and transformation system.

8.2 Products and services

Services in the transmission field are given to high voltage customers (private producers and major consumers such as Dead Sea Works, desalination installations and more) and the grid branches of the Company (the distribution system that sells medium voltage and low voltage electricity to consumers in the State of Israel). The end consumer pays for the transmission component by the general charge rate that is prescribed by the Electricity Authority (for additional details see Section 10).

In addition, according to the Book of Criteria (which is updated from time to time), the Company also supplies services of introduction into use, maintenance and operating services at the substations of private electricity producers as regards connection at high voltage and extra high voltage.

8.3 Segmentation of revenues of products and services

For details of Company revenues from the sale of electricity assigned to the transmission segment in 2022, see Note 36 to the Financial Statements.

8.4 Competition

(a) Scope of the competition

In accordance with the structural change, the Company will continue to act as an essential service provider in the grid sectors and will continue to construct, maintain and operate the network's facilities, so that most of the private electricity producers will continue to use the transmission and/or distribution grid of the Company. However, in the coming years, an increase is expected in independent decentralized generation, by producers and consumers, some of which are not expected to use the Company's transmission and distribution grids. However, in light of the transition to a rate structure of capacity and energy, as long as these independent producers are connected to the electricity grid, they will be required to pay with respect to capacity of the grid and system rates, partially, and as will be determined by the Electricity Authority from time to time. For details of the structural change see section 1.3 and Note 1e to the Financial Statements.

(b) Impact of the Competition on the Company in the transmission segment

The Company is expected to significantly increase the scope of investments in the grid.

Pursuant to the rate base for the grid segments which entered into effect on January 8, 2018, the investments are recognized according to the actual volume of investments under a normative price-list and the operating costs are recognized according to actual output. In addition, there is a change in the rate structure in the form of pricing by energy components and connection size. The Company’s position is that this rate structure is more suitable for changes occurring in the electricity sector and reduces the Company's exposure, which results from the expansion of the self-production of the private producers.

For details regarding the grid rate base for the years 2018-2022, see Note 3 to the Financial Statements.

8.5 Generation capacity – the transmission and transformation segment

8.5.1 The transmission segment (high and extra-high voltage transmission circuits):

A breakdown the length of the transmission circuits[23] of the Company follows:

Date	400 kV lines km of circuit	161 kV overhead lines km of circuit	115 kV lines km of circuit	161 kV underground lines[24] km of circuit
December 31, 2022	805.7	4,850.5	41.5	173.0
December 31, 2021	777.6	4,789.2	41.5	157.8

As at December 31, 2022, the installed output of 161/400[25] kV connection transformers[26] stood at 14,445 Megavolt-ampere, an addition of 1,300 Megavolt-ampere compared to the end of 2021.

In addition, the Company is in various stages of construction of an extra-high and ultra-high voltage grid that was constructed in 2022 but has not yet been electrified (and is therefore not part of the inventory – as appears in the table above):

Data of projects and works executed in 2022 and not completed			
Data	**400kV**	**161 kV overhead lines**	**161 kV underground lines**
Total kilometers of circuit under construction, that have not yet been completed in 2022	163.3	747.4	8.3
The Company's estimate regarding the rate of completion in 2022 according to physical measurement out of the projects executed by the Company	50%	31%	96%

8.5.2 The transformation system:

As at December 31, 2022, the installed transformation ability was approximately 19,486 Megavolt-ampere compared with an installed transformation ability of approximately 18,815 Megavolt-ampere, as of December 31, 2021.

The table below displays a number of switching stations (including also substations) and number of substations of the Company, as of December 31, 2022 and 2021:

Substation type / Year	Switching station	Substation	Total
December 31, 2022	11	149	161
December 31, 2021	11	148	159

The material changes in the transmission and transformation system that occurred in 2022 are: Installing two autotransformers at the Atidim switching station, construction of substations: Tnuvot, Beit Shemesh, Atlit, Shfayim, activating private customers (producer and consumer), adding transformation and replacing transformers in existing substations.

23 In general, there is more than one transmission line between any two pylons, known as a "circuit "and measured in km.
24 Underground.
25 The transmission system is composed of three (3) voltage levels: (1) extra high voltage- 400 kv; (2) high voltage system of 161 kv and (3) a high voltage system of 115 kv (and old system whose use is decreasing).
26 A connection transformer changes voltage levels in the transmission system (from 400 kV to 161 kV).

8.6 Fixed assets, land and facilities

See Section 7.6.1 for details on assets that the Company uses in its fields of activity, including in the field of transmission and transformation.

A breakdown of the switching stations and the major substations that are used by the transmission segment at the various sites follows:

Name of site	Location	Type	Nature of the rights
Caesarea *	Caesarea	Switching station	Sublease, Caesarea Development Company, until 2048
Tzafit **	Next to Kfar Menachem	Switching station	Lease till 2053
Petach Tikva *	Next to Morasha Junction	Switching station	Ownership
Zevulun *	Kfar Hassidim	Switching station	Development agreement with ILA till 2000 with a right to receive a lease. A lease agreement has not yet been signed.
Gan Sorek *	Rishon leZion	Switching station	A lease agreement was signed with ILA in February 2021, the lease agreement is up to 2068.
Even Sapir *	Southwest of Moshav Even Sapir	Switching station	Lease till 2040
Gezer **	Next to Ramla	Switching station	Lease until 13.1.2046
Ramat Hovav	Ramat Hovav	Switching station	Lease contracts till 2028/2029. A process is being conducted to adapt the contracts for sale that was executed within the reform.
Hagit + Ein Tut ***	Near the Ein Tut interchange	Switching station	327,000 m^2 leased till 2051. The rest is owned.
Yavneh + Nir Galim	Ashdod Junction	Major substation	17,600 m^2 leased until 2023. The rest is owned.
Kishon	Nesher	Major substation	Lease till 2058
Alon Tavor	Alon Tavor industrial area	Major substation	Lease till 2039
Yarkon (Atidim)*	Tel Aviv, Ramat Hahayal	Major substation Removed from use during 2016. The new transformer installations are situated inside the new switching station that is under construction at the site.	Approximately 25,000 m^2 owned. An addition of approximately 12,000 m^2 is possessed
Ayalon (Ganot)	Ganot Intersection	Switching stations	Lease until 2061 (transaction approved in ILA and the Company, site under construction, contract issued, signed in the Company and transferred to be signed by ILA)

* The site includes a substation

** The land of the switching stations and the major substations above include substations and are included within the site of the relevant power stations, as shown in Section 7.6

*** The land of the switching stations above are included within the site of the "Hagit" power station, as shown is Section 7.6

There are two additional substations that are on the premises of power stations. See Section 7.6 for further information.

In addition to the switching stations detailed above, the transmission segment includes approximately 110 independent permanent substation sites (not stationed in the power stations or the switching stations), approximately 30 future substation sites or substation sites under construction, approximately 10 independent temporary substation sites, and approximately 14 independent active mobile substation sites (not stationed in the power stations and/or the switching stations and/or permanent or temporary substation sites) that are dispersed nationwide.

8.7 Development of the Electricity Sector – the transmission segment

8.7.1 Manner of determination of the Development Plans of the transmission segment

The duty to submit a multi-annual Development Plan applies to the Noga Company.

On February 22, 2019, the Minister of Energy, after consultation with the Electricity Authority and with the consent of the Minister of Finance, approved the development plan for the transmission and transformation system for the years 2018-2022.

The plan includes, inter alia, the construction of new projects and projects that include expansions and improvements of the existing system, for the purpose of adapting the transmission and transformation system to the needs of the Electricity Sector, while considering the availability of the sites and the ability of the Company to realize projects.

To the best knowledge of the Company, in December 2022, the Noga Company submitted to the Electricity Authority and for the approval of the Minister of Energy, after coordinating with the Electric Company, as the transmission license holder, a development plan until 2030 with a viewpoint of the Government's goals in the field of renewable energy. For additional details see Note 1c to the Financial Statements. As on the date of publication of the report, and to the best of the Company's knowledge approval from the Companies Authority and the Minister for the aforesaid plan has not yet been received.

The license given to the Noga Company determined that the system management license owner will submit a development plan for the generation and transmission sectors pursuant to the Electricity Sector Law. In the transmission sector, the plan will include, inter alia, construction and upgrade of extra-high and ultra-high voltage circuits, switching stations as well as substations, and timetables for implementation. The Company, as a transmission license holder, is required to act in accordance with the development plan for the transmission grid prepared by the system management licensee which was approved by the Minister of Energy (in consultation with the Electricity Authority and with the consent of the Minister of Finance).

Pursuant to the amendment of the law, the Company will continue to act as an essential service provider and will carry out the transmission activities in accordance with the transmission license granted to it and in accordance with the development plan for the transmission and transformation system which is, as aforesaid, the responsibility of the Noga Company, as approved by the Minister of Energy, with the consent of the Minister of Finance and after consultation with the Electricity Authority. For additional details regarding the structural change with respect to the transmission segment, see section 1.3 and Note 1e4 to the Financial Statements.

On March 7, 2022, the Electricity Authority issued a draft decision for a hearing regarding the obligation to consult on the issue of updating the development plan for the transmission and transformation grid: electricity supply to Gush Dan. According to the draft decision, the Authority recommends updating the approved development plan for the transmission and transformation grid for 2018-2022 and establishing a development plan after 2022 for the transmission and transformation grid needed to supply electricity to Gush Dan in response to the expected demand development in this area, according to the schedules detailed in the decision.

On January 16, 2023, the Electricity Authority published a decision proposal for a hearing regarding the development plan for the transmission and transformation grid for the years 2023-2030. At the hearing, the Authority details its position with regard to the development plan submitted by the owner of the system management license for the approval of the Minister of Energy. For further details see Note 3 to the Financial Statements.

8.7.2 Main assumptions and restrictions underlying the Development Plan

In general, the Development Plan is based on: (A) the geographic layout of the load, which his consistent with the national demand forecast; (B) the generation system Development Plan including private electricity producers – meeting the Government's objectives; (C) the planning criteria; (D) the implementation of advanced, proven technologies in the transmission and transformation system; (E) analysis of the odds of materialization of the projects; and (F) consideration of all the constraints.

The purpose of the Development Plan is to adapt the transmission and transformation system to the needs of the national economy, while reducing costs and minimizing land resources, in accordance with level of reliability and quality of electricity prescribed in arrangement with the Ministry of Energy. The plan is being developed while considering planning, land, environmental, regulatory and economic uncertainties and constraints and their consequences over the ability to implement the plan.

As aforesaid, the development plan prepared by the Company and approved by the Minister of Energy in February 2019, is in force until the end 2022. Preparation of the development plan for 2023 onwards is, as stated above, under the responsibility of the Noga Company to which this responsibility was transferred as of December 1, 2020.

8.7.3 **Development of the transmission system**

In accordance with the Company's Development Plan, in 2023-2027, the Company is planning to add to the ultra-high voltage (400 kV) transmission system approximately 738 km of circuitry, conditional to the conclusion of statutory proceedings for the approval of the lines.

In 2023-2027, the Company is planning to construct approximately 930 km of overhead circuitry in the extra-high voltage (161 kV) transmission system. In addition, an upgrade of approximately 989 km of circuitry will be carried out on existing infrastructures (poles), and 462 km will be rebuilt. Additionally, approximately 155 km of underground cable circuits are scheduled to be added.

8.7.4 **Development of 400/161 kV transformation system**

The Atidim Switching Station was constructed in 2022, at the first stage it has two connection transformers with a total output of approximately 1,300 Megavolt-ampere, and a third connection transformer with a capacity of approximately 650 Megavolt-ampere will be completed at the Atidim switching station in 2023. In addition, the following switching stations will be constructed, with the Electric Company responsible for the planning and construction: the solar Dimona switching station with two connection transformers with a total output of approximately 1,300 Megavolt-ampere in 2023 and the East Galilee Switching Station with two connection transformers with a total output of approximately 1,300 Megavolt-ampere in 2025.

The total output expected at the end of 2025 in the existing switching stations and switching stations under construction, under the responsibility of the Electric Company, will be approximately 17,695 Megavolt-ampere.

8.7.5 **Development of 161 kV transformation ability**

The development of the substations of the transmission segment is being carried out in accordance with a multi-year planning which is coordinated with the Noga Company, while considering the Government's goals for the development of renewable energies by 2030 and the geographical layout of the demand. This forecast is expressed in the construction of new permanent substations, temporary and portable substations and the addition of transformation in existing substations.

As of 2022, the Company has at its disposal 149 substations with a total transformation output of approximately 19,486 Megavolt-ampere. By the end of 2025, the Company is expected to have at its disposal an additional 5,363 Megavolt-ampere, and in total the output of the switching stations owned by the Electric Company is expected to be 24,849 Megavolt-ampere at the end of 2025.

8.7.6 **The development budget of the transmission segment**

In 2022, a sum of approximately NIS 1,514 million was invested in the development of the transmission and segment (the data are compatible with the development plan). In accordance with the decision of the Board of Directors, the development budget of the transmission system for the year 2023 is approximately NIS 1,921 million (remeasurement and depreciation deducted).

The following are the major points of the current and expected projects of the Company in the transmission segment (data in NIS millions):

Project name/identification	Scope of expected comprehensive investment*	Scope of Investment until the Balance Sheet Date**	Budget completion rate	Remainder of Investment	Expected activation date
Galilee (Hukok) switching station	341	29	9%	312	05/2025
Dimona switching station	293	74	25%	219	12/2023
Givatayim switching station	172	92	54%	80	12/2023
Eshkol North	641	300	47%	341	05/2025
Eshkol Negev ***	724	565	78%	159	12/2023
Zafit-Gezer line	201	108	47%	94	12/2023
Eithan-Dimona line	275	23	8%	252	12/2023
TMS transmission control	205	143	70%	63	05/2024

* The total investment in the “Scope of expected comprehensive investment” column is an updated estimate for 2023 that has been approved by the Board of Directors of the Company in December 2022. Additionally, it is clarified that it is only an estimate, which may change from time to time, inter alia according to the progress of the project, the project's duration, and the costs the Company will bear with respect thereto. The data are compatible with the budgetary development plan.

** The “Scope of Investment until the Balance Sheet Date” column is composed of cumulative performance for 2006-2022 in current prices, pursuant to the IFRS principles.

*** The expected activation date at the Eshkol Negev was postponed to December 2023, in light of the delays in arrangements with the Bedouin clusters.

The Company is committed pursuant to the Electricity Sector Law to execute the projects in the Company’s Development Plan, which was approved by the Minister.

According to the financial planning presented to and approved by the Board of Directors in December 2022, the expected scope of investments in the transmission system in 2023-2027 will be approximately NIS 11.8 billion.

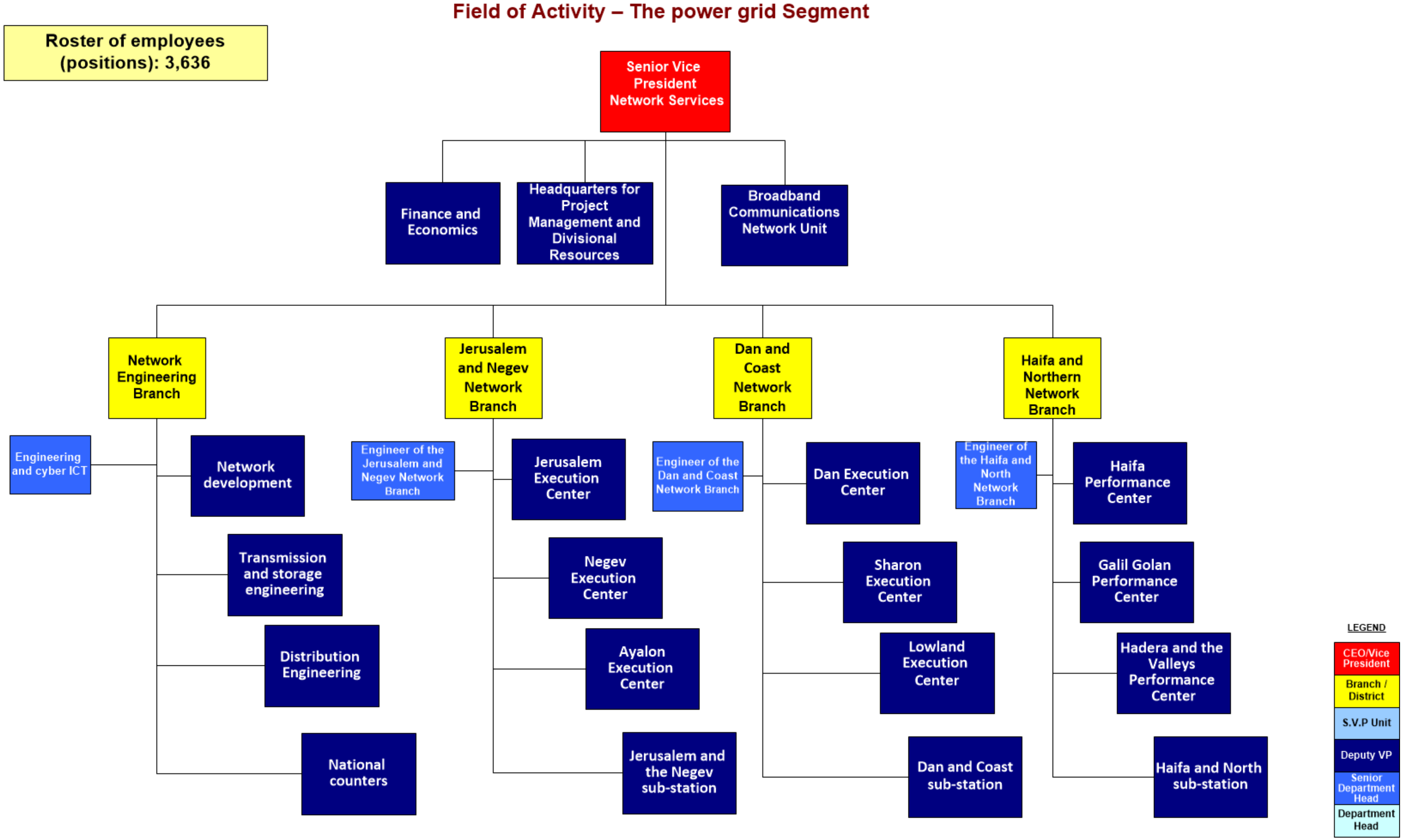
Stored energy

As part of the five-year budget approved by the Board of Directors in December 2022, the Company allotted an amount of approximately NIS 167 million to the issue of stored energy in 2023, based on an initial estimation. The project includes installation of 5 energy installations at substation Company sites.

The above mentioned with respect to the Development Plan of the Company for the transmission segment and with respect to the expected development budget for the years 2023-2027 and the expected activation dates for the aforementioned projects in the transmission segment, and regarding the completion goal of the five stored energy installations, is forward looking information, as per its definition in the Securities Law. This information includes forecasts, subjective estimates and other plans of the Company and is based on future data, whose materialization is uncertain and is not under the exclusive control of the Company. The main factors that may affect non-materialization of the forward looking information or changes occurring in the estimated schedule for its execution in accordance with the description above include: a change in the expected growth rate in the demand for electricity, implementation of the structural change (see Note 1e to the Financial Statements); future Development Plans that the Minister will approve for the transmission segment; difficulties in securing licenses and/or changes in regulation in the environmental protection and licensing field; the absence of appropriate charge rate coverage and the ability of the Company to raise the financing required for executing the Development Plan.

8.8 Human capital

The organizational structure in the transmission and transformation segment (the electricity grid):



As of December 31, 2022, the electricity grid segment has 2,469 permanent employees and 1,167 temporary employees, compared with 2,528 permanent employees and 1,123 temporary employees as of December 31, 2021 (the number of employees relates to organizational assignment in the grid services division, the grid sections of Haifa and the North, Dan and the Coast, Jerusalem and the Negev, and the grid engineering section, and does not include employees assigned to other sections and working for the benefit of the segment. As aforesaid above, part of the employees organizationally assigned to the transmission and transformation segment, in addition to the establishment and maintenance of the distribution system, also engage with the establishment and operation of the transmission systems, except the establishment of high voltage and very high voltage transmission grids performed in the engineering project segment (see Section 8.7).

See Note 12 to the Financial Statements for details with respect to benefits and the nature of the employment agreements and additional details.

8.9 Environmental risks and ways of managing them – the transmission segment

8.9.1 Environmental risks and environmental regulation – general

The activity of the Company in the transmission segment is exposed to various environmental risks, which include storage and use of hazardous materials and fuels, pollution of soil and water sources, non-ionizing radiation and more. See Sections 7.12 and 9.9 for details on the environmental risks and the regulation applicable to the Company in these fields.

8.9.2 Land

The Company is promoting actions to prevent soil pollution from its transmission and transformation installations.

8.9.3 Hazardous materials

The transmission and transformation division has a poison permit that is renewed every three years. See Section 7.12.6 for details on risks from hazardous materials.

8.9.4 Business licensing

See Section 21.3 for details on this subject.

8.9.5 Material events or matters with respect to environmental protection

As of the date of the report, to the best of the Company's knowledge, it is not exposed to material events or matters with respect to environmental protection in the transmission and transformation segment unless specified above.

8.9.6 Material legal or administrative proceedings with respect to environmental protection

See Note 35b to the Financial Statements for details with regard to legal proceedings pertaining to the transmission segment and letters of indemnity that will be given by the Company pursuant to section 197 of the Planning and Construction Law.

8.9.7 The policy of the Company in environmental risk management

See Section 7.12 for details on this subject.

8.9.8 Environmental costs and investments of the Company in environmental protection

See Section 21.8 for details on this subject.

8.10 Restrictions and regulation over the corporation's operation in the transmission segment

See section 8.1 for details of the license of the Company in the field of activity of transmission. See section 22.1.2 for details of the regulation that applies to the Company, including the transmission segment. See Note 3 to the Financial Statements for details regarding the decision of the Electricity Authority with respect to the electricity rate for the transmission and distribution segments, the grid rate base for 2018-2022 and recognition of retirement costs of the employees of the Electric Company.

8.11 Legal proceedings

For details on this subject, see Note 35b to the Financial Statements.

8.12 Raw materials and suppliers

The primary suppliers of the Company in the transmission and transformation field are:

- Suppliers of transformers to substations and connection transformers to switching stations:
  - ABB POWER GRID-ITALY
  - SIEMENS TRANSFORMER-ITALY
  - G.E GRID SOLUTION-TURKEY
  - ETD TRANSFORMATORY A.S-CZECH Republic
  - BEST-TURKEY
- Suppliers of equipment for arrays, including switching equipment (current interrupters and disconnectors), control, monitoring and protection systems - General Engineers Ltd., ABB Technologies Ltd., GE _ General

Electric, Maschinenfabrik Reinhausen, Schweitzer Electrical Laboratories SEL, Shany Tech, Engis Commerce & Development Ltd., Eberle (Alstom Grid) Siemens Israel Ltd., EFCON Ltd., Schneider Electric and SEL (Schweitzer).

- Suppliers of batteries capacitors for extra and high voltage: GE, Ardan Industries (Israel).
- Suppliers of cables 161 kV and accessories: Synergy Cables, SUDKABEL GMBH, Hengtong Submarine Power, AK, NKT.
- Suppliers of extra-high and ultra-high voltage power poles: Ramim Engineering Works, A.P.Y.D Technologies, MITAS.

9. The Distribution Segment

9.1 General information on the distribution segment

9.1.1 Structure of the field of activity and changes occurring therein

The distribution grid of the Company conveys electric energy from the substations, at which the voltage level drops to the level of the high voltage, for consumption purposes. The distribution system consists of distribution lines of 33 kilovolt, 22 kilovolt to 12.6 kilovolt high voltage levels (all of these are high voltage lines), low voltage lines 0.4 kV and a distribution transformer that interconnects them.

The Company delivers electricity at low voltage to most consumers, and to major consumers (*that is,* consumers that consume a large amount of electricity, such as major factories and private producers) electricity at medium and extra-high voltage.

The distribution segment is composed of three grid sections, and the Grid Engineering Section, through which most of the work and service relations between the Company and the electricity consumers are held, whose number as of the date of this report is approximately 2.9 million.

In accordance with the Structural Change Outline, under which the Company will be given a distribution license (for additional details see Note 1e to the Financial Statements), on November 17, 2022, the Electricity Authority reached a decision about granting a distribution license to the Company for a period of 20 years from the date of the Minister of Energy's approval for that. On January 16, 2023, the license was approved by the Minister of Energy. The license details, among other things, the Company's various roles and areas of responsibility in the distribution segment. For additional details see Note 3p to the Financial Statements.

In accordance with the outline of structural change, the scope of distribution license in the sector that will be granted to bodies that are not the Company, will not exceed 10% of the annual consumption volume in the sector (but a natural increase in the volume of consumption and the distribution area determined in the license compared with the aforesaid volume of consumption at the time the license is granted will not be taken into account in this matter), for additional details see Note 1e to the Financial Statements and section 1.3.

On November 17, 2022, the Electricity Authority made a decision to grant the Company a distribution license, and on January 16, 2023, the Minister of Energy's approval was received and the distribution license entered into effect.

Pursuant to the provisions of section 60a(b)(1) of the Electricity Sector Law, the distribution license replaces the provisions regulating the activity of the distribution segment in the Company's general license of 1997.

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, the criterion allows the transferring distributor to choose whether to carry out a grid status survey and receive normative payment from the Company for the transferred grid, or to transfer the grid without carrying out a survey and without receiving payment. The material difference is cancellation of the transferring distributor's obligation to improve the grids and determining a simple mechanism of repayment for grid items at normative prices, but on the other hand, the Company is required to face a new challenge in the form of transferring private electricity grids. The Company demanded that the existing connections will be in accordance with the provisions of the Electricity Sector Law, 1954, and its Regulations, and that in cases in which they do not meet the provisions of the Law and are not correct/safe, the historical distributor will have to order new connections accordingly. In addition, the connection to the grid must be adjusted in accordance with the provisions of the Planning and Construction Law, 1965, and its Regulations. The Company forwarded its response to the Electricity Authority, within which the Company demanded to reexamine 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, all as detailed in the Company's application. In February 2023, the Authority submitted a proposal for a gradual outline of grid infrastructure for Majdal Shams as a case study for the subject. The Company has submitted its reference to this proposal and is awaiting the approval of the Authority for the outline. For further details regarding historical distributors, see section 9.4 below. The private facility owners will be responsible for preparing the private facilities to fulfil the provisions of the Electricity Law and its Regulations, at their own expense.

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%. The decision also sets incentives for meeting the goals, with the maximum annual incentive amounting to NIS 30 million. At the Company's request, the Authority is expected to examine the change in the measurement method of non-supply minutes from a calculation based on a an interrupted capacity to a calculation based the basis of interrupted customers (that is, customers who experienced power outages), and if the Authority decides to change the measurement method, the goals will be updated at the national level and for each district. The Company delivered its response to the decision on November 7, 2022, and is holding discussions with the professional team accordingly.

On November 7, 2022, the Electricity Authority published a decision in which it sets incentives for the Company for burying an existing high voltage grid in built-up areas, for details see Note 3l to the Financial Statements.

9.1.2 **Restrictions, legislation, regulation and special constraints applying to the field of activity**

The activity of the Company in the distribution segment, like its other fields of activity, is subject to legislative restrictions, such as those prescribed in the provisions of the Electricity Sector Law, the criteria set by the Electricity Authority, and the Government Companies Law, and constraints related to the issue of licensing and requirements for permits from various government authorities and offices such as the Electricity Authority, the Companies Authority, the Ministry of Energy and the Ministry of Environmental Protection and emergency and Development Plans in the Electricity Sector. The Company's distribution license entered into effect on January 16, 2023. Pursuant to the provisions of section 60a(b)(1) of the Electricity Sector Law, 1966, the distribution license replaces the provisions regulating the distribution activity segment in the Company's Unified License of 1997 and will be in effect for 20 years from the date of its entry into effect as aforesaid. The scope of the license and the Company's roles duties and areas of responsibility as the distribution license owner were determined within the framework of the distribution license.

Under section 19(A) of the Electricity Sector Law, the Minister of Energy, in consultation with the Electricity Authority and with the approval of the Minister of Finance, may require a distribution license owner to submit to his approval, in the manner and on the date required, a development plan, in full or in parts, for his operations under the provisions of the license. The holder of an essential service provider's license will act in accordance with the approved development plan and the obligations that apply to it under any law. A distribution license holder will prepare the development plan that he is submitting, for the electricity grid that is used for distribution, in accordance with the guidelines of a system management license owner regarding the connection points and the reciprocal effect between the transmission system and the distribution system.

In addition, as part of the Government's resolution on reform and Amendment 16 of the Electricity Sector Law, new principles were established for connecting consumers in the sector to the electricity grid in the distribution segment, setting new boundaries between the Electric Company as the dominant distributer and its consumers and a new division of responsibility from the that practiced to date. Subsequently, in accordance with the provisions of Amendment 16 to the Electricity Sector Law, on April 1, 2019, the Electricity Authority's reached a decision on "Electricity grid connections in the distribution segment - the Authority's clarification on consumer connection to the electricity grid following Amendment No. 16 to the Electricity Sector Law" (for details on Amendment no. 16 to the Electricity Sector Law see Note 1e to the Financial Statements). The decision constituted a transitional directive that allowed the consumer to advance a new connection order according to the outline that preceded the said amendment to the Electricity Sector Law, until the Electricity Authority will set new criteria to regulate the subject of connections in accordance with the principles laid down in the Government's resolution and the amendment to the law as aforesaid. The transition directive was in effect until June 30, 2020, or until current criteria come into effect, whichever comes first (in this section: the "**Transitional Directive**").

As part of the Electricity Authority's decision no. 61904, which was published on December 23, 2021, a new chapter – B 1 – regarding "a new connection to the electricity grid in tracts of land" was added to the criteria, under which the Electric Company will be able to distribute electricity in a tract of land in accordance with the criteria set by the Electricity Authority, and in general one connection will be given to each tract of land as it is defined in the Electricity Sector Law. Within the framework of the criteria, the Authority was authorized to determine land that will be considered a tract of land and regarding the entity that will be considered a land consumer, if there is more than one entity that can be considered a consumer as stated.

On December 23, 2021, the Electricity Authority published an additional decision no. 61906, dealing with updates, changes, and supplements to the consumer criteria for the opening of the supply segment. In this decision, the Authority updated the criteria following the opening of the supply segment to competition, while establishing the distinction between the various consumers in the transmission and distribution segments. In addition, the Authority determined a process of changing a registered holder for a tract of land consumer.

On December 6, 2022, the criteria as determined in the aforesaid decisions 61904 and 61906 were published in the Official Gazette, as part of an amendment to the Electricity Sector Rules (Criteria for the Level, Nature and Quality of Service Provided by an Essential Service Provider), (Amendment no. 3), 2022.

In addition, in its meeting of on April 5, 2021, the Electricity Authority reached a decision, number 60501, which was published on April 6, 2021, within which the 220, 220a, and 220b criteria – Conditions for Entitlement of Facilities Established as Part of Competitive Procedures in the Distribution Grid, were updated, so that in future competitive procedures with regards to which the aforesaid criteria will apply, the construction guarantee of the procedures' winners will be submitted directly to the dominant distributer and managed by it. The new regulation will apply as of the date of publication in the Official Gazette on April 11, 2022.

For further details regarding the outline of the structural change in connection with the distribution segment, including amendments to the validity of the Company's licenses, including the unified license and the distribution license that was given to the Company and entered into effect on January 16, 2023, according to the Structural Change Outline, see section 1.3 and Note 1e to the Financial Statements.

9.1.3 **Changes in the volume of activity and profitability of the field**

The Company estimates that there are various factors that may affect the volume of activity of the field, such as changes in the volume of electricity consumptions and changes in electricity charge rates, and changes in regulations by the Electricity Authority. Additionally, the increase of the production capacity of the sector, whether by private electricity producers or by the Company, and the transition from centralized to decentralized generation, requires an increase and renewal of the distribution and transmission system. For details regarding the scope of the competition and the impact on the profitability in the distribution segment, see section 9.4.

9.1.4 **Technological changes that may materially affect the field of activity**

In the short term, the Company does not anticipate material technological changes that may affect the activity field. However, in the medium and long term, the "smart metering" and energy storage fields are expected to affect the Company's field of operation. See Section 9.7.4.2 for details on the "smart metering".

9.1.5 **The critical factors for success in the field of activity and changes occurring therein**

The Company estimates that the business success of the distribution segment depends, inter alia, on the level of demand for electricity, the costs of construction, maintenance and operation of the distribution facilities, recognition of the total revenues required for the distribution of electricity within the electricity charge rate and the ability of the distribution segment to improve its structural and technological efficiency.

9.1.6 **Changes in the layout of suppliers and raw materials to the field of activity**

The Company is making extensive efforts to significantly increase the circle of suppliers of the Company including suppliers from low cost countries in order to decrease the acquisition costs. Additionally, the Company has begun to operate through long-term engagements and splitting to two or more (as possible) winning suppliers to maintain available sources of supply for all critical items in the distribution segment.

9.1.7 **Key entry and exist barriers of the field of activity and changes occurring therein**

Entry barriers:

The Company estimates that the main entry barriers to the field of activity are receipt of distribution and supply licenses. In this subject, also see details with respect to granting licenses to historical distributors in section 9.4. Pursuant to the outline pf the structural change, the scope of distribution licenses in the sector not owned by the Company will not exceed 10% of the annual consumption volume in the sector (but a natural increase in the volume of consumption and the distribution area determined in the license compared with the aforesaid volume of consumption at the time the license is granted will not be taken into account in this matter).

Exit barriers:

The regulation that regulates the activity of the Company and its status as an "essential service supplier", in accordance with the Electricity Sector Law and the provisions of its licenses, which requires it to supply electricity to the public at large, reliably and efficiently, in accordance with the terms of its license, are the key exit barriers from the field of activity.

For details of the outline of structural change and its impact on the distribution sector (including the meters), see Note 1e to the Financial Statements and section 1.3.

9.2 Products and services

In accordance with that which has been described above, the Company historically operates as a single, combined and coordinated system, for the supply of electricity to consumers, from the generation of electricity at the generation sites, continuing through its transmission and transformation, to its distribution and supply to the end points of all consumers. In addition, the Company makes connections to homes of consumers and expansions to existing connections.

9.2.1 The structure of competition in the field of activity and changes occurring therein

As of the date of the report, the Company is acting as a monopoly in the field of distribution, except for areas of historical distributers (mostly kibbutzim and a number of industrial zones who are distribution license owners), and the Company distributes electricity to the vast majority of the consumers in the sector. Furthermore, as the owner of an essential service provider's license, the Company is obligated, inter alia, to allow private electricity producers to use its transmission and distribution system. For additional details see section 7.4.

It is commented that within the framework of Amendment 16 to the Electricity Sector Law, exemptions from the duty to hold licenses for the execution of an activity under the Electricity Sector Law were added to section 3 of the law, subject to conditions and the circumstances detailed in that section, where the purpose of the amendment was to facilitate and simplify the regulatory requirements for carrying out activities in the electricity sector in general and the distribution segment in particular.

Among others, Amendment 16 to the Law determined that a person who generates electricity with a capacity not exceeding 16 megawatts or a higher capacity determined in rules by the Authority with the Minister's approval (rules as aforesaid have not yet been determined) and does not sell it to another will be exempt from a distribution license.

The same Law applies to a person or entity who carries out storage activity at a capacity determined by the Authority in the rules, except for the Electric Company that requires a license according to the Authority's decision of January 18, 2023. Currently, this capacity is also set by the Authority in the rules to 16 megawatts, without limiting the purpose of storage. It is further determined in this framework that a consumer in a tract of land who transfers and/or sells electricity to another holder of rights in the tract of land will be exempt from the obligation to hold a distribution license as well as a supply license for the purpose of transferring and selling the electricity. At the same time, the exemption from the supply license is limited to the fact that the main use of the tract of land is not for the purposes of selling electricity.

On January 25, 2023, the Electricity Authority published a decision that details the principles and scopes in which the Company will be allowed to build storage facilities until the year 2030. The decision states that the Company's market share will not exceed 15% of the total scope of storage promoted by the private market, in the previous year and that, as a general rule, the deployment of the storage will be in accordance with a plan to be approved by the Noga Company and under its instructions, supervision and controls. The scope of storage will be calculated every first quarter of each calendar year and will remain unchanged until the end of the year. However, the Authority determines a storage capacity advance of 150 megawatts in AC terms so that the Company will not be given additional capacity until the total capacity calculated for it on all test dates, which will occur in the first quarter of 2024, exceeds this power.

The exemption from holding a distribution license also applies to a consumer who generates electricity in the tract of land, provided that he generated the electricity in the generation unit located in the same tract of land, or a person transferring electricity to a consumer from an electricity installation serving for storage which is located in the same tract of land in which the consumer is located. It was further determined that exemption as aforesaid will also be given to a person transferring electricity that was produced in a generation unit to a consumer who is purchasing thermal energy that was produced during the generation of electricity in the same generation unit, provided that the electricity grid is located along the route in which the infrastructure used for the transfer of the thermal energy is located, and adjacent to the said infrastructure.

A person who is exempt in such circumstances from receiving a distribution license and has in his possession in the tract of land a generation or storage facility that are also exempt from licensing according to the rules established by the Authority, will also be exempt from holding a supply license. This amendment may change the mix of the Company's consumers in the various voltages, and reduce infrastructure costs, since infrastructure within a tract of land as defined in the law will be laid by and at the expense of the consumer.

9.3 Segmentation of revenues from products and services

For details of Company's revenues from sale of electricity assigned to the distribution segment in 2022 see Note 36 to the Financial Statements.

9.4 Competition

As of the date of the report, the Company distributes electricity to its customers in substantially all areas of the country and in those areas has no competitors in the distribution line, aside from historical distributers mainly in kibbutzim as well as a small number of industrial areas, in accordance with the transitional directive stipulated concerning this issue in Amendment 16 of the Electricity Sector Law, as well as in tracts of land as they are defined in the Electricity Sector Law, in which the Company is prohibited from distributing in accordance with the said Amendment to the Law.

For details about receiving a distribution license for the Company, see section 9.1.1.

According to the Electricity Sector Law, the scope of the distribution licenses that will be given to all who are not a government company will not exceed 10% of the annual consumption volume in the sector. However, a natural increase in the volume of consumption and the distribution area prescribed in the license shall not be taken into account in this regard, as compared with the volume of consumption as stated at the time the license is granted. For this purpose, "natural increase in the volume of consumption in the distribution area" - including due to an increase in the number of consumers in the local entity area or industrial area or due to an increase in the area of the local entity or industrial area, provided that for an industrial area - the area added is adjacent to the existing industrial zone. This restriction of scope of licenses of up to 10% does not apply to a company that was a holder of a distribution license up to the date of application of Amendment 16 to the Electricity Sector Law.

Within the Amendment of the Law, definitions were added for the terms "public way" and a "tract of land", so that every tract of land will have one entity that will be considered a consumer (whoever purchases electricity or services from a licensee or wishes to connect to the electricity grid), and he will be able to sell electricity, for use in the area of the tract of land, without a supply license and to transfer electricity for this purpose without a distribution license, provided that this is not a consumer whose main use in the tract of land is the sale of electricity. A tract of land does not include a public way. In addition, in accordance with the Amendment to the Law, it is prohibited for a distribution license owner to carry out distribution in the area of the tract of land (except in accordance with the criteria to be determined by the Electricity Authority). At the same time, the distribution license owner is obliged to sell electricity to every consumer in the distribution area defined by its license, at the consumer's request.

Within the framework of the Government's resolution on the reform, it was determined, inter alia, that the Electric Company will be the only one to provide distribution services on public land and on public ways, except on public land or on public ways located in the areas of other distribution license holders, and except in areas where distribution services are provided by a cogeneration producer in accordance with the conditions prescribed by law. For the avoidance of doubt, regarding the deployment of an electricity grid connecting between types of facilities in public land and public ways, such as charging stations and street lights, in which the Electric Company is not distributing at present, the existing situation will be maintained.

In addition, it was determined in that Government Resolution that in areas designated as residential or industrial, the distribution of electricity, whether on public land or private land, will be carried out by the Electric Company, provided that each separate legal entity will be given one connection. It should be clarified that the Electric Company will not establish infrastructures within such areas of a single legal entity. The Electric Company will distribute electricity to any apartment that is not in the distribution area of another distribution license holder, and will provide an additional connection to the house committee. In industrial zones, one connection will be given to each factory, including a factory with several buildings owned by one legal entity. Buildings in areas intended for industry that are owned by one entity and leased in whole or in part to different legal entities, each separate entity in the building will receive a separate connection from the Electric Company.

This arrangement will not apply for buildings not used for industry located in areas designated for industry. The Electricity Authority's decision was received in November 2021, regarding new connections to the electricity grid in a tract of land. The decision stipulated that the criteria will enter into force upon their publication in Reshomut, and will apply to new connection orders, that will be opened after the application date. Until publication of the criteria in the Official Gazette, the Authority's transitory directive of April 2019 applied, which left the existing legal situation intact, namely electricity could have been distributed in private tracts of land with a commercial designation if the consumer requests it.

On December 6, 2022 the Electricity Authority's decision "A new connection to the electricity grid in a tract of land" was published in the Official Gazette and the new Regulation entered into effect, which mainly determines new grid boundaries between a distributor and a tract of land owner who seeks a new connection to the electricity grid. In general, the criteria anchor that stated in the Government's Resolution as detailed above.

As of the date of sale of the system management activity from the Company on November 1, 2021, managing the agreements for the purchase of energy with private electricity producers at extra-high voltage has been transferred to Noga's responsibility. The Company contracts with private electricity producers as part of power purchase agreements (PPA) in the distribution segment only. The total installed generation capacity of producers at high voltage and low voltage, with whom the Company engaged with as of December 31, 2022, increased by approximately 43% compared to the installed generation volume as on December 31, 2021, and stands at approximately 3,236 megawatts, of which approximately 3,230 megawatts are attributed to producers with renewable energies.

For further details regarding the outline of the structural change and its impact on the distribution segment, and the sale of the system management activity on November 1, 2021, see section 1.3 and Note 1e to the Financial Statements.

See Note 1e to the Financial Statements and section 1.3 above with respect to the provisions of the Electricity Sector Law that state restrictions to possession of licenses in general and for the distribution section in particular. Since most of the private electricity producers use the transmission and/or distribution grid and pay infrastructure services for this, the Company estimates that the Company revenues in the transmission and distribution segment are not expected to be significantly harmed due to the entry of the private producers into the electricity sector, and may even increase. However, an increase is expected in independent decentralized generation of producers and consumers, some of whom are not expected to use the Company's transmission and distribution grids. However, in light of the transfer to a rate structure of capacity and energy, as long as those independent producers are connected to the electricity grid, they will be obliged to a payment with respect to the grid's capacity and system rate and as will be determined by the Electricity Authority from time to time.

For additional details of the structural change, see Note 1e to the Financial Statements and section 1.3.

(b) For details regarding the impact of the competition on the Company's profitability in the transmission segment see section 8.4.

9.5 Distribution capacity

As on December 31, 2022, the distribution system consisted of approximately 30,113 km of medium-voltage grid lines (compared with approximately 29,718 km on December 31, 2021); approximately 53,920 distribution transformers with a total output of approximately 27,425 megavolt-amperes (compared to approximately 52,847 distribution transformers with a total output of approximately 26,643 megavolt-amperes as of December 31, 2021) and approximately 40,955 km of low-voltage grid lines including connecting cables to homes (compared with approximately 39,925 km of low-voltage grid lines as of December 31, 2021).

9.6 Fixed assets, land and facilities

See Section 7.6.1 for details on assets that serve the Company in its fields of activity, including in the field of transmission and transformation.

The Company has district and regional offices, in the total area of approximately 160,000 m^2.

In addition, the Company has approximately 15,800 transformation, switching and bulk rooms dispersed nationwide.

In accordance with the organizational change plans in the Company following the structural change, the Company is executing a process of concentrating and reducing areas.

See Section 8.6 for details on the type of rights of the Company to these properties. See also Note 13 to the Financial Statements. In addition, the assets of the Company in the field of operation include assets, mainly grids and lines, which are in Judea and Samaria (the West Bank) (including in the territories of the Palestinian Authority) (hereinafter: the "**Territories**"). The Company estimates that the use of these assets for the supply of electricity will continue, and the assets will continue to be owned by the Company. If the ownership of the remainder or some assets in the Territories will be moved from the Company, the Company cannot assess whether the Company will receive full or partial indemnification, if any, for these assets.

9.7 Development of the Electricity Sector –the distribution segment

9.7.1 Manner of establishing the Development Plans of the distribution segment

See Section 22.1.3.2 for details on the duty of the Company to submit a Development Plan and comply with its prescribed conditions and schedules.

The Company intends to present the Minister of Energy with a development plan up to 2030. The Company is acting with the Electricity Authority to complete the development plans. The Company estimates that the development plans are expected to provide an adequate response to most of the issues raised in the State Comptroller's report on the "Development and maintenance of the electricity grid". The plan, which has not yet been submitted for approval by the Minister pursuant to his authority under Section 19(A) of the Electricity Sector Law[27], has three (3) key components of the distribution grid: a medium voltage grid, transformers for distribution and a low voltage grid. Each of these components is given attention in the Development Plan with respect to their construction or replacement. In addition, the distribution grid has a component of electricity meters, automation and connection to homes, as well as many strategic projects, such as: electrification of trains, national projects for charging electrical transport and more. The Development Plan is intended to adapt the distribution system to the needs of the Electricity Sector in view of the introduction of new substations and the development of existing substations, adding of consumers, increase in the predicted load of existing consumers and antiquation of the existing grid, in accordance with techno-economic planning criteria. In addition, the plan includes investments required to integrate generation facilities in the distribution system, pursuant to the Minister's policy. The Development Plan for the distribution system is being carried out by the Grid Engineering Division together with the grid branches of the Company that are responsible for planning, executing, operating and maintaining the distribution grid.

Pursuant to the Electricity Sector Law, the Minister, in consultation with the Authority and with the approval of the Minister of Finance, may require a distribution license holder to submit a development plan of the distribution system to the Minister, and the distribution license holder will prepare the plan in accordance with the guidelines for a system management license owner pertaining to the connection points and reciprocal impact between the transmission system and the distribution system. For additional details see section 1.3 and Note 1e to the Financial Statements.

On March 7, 2022, the Electricity Authority issued a call for proposals on the challenges for the electricity sector and the regulation required in preparation for a significant integration of electric vehicles in Israel. The Authority notes that in line with the global trend of electrification of vehicles and following the government's policy on the subject, it seems that tens and even hundreds of thousands of electric vehicles are expected to be integrated into the Israeli economy in the next decade. The transfer to use of electric vehicles is expected to increase the volume of electricity consumption and will require adjustment and development to the electricity grid and the generation system. To this end, upgrading the grid and establishing an infrastructure that supports appropriate charging stations are necessary to support the entry of electric vehicles in order to support meeting Government targets to reduce polluted emissions. Demand management by changing consumer behavior or by a managed charging system may help utilize the local grid resource and sectorial electricity generation optimally. Providing economic incentives to smooth demand throughout the day and managing charging at the local level are the main factors determining the amount of investment required in the electricity infrastructure. If these factors are adopted by the public, the required sectorial cost will decrease and as a result the electricity rate will also decrease. The Authority places great importance on improving the existing regulation and in examining on an ongoing basis the need for governmental and regulatory intervention in this issue in the sector, inter alia, also in order to avoid high sectorial costs in general and in the electricity rate in particular.

[27] As detailed above, the Minister's approval, insofar as will be given, will be in consultation with the Electricity Authority and with the consent of the Minister of Finance.

9.7.2 **Key assumptions and restrictions underlying the Development Plan**

The distribution grid Development Plan of the Company, which as stated above still requires the approval of the Minister in consultation with the Electricity Authority and with the consent of the Minister of Finance, is based on the following data and assumptions:

a. A forecast of the number of new domestic and small business connections and connection expansions, that has been received from the statistics and market research department of the Company, which is adjusted to the forecast of connections executed in the Company's grid divisions.

b. A forecast of the number of new large business connections based on average performance of previous years, produced from the ordering system of the Company.

c. High voltage consumer forecast received from the ordering department of the Company.

d. Technical directives for planning of the distribution grid given by the national grid.

e. Directives of the Ministry of Energy, the Electricity Authority, local authorities, and statutory authorities for the planning and execution of national infrastructures, such as the directive of the Ministry of Energy of the year 2001 for building an underground grid in urban and industrial areas featuring high population density.

f. Renewal of the distribution grid in accordance with the plan formulated by the Company, according to techno-economic criteria.

g. Forecast of natural increase of the peak demand for electricity.

h. Forecast of connecting generation facilities using renewable energies in the distribution grid is based on existing connection orders and forecast of connection orders in accordance with future regulation and tenders, subject to a distributer’s response, grid availability and area and roof potential.

i. Instructions from the Ministry of Energy, Electricity Authority, Local Authorities, and statutory authorities, for planning and executing national infrastructures, such as establishing a grid for charging transportation, electrification of trains, etc.

9.7.3 **Anticipated development of additional distribution capacity**

The anticipated development of additional distribution capacity is based on long term planning of the Company for 2022 in an alternative adjusted to budget frameworks and the structural change, which is submitted to the Board of Directors within the financial planning of the Company, each year.

Within the Development Plan, in the approved alternative of budget frameworks, and subject to its complete execution, in 2023-2027 approximately 5,317 km of overhead and underground medium voltage lines are expected to be added. In addition, approximately 546 km of grid will be replaced.

Additionally, approximately 6,198 km of overhead and underground voltage lines are expected to be added. In addition, approximately 147 km of grids will be replaced and approximately 7,357 transformers. During these years, approximately 3,985 transformers are scheduled for replacement.

9.7.4 **Development budget of the distribution segment**

In 2022, a sum of approximately NIS 2,086 million was invested in the development of the distribution segment. According to the decision of the Board of Directors, the development budget of the distribution segment for 2023 is expected to be approximately NIS 2,225 million (the data are compatible with the development plan).

According to the financial planning presented to and approved by the Company’s Board of Directors in December 2022, the volume of investments expected in 2023-2027 in the distribution system will be approximately NIS 11.9 billion.

The above mentioned with regard to the Company’s development plan for the distribution segment and the expected development budget for 2023 constitutes forward looking information, as per its definition in the Securities Law. This information includes forecasts, subjective estimates and other plans of the Company and is based on future data, whose materialization is uncertain and is not under the exclusive control of the Company. The main factors that may affect the non-materialization of the forward looking information or changes occurring in the estimated schedule of its execution, in accordance with that which has been described above, include, inter alia: non-implementation of special projects, change in the expected growth rate in the number of connections, implementation the structure change in the Electricity Sector and in the Company (see Note 1e to the Financial Statements and section 1.3),the Development Plan to be determined by the Minister including changes that will be made to it, difficulties in securing licenses and/or changes in legislation in the environmental protection and licensing field; the absence of appropriate charge rate coverage (see Note 3 to the Annual Financial Statements); the inability of the Company to raise the *financing required for executing the Development Plan, a change in the expected rate of growth of demand for electricity and an increase in the number of consumers.*

9.7.4.1 **Renewing the distribution grid**

During 2022, the Electricity Authority published a decision regarding the renewal of the distribution grid, a mechanism to recognize costs across the years. The decision determines incentives for the Electric Company in order to improve the level of service to its consumers and the electricity producers that connect to the distribution grid.
The Company is working on preparing a detailed renewal plan to improve the reliability of the supply, which includes the replacement and burying of high and low grids, the addition of grid automation and other measures. This plan will be paid for as part of the development plan for the distribution grid that will be submitted for approval by the Minister during the second half of the year.

9.7.4.2 **Smart metering project**

The smart metering project includes: the installation of “smart energy meters” that are capable of managing and operating the metering remotely, which allow continuous measurement of the energy consumption and additional electrical parameters, data storage and two-way communication. The establishment of a smart metering management center and systems that will enable tracking, control and management of the smart metering data, and providing an indication of the state of consumption and additional indications to customers via the Internet, for the purpose of energy efficiency and the preparation of electricity bills sent to customers

Smart metering greatly benefits the energy sector of Israel and the smart grid. The project aims to promote the energy sector dealing with challenges such as: use of electric vehicles and regulation for the private producers (primarily renewable energies), competition in the supply sector, etc.

As at the end of 2022, approximately 260 thousand remote metering points are installed in Israel (domestic and commercial), and the Company plans to reach approximately one million installed remote metering points by the end of 2024, and smart meters only are installed by the Company from November 2021, in new installations.

In February 2020, the Company's Board of Directors approved the outline for the SM project (smart meters) for the interim period (2021-2023) and to prepare for the continuation of the project beyond 2024. The Company is working with the Electricity Authority regarding the rate coverage.

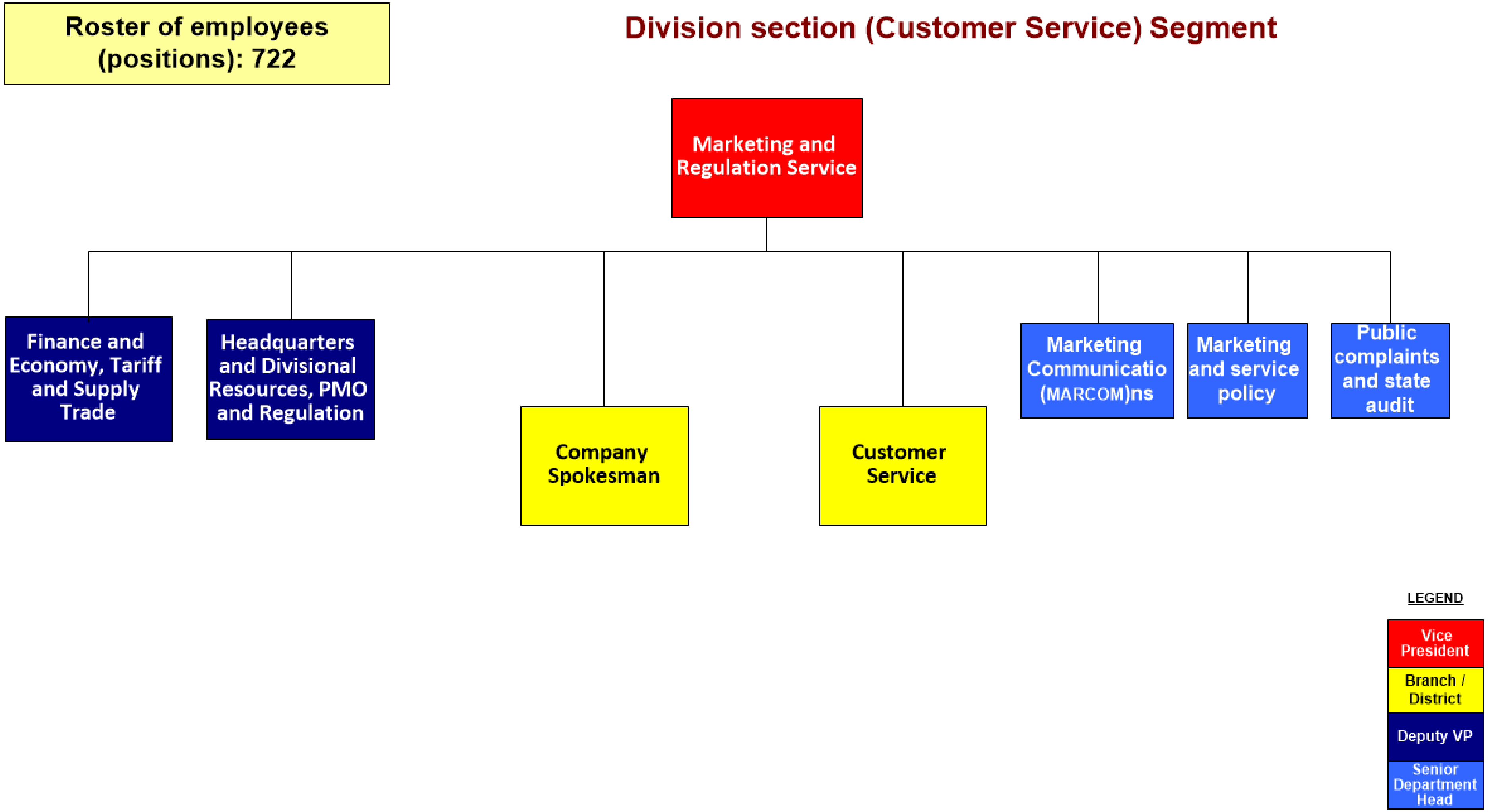
In October 2021, the Electricity Authority published a decision which is in effect for deployment of up to 450 thousand meters by the end of 2023, and an option to deploy an additional 150 thousand meters will be given subject to the Authority’s instructions. The Company is working with the Electricity Authority for approval to accelerate the deployment of the smart meters as of the middle of 2024 and up to December 31, 2028.

For details regarding a supply competition pilot, see section 10.4.

For further details concerning smart metering, see Note 3t of the Financial Statements.

9.8 Human capital

The organizational structure of the distribution segment:



As of December 31, 2022, the distribution segment employs 245 permanent employees and 477 temporary employees in the service, marketing and regulation division, in the customer services section and in communications and PR, compared with 255 permanent employees and 544 temporary employees as of December 31, 2021 (the number of employees relates to organizational assignment and does not include employees assigned to other branches and working for the segment and vice versa). For details of employment agreements and additional details see Note 12 to the Financial Statements.

9.9 Environmental risks and their manner of management – distribution segment

9.9.1 Environmental risks and environmental regulation – general

See Section 7.12 for details on this subject.

9.9.2 Non-ionizing radiation

For the purpose of constructing and operation radiation sources, as they are defined in the Non-Ionizing Radiation Law, the Company is required to hold appropriate permits provided by the Ministry of Environmental Protection pursuant to the law. Operating a radiation source without a legal permit or with deviation from its conditions may constitute a violation of the law and may even cause, inter alia, the issue of an injunction to remove the radiation source.

The Company holds the permits required for operating the non-ionizing radiation sources it establishes and operates. The Company is building new electricity facilities in accordance with the conditions included in the construction and operation permits in all matters related to implementation of measures for restriction of exposure levels, access denial, placement of a warning sign, reporting duties, etc.

In accordance with the Non-ionizing Radiation Law, the maximum permitted levels of exposure of persons to radiation from a radiation source will be determined in regulations that were supposed to be promulgated by January 1, 2007. The Law states that as long as no such Regulations have been promulgated on matters pertaining to the Electricity Sector, the Resolutions of the Supervisor of Radiation in the Ministry for Environmental Protection on the issue, inter alia, of conditions in construction and operation permits on matters relating to the Electricity Sector, are to be in accordance with the recommendations in the Experts' Committee Report pertaining to magnetic fields from the electricity grid (hereinafter: the "**Experts' Committee**") of March 2005. The Experts' Committee adopted the ICNIRP threshold value of the maximal exposure from magnetic fields from the electricity grid at the time, namely 1,000 milligauss, and at the same time set the need to implement the principle of care when planning new installations and operating existing installations. The Company is acting on gradual execution of implementation of the principle of care in existing facilities in accordance with the recommendations of the Experts' Committee. Furthermore, according to the Company's estimate and according to tests it has carried out, the electricity facilities it owns meet the ICNIRP directives.

The Ministry of Environmental Protection includes explanatory comments on the issue of non-ionizing radiation in answer to public applications to it on this subject, in non-ionizing radiation measurement reports that are compiled by the Ministry and by private surveyors, and on the website of the Ministry of Environmental Protection. These explanatory comments, in various forms, include information whereby the threshold value for short term exposure to magnetic fields from the electricity grid is 1,000 milligauss, long exposure to levels of more than 4 milligauss is a possible carcinogen and that the recommended average level of 24-hour continuous exposure is to be up to 4 milligauss for the most loaded day of the year, so that according to the calculation by the Ministry, the annual average will not exceed 2 milligauss. These values were also cited in various correspondences received by the Company following which contentions and claims are raised towards the Company. The Company has forwarded its objections to this position to the Ministry of Environmental Protection and to the Ministry of Energy and has asserted that these values are being translated by the public and by some of the authorities into a binding standard, which the Company cannot comply with.

In January 2019, the Ministry of Environmental Protection published Regulations by virtue of the Non-Ionizing Radiation Law following an appeal submitted to the High Court of Justice against the Minister of Environmental Protection and others.

The company submitted its comments to the draft. Threshold values were not set in the published draft of regulations, except for a short-term exposure threshold for magnetic fields from the electricity grid of 1,000 milligauss. The draft also states that NIS 31 million will be invested every two years in existing radiation sources, and NIS 70 million will be invested every two years in new radiation sources, in order to implement measures to reduce exposure levels in areas of extended stay.

On October 13, 2020, following a process of consent by Ministers of Finance and Energy and consultation with the Minister of Health, the Minister of Environmental Protection sent a query to the Chair of the Knesset's Interior and Environmental Protection Committee, with the draft wording of the Non-Ionizing Radiation Regulations (Amended) - 2020, attached and requested to bring the suggested wording of the regulations for the Committee's approval.

The Company estimates that the costs caused by the regulations, once they are approved (inasmuch as they are), will receive full recognition as part of the electricity rate.

The information included in this report and within the Company's financial statements, regarding the Company's estimate that the costs that will be incurred from the regulations, when they will be approved (to the extent that they will be approved), will be recognized in full as part of the electricity rate, constitutes forward looking information, as defined in the Securities Law. This information is based on forecasts and estimates held by the Company as on the date of the report, and which may not materialize or materialize partly or differently than expected, inter alia in light of the fact that their materialization depends on various parties, some of which are not under the control of the Company, including the Electricity Authority and the manner in which it will recognize the aforesaid costs.

9.9.3 Material legal or administrative proceedings with respect to environmental protection

As of the date of the report, to the best of the Company's knowledge, there are no ongoing material legal or administrative proceedings with respect to the quality of the environment in the distribution segment.

9.9.4 Material events or matters with respect to environmental protection

As of the date of the report, to the best of the Company's knowledge, it is not exposed to material events or matters that are related to environmental protection in the distribution segment unless specified above.

9.9.5 The policy of the Company with respect to the management of environmental hazards

See Section 7.12 for details.

9.9.6 Environmental costs and investments of the Company in environmental protection

In 2022, the expenses of the Company with respect to avoidance from non-ionizing radiation amounted to approximately NIS 1.9 million (the data are compatible with the development plan).

For additional details in this matter, see Section 21.8.

9.10 Restrictions to and regulation of the operations of the Company in the distribution segment

9.10.1 Criteria for the reliability of supply – rules of supply of electricity to consumers

See Sections 8.1.2 and 22.1.3.1 for information on the Book of Criteria.

The Electricity Authority published a criterion for compensating consumers and producers with respect to a low level of reliability for supply, which determines the conditions in which customers will be compensated in cases of electricity interruptions exceeding a scope that was determined.

On October 12, 2021, the Company received the Electricity Authority's decision concerning an incentive mechanism with respect to consumer and producer connection to the distribution grid, for improvement of the connection time of consumers and producers wishing to connect to the distribution grid, as well as a decision presenting a model for assessing compliance with the goals set. On August 2, 2022, the Electricity Authority published a decision on continuing incentives for the development of a distribution grid and improving supply reliability. This decision sets goals for the Company in order to improve the level of service to its consumers, with the aim of reducing the minutes of non-delivery to the consumer in the next decade by 30% compared to the average minutes of non-delivery in the years 2013-2021, while reducing the variation between different regions, as well as incentives for meeting the goals. The decision entered into effect in 2022 and will continue until 2032. Meeting the goal will be carried out every year when updating the annual rate for the past year.

On November 7, 2022, the Electricity Authority published a decision regarding incentives for burying high voltage lines existing in built-up areas, the incentive will be given to the Company with the update of the Company's annual rate for the previous year as of the 2024 annual update

9.10.2 Criteria for the quality and reliability of supply – rules of supply of electricity to consumers

In July 2022, the Electricity Authority published a decision regarding indices of the level of supply reliability (Electricity Authority Decision No. 63158 - Incentives for the Development of the Distribution Network):

(a) Stages for supply reliability target until 2032 of 92 minutes of average non-delivery per customer per year, from the minutes of non-delivery that are caused by interruptions in the high-voltage grid and in the transmission and transformation segment only.

(b) The Company is required to reduce the standard deviation between the reliability levels in the various sub-districts by at least 60% by 2032.

The costs of projects that are intended to improve the reliability of supply will be recognized in the electricity rate.

The total customer non-supply index for 2022 was 205.6 minutes, compared to 195.6 minutes in the concurrent period the previous year

The rate of non-supply minutes caused by interruptions in the high-voltage grid and in the transmission and transformation sector in 2022 was 153.6 minutes per customer, compared to 145.1 minutes in the concurrent period the previous year.

The standard deviation between the sub-districts in 2022 was 56 minutes for the components of this index, compared to 48.8 minutes in the concurrent period the previous year.

The Company works to improve indices of supply reliability with a short-term plan for 2023 and preparation of a long-term plan until 2032.

The Company performs electricity quality characteristics monitoring, analysis of exceptional events in the electricity grid and multi-year statistics of electricity quality characteristics, all in order to ensure the Company's compliance with the relevant standards and criteria for electricity quality monitoring.

For details regarding the Book of Criteria, see section 8.1.2.

9.11 Raw materials and suppliers

As of the date of the report, there are no suppliers in the distribution field on which the Company has material dependence.

10. <u>The Supply Segment</u>

10.1 General information regarding the supply segment

10.1.1. Structure of the area of operation and changes occurring therein

The electricity supply operation is carried out under the unified license received by the Company in 1997 for "transmission, distribution, supply, sale of electricity and trade thereof". For further details regarding the General License, see section 22.1.2.

The supply segment includes the collection and service system of the Company, which include editing and producing invoices and collection actions, as well as consumer services mainly including customer call center, frontal customer service and customer account managers.

Pursuant to the Government's Resolution with Respect to the Reform, the Electric Company will not compete in the supply segment for consumers of high voltage, ultra-high voltage and extra-high voltage but will collect the rate that will be determined by the Electricity Authority. The issue will be reexamined by the Electricity Authority, the Ministry of Energy, the Ministry of Finance and the Competition Authority after 5 years from the date of the Government's resolution (namely in 2023), inter alia in accordance with the terms of competition in the sector.

The Company will serve as a default supplier in the supply segment.

Additionally, under section 5(d)(2) of the Electric Sector Law, each distribution license holder will be required to sell electricity to any consumer in the distribution area defined in his license in accordance with his request. Each holder of a distribution license which distributes in an area defined in his license is the default provider in that area.

Regarding the supply segment for low-voltage consumers, pursuant to the Government's resolution on the reform, in the low voltage supply segment, insofar as it will open to competition gradually, the Electric Company will be permitted to compete (in a fair manner and subject to regulation that will be determined) only if the number of the Company's customers dropped below 60% of the number of customers in the low voltage supply segment, subject to the Minister's policy and pursuant to regulation that will be determined.

In addition, pursuant to the Government Resolution with Respect to the Reform, from the date on which the number of consumers of the Company will fall below 75% of the total consumers in the low voltage supply segment - the Company will be able to provide cyber services to all consumers, and "smart home" services and energy efficiency for low voltage consumers only (this issue will be defined in the supply license that will be given to the Company after the expiration of the general license currently in its possession).

For additional details regarding the Structural Change, including in relation to the supply segment, see Note 1e to the Financial Statements.

10.1.2. Restrictions, legislation, standards and special constraints that apply to the area of operation

The Company's operation in the supply segment, similar to the other areas of its operation, is subject to legislation restrictions, such as those set in the Electricity Sector Law and the Government Companies Law and to constraints related to licensing issues and requirements for permits from authorities and various government ministries such as the Electricity Authority, the Ministry of Energy and the Ministry of Environmental Protection and to emergency and development plans in the electricity sector. As aforesaid, the electricity supply operation is carried out under the General License. Pursuant to the outline of structural change, the Company will operate in the supply segment through a separate profit center. For additional details see section 22.1.3.6.

On July 25, 2019, Amendment 57 of the Consumer Protection Law (also known as the "6 Minutes Law") came into effect. The amendment stipulates, inter alia, that in case a customer contacts the Company on one of the three issues defined in the law (faults; account clarification; and termination of contract), a human response must be provided within 6 minutes of the contact.

On September 23, 2019, the Electricity Authority's Resolution No. 6 of Session 565 was adopted, to amend consumer standards. The aforementioned decision provided an essential service provider with the possibility of exceeding the statutory waiting time in both an exceptional event and a load of call center inquiries, and a general exception at a restricted rate of 15% of all calls received regarding fault handling, account clarification, and contract termination at the call center (at a half-yearly average calculation).

It should be noted that in other matters, too, (not defined in the "6 minutes" law) the Company is obliged to act and acts in accordance with the criteria and in accordance with the provisions of the Consumer Protection Law, whereby the waiting time for human response generally does not exceed 3 minutes, but when the waiting time for human response is expected to exceed 3 minutes, it will be brought to the consumer's knowledge by voice response no later than two minutes from the start of the call, and the consumer will be given the option of leaving a message for a return call, when the consumer's waiting for a return call will not exceed the times set in the resolution.

The Company has been preparing to implement the law and is making great efforts to provide human response in as short a time as possible.

On December 2, 2020, the Electricity Authority adopted a decision, which was published on December 4, 2020, concerning an update of the payments table with respect to criteria violations, within which the Authority updated the existing payment table with respect to violations of criteria and added two new types of violations: exceeding a waiting time of 6 minutes at the 103 call center, examining the accuracy and working order of meters, cessation of electricity consumption services initiated by the consumer, consumer replacement, the mailing date of amended bills, connection of consumers 6 hours following the payment of their debt. The updated rate table 1-12.1 was published in the Official Gazette on July 4, 2021, and will enter into effect from January 4, 2022.

10.1.3. Changes in the volume of operation in the field and its profitability

The Company estimates that the major factors that may affect the volume of the Company's operation in the field of supply are regulation and rules of competition that will be determined in the sector in accordance with the criteria to be determined by the Electricity Authority. The Company's compliance with the efficiency goals detailed in the rate that entered into effect as of 2018 and the structure of the rate that will be determined in future may affect the profitability of the Company in this sector.

10.1.4. Critical success factors in the field of operation and the changes occurring therein

The Company estimates that the business success of the supply segment mainly depends on the Company's ability to improve efficiency both in terms of the Company's costs and structurally and in the professionalism of its employees by providing quality service to its customers. In addition, fair competition conditions are required, including an effective rate structure.

10.1.5. Main entry and exit barriers of the field of operation and the changes occurring therein

Entry barriers

The Company estimates that the main entry barrier to the field of operations is the receipt of a supply license.

Exit barriers

The regulation which regulates the operations of the Company and its being an "essential service provider", in accordance with the Electricity Sector Law and the provisions of its licenses, obligates it to supply electricity to the general public, reliably and efficiently, in accordance with the conditions of its license, are the main exit barriers from the area of activity.

For details of the Structural Change, under which, inter alia, changes will be made in the supply segment, see Note 1e to the Financial Statements.

10.2 Products and services

The main services in the supply segment include preparation and Issue of invoices and collection actions, customer call center, frontal customer service and customer account managers.

10.3 Segmentation of revenues products and services

For details of the Company's revenues from electricity sales that were attributed to the supply segment see Note 36 to the Financial Statements.

10.4 Competition

Private producers holding a supply license in addition to the generation license, which enables them to also serve as suppliers to end consumers, and private suppliers that do not possess generation facilities, leads to a reduction in the Company's activity in this sector accordingly. For details of the Government's resolution regarding the reform and its effects on the supply segment, see section 10.1.1 and Note 1e to the Financial Statements.

On August 20, 2020, the Electricity Authority decision, concerning principles for the gradual opening of the supply sector in the electricity sector to new suppliers and supply to domestic consumers, was published. In accordance with the said decision, the total output allocated to the pilot is 400 MVA in the first phase, and 100 MVA of the said output will be allocated to competition over domestic consumers only. The principles set out in the decision were set for a period of two years, during which the regulation was examined for the purpose of implementing competition in the supply market. The suppliers purchased all the electricity supplied to their consumers from Noga, on the basis of a rate mechanism specified in the decision.

In addition, on March 3, 2021, the Authority published a decision regarding the determination of regulations for suppliers who do not have generation means and amendment of criteria for existing suppliers. This decision regulates the principles set forth in the Authority's decision of 20 August 2020, including regulating how consumers are assigned to a private supplier, how transactions are concluded, switching between suppliers and paying an account. The supply sector in the electricity sector is gradually opening up to new suppliers and supply to domestic consumers, in accordance with an up-to-date schedule for the opening of the supply sector for competition, as published by the Electricity Authority on March 3, 2021, the regulation commenced in September 2021.

Furthermore, on January 24, 2022, the Electricity Authority published a decision under which the quota set for private suppliers will be increased by 1000 megawatts-ampere cumulatively. Following this, on June 29, 2022, the Electricity Authority published a decision updating this last one and increasing the quota by an additional 40 megawatts, conditional on the approval of the System Manager to transfer all the applications for assignment that have been submitted.

On December 26, 2021, the Electricity Authority published a decision on "Updates, changes and additions to consumer criteria for the purpose of opening the supply sector". In light of the opening of competition in the supply sector and for the purpose of distinguishing and separating the distribution sector from the transmission for the various consumers, the Authority established amendments and clarifications of concepts and processes set forth in the criteria. A new criterion was also set, regulating the procedure for exchanging consumer ownership for tracts of land.

On September 7, 2022, the Electricity Authority published a decision regarding the market model of distribution which regulates the activity of the generation facilities that are connected or integrated into the distribution grid, so that in practice, as of January 1, 2024, the Authority allows the sale of electricity in bilateral private transactions to private suppliers that do not possess generation facilities, and this in pursuit of opening the supply market to competition. As part of this decision, all the existing quotas set until now in this matter are removed.

On February 23, 2022, the Company received the Authority's decision regarding rules for installation of smart meters. Within the framework of the decision, the Authority is promoting a number of steps that will help to increase the exposure to competition within the framework of the deployment of smart meters in the market. These changes include providing the consumers with the possibility of ordering a smart meter and setting a rate for this service, and setting rules for the installation of smart meters by an essential service provider such that if a smart meter is required or ordered at a consumerism location, all the meters at the consumerism location will be replaced with smart meters.

To the best of the Company's knowledge, as on the statement of financial position approval date, 37 generation licenses were granted to suppliers who do not have means of production. For details regarding the Authority's decisions pertaining to the issuance of supply licenses to suppliers without means of production, the amount of the quota allocated to the supply pilot and its expansion, the opening of the supply market to competition while removing the existing quotas, and granting the possibility to execute bilateral transactions, see Note 3q to the Financial Statements.

As of the end of 2022, approximately 1,761 large customers, purchasing electricity at approximately 5,249 consumption locations, have transferred to purchasing electricity from private suppliers. Furthermore, the Company estimates, in light of the opening of the Supply segment to full competition, that this process is expected to continue in 2023 onwards and even intensify, especially for domestic customers, although the Company has no certainty at this stage as to the number of customers that will transfer to the private suppliers and the expected implications on the Company in the medium and long term.

The Company's estimates regarding the possible implications of the transfer of customers to other suppliers and the opening of the supply sector to competition constitute forward-looking information, as defined in the Securities Law. These estimates are based on information available to the Company at the date of the report, and may not materialize or materialize partially or in a different manner than expected, inter alia, in light of the fact that their materialization depends on various factors, some of which are not under the Company's control, such as: the volume of entry of other suppliers into the electricity sector, the manner in which the rate will be determined, and the costs that will be recognized for the Company in practice.

Impact on profitability in the consumer services segment (supply):

The Company's revenues in the supply segment, which constitute part of the costs with respect to consumer services, currently constitute only 2% of its total revenues and are collected from the Company's customers through a fixed payment that is not dependent on demand.

As of the date of publication of the report, most of the customers are customers of the Company. In light of the fact that the segment's revenues constitute a small share of the Company's total revenues, as aforesaid, under the current rate mechanism profitability is not expected to be materially affected by the transfer of additional customers to other suppliers, but this may have indirect effects, especially with the opening of the supply segment to full competition.

10.5 Environmental risks and manner of their management – supply segment

For details of environmental risks that the Company's operation is exposed to in the supply segment see section 7.12.

10.6 Legal Proceedings

For details regarding legal proceedings and a class actions, including proceedings with respect to the supply segment, see Note 35b to the Financial Statements.

Part 4: Description of the Business Affairs of the Company – Information Relating to Matters that Pertain to the Operations of the Company as a Whole

Information relating to matters pertaining to the activity of the Company altogether – general

Further to the information that has been described above, which addresses each sphere of operations of the Company on an individual basis, information that pertains to matters that relate to the operations of the Company as a whole has been recorded below. The information that appears in this part, along with the information that appears above, reflects a description of all of the areas of business of the Company on a consolidated basis.

11. Customers - electricity consumers

11.1. As on December 31, 2022, the number of customers of the Company stood at approximately 3,016 thousand customers, in comparison with 2,963 thousand customers on December 31, 2021, representing an increase of approximately 53 thousand customers. The electricity consumption in 2022 was approximately 48,681 million kWh, which constitutes a decrease of approximately 2,856 million kWh in comparison with 2021.

11.2. Classification of Company customers

The Company classifies its customers into households, the industry, public and commercial, water pumping, agriculture, the East Jerusalem Electricity Company and the Palestinian Authority.

The table that appears below shows the electricity data by customer types in the twelve-month period that ended on December 31, 2022, and 2021 (in millions of kWh, and in percentages) (for details of Company revenues according to customer types see Note 27 to the Financial Statements):

	Total electricity consumption In percent	2022	Total electricity consumption In percent	2021
Domestic	46	22,313	41	21,106
Industrial	7	3,244	14	7,415
Public and commercial	28	13,659	26	13,227
Water pumping	3	1,626	4	2,330
Agriculture	2	923	2	936
East Jerusalem Electricity Company	4	1,850	4	1,864
Palestinian Authority	10	5,066	9	4,659
Total	**100**	**48,681**	**100**	**51,537**

11.2.1 The domestic sector – as of December 31, 2022, the Company is serving approximately 2.66 million households, which represent almost all of the households in the State of Israel. This is similar to the statistic for December 31, 2021.

In the year that ended on December 31, 2022, the revenues from the domestic sector increased by approximately 12.7%: the increase in revenues derives from an increase in the domestic consumption by approximately 5.7%. alongside an increase in the average price of approximately 6.6% relative to the corresponding period during the preceding year.

11.2.2 The public-commercial sector includes the consumption of electricity by commercial premises, shopping centers, various businesses, and authorities of the public sector, such as: local authorities, Government ministries and schools.

The revenues of the public-commercial sector increased by approximately 12.7%:

The increase in revenues derives from an increase in consumption of the public-commercial sector by approximately 3.3% alongside an increase of the average price of approximately 9.2% relative to the corresponding period during the preceding year.

11.2.3 The industrial sector – this section includes electricity consumption by industrial plants, as well as from suppliers and private electricity producers until November 1, 2021 (due to the sale of the system management activity to the Noga Company – see Note 1e to the Financial Statements), therefore the revenues of the industrial sector decreased by approximately 36%.

The decrease in revenues derives from a decrease in consumption of the industrial sector by approximately 56% alongside an increase in the average price of approximately 46% relative to the corresponding period the preceding year.

Nonetheless, when neutralizing the "purchases from suppliers and private electricity producers", then the revenues of the industrial sector decreased by approximately 3.8%.

The decrease in revenues mainly derives from a decrease in consumption of 15.3% alongside an increase of the average price by approximately 13.6% relative to the corresponding period the preceding year.

11.2.4 Water pumping is required in order to supply drinking water and irrigation water for other purposes.

The revenues of the water pumping sector decreased by approximately 18.1%:

The decrease in revenues derives from a decrease in consumption of the water pumping sector by approximately 30.3% alongside an increase in the average price of approximately 17.4% relative to the corresponding period the preceding year.

11.2.5 The agricultural sector

The revenues of the agricultural sector increased by approximately 8.1%:

The increase in revenues derives from a decrease in consumption of the industrial sector by approximately 1.4% alongside an increase in the average price of approximately 9.7% relative to the corresponding period the preceding year.

11.2.6 The East Jerusalem Electricity Company

The revenues of the East Jerusalem Electricity Company ("**EJEC**") increased by approximately 11.2%:

The increase in revenues derives from a decrease in the percentage of consumption of EJEC by approximately 0.8% alongside an increase in the average price of approximately 12% relative to the corresponding period the preceding year.

For details of the debts of EJEC to the Company and legal proceedings which were conducted between the Company and EJEC, as well as concerning steps taken by the Company in light of the extent of the debt accumulated by EJEC, see Note 6c of the Financial Statements.

11.2.7 The Palestinian Authority

The revenues of the Palestinian Authority sector increased by approximately 21.1%:

The increase in revenues derives from an increase in the consumption of the Palestinian Authority sector by approximately 8.7% alongside an increase in the average price of approximately 11.3% relative to the corresponding period the preceding year.

Payments by the Palestinian Authority and the East Jerusalem Electricity Company are executed though transfer of payments by the Palestinian Authority and by the East Jerusalem Electricity Company, and by transfers received by the Company from the Ministry of Finance, out of the amounts credited to the Palestinian Authority at the Ministry of Finance. For details of the Palestinian Authority's debts to the Electric Company and an agreement of principles to resolve these debts and to regulate the Palestinian electricity, and agreements signed by the Company with the Palestinian Transmission Company (PETL) to connect substations to the Electricity Authority by virtue of the aforesaid agreement of principles, see Note 6c to the Financial Statements.

11.3 Types of electricity charge rates

In accordance with the provisions of the Electricity Sector Law, the Electricity Authority determines separate electricity charge rates for the Company for its different sectors of activity. However, most of the electricity consumers (consumers of “domestic”, “general” electricity charge rate and some “public street lighting”, in accordance with what is stated below) pay, for electricity, one weighted uniform charge rate for the entire year, which includes all of the segments of operations of the Company.

In accordance with the provisions in the Book of Criteria, as of the date of the report, the electricity charge rates for the consumer are divided into four types, as follows:

(A) Uniform charge rates – a charge rate that is calculated on the basis of an annual average in accordance with the “load and time charge rate” (in accordance with that which has been stipulated below) and the characteristics of the consumption hours of the group to which the consumer belongs. The groups for this purpose are as follows: (A) “domestic” – homes that are used for the purpose of residence only, buildings for agricultural purposes and places of worship; (B) “public street lighting” – street and public garden lighting; and (C) “general” – an electricity charge rate that is intended for buildings that are used for workshops, industry or commerce, including educational and cultural institutes, absorption centers, buildings that are used by non-profit associations and institutions, clinics, hospitals, Government ministries and buildings that are temporary connected (in other words, relates to the other consumers at a uniform charge rate that is not the “domestic” or “public street lighting” charge rate);

(B) “Bulk” (a charge rate that applies to the sale of electricity to the Palestinian Authority);

(C) “Load and time charge rate” – a charge rate that is calculated in accordance with the load of the system and the consumption time;

(D) A “concentrated sales charge rate” – an electricity charge rate for low and medium voltage consumers that distribute and provide electricity to others.

The load and time charge apply on a mandatory basis to all high voltage, medium voltage and low voltage consumers whose connection size is 3X200 amperes or more, or whose annual consumption exceeds 40,000 kWh. The load and time charge rate is based on the marginal costs in the system and is intended to create a direct connection between the costs of electricity generation and supply at the various times and the price that the consumer pays. In the electricity bill of load and time charge rate consumers, consumption is listed by different hour clusters (in accordance with the seasons of the year, the day of the week and the time of the day) and they have a programmable electronic meter installed for the purposes of this charge rate. The kWh prices for the load and time charge rate also vary in accordance with the supply voltage. In addition, each uniform charge rate consumer to which the mandatory load and time charge rate does not apply can ask to enroll in an optional load and time charge rate.

On August 28, 2022, the Electricity Authority published a decision regarding an update of the demand hour clusters. For additional details see Note 3ab.

As of December 31, 2022, the total number of consumers who use the load and time charge rate is approximately 104,469 in comparison with 115,999 consumers as of December 31, 2021. In other words, approximately 3.5% of the total number of consumers consumes approximately 39% of the total annual electricity consumption.

As of December 31, 2022, the total number of consumers using the “domestic” charge rate is approximately 2.66 million, in comparison with approximately 2.61 million for December 31, 2021. In other words, approximately 88% of the total number of consumers consumes approximately 46% of the total annual electricity consumption.

12. Seasonality

The demand for electricity in the State of Israel is seasonal. The seasons in this context are defined as the summer (July to August, inclusive), winter (December to February, inclusive) and the transitional seasons – spring (March to June, inclusive) and autumn (September to November, inclusive). The demands are higher during the summer (due to the use of air conditioners) and in the winter (due to the use of heating appliances) than in the transitional seasons (autumn and spring). In the winter and summer, the average electricity consumption was higher than that in the transitional season and also features days of peak demand due to extreme conditions of heat and cold.

	Breakdown of Revenues from Electricity, net, for 2022 and 2021				
	In NIS million				
	Q1	Q2	Q3	Q4	Total
2022	5,790	4,652	7,257	5,135	22,834
2021	5,031	4,878	7,193	4,821	21,923

13. Research and development

The Company's Innovation Unit was established in 2020 with a budget of approximately NIS 20 million, of which approximately NIS 5 million are for research and development. The innovation in the Company under the unit is divided into two main fields: open innovation, i.e., joint work with start-ups in technological pilots, with the Electric Company providing the program envelope, expertise and platform (i.e., the electricity grid and infrastructures unique to the electricity and energy sector for examining new technologies) while the start-up brings its technology. The second field in which the Company focuses is intra-organizational entrepreneurship through various platforms, from a social platform, through workshops and courses to an intra-organizational entrepreneurship incubator whose first cycle has ended and products planned within its framework are expected to undergo a process of commercialization in the coming years. In the field of research and development, it has been agreed to collaborate with leading universities such as: joining the National Energy Center at Bar Ilan University, publishing a call for proposals to the academy, and signing initial agreements with R&D providers to build solutions to the challenges of electricity companies.

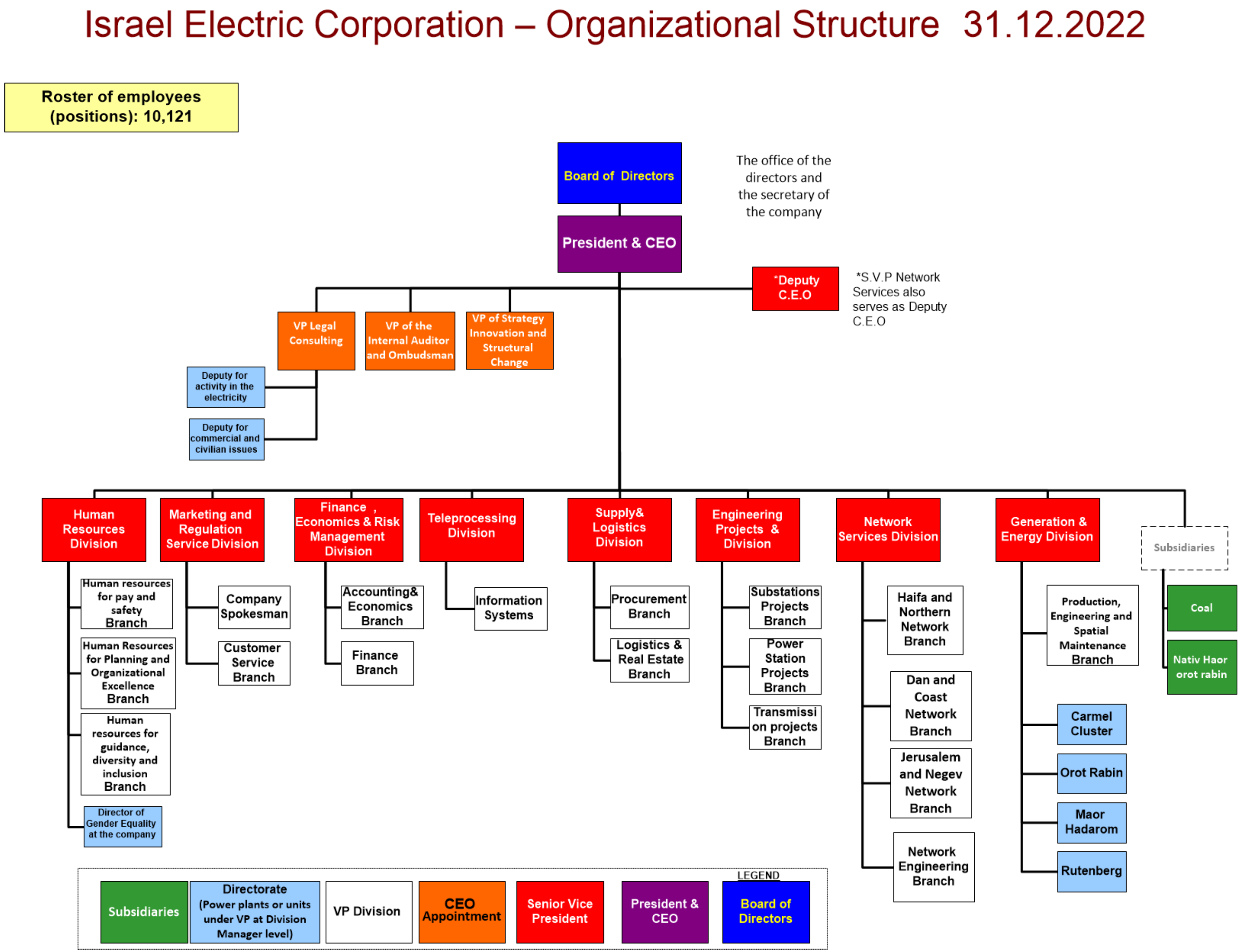
Promotion of Technological Ideas (PTI) and Investments

PTI – Promotion of Technological Ideas ("KARAT") was the technological incubator of the Company. Until 2019, the incubator invested a total of approximately NIS 40 million in approximately 22 companies through convertible loans. With the publication of the 2018 Government Companies' innovation circular[28], the different outline for investments in Government companies in 2017, and the Government's resolution on the subject in 2018, the manner of working in the Company was changed. While the Company is working to exercise its rights in the existing PTI investments, the Company is actively seeking investments in its core fields through the new mechanism. In 2021, the Company invested USD 1 million in the EGM Company, which produces a network monitoring solution. In 2022, the Company invested approximately USD 2 million in the Prisma Photonics Company whose area of activity is monitoring and managing long-range infrastructures (such as electricity grids) through the use of optical fibers. It is noted that the Company holds shares of some of the PTI companies at various rates which are not material to the Electric Company and usually do not exceed 5%.

[28] Government Resolution 3837 on innovation plan in government companies and conditional approval under the Government Companies Law to establish or purchase companies in the field of innovation of May 24, 2018.

14. Human capital

14.1 Organizational structure of the Company



14.2 Employee roster by areas of operation

The personnel roster (number of positions) as of December 31, 2022, is as follows: 10,121 employee positions, in comparison with 10,847 employee positions as of December 31, 2021. These data do not include 280 positions of employees employed by special employment (trainees and employees with disabilities).

As on December 31, 2022, 10,716 employees worked at the Company compared to 11,103 employees as on December 31, 2021. The segmentation of the job roster by segments reflects the organizational assignment in the Company and not the internal reciprocal activity, which is done between the units of the Company in the different segments.

The employee roster at the Company in the two years preceding the date of the report is as specified below:

Field	Employee roster (positions)	
	As of December 31, 2022	As of December 31, 2021
Generation	1,756	*1,900
Customer Service (Service, Marketing and Regulation Division, and Communication and PR, and Customer Service Section)	722	799
The electricity grid (grid services division, the sections of Haifa and the North, Dan and the Coast, Jerusalem and Negev, and the grid engineering section).	**3,636	**3,651
Headquarters (General Administration, Wages, Organization and Safety Division, Human Resources Section, Human Resources Division, Planning, Development and Technology Division, Finances, Economics and Risk Management Division, Accounting and Economics Division, Finances Division, Strategy, Innovation and Structural Change, Teleprocessing Division, Information and Teleprocessing Systems Division	1,151	1,179
Service (Operation and Logistics Division, Procurement Division, Logistics and Assets Division)	1,121	1,188
Engineering projects (Engineering Project Division, Transformation Project Section, Transmission Project Section, Generation Project Section)	***1,735	***1,770
Total:	**10,121**	**10,487**

* Without the electricity system in 2021

** Including employees working in the construction of the electricity grid.

*** Working in the construction and renovation of power stations, construction of substations and switching stations, and construction of extra-high and ultra-high transmission lines.

For details regarding a material process of organizational change and efficiency plan which are expected to be implemented in the Company as part of the structural change, see Note 1e to the Financial Statements.

That stated above and in the Financial Statements regarding structural change and an efficiency plan in the Company constitute forward looking information, as it is defined in the Securities Law. This information is based on information held by the Company as of the date of the report and on future data, whose materialization is not certain and not under the Company's control, but is dependent on the implementation of the structural change which requires regulatory approvals and consents, regulation by the Electricity Authority, and license granting by the authorized entities in the state, insofar as will be required under the law, all of which are not under the Company's control.

14.3 Changes in employee roster

The change in the employee roster on December 31, 2022 compared to December 31, 2021 was due to a decrease in the number of permanent employees, which was mainly due to the early retirements that took place during 2022 (as a result of the implementation of the collective agreement of May 17, 2018 on reform and structural and organizational change), and from the sale of power stations.

For further details regarding the collective agreement reform and the special collective agreement, see Note 12f to the Company's financial statements.

For details on the outline of principles under which, inter alia, the Company will undergo a material process of organizational change and efficiency plan, see Note 1e to the Financial Statements and section 1.3 above.

14.4 Training and instruction at the Company

The Company's training campus for electricity, energy and the environment is intended to provide support for the improvement of the performance of the Company and in order to raise the level of the human, academic and professional capital. The division provides vocational training in the primary areas in which the Company is engaged and also provides the certifications that are required by the various Government ministries such as the Ministry of Labor and the Ministry of Transportation, in accordance with laws and regulations.

The training system is structured according to professional fields that provide training guidance to all of the Company.

The following are the main professional fields:

- Electricity and grid - training in the field of electricity and the grid professions
- Operating - providing a response to shift workers
- Machinery - mechanical training, natural gas, including welding courses, contractor inspection, pipe fittings and more.
- Accreditation Authority - providing solutions for employees working at heights, cranes, forklifts, lift platforms and more
- Control, computers and cyber
- Training development - implementation of new technologies as a means of assimilating knowledge, mobile technology, courseware, instructional videos, and more
- Customer service – training service representatives for the 103 call center, service workshops, training team leaders, call-center managers, shift officers
- Energy-Tech professional high school – training 12th year graders in the field of industrial machinery and electricity
- Or Ha'atid High School – support for curriculum, counseling, and placement

The Center for Leadership and Business Management:

The Center for Leadership and Business Management is responsible for processes for development of managers in the Company, and works to design and adapt the organizational-managerial culture, to a business company in a competitive market, by creating an ongoing multi-channel learning process.

Executive development processes include group training (heterogeneous and organic), counseling, personal mentoring, and peer learning.

The expenses for training and instruction at the Company for 2022 and 2021 were approximately NIS 147.6 million and approximately NIS 151.8 million, respectively.

14.5 Employee compensation plans, benefits and employment agreements

14.5.1 Employment agreements

The labor relations in the Company are regulated by the labor legislation and are subject to various provisions of the law, including the Budget Foundations Law. Additionally, the labor relations are arranged within the framework of collective agreements (hereafter: the "**Employment Agreements**"); these constitute a binding formula for the Company with respect to the hiring and the termination of employees, terms of employment, labor relations, and the rights and the responsibilities of the parties.

The Employment Agreements apply to all of the employees at the Company, with the exception of personal contract employees with the qualifications mentioned here.

The Employment Agreements itemize most of the terms of employment of the employees of the Company, including: salaries and terms of service, eligibility for an energy allowance (eligibility of the 6,597 permanent employees of the Company and 7,671 pensioners and surviving relatives to electricity for home consumption and personal use in their residential apartments at the rate of Company employees – namely – without cost up to an annual ceiling of 18,000 kWh per year, including grossed up tax with respect to it and subject to criteria in the Company's procedures), work and rest hours, overtime work, shift work conditions, paid leave (vacation, illness, etc.), retirement conditions[29] and more.

In addition, the Employment Agreements include various instructions that pertain to the management of the human resources of the Company, including: the procedure for the hiring of employees and the procedure for the termination of employees (including limitations over the reasons for which Corporation employees may be

[29] The terms of retirement are governed by the Pension Regulations for Employees of the Israel Electric Corporation, dating from 1958; by the regulations of the Central Pension Fund; and by various Company procedures and provisions.

terminated, the manner of the execution of the termination procedure and the circumstances in which it is necessary to receive the consent of the labor union to the termination of employees); restrictions with respect to the mobility of staff from function to function; disciplinary procedures and so on. Changes and updates in the Employment Agreements are made from time to time, including following negotiations between the management of the Company and the New General Labor Federation and the national labor committee for the employees of the Company, and they require the approval of the Government Companies Authority, the Commissioner of Wages and Employment Agreements at the Ministry of Finance and the Board of Directors of the Company.

The Company's employees can be classified into two groups: administrative rank employees and professional rank employees (including engineers, academics and jurists, practical engineers and technicians). The Company has a single salary table, with each rank in the administrative ranking having a corresponding rank in the professional ranking. The pension rights of employees and other rights in connection with termination of employer-employee relations vary according to the group to which the employees belong, as detailed below.

As of November 2018, the special collective agreement signed on May 17, 2018, concerning reform and structural and organizational change in the Company, came into force. This collective agreement, anchors the agreements reached in the area of labor relations following the structural change which includes the expected reform in the electricity sector in general and in the Electric Company in particular, including the implications of the organizational change and the efficiency plan in the Company, on the employees (the "Collective Agreement"). This collective agreement has been approved by the competent authorities. For the main points of the collective agreement and complementary and supplementary collective agreements issued following it, see also Note 12 to the Financial Statements.

In addition, for details regarding the collective agreements between the Company, the New Labor Federation and the National Employees Union, signed on November 30, 2020, see Note 12f1a and b to the Financial Statements.

Special collective agreement (retirement as a pensioner of Generation C employees)

A collective agreement was signed in April 2022, applying to Generation C permanent employees insured by the cumulative pension, and regarding which terms were set for retirement as Company pensioners, grants they will be entitled to on the retirement date and additional rights as pensioners of the Company. On May 16, 2022, the agreement entered into effect after receiving the approval of the Commissioner of Wages.

Special collective agreement regarding the extension of employment of temporary employees

A collective agreement was signed on August 3, 2022, regarding continuing temporary employees. The agreement entered into effect on August 15, 2022, after the approval of the Commissioner of Wages was received. The agreement allows the Company to extend the employment of temporary employees recruited to work without a time limit, and at the same time, the management is given flexibility to terminate the employment of employees in a situation of incompatibility for work or a redundant position or profession in the Company, under the terms defined in the agreement. The agreement arranges the terms of employment of these temporary employees after the basic temporary period (4/5 years) and their rights during the work period and at its end.

14.5.2 Employee relations and the conclusion thereof

The employment relations in the Company are based primarily on the principles set in the labor agreements and arrangements. The Employment Rules and the procedures prescribed thereunder constitute the primary normative source in all matters that pertain to employment at the Company, the conclusion of employment, labor conditions and employment relations. The contractual effect of the Employment Rules, whose legal status is of a bilateral collective agreement, expired on December 31, 2015, pursuant to the provisions of the Employment Rules for employees of the Electric Company of March 25, 2002, which is a collective agreement, but the Company continues to operate thereunder.

Within the framework of the collective agreement of May 17, 2018, an agreed framework was set for updating the labor relations, changing the organizational culture in the Company, and principles of structural change and efficiency. Amongst others, the following issues were arranged:

A decision mechanism for disciplinary proceedings in the Company by means of a jurist serving as an external deciding jurist, the powers of the Company's management have been expanded with respect to publication and carrying out internal tenders for the positions of department heads and in connection with mobility of employees, cancellation of eligibility for electricity at a company rate for new employees, consent regarding change of the incentive pay method and salary structure, and other issues in the field of labor relations.

See Note 35c to the Financial Statements with respect to the labor disputes as of the date of this report.

14.5.3 Salary irregularities and their resolution

As a government company, the Company is subject to Section 29 of the Budget Foundations Law which effectively limits its abilities to operate independently on wage issues and benefits to its employees, and imposes upon it a commitment to receive the approval of the Commissioner of Wages on these matters.

14.5.4 Central pension provident fund

Commencing from March 8, 2005, the Company has been depositing money for covering the pension liability for employees that are insured by a budgetary pension arrangement (employees hired up to June 10, 1996) in the central pension provident fund ("**the Fund**"). See Note 12j1 to the Financial Statements for additional details, including with regard to the Company managing the central pension provident fund, the gap between the actuarial calculations of the Company and those of the managing company.

14.5.5 The trust fund for non-budgetary pension components

For details of the Trust Account, see Note 12k to the Financial Statements.

14.5.6 Permanent employees

As of December 31, 2022, the Company has 6,565 permanent employees. A permanent employee is one who has received tenure in accordance with the procedures of the Company. This group of employees is divided into those who are insured in the budgetary pension arrangement (employees who started to work at the Company by June 10, 1996), in accordance with the pension regulations for the employees of Israel Electric Corporation of 1958 and the regulations of the Pension Central Providence Funds of the Employees of Israel Electric Corporation; and employees (who started their work at the Company on June 11, 1996, and onward) who are insured in accumulating external pension insurance funds.

14.5.7 Special agreement employees

As of December 31, 2022, the Company has 357 special agreement employees – an employee who is hired for a non-permanent position, for performing a defined task that lasts for a set period, such as: the construction of power stations or substations. The compensation that will be paid to special agreement employees, at the time of their termination shall be enlarged as follows: for the first two years of work, compensation at 200% for each year of employment, and for the third year onward, compensation at 300% for each year.

14.5.8 Temporary employees

As of December 31, 2022, the Company has 963 temporary employees - an employee who is hired for a task that is not as specified with respect to a special agreement employee. The compensation that will be paid to temporary employees will be as required by law.

For details concerning the employment extension of temporary employees, see Note 12f6 to the financial statements.

14.5.9 Special agreement temporary employees

As of December 31, 2022, the Company has 1,740 temporary special agreement employees – a temporary employee who has worked for less than two years at the Company and who was recommended by his superiors to be transferred to temporary status under a special agreement. The compensation that will be paid to temporary employees in a special agreement will be as required by law.

14.5.10 Continuing temporary employees

As of December 31, 2022, the Company has 515 continuing temporary employees – a temporary employee for an unlimited period of time. The compensation to be paid to continuing temporary employees will be as required by a collective agreement.

14.5.11 Personal agreement employees

As on December 31, 2022, the Company has 130 personal contract employees, which prescribes the salary and regulates all of the terms of employment of each employee at the Company. In addition – the Company employs 118 trainees and apprentices and 4 scholarship recipients who are working within the "Enlightened Future"[30] project, and 318 temporary employees in the "Nitzan Or" Project, a project that provides employment solution for disabled workers, as well as 6 part-time students.

[30] "Enlightened Future" is a project in which scholarships are granted to outstanding students from peripheral regions who are studying subjects at universities in Israel that are in demand at the Company. In the framework of this project, students work at the Company during their studies; in exchange for scholarship grants, the students agree to work at the Company upon their graduation for a commitment period of several years.

According to the collective agreement of May 17, 2018, from the agreement's entry into effect, the Company will be permitted to employ up to an additional 160 managers and employees according to criteria set in the collective agreement, by personal contract and not according to the collective agreements that apply to the Company's employees. A transition of senior management members to personal contracts began in December 2018. The Company will man all the management positions (deputy branch head and higher) with employees employed by personal contracts. As of December 31, 2022, the vast majority of managers at the level of Deputy Head of Section and above were transferred to personal contracts.

14.6 Compensation of employees that are not office holders

In general, the Company has no compensation plans for employees who are not officer holders (as the term is defined in the Companies Law), except the following:

The Board of Directors of the Company is allowed to decide to pay a bonus to the employees of the Company with respect to the Company's excellence and success, subject to the provisions of the circular of the Companies Authority[31] (in this section – the "**circular**"), which state, *inter alia*, that the distribution of a bonus to employees will not be permitted unless threshold conditions are fulfilled and with the approval of the Government Companies Authority. It was determined within the circular that the cost of the bonus to the Company (including all payments involved that the Company must pay for payment of the bonus) is not to exceed 10% of the net annual profit of the Company according to the approved financial statements of the Company and that no distribution of bonus to employees will be permitted if no dividends have been distributed in the year for which the bonus is requested, except with extraordinary approval of the Director of the Companies Authority. The bonus will be paid to the employees immediately following the dividend transfer to the State. The circular also determines that the bonus will be differential and will be distributed according to criteria decided upon by the Board of Directors and under a procedure based on employee evaluation, provided that it will not exceed two salaries. A uniform bonus level should not be determined for all the bonus receivers, and at least a quarter of the Company's employees will receive a bonus that will not exceed half a salary.

Employees at the level of branch managers (who are "senior officials" in accordance with the meaning of the term in the Government Companies Law, and who are not office holders) are entitled to an annual remuneration in accordance with the annual remuneration model determined in accordance with the Government Companies Authority circular – "Principles for the incentive and compensation model for senior employees in government companies[32]" (the "**Compensation Circular**"). The model, as well as the payment according to it, are approved annually by the Remuneration Committee, the Company's Board of Directors and the Government Companies Authority.

In addition, in 2022, the Government Companies Authority gave its approval to pay an annual remuneration to 75 employees at the level of Branch Deputy Managers in the Company employed on a personal contract, in accordance with the model determined on the basis of the principles of the said circular, and with the approval of the Company CEO.

Employees at the level of Branch Managers and employees at the rank of Deputy Managers of Branches will be collectively referred to in this section as "Senior Employees".

In September and October 2022, NIS 5.6 million in remuneration was paid to senior employees, after receiving the required approvals. As of December 31, 2025, the Company employs 98 senior employees who are employed under a personal contract and are entitled to the said remuneration.

14.7 Compensation policy regarding office holders at the Company

On November 18, 2021, the Company's Board of Directors, pursuant to the recommendation of the Remuneration Committee of November 4, 2021, approved the updated compensation policy of the Company for the office holders ("Compensation Policy"). The compensation policy was approved by the general meeting on February 3, 2022.

In accordance with the remuneration policy and the Compensation Circular, office holders of the Company who are not directors are entitled to annual remuneration in accordance with the annual remuneration model, submitted annually for approval by the Remuneration Committee, the Board of Directors and the Government Companies Authority.

[31] Circular of the Government Companies Authority 2013-7-2 dated June 2, 2013.

[32] Circular of the Government Companies Authority 2017-3-1 dated September 17, 2017. As of the 2022 work year, circular 2021-7-2, which is based on the 2017 circular, will apply from February 2, 2022.

After the plenum of the Board of Directors received the recommendation of the remuneration committee, to approve personal remuneration with respect to 2021 for officers employed by personal contracts, pursuant to the remuneration policy, remuneration in the amount of approximately NIS 1.5 million was paid in September 2022 to 11 office holders, after receiving approval as required by the Government Companies Authority.

As of December 31, 2022, there are 9 office holders as this term is defined in the Companies Law, who are employed under a personal employment agreement in a form that has been approved by the Companies Authority and according to the instructions of the Authority. For details of the Compensation Policy and the terms of office and employment of the office holders of the Company see section b.6 of the Report of the Board of Directors.

14.8 Structural / Organizational change - economization plan

Regarding the structural change which includes the reform of the electricity sector, and the collective agreement on the reform and the structural and organizational change in the Company and the retirement and efficiency plan therein, see section 14.5.1 and Notes 12f and 1e to the Financial Statements.

14.9 Labor disputes

On August 1, 2021, the Chairman of the Histadrut's Trade Union Division declared a labor dispute regarding with ongoing unilateral conduct, which means a new creeping reform in the electricity sector and the Electric Company.
As of the date of approval of the Financial Statements, the Company is working in dialogue with the employees' organization and the State to continue the implementation of the reform and settle gaps and disputes with the employees' representatives and the National Labor Federation (Histadrut), as they arise. For additional details see also Note 35c to the Financial Statements.

14.10 Additional Provisions Regarding Rights of Contractor Employees in the Field of Guarding and Cleaning

Regarding the rights of employees employed by contractors in the field of cleaning and security, the Company is acting in accordance with specific legislation provisions and the lateral orders in the field of cleaning and the field of security.

15. Fixed assets, land and facilities

15.1 General

The Company owns the assets that it uses or possesses either within long term lease agreements (mainly with the Israel Land Authority) or pursuant to purchase or expropriation, or within rights that were extended to the Company by property owners (such as an easement or authorization of use at no cost that is not a lease, or possession rights that have a contractual regulation process) or within rights that the Company has by statute. The Company operates within a work plan for executing an arrangement and register of its rights to its principal assets, which may be registered and regulated, and tracks those that it cannot perform such a proceeding for. In addition, the Company has rights to thousands of small properties (mainly transformation rooms of different types) whose rights regulation and registration has begun, but are subject to restrictions in accordance with what is specified below. For a material part of the real estate assets, the rights of the Company are not registered or regulated. The Company has been leasing some or all of the assets, for a long period, and it is operating to sign contracts or arrange rights when these are not regulated or to evict squatters, if there are any. The status of the real estate assets that have not yet been regulated derives from a number of reasons, such as: planning reasons (absence of parcelization or demands for regulating outline plans, a large number of properties, dependence on outside parties, absence of documents), or disputes with various authorities, including the tax authorities, which prevent the receipt of approvals for the registration of the rights. In view of the aforementioned complexity, the Company cannot estimate the length of the period until the conclusion of the registration settlement, but it estimates that the costs involved in this are not expected to be material (see Note 13 to the Financial Statements).

In addition, the Company leases from various parties (such as the Israel Land Authority, local authorities, private entities) approximately 60 more properties that are used for various purposes, including: offices, storerooms, monitoring stations, temporary and portable substations. The agreements are made out for different periods of time, from one year to ten years and are renewed or updated in accordance with the needs of the Company in various places and for different purposes, the rental agreements for the properties, including the option period of the Company for their extension, end in 2023 to 2026. The Company believes that it will be able to renew the lease agreements under terms similar to those existing as of the date of the report.

The information on the preparations of the Company with respect to the assets registration costs and extension of the rental agreements is forward looking information, as per its definition in the Securities Law. There is no certainty with respect to such an estimate, this being, inter alia, due to it being based on the existing information at the time of the report and its dependence on various factors that do not depend on the Company, such as market conditions, the needs of the Company, agreements with the lessors and more.

The Company has created floating charges on all of its assets on which it is allowed to create charges for securing some of its liabilities, including on assets and rights as described, and three fixed charges for securing its liabilities towards various financing entities for the financing of Stage A of the Emergency Plan, financing the emission reduction project and financing Stage B of the Emergency Plan (see Note 20g to the Financial Statements).

For details of the structural change within which inter alia, the Company will be required to reduce its activity in the generation segment, including through sale of the sold generation sites, and for details of the action taken and being taken by the Company as part of implementation of the structural change, including the sale of the Alon Tavor, Ramat Hovav generation sites and the eastern part of the Hagit power station, see Note 1e to the Financial Statements and section 1.3.

For details of agreements entered into by the Company, the State, the Israel Land Authority, and the Tel Aviv municipality, regarding the assets arrangement in the electricity sector (the “**Arrangement Agreements**”), see the Company’s Immediate Report of January 3, 2018[33], and Note 1f to the Financial Statements.

[33] (Reference number 2018-01-001837)

The Company has two Head Offices in Haifa and in Tel Aviv, as follows:

	Name and location of the site	Nature and registration of the right	Land area in m^2	Comments
1.	Head management offices – Haifa	The rights of the Company to this property are lease rights of the ILA for a lease period that ends in 2048 with an option for the Company to extend this period for 49 years more. A cautionary remark is registered to the benefit of the Company for its rights. A parcelization proceeding was recently completed with respect to the asset, and the Company is now in the process of registering the rights in the asset under its name.	80,000	1. The land has comments registered for expropriations and an antiquities site. 2. An agreement exists with the Haifa Municipal Council whereby no additional parts of the parcel will be expropriated.
2.	Head management offices – HaChashmal St., Tel Aviv	Ownership of the Company is registered at the Land Registration Bureau.	14,540	There are two comments of use – structure listed for preservation. Part of this area is expected to transfer to the State in 2023 within the framework of the assets arrangement. For additional details see Note 1f to the Financial Statements.

The Company has eight logistics sites throughout the country that are located on land of approximately 600,000 m^2 which is used as storage areas.

15.2 Fixed assets

The fixed assets of the Company are divided into two key groups: operated fixed assets and fixed assets under construction. Operated fixed assets consist mainly of power stations (including land, buildings and machines), and substations, distribution grids, switching stations of 161 kV ultra-high voltage lines and 400 kV extra high voltage lines. The assets of the Company that are under construction consist mainly of power stations and buildings, substations and extra-high and ultra-high voltage lines.

The Company has assets (mainly distribution grids) in the territories of the Palestinian Authority. See Section 9.6 for details on assets of the Company that are in the territories of the Palestinian Authority.

15.3 Arrangement for the transfer of rights and assets pursuant to Section 62 of the Electricity Sector Law

Section 62 of the Electricity Sector Law states various provisions with respect to rights and assets that were held by the Company prior to the expiration of the Concessions that were given to the Company pursuant to the Electricity Concessions Order with (on March 4, 1996), despite the statements in Section 46 in Part A of the Addendum to the Electricity Concessions Ordinance.

For details regarding the engagement of the Company, the State, the Israel Lands Authority and the Municipality of Tel Aviv in agreements with respect to the assets arrangement, see Note 1f to the Financial Statements.

16. Intangible assets

16.1 Information and teleprocessing systems

The Company engages in the characterization, development and implementation of information systems and solutions that support business processes in the Company in the following fields: customer service and billing, the electricity chain, planning and construction of engineering projects, programs on security and safety, and programs that deal with managerial, business and logistic issues. In addition, the Company has extensive experience and knowledge that have accrued on the following issues: planning, hosting and operation of computer infrastructures on all types of platforms, telecom and command and control infrastructures and services, protection packages specialization in diverse IT architectures and technologies with emphasis on the protection of the cyber space, smart counting, integration of a SAP package, business information strategy as well as all stages of the lifecycle of large-scale IT and telecom projects. For additional details see Notes 2m and 14 to the financial statements.

16.2 Concessions

The Company owns a license for the use of VHF frequencies, and a license for the use of UHF frequencies and microwave frequencies.

17. Suppliers

The following table shows the material suppliers of the Company, rates of purchase that in 2022 exceeded 10% of the rate of purchases of the Company from suppliers throughout 2022:

Name of the supplier	Raw material	Acquisition rate
The Tamar Partners	Gas	16.78%

For details on the Company's contracts with the Tamar Partners and for details of an agreement entered into by the Company for the purchase of natural gas from the "Leviathan" reserve and the "Karish" reserve, see Note 35a to the Financial Statements.

18. Working capital – credit policy

18.1 Customer credit

For details of days of credit for customers and balance of credit to customers see section a6b4 of the Report of the Board of Directors.

18.2 Credit from suppliers

For details of days of credit from suppliers and average balance of credit from suppliers see section a6b4 of the Report of the Board of Directors.

19. Financing

19.1 General

The electricity charge rate for the consumers is determined by the Electricity Authority in accordance with the provisions of the Electricity Sector Law as stated in Note 3 to the Financial Statements. The electricity rate does not provide full cover for investments in fixed assets at the time of their execution, as they are recognized by spread across the life of the assets by recognition of depreciation, financing expenses and return on equity, and the Company is therefore required to raise most of the necessary financing for investments and for recycling the existing debt of the Company from external financing sources.

For details of the composition of the debentures issued by the Company in Israel and abroad, and for details of debt raisings and material repayments during 2022 and the Company's credit rating, see Note 20 to the Financial Statements.

For details of the Company's objectives to reduce the Company's debt-to-balance ratio and the decision of the Company's Board of Directors relating to the safety cushion of the Company, see section a1c1 of the Report of the Board of Directors.

19.2 Negotiable debentures

As of the date of the report, the Company has debentures (Series 26), (Series 27), (Series 29), (Series 30), (Series 31), (Series 32) and (Series 33) that are traded on the TASE. The aforesaid debentures have been issued over the years under the Company's prospectus or shelf offering reports and are secured by a floating charge. For additional details, see section D in the Company's Board of Directors' Report as on December 31, 2022.

19.3 Average interest rate of loans

The Company finances its actions using bank credit and non-bank credit. A breakdown of the average rate of the nominal interest and effective interest for the twelve-month period that ended on December 31, 2022, except for the loan for financing the gas transmission project (as detailed in Note 34b1 to the Financial Statements) that are not intended for the use of the Company, segmented by long-term credit from bank and non-bank sources, is provided below.

	Long term credit		Short-term credit	
	Average nominal interest rate (%)	**Average effective interest rate (%)**	**Average nominal interest rate (%)**	**Average effective interest rate (%)**
Bank credit sources	2.2	2.5	1.1	1.1
Non-bank credit sources	4.2	3.7	-	-

Credit with the Coal Company:

Short-term:

USD loans from banks at LIBOR + 1.6% interest (average interest rate of 4.1%).

For additional details regarding the interest rates for Company loans and debentures see Note 20a to the Financial Statements.

19.4 Restrictions applying to the Company at the time of receipt of credit

The ability of the Company to borrow from the Israeli banking system is limited because of the credit restrictions that apply in accordance with the Proper Banking Management Regulations of the Bank of Israel (Regulation No. 313). In accordance with these regulations, the Bank of Israel will not extend loans to a "single borrower" at a rate exceeding 15% of its equity capital, after adjustments, and in addition, the Bank of Israel will not extend loans to a "borrower group" at a rate exceeding 25% of the equity capital of the bank, after adjustments. The term "borrower group" includes, *inter alia*, the borrower, the person controlling it and any person that is controlled by them, except banks and other borrowers such as borrowers with material commercial dependence on the Company. With respect to these restrictions, the State of Israel is not considered a borrower and it is not included in the "borrower group".

In accordance with the Regulations of Supervision over Financial Services (Provident Funds) (Investment Rules that Apply to institutional Bodies), 2012, in general, an institutional investor[34] is allowed to hold securities of a certain corporation, make deposits in that corporation or extend to it loans at a rate of up to 5% of the revalued market value of its assets, or beyond this, subject to the conditions prescribed in the aforementioned regulations. This restriction also applies correspondingly to the minimal equity of a managing company and also to an insurer's "Nostro" investments (investments against liabilities that are not dependent on return), when it is also determined with regard to the insurer that investment as aforesaid, except for a deposit held in a bank, will not exceed 15% of the insurer's equity.

In addition, in accordance with these regulations, a, institutional investor or a group of investors are allowed to hold negotiable bonds (that are not bonds of the State of Israel) to a rate of up to 25% of the total par value of the bonds of that series, or beyond this, subject to the conditions prescribed in the aforementioned regulations.

In effect, based on public publications of some to the financial institutions, the institutional bodies' holdings of the Company securities do not reach the maximum rate that is permitted for them in accordance with the aforementioned regulations.

The theoretical potential for the receipt of loans from the banking system and from the institutional market in Israel, in accordance with the Company's estimate, reaches an amount that is lower than the financial needs of the Company, which cannot constitute a unique funding source for this (taking into account the fact that, to the best of the Company's knowledge, the ability of institutional investors to provide financing to the Company, is also affected by their exposure to the electricity sector in Israel (i.e. – including material suppliers that are dependent on the Company, private electricity producer and gas suppliers, including the Gas Lines Company that is responsible for the gas transmission), and not only by their exposure to the Company). Regulatory restrictions that apply to the banking system regarding the exposure to a certain sector and the institutional market in Israel, along with internal investment restrictions that are prescribed by these entities, make it difficult for the Company to raise the debt required for the Company exclusively in Israel and therefore the Company sometimes raises its required credit from the capital markets and the banking system overseas.

19.5 Restrictions that apply to the Company pursuant to financing agreements

For details with respect to conditions that may cause the calling of debt of the Company pursuant to the agreement, for immediate repayment, see Note 20d to the Financial Statements, and regarding the causes for immediate repayment that are included in the financing agreements the Company has entered, that are defined as "**Material Loans**" with respect to the implementation of the Securities Authority Directive pertaining to "Reportable Credit Event" see section 19.9.

19.6 Credit facilities

As of December 31, 2022, the Company has long-term available bank credit facilities in an amount of NIS 2,200 million.

During the report period, the Company made short-term withdrawals from credit facilities in a total amount of NIS 1,050 million that were repaid in full during the period. These withdrawals bore a weighted interest rate of 1.3%.

[34] Regarding a company managing provident funds or pension funds – with regard to the investments executed for the provident fund under its management, regarding an insurer – with regard to investments existing against yield dependent liabilities.

19.7 Variable interest credit

As of December 31, 2022, the Company has variable credit interest coming to a total of approximately NIS 2,45 million. A breakdown of the variable interest credit that the Company has received follows:

Type of Liability and Currency	Interest rate range (in %)		Interest range in 2022 (in %)		Unpaid principal balance for December 31, 2022 (in millions)	
	High	Low	High	Low	Original currency	NIS
U.S. dollars loans	Libor 6m + 2.5	Libor 6m + 2.5	7.7	2.8	44	156
Euro loans	Euiribor 6m + 2.5	Euribor 6m + 1.0	5.0	0.5	78	291
Unlinked NIS loans	Prime – 0.6	Prime – 0.7	4.2	0.9	1,500	1,500
Short-term unlined NIS loans	Prime – 0.8	Prime – 0.8	4.0	2.8	510	510

Notes:

1. Does not include loan for financing the gas transmission project that is not designated for use by the Company.
2. Does not include credit of the Coal Company (for details see section 19.3).

19.8 Credit rating

The Company is rated by two local credit rating companies and two international credit rating companies. For details with respect to the credit rating of the Company see Note 20f to the Financial Statements.

19.9 Reportable Credit Event

In accordance with Legal Position No. 104-15 of the Securities Authority of October 30, 2011 with respect to a reportable credit event, (as was updated from time to time), as of the date of the report, the Company is not engaged in loan agreements exceeding the material threshold that was defined[35]. For details regarding grounds for demanding immediate repayment, which are included in financing agreements the Company engaged in, which are defined as "material loans", including grounds of cross default which are included in these financing agreements and their financial scope, see Note 20d to the Financial Statements.

19.10 Implications of insolvency proceedings on the Company

As of the date of publication of the report, the Company's licenses do not include an explicit instruction pursuant to which in case of initiation of insolvency proceedings against the Company, any of the Company's licenses will automatically expire. Nonetheless, pursuant to the provisions of the Electricity Sector Law, and also pursuant to the provisions of the Company licenses, the Electricity Authority (or, according to some of the Company licenses, the Minister) may cancel or suspend the Company licenses, inter alia, if the conditions of competence required to receive a license pursuant to the Electricity Sector Law cease to exist in the Company, and/or one of the restrictions against receiving the license exists is fulfilled, within which, inter alia, it was determined that a license will not be granted to a corporation if a receiver or liquidator is appointed to it, or it has decided on voluntary liquidation. Additionally, even if the Company license is not cancelled or suspended in light of non-fulfillment of the competence conditions as stated above, it is possible that upon initiation of insolvency proceedings against the Company, it will not be able to fulfill all or part of its obligations pursuant to its various licenses. Violation of the conditions of the license by the Company

[35] According to the position of the Securities Authority, as was updated from time to time, a "material loan" is "any loan, except a loan from a subsidiary, including liability by virtue of issuance of liability certificates or realization of credit facility, which exceeds the regular corporation financing due to its nature, volume or possible result, and which has or may have a material impact on the corporation; it is accepted that a loan will be regarded as material if: (a) regarding a loan taken by the company as a parent company – its volume or balance in the consolidated financial statements constitutes five percent or more of the total assets of the corporation (approximately NIS 4.9 billion) and also constitutes ten percent or more of the total loans of the corporation (approximately NIS 3.9 billion) as a parent company, as they are presented in the consolidated statement of financial position as of the end of the report period; (b) regarding a loan taken by a subsidiary - its volume or balance in the consolidated financial statements constitutes five percent or more of the total assets of the corporation and also constitutes ten percent or more of the total loans of all the subsidiaries of the corporation, as they are presented in the consolidated statement of financial position as of the end of the report year.

may also constitute grounds for cancellation or suspension of the relevant Company license by the Electricity Authority or the Minister (as relevant). It is noted that insofar as any Company license will be canceled or suspended, then pursuant to the conditions of the Company licenses, the Company will not be permitted to supply the service which is the subject of the license.

Additionally, and in accordance with the above mentioned, insofar as a receiver or liquidator will be appointed to the Company, or the Company will decide on voluntary liquidation, the Company will fulfill the competence conditions determined in the Electricity Sector Law for receiving new licenses.

For details regarding the Company's licenses and the structural change, see sections 1.3 and 22.1.2.

In addition, the Company has from time to time entered into agreements which may be cancelled by the other party as a result of initiation of insolvency proceedings against the Company, including also some of the Company's lease agreements with local authorities.

Beyond this, insofar as in light of the insolvency proceedings against the Company, the Company will not be able to fulfill its obligations pursuant to lease agreements it is party to, or pursuant to other agreements it is party to or permits and other licenses the Company is required to have pursuant to the planning and construction laws, environmental protection laws or other general laws which apply to the Company, this may constitute grounds for cancelling those agreements pursuant to the general contract laws, or pursuant to the conditions of those licenses and permits, and may lead to sanctions being imposed on the Company, despite the fact that in most of the contracts, permits and licenses of the Company, explicit provisions, which enable cancellation of the agreement, license or permit as stated only because of initiation of insolvency proceedings against the Company, are not included.

For details of the grounds for demanding immediate repayment in the financing agreements of the Company, including the existence of cross default grounds and cross acceleration grounds in a material part of the financing agreements of the Company, and the existence of grounds for demanding immediate repayment in some of the financing documents of the Company in cases of issuing a liquidation order, stay of proceedings, or appointment of a receiver over material assets of the Company, see Note 20d to the Financial Statements.

19.11 Enhancing the financial Strength of the Company

For details regarding the outline of the structural change, the financial stability of the Company being one of the objectives thereof, and for details regarding the ways to achieve the financial strength as aforesaid within the structural change, see Note 1e to the Financial Statements and section 1.3.

20. Taxation

On this matter, see Note 21 to the Financial Statements.

21. Environmental risks and environmental regulation – general

21.1 General

For details of the aspects of quality of the environment and environmental risks in each of the operational segments of the Company, see sections 7.12, 8.9, 9.9, and 10.5.

21.2 Hazardous materials

The Company holds, uses and stores hazardous materials in some of its sites. Accordingly, at sites where they are required, the Company holds poison permits as required by law for the purpose of dealing with hazardous materials, and acts to obtain them when they are missing. The Company takes the actions for the purpose of compliance with the conditions of the permits.

21.3 Business licensing

Various activities of the Company at the logistic and administrative facilities require licensing in accordance with the Business Licensing Law, and environmental issues are also regulated within the terms of the licenses. As of the date of the report, the Company is operating to regulate the licensing of the activities whose licensing proceeding has yet to be completed in accordance with the provisions of the law and the requirements of the authorities. The operation of the sites or some of the sites of the Company without a business license constitutes a violation of the Business Licensing Law and may lead to the termination of the activity of the business. For additional detailing of this subject see section 22.7. For details of the integrative licensing procedure see section 7.12.13.

21.4 Material events or matters relating to environmental protection

As of the date of this report, to the best of the Company's knowledge, it is not exposed to material events or matters with respect to environmental protection in its activities, which have not been set forth in the report.

21.5 Energy saving

The Company's activity is subject, *inter alia*, to the Energy Sources Law and various relevant regulations that deal with energy saving and Government Resolutions that are published from time to time with respect to the policy for energy saving and greenhouse gas emissions abatement. The Company is acting to comply with this Regulation and is studying its consequences and the consequences of new regulatory initiatives in the field, including the requirement for a standard for energy management which was integrated within the emission permit drafts received by the Company.

For additional information regarding Government Resolutions relating to energy saving see Note 1c3 to the Financial Statements.

21.6 Material legal or administrative proceedings with respect to environmental protection

A number of class actions and other material actions have been filed against the Company. See Note 35b to the Financial Statements, for details.

21.7 The policy of the Company in environmental risk management

See Section 7.12 for details on this issue.

21.8 Environmental costs and investments of the Company in environmental protection

A breakdown of the investments of the Company in environmental protection in the generation segment, over the three recent years, is as follows. The figures do not include the generation segment for which separate information has been provided in Section 7.12.17, and includes the transmission segment and the distribution segment and general expenses that may not be attributed to a particular segment (the data are compatible with the budgetary development plan).

NIS millions (current prices, after remeasurements and depreciation deduction)	2020	2021	2022
Total investment in environmental protection facilities	Approx. 27	Approx. 20	Approx. 32
Current costs (without depreciation) (fuels, research and development and more)	Approx. 4	Approx. 5	Approx. 5

The Company is of the opinion that the material costs that are required for compliance with the provisions of the legislation pertaining to environmental protection, to the extent that there are any, will be covered within the electricity charge rates, based on the fact that in the past similar expenses were approved by the Electricity Authority, even if after many discussions and cost controls. The decision on the recognition of the cuts is with the Electricity Authority and therefore, despite the Company's position, there is no certainty that all the costs required according to the Company's position as aforesaid will eventually be recognized within the rate.

The assessment of the Company with respect to covering the costs required for compliance with the provisions of the legislation pertaining to environmental protection is forward looking information, as this has been defined in the Securities Law, which is based on the past experience of the Company in its connections with the Electricity Authority, which have no certainty of materialization, in part or in full.

22. Restrictions and control over the operations of the Company

22.1 Provisions of the Electricity Sector Law, relevant Regulations, licenses issued accordingly and Resolutions of the Electricity Authority

22.1.1 General

As of March 4, 1996, the activity of the electricity sector is regulated by the Electricity Sector Law and its regulations, and the Company acts accordingly. The provisions of the Electricity Sector Law determine that the purpose of the law is to regulate the activity in the electricity sector for the benefit of the public, while ensuring reliability, availability, quality, efficiency and energy efficiency while creating conditions for competition and minimizing costs.

Under the Electricity Sector Law, no person shall carry out activity in the electricity sector but under a license granted him under this law. The types of licenses granted for activities in the electricity sector are as follows: (1) generation license – license to generate electricity; (2) storage license – license for all of these: conversion of electric energy to energy that can be stored, storage of the energy, and its conversion back into electric energy, pursuant to the rules set by the Electricity Authority; (3) license to transmit electricity – license for transmission of electricity from a generating source or from an electricity installation serving for storage at high and ultra-high voltage to a substation; (4) distribution license – a license for transferring electricity to a consumer, through high or low voltage lines; (5) supply license – license for sale of electricity; (6) self-production license – production of electricity for self-use without selling to another, except for sale with exceptions as defined in the Electricity Sector Law; and (7) license to manage the network – license for electricity network management in the generation and transmission segments. The Electricity Sector Law also determines that the holder of a license to manage the network, to transmit or distribute electricity is the owner of an essential service provider license. Additionally, the Minister of Energy may determine, from time to time, that the owner of a generation license holds a material part of the generation in the electricity sector, and after the aforesaid has been determined, the provisions of the law regarding the owner of an essential service provider license will apply to him (such a determination has not been determined with regard to the Company as on the date of publication of the Financial Statements). The provisions of the Electricity Law regarding the owner of an essential service provider license will apply to an electricity producer and a license owner who has control, directly or indirectly, over an electricity producer, except for a provision requiring an essential service provider license owner to purchase electricity from a private electricity producer, and to provide infrastructure services and backup services.

Additionally, in accordance with the Electricity Sector Law, the Electricity Authority has to act in accordance with the objectives of the Electricity Sector Law and the policy of the Minister and the Government pursuant to their powers under the law, in the field of the electricity sector, and to implement their policy in accordance with the provisions of the Electricity Sector Law, as well as to supervise the fulfillment of the provisions under this law and under the licenses, and to fulfill the duties set for it in this law and which have been imposed on it under any other law. Furthermore, the Electricity Authority is the professional body in the field of the electricity sector, which assists the Minister in formulating his policy. When formulating policy principles, the Minister will consult with the Electricity Authority as the professional body in the field of the electricity sector, including with regard to the costs stemming from the implementation of the policy. In addition, the Electricity Authority will advise the Government when determining policy in the field of the electricity sector, if requested to do so by the Minister. The Electricity Authority has to fulfill the duties set for it in the Electricity Sector Law (or imposed upon it under any other law), including determination of the electricity rates and manner of their update, and executing cost control. For this purpose under its sole professional discretion as set in the law, the Authority is responsible for determining criteria as to level, nature and quality of the service provided by the owner of a license of an essential service provider to a consumer, an electricity producer, a private electricity producer, a storage license owner or another owner of a license of an essential service provider, and supervising the fulfillment of its obligations under these criteria, providing licenses and supervising the fulfillment of the terms set in the licenses, as well as determining terms for granting a license or rules for activating a license and the obligations which will apply to the license owner, insofar as the Minister has not determined, determining criteria regarding land that will be considered as a tract of land and regarding the entity that will be considered a consumer in a tract of land, if there is more than one entity that can be considered a consumer as aforesaid, determining rules for carrying out transactions between a holder of a license of an essential service provider and a license owner and supervising the fulfillment of the provisions under the Electricity Sector Law by the license owner, and their enforcement. In addition, the Electricity Authority has the authority to examine consumers' complaints and settle them.

According to the Electricity Sector Law, insofar as the Minister is of the opinion that a decision reached by the Authority is not in line with his policy or the Government's policy in the field of the electricity sector, or the objectives of the Electricity Sector Law, he may point out to the Electricity Authority the aspects in which he is of the opinion that the decision deviated from the said policy or from the objectives of the Electricity Sector Law, and to instruct the Electricity Authority to conduct an additional discussion of the matter. Having done so, the Electricity Authority's decision will be delayed until an additional discussion is held regarding the issue, for examining the adjustments, if they are required in the opinion of the Electricity Authority. Should the Electricity Authority find that its decision is consistent with the said policy or the objectives of the Electricity Sector Law, and there is no need to amend it, it will detail the reasons for its decision and the decision's delay will be cancelled.

Such authorization will not apply with respect to decisions of the Electricity Authority regarding rates, for which the Authority's exclusive professional discretion will be maintained, and with respect to decisions of the Electricity Authority that were at further hearings. Without prejudice to the aforementioned, it was further determined that the Chairman of the Authority will be directly subordinate to the Minister.

The Electricity Sector Law authorizes the Electricity Authority to give licenses and supervise the fulfillment of terms set in the licenses and, insofar as the Minister has not so determined, to determine rules regarding the terms for providing a license, rules for activating a license and the duties that will apply to the license owner, including the provision of guarantees and insurance. The Electricity Authority may determine terms in the license and limit or not limit the period of its validity. With regard to the terms for granting a license or the rules to activate a license, insofar as the Minister has not prescribed regulations on these issues, the Electricity Authority may set rules, subject to the Minister's policy and after having applied to the Minister to examine whether he wishes to prescribe regulations as aforesaid. Insofar as the Minister did not respond to the Electricity Authority's application within sixty days from the date of its application, the Electricity Authority may prescribe rules as aforesaid. If the Minister prescribed regulations on the aforesaid issues, the Electricity Authority will be permitted to set rules on these issues subject to the policies of the Minister and the regulations set by him.

The Electricity Sector Law determines that the Electricity Authority, when deciding whether to grant a license or to set terms in the license, will act in accordance with the Government's policy or the Minister's policy in the field of the electricity sector, and will consider, among others, the following: the contribution of providing the license to the level of the services for the public, the best interests of the consumers, and the contribution of providing the license to competition in the electricity sector.

A generation license with a volume exceeding 100 megawatts, a supply license with a volume exceeding 100 megawatts, a distribution license with a volume exceeding 5% of the annual consumption volume, a transmission license or a system management license, will enter into effect only after its approval by the Minister. The volume of distribution licenses that will be given to all those who are not a government company will not exceed 10% of the sector’s annual consumption, but the natural increase in the volume of consumption in the area of distribution set in the license compared to the aforesaid volume of consumption at the time the license is given will not be taken into account.

The Electricity Sector Law determines that the Minister, in consultation with the Electricity Authority or pursuant to its proposal, may determine terms for granting a license, methods of choosing between applicants for a license for a particular activity in a particular location or area, procedures for filing an application for a license, rules for activating the licenses, and the obligations that will apply to the license holder, including the provision of guarantees and insurance, and to determine the responsibility of a transmission license holder for the development of the transmission and transformation system, and provisions concerning the duty of a license holder for system management to perform actions that will be determined by the Minister for securing the level of development required in the electricity generation system. Accordingly, in 1997, the Electricity Sector Regulations (Terms and Procedures for Granting a License and Duties of a License Owner), 1997 were regulated, and they determine, inter alia, procedures and terms the license applicant has to fulfill, including: the format of the application and manner of its submission, the required information and documents, terms regarding minimum equity, minimum internal financing rate, while the terms regarding the equity and the financing rate will not apply to an applicant of a generation license at a capacity not exceeding 10 megawatts, and to one who receives a generation license after having won one of the tenders detailed in the regulations. In addition, the law determines that transactions with an owner of a license of an essential service provider will be carried out in accordance with rules set by the Electricity Authority and that will be published in the Official Gazette and on the Authority’s website. Cases in which the Authority will be permitted to give other instructions pertaining to a certain transaction will be determined in the aforesaid rules. Accordingly, the Minister regulated the Electricity Sector Rules (Transactions with an Essential Service Provider), 2000. The rules determine, inter alia, that a transaction to purchase electricity will be executed according to an agreement that will be signed between the provider and the producer. If a tender is published, the agreement will be signed in accordance with the terms of the tender, and if a tender is not published, the agreement to be signed will be adjusted to the transaction method and will require the approval of the Chairman of the Electricity Authority.

Within Amendment no. 16 of the Electricity Sector Law, definitions were added for a the terms “public way” and a “tract of land”, so that every tract of land will have one entity that will be considered a consumer (whoever purchases electricity or services from a licensee or wishes to connect to the electricity grid), and he will be able to sell electricity, for use in the area of the tract of land, without a supply license and to transfer electricity for this purpose without a distribution license, provided that this is not a consumer whose main use in the tract of land is the sale of electricity. A tract of land is land with one owner or joint ownership, which a public way does not pass therein, and the criteria set by the Authority for this matter are fulfilled with respect to it. The criteria regulating the issue of a new connection to electricity in a tract of land were published in the Official Gazette on December 6, 2022, and the new regulation has entered into effect. In addition, in accordance with the Amendment to the Electricity Sector Law, it is prohibited for a distribution license owner to carry out distribution in the area of the private tract of land except in accordance with the criteria determined by the Electricity Authority and published in the Official Gazette as aforesaid. It should be noted that in residential and industrial designations, the Electric Company will continue to distribute electricity in private tracts of land in accordance with the criteria, and the same applies to a public way, and apart from the exceptions set in the criteria. For expansion on Amendment 16 to the Electricity Sector Law see Note 1e to the Financial Statements.

For details regarding the structural change, including the government's resolution on the reform and the amendment of the Electricity Sector Law, see Note 1e to the Financial Statements.

For details regarding the arrangement of the transfer of rights and assets under section 62 of the Electricity Sector Law, see section 15.3 and Note 1f to the Financial Statements.

22.1.2 <u>Licenses that have been granted to the Company pursuant to the Electricity Sector Law</u>

As detailed above, the Company was provided with a unified license for transmission, distribution, and supply of electricity and trade thereof. In addition, over the years, the Company has been granted generation licenses for the generation units that it operates.

In accordance with the licenses of the Company, the Company must act in accordance with the provisions of the law, including any law that takes effect after the giving of the licenses and international treaties to which the State of Israel is a party with respect to the actions pursuant to the License, which as stated is subject to the law. A violation of the law constitutes a violation of the licenses, and the Electricity Authority is allowed to cancel or suspend the licenses if it has found that any of their conditions has been violated, including violation of the duty to disclose information as required under the Law (see Section the power of the Authority to cancel the licenses). As of the date of the report, in general the Company materially complies with the terms of the licenses that have been given to it.

In accordance with the outline of the structural change, and as detailed in Note 1e to the Financial Statements, the Company will sell existing gas-operated generation sites of the Company, where the Company's licenses at these sites will remain valid for all the activities that will be performed according to the licenses, until the last date for delivering possession thereof, in accordance with and subject to the terms specified in them and the provisions of the section 60a of the Electricity Sector Law. The generation licenses of the generation units of the Company that are not included in the generation sites sold as aforesaid will remain in force until the end of the engineering life of the generating units, with the Electricity Authority determining the engineering life of the generation units as stated. As of the date of publication of the report, the aforesaid lifespan has not yet been determined by the Authority. For additional details, including with regard to the Ramat Hovav and Alon Tavor generation sites and the eastern part of the Hagit power station that were sold by the Company, and the possibility of extending the licenses of the Company at the generation sites sold, see Note 1e to the Financial Statements.

In addition, in accordance with the outline of the structural change, the system management activity as aforesaid was sold to Noga on November 1, 2021. For additional details, see Note 1e2 and Note 1e9 to the Financial Statements. The Company’s system management license expired upon the sale of all the activity to Noga, pursuant to section 60a(b)(1)(a) of the Electricity Sector Law, 1996. However, the Company will continue to be the owner of an “essential service provider” since it will own transmission and distribution licenses, as detailed in sections 8.1.2 and 9.1.2 and Note 1e4 to the Financial Statements.

As stated above, pursuant to the Government’s resolution on the reform, the structural change includes, inter alia, the granting of new transmission and distribution licenses to the Company (which will be granted for an extended period as customary in the field of public utilities). On November 17, 2022, the Electricity Authority made a decision to grant a distribution license to the Company, and on January 16, 2023, the Minister of Energy’s approval was received and the distribution license entered into effect. The distribution license is in effect for 20 years beginning from the date of the Minister’s approval as aforesaid. In accordance with the provisions of Section 60a(b)(1) of the Electricity Sector Law, the distribution license replaces the provisions regulating the activity of the distribution segment in the Company’s unified license of 1997. As of the date of publication of the report, a transmission license has not yet been received and there is no complete certainty regarding its receipt and final terms. For further details, see Note 1e to the Financial Statements

22.1.3 **Duties and restrictions in accordance with the provisions of the Electricity Sector Law, the relevant regulations and the provisions of the licenses of the Company**

22.1.3.1 **Duties of the Company with respect to the type and nature of the services provided by it**

In accordance with the provisions of the Electricity Sector Law, the Company as an essential service license provider holder is committed to –

(a) Providing service to the entire public without discrimination in accordance with the Criteria that the Electricity Authority has prescribed with respect to reliability and efficiency, and in accordance with the terms of its license and any law; see below for details of the Criteria that have been established.

(b) Purchasing electricity from generation license owners, storage license owners, or from those who generate or execute storage of electricity who are exempt from the duty of having a license under the provisions of the law, all or in part, and providing infrastructure services and Backup Services, in accordance with the terms of its licenses and in accordance with any law;

(c) Providing Backup Services to a self-consumption generation license holder, at its request, in accordance with the terms of its licenses and in accordance with any law;

(d) Acting in order to ensure the provision of all of its services throughout the period of its licenses, including the provision of services in accordance with the Development Plan that has been approved in accordance with the Electricity Sector Law (see Section 7.7.1 on this matter), while performing all of the actions required for the provision of these services.

In accordance with the licenses of the Company, it has been determined that the activities that are being performed by it and the services provided by it pursuant to its licenses will be executed by the Company reliably and efficiently, without discrimination and in a manner that will not infringe on the possibility of fair cooperation.

In addition, the Unified License of the Company states that the Company shall provide infrastructure and Backup Services to other license holders and that the Company will purchase electricity from private electricity producers in accordance with the terms of their licenses and in accordance with the rules that will be prescribed by the Minister, including quantities of electricity to be sold, dates of purchase and dates of changes. See Section 7.4.1 for additional details.

The Electricity Sector Law further states that an essential service supplier license holder will charge payments in accordance with the charge rates that the Electricity Authority has prescribed and that an essential service supplier license holder shall pay payments to a license holder or to a consumer in accordance with the charge rates that the Electricity Authority has prescribed (including in case the payments are collected for it by another). The term “charge rates” includes all of the following payment types: (1) that a consumer or license holder pays to an essential service supplier, including payments for provisions of infrastructure services and Backup Services; (2) that an essential service supplier license holder pays to another license holder or to a person generating electricity or executing storage, except payment that is prescribed in a tender that has been published by the State of Israel; and (3) that an essential service supplier pays to a consumer for generation of electricity by the consumer and payments to the consumer for consumption management arrangement.

In addition, in accordance with the provisions of the Electricity Sector Law, the Electricity Authority has to establish criteria by which an essential service supplier license holder will be allowed not to provide the service or not to make the acquisition that it is required to provide or make in accordance with the Electricity Sector Law, terminate, delay or restrict them, if the payments for them have not been paid to the license holder as required by law or if the conditions for the provision of the service of execution of the acquisition have not been fulfilled as required by law. The Electricity Authority has prescribed such criteria in the Book of Criteria that have been set forth below. In addition, the Minister has prescribed the Electricity Sector Regulations (Rules, Conditions and Cases for Termination of Electricity Supply), 2003, which regulate the cases in which an essential service supplier license holder is allowed to terminate the electricity supply.

In this context, it should be noted that the Electricity Authority established in the criteria a list of consumers for whom the supply of electricity is essential due to the use of medical devices and other types of electrical devices, whose disconnection from electricity may endanger the consumer's life. It was determined that regarding the consumers for whom the supply of electricity is essential, as well as those disabled by the persecution and the war against the Nazis, as defined in the criteria, action must be taken to collect their debt through civil collection procedures only and it is not possible to disconnect them from the supply of electricity due to consumer debts.

In addition, on November 2, 2022, the Electricity Authority published decision no. 64105 regarding: “Updates, changes and additions to consumer criteria - collection policy - November 2022” within which the existing debt collection policy for electricity consumption from domestic consumers was updated. In this decision, those entitled to exemption from disconnection of electricity supply as a means of collection were significantly expanded.

The amendment of the criteria, as stated, will enter into effect within 90 days from the date of their publication in the Official Gazette. As of the date of publication of the report, the amendment has not yet been published in the Official Gazette.

In January 2023, the Electricity Authority published, pursuant to Section 30 of the Electricity Sector Law, the updated version of the Book of Criteria, which prescribes criteria with respect to the level, standard and quality of the service that a holder of an essential service supplier provides[36], as they are subject to updates and amendments executed by the Electricity Authority from time to time. The Criteria are intended to regulate the activity in the Electricity Sector, supervise and secure the quality of electricity and the standard of service that the Company provides to consumers, and they are updated regularly from time to time.

The Book of Criteria covers, *inter alia*, the following issues: confidentiality and information systems, electricity consumption (including electricity consumption rates, consumption, bills, consumer complaints), connection to the electricity grid, reliability of supply, infrastructure services, purchase of electricity, maintenance, and operation regime of private generation license holders, work at the expense of others, quality of the environment.

The Electricity Sector Law states that the Electricity Authority will prescribe instructions with respect to payments that an essential service supplier license holder is to pay consumers due to violation of the Criteria which it prescribed. Accordingly, the Electricity Authority has determined in the Book of Criteria that an essential service supplier that violates one or more of the Criteria shall pay the consumer for this violation payment in accordance with that which has been prescribed by each of the Criteria that have been violated, within sixty days of commission of the violation.

22.1.3.2 <u>The duty of the Company to submit Development Plans for the Electricity Sector</u>

The Minister, upon consultation with the Electricity Authority and with the consent of the Minister of Finance, is allowed to demand that the Company, as a holder of a distribution license, submit for his approval, in a manner and on a date as required, a Development Plan, complete or in parts, for the purpose of its activities in accordance with the provisions of the distribution license. If the Minister, in consultation with the Electricity Authority and with the consent of the Minister of Finance, approved the plan, the holder of an essential service supplier license will operate according to the approved plan, including changes to it which have been approved and the duties applying to it under any law. If a Development Plan has not been submitted for his approval as aforesaid, the Minister is allowed to prescribe for the Company (distribution license holder), upon consultation with the Electricity Authority and with the consent of the Minister of Finance, a Development Plan, in which case the holder of a license of an essential service provider must act in accordance with it. Before determining a distribution development plan, the Minister will hear the position of the holder of a system management license regarding the connection points and the reciprocal influences between the transmission system and the distribution system.

The Company, as a distribution license holder, will prepare the development plan it submits for the electricity grid used for the distribution, in accordance with the instructions of the system management license holder regarding the connection points and the reciprocal effects between the transmission system and the distribution system. An approved development plan may include provisions regarding the approval of changes in the plan, including the entity authorized to approve them.

A development plan for the transmission and transportation system will be submitted by the holder of a system management license, and it will include timetables for carrying out the activities included in the plan. Prior to the submission of the aforesaid development plan for approval, the license holder for the system management will consult with the Company, as a transmission license holder, regarding the timetables for carrying out the operations included in the plan, as well as regarding the examination of alternatives to these operations.

In the event that there are differences of opinion between the said license holders regarding the feasibility of carrying out the operations, including the feasibility of carrying them out in the timetables as aforesaid, the system management licensee will submit to the Minister, in addition to the development plan he has prepared, the position

[36] The Book of Criteria is made available to the public on the website of the Electricity Authority.

of the holder of the transmission license in the dispute, and the Minister will note the aforesaid dispute in his application to the Authority and the Finance Minister, and will pass on the positions as they were submitted to him.

The licenses of the Company state that a license holder that is an essential service supplier is to submit to the Minister a Development Plan with respect to its activity in accordance with the License.

For details of the Company's development plans, see sections 7.7, 8.7 and 9.7.

22.1.3.3 <u>Restrictions on the types of activities that the Company is allowed to execute</u>

The Electricity Sector Law states that no essential service supplier license will be given except to a company that has undertaken to engage only in activities in accordance with the licenses that have been given to it pursuant to the Electricity Sector Law and ancillary actions. However, an essential service supplier license holder is allowed to engage in other actions, that the ministers have approved for it, upon consultation with the Electricity Authority, engagement in which will not impair its actions or the supervision of fulfillment of its duties in accordance with the Electricity Sector Law.

Accordingly, each of the licenses of the Company states the activity for which the License has been given and in which the Company is allowed to engage. In addition, the licenses of the Company state that the license holder is allowed to perform actions that are ancillary to the activities in accordance with the license, which are determined in the appendix to the License. In some of the licenses, certain ancillary actions require the approval of the Manager of the Electricity Administration.

Therefore, when the Company is going to engage in a related act that requires the approval of the Head of the Electricity Administration or in another activity that is not regulated within its licenses, the Company applies to the head of the Electricity Administration or the ministers, respectively, for approval for this purpose.

With regard to additional restrictions, see section 22.1.3.7 below

22.1.3.4 <u>Restrictions to the transfer, pledging or attachment of a license</u>

In accordance with the Electricity Sector Law, a license or any part thereof may not be transferred, pledged or attached, directly or indirectly, except with the approval of the Electricity Authority. In addition, guarantees that a license holder and money stemming from their realization may not be pledged or attached. In addition, in accordance with the law, the Electricity Authority is allowed to determine in the License that certain properties of the license holder, which are required, in the opinion of the Electricity Authority, for the execution of the activity in accordance with the provisions of the License, may not be transferred, pledged or attached, directly or indirectly, except with the approval of the Electricity Authority. The Electricity Authority, upon giving approval for such a transfer, pledge or attachment, shall act in accordance with the policy of the government or the policy of the minister in the Electricity Sector field, and will consider, *inter alia* the contribution of giving of the License to the level of services to the public, the benefit of consumers and the contribution of giving of the License to competition in the Electricity Sector.

It is determined in the licenses of the Company that it is prohibited to pledge, transfer or attach, directly or indirectly, assets as stipulated in the licenses (which include most of the assets of the Company), except with the approval of the Minister. Following Amendment 16 to the Electricity Sector Law, the Electricity Sector Rules (Liens and Transfers of Control), 2019 were established, within which the required procedure was determined in relation to liens and transfers of control in the license and in the license holder.

The United License also states that the Minister is allowed to add to or subtract from the list of assets that are in the appendix to the License, during the term of the License. The inclusion of or reference to an asset, in the appendix, does not serve to grant the license holder any right to the asset or detract from its duties with respect to it in accordance with the provisions in the Electricity Sector Law. In addition, the licenses state that if any third party is granted, as of the effective date of the License, rights with respect to any of the properties that are used for the provision of the activity of the license holder, the license holder shall ensure, to the maximum extent possible that no situation will occur in which the exercising of rights to a property as set forth may impair the execution of its undertakings in accordance with the License. See Section 15.3 and Note 1f to the Financial Statements with respect to the Property Settlement, including with respect to agreements entered into by the Company concerning the Property Settlement.

In accordance with the provisions of the law (as updated from time to time) and the licenses of the Company as stated, the Company is not allowed to create charges on its assets (whether a floating or fixed charge of assets that are included in the licenses of the Company as stated), but subject to the approval of the Electricity Authority[37].

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[37] Until Amendment no. 13 to the Electricity Sector Law, which was published in the Official Gazette in November 2015, the creation of charges over the Company's assets was subject to the approval of the Minister. As of the date of publication of the aforesaid amendment to the law, the creation of charges over the Company's assets is subject to the approval of the Electricity Authority.

Until 2011, the approvals given to the Company for the creation of charges on the assets of the Company did not include special stipulations with respect to charge realization, but realization of the charge will require approval in accordance with the provisions of the law. In the approvals as aforesaid which were provided to the Company as of 2011, restricting conditions were included, primarily as follows:

- No sale, transfer or rental of assets that are being used for carrying out activity in accordance with the Electricity Sector Law is to be made except to a party that is allowed pursuant to the law in Israel to engage in activity as stated using those same assets, which will receive its rights to and keep the assets for executing those activities, in accordance with licenses permitting their execution;
- The assets listed shall be kept at all times by a party that has a license to operate them in accordance with the Electricity Sector Law and shall be used at all times for the purposes of the licenses only;
- The appointment of a temporary or permanent receiver (in this section: the "**Receiver**") shall be contingent to its undertakings to act in a manner that fulfills the duties of the Company, as they may be from time to time;
- The approval for creation of a charge does not constitute an approval to realize the rights conferred under the charge, including appointment of the Receiver;
- The identity of the Receiver requires prior approval of the Minister and his appointment will be contingent to further fulfillment of the duties in accordance with the licenses of the Company, including continuing the regular operation of the activities in accordance with the Electricity Sector Law, using the assets and facilities of the Company;
- The authorities that are granted to the Company by law as the license holder shall apply, mutatis mutandis, to another holder of the pledged assets.

The aforementioned approvals state that they do not detract from any other undertaking of the Company, including pursuant to other charge agreements, and do not establish priorities for other charges of the Company.

22.1.3.5 Restrictions over an essential service provider licensee

The Electricity Sector Law states that the Electricity Authority is allowed to state in the License that a change or reorganization in the license holder, including merger, split of compromise, settlement or voluntary liquidation, requires the approval of the Electricity Authority. A similar provision prescribed in most of the licenses of the Company.

Beyond that detailed above, the Electricity Sector Law states that control of a license holder shall not be transferred, directly or indirectly, except with the approval of the Electricity Authority, and the Authority is permitted to approve transfer of control as aforesaid provided that the terms required for granting the license under the Electricity Sector Law were fulfilled as of the time of the transfer. In addition, the Electricity Sector Law prescribes that except for the State, a license holder shall not purchase or keep means of control of another license holder, except with the approval of the Electricity Authority.

The Electricity Sector (Conditions and Procedures for Granting Licenses and Duties of a Licensee) Regulations, 1997 ("**Conditions and Procedures for Granting Licenses**"), state that the Minister of Energy is allowed to stipulate conditions of a license of an essential service supplier, such as a requirement for an organizational and legal structure of the license applicant or to the giving of an undertaking to the structural change as mentioned, on the date as instructed by the Minister. The Minister may order an essential service provider licensee, pursuant to the regulations, to change the organizational and legal structure during the period of validity of the License, after having given the licensee a right to a hearing, a reasonable time in advance. As of the date of the report, no such instructions were given pursuant to the regulations. In addition, the Electricity Sector Rules (Liens and Control Transfers), 2019 determine that a license owner wishing to make a change or reorganization therein, and regarding which the Authority determined in the license that such a change requires its approval under the Electricity Sector Law, will submit a written request to the Authority regarding that.

For this purpose, the regulations stipulate that a "legal organizational structure" includes the establishment of a subsidiary or other corporation which is part of the group to which the applicant of an essential service provider's license belongs to, or a license holder as aforesaid, for the purpose of its operation under the law, as well as a merger or a spin-off.

On May 10, 2018, relevant government entities and the Company, after consultation with the employees' representatives and the Histadrut, reached understandings with respect to the structural change. For details of the structural change, see section 1.3 and Note 1e to the Financial Statements.

22.1.3.6 **Execution of activity as profit centers, manner of preparation and submission of Financial Statements**

The Electricity Sector Law states that an essential service provider license holder shall prepare Financial Statements in a format as the Ministers prescribe, after consulting the Minister of Justice with respect to their extent of elaboration, the accounting principles to be used for their compilation, and the declarations and notes that are to be attached.

Accordingly, in accordance with the Electricity Sector Regulations (Conditions and Procedures for the Granting of a License) - 1997, and in accordance with the licenses of the Company, the Company, as an essential service provider, is required to submit Financial Statements separately for each area, for each activity and for each profit center, and to submit consolidated statements with respect to its activities in accordance with all of the licenses that are in its possession. A "profit center" is defined in these regulations as "a unit that has a closed income and expense structure, without cross subsidy with the operations of another unit, and, due to its operations, financial statements will be submitted separate from the other operations of the license owner".

The Company's licenses determine that the profit centers will be defined pursuant to the instruction of the Minister of Energy or the Electricity Authority in accordance with the relevant requirements of each license, including all the requirements detailed in the appendix of profit centers attached to the license. However, it is clarified that the appendix of profit centers was not attached to the Company's generation licenses.

As required by the Electricity Sector Regulations and in most of the Company's licenses, the Company should have submitted audited Annual Financial Statements separately for each area, for each activity, for each generation unit or power station.

In accordance with the outline of the structural change, the Company's operation in the generation (for details of the sale of generation sites of the Company see Note 1e1 to the Financial Statements), transmission, distribution, supply segments, as well as the Company's general operation, will be reported through separate profit centers. On May 5, 2021, the Company received the summary of the Government Team, regarding the manner of reporting to profit centers required by the Company for submitting its reports. The Company began implementing the reporting format in its 2021 financial statements. For additional details see Note 36 to the Financial Statements.

22.1.3.7 **Special provisions regarding a government company**

In accordance with Section 6A of the Electricity Sector Law, the Electric Company, as a Government Company that received a distribution license, a supply license and a transmission license, will not be granted a generation license and it will not carry out generation activity (including engineering design), planning activity under the Planning Law, construction, operation, maintenance or replacement, all relating to generation units that are serving or expected to be serving the electricity sector, and consultation with respect to the aforesaid actions, whether for itself or for another engaging in or interested in engaging in the activity, except subject to the terms stipulated in the amendment to the Electricity Sector Law. For details regarding the operation of the Electric Company in the generation segment see Note 1e to the Financial Statements.

Notwithstanding the aforesaid, in accordance with the Government's resolution on the reform, the Electric Company will be permitted to construct and operate storage facilities only within the physical infrastructure of the transmission network, while the storage in the physical infrastructure will be determined in the development plan to be prepared by the system management license holder. In addition, the Electric Company will be permitted to plan, construct and operate storage facilities within the physical infrastructure of the distribution network, all according to principles to be determined by the Electricity Authority to integrate storage facilities in the distribution network and in accordance with that stated in its licenses and the Electricity Sector Law. In accordance with the aforesaid, after the report period, on January 25, 2023, the Electricity Authority published a decision regarding the principles under which the Company will be permitted to establish and operate storage facilities only in the areas of substations, as well as scope of the storage that the Company will be allowed to install and their location, and subject to receiving a storage license. As part of the decision it was determined, inter alia, that the storage output that the Company is permitted to establish will not exceed 15% of the total storage promoted by the private market in the previous year, which will be calculated once a year according to the formula detailed in the decision.

22.1.3.8 **The responsibility of the State of Israel within the framework of the licenses and the duties of the Company towards it**

In accordance with the provisions of its licenses, the Company is committed to indemnifying the Company for payment that it is charged for an act or default of the Company, with respect to its activity in accordance with the License. In addition, the Company will bear all of the legal and other expenses of the State of Israel, to the extent that there are any for the charge. The duty of indemnification shall not apply unless the Company has been given, at a reasonable time, a notice of the claim that a third party filed against the State of Israel in order to allow it to participate in the defense and the State of Israel has consented to the participation of the Company in the legal proceeding. This duty of indemnification is not limited in time or amount.

In addition, in accordance with the terms of the licenses, any approval, permit or instruction that has been given to the Company for the purpose of or within the License, whether given before the giving of the License or given thereafter, shall not impose on the State of Israel any liability towards the Company or any third party and shall not serve as a cause of claim of the Company or a third party towards the State.

In addition, the authority of approval or supervision that is given in accordance with the License, including the exercising of such authority, does not impose on the State of Israel any liability that is imposed pursuant to the License on the Company, or negate or diminish from that liability.

As aforesaid, the structural change includes, inter alia, granting new licenses to the Company, which as of the date of publication of the report have not yet been received, and there is no complete certainty regarding their receipt and their final terms. For additional details see Note 1e to the Financial Statements.

22.1.4 <u>Cancellation, suspension and change of the terms of the licenses</u>

In accordance with the Electricity Sector Law and the provisions of the licenses of the Company, the Electricity Authority is allowed, at any time, to cancel or suspend a license, and it is allowed to add to or modify its conditions, rules and duties, if it has found that any of the conditions of the License has been violated, including the obligation to disclose information as required by the provisions of the law, that any of the qualifications for receiving it is fulfilled or the capacity required for its possession by the Electricity Sector Law has ceased to be fulfilled. In addition, in accordance with the Electricity Sector Law, the Electricity Authority may cancel a license, condition it, amend it, or add terms to it, including for reasons other than those specified above, but based on considerations stated in the Law regarding the contribution of the License to the level of services to the public, the benefit of consumers or the contribution of the License to competition in the Electricity Sector; the aforementioned authority of the Authority can be activated after the license holder has been given an opportunity to voice his claims. However, the Electricity Authority will not use its powers as stated, pertaining to licenses requiring the Minister's approval as detailed in section 22.1.1, except as regards cancelling or suspending a license if it has found that any of the conditions of the license have been violated, that any of the qualifications for receiving it is fulfilled, or the capacity required for its possession by the Electricity Sector Law has ceased to be fulfilled, except with the Minister's approval. A cancellation of deliberation of the Electricity Sector with respect to the voiding of the terms in the License or the part of a condition shall only apply to the condition or part of the condition as relevant and they by themselves will not impair the binding validity of the License or detract from the duties of the Company in accordance with the License. The Electricity Authority shall not cancel or suspend a license unless the license holder has been given an opportunity to voice its contentions. The Ministers may prescribe rules for giving compensation for cancellation, change or suspension of a license that has been given in accordance with the Electricity Sector Law, not due to breach of any of the license's terms, existence of a restriction of the restrictions for receiving it, or because the qualification required for holding it has ceased to exist, but as a result of the Authority's considerations as defined above, and it is possible that in accordance with the rules as determined, the compensation rate will be zero.

Although some of the generation licenses of the Company confer upon the Minister rather than to the Electricity Authority the authority to cancel, suspend or modify the terms of the License, according to amendments of the Electricity Sector Law, the instructions in these licenses are to be read as granting the authority to the Minister or to the Electricity Authority in accordance with the Electricity Sector Law after its amendment within the Arrangements Law as well as within the Amendment 16 to the Electricity Sector Law.

As of the date of the report, the licenses of the Company have not been suspended or cancelled and the Company has not received a notice that it is not fulfilling any of their conditions.

In addition to what has been stated above, the Electricity Authority is granted authority to cancel the validity of an essential service supplier license (after having warned the holder of this license), if it has learned that the essential service supplier license has not made the payments that are due (in accordance with the Electricity Sector Law or the terms of the License) to another license holder. The Company, except in exceptional cases and in circumstances that have not been under its control, (such as a strike), has made sure to pay other holders of licenses for activities in the Electricity Sector the payment that is due to the by law, on time and as required. In effect, the Company has not received any notice of intent to cancel the validity of a license that has been given to it and it estimates, in view of its function as an essential service supplier in the Electricity Sector, that even in the case of violation of the duty to pay another license holder a payment that is due to it by law, the likelihood for such a severe sanction of far-reaching consequences for the Electricity Sector to be enacted is low.

The Company's estimates with respect to the likelihood of enactment of sanctions in the case of violation of a duty of payment towards another license holder is forward looking information, as per its definition in the Securities Law, and *is based on estimates of the Company in view of its status as an essential service supplier in the electricity economy. However, there is no certainty that the Company's estimates will materialize, as their materialization may be affected by external factors that are not under the control of the Company, including decisions of the Electricity Authority and its policy as will be from time to time.*

In accordance with the Conditions and Procedures for Granting Licenses Regulations, the authority has been vested in the Minister[38] to demand by license the giving of guarantees or sureties for securing the fulfillment of the undertakings of the license holder to execute the activity pursuant to the License. Accordingly, in May 2007, the Electricity Authority announced its intent to establish in the permanent generation licenses, a duty to deposit a guarantee to secure the fulfillment of the terms of the licenses. In accordance with the resolution, the limit of the guarantee for a license holder shall not exceed a total amount of 15 million dollars. In accordance with the resolution set forth, the demand to extend guarantees for the generation licenses that have been given to the Company shall be executed in accordance with the progress in the Structural Change proceedings of the Company, including providing of licenses for the operations of the Company. As of the date of the report, the Company has not yet been requested to extend such a guarantee in effect.

22.1.5 <u>Sanctions for execution of activity in accordance with the Electricity Sector Law without a license, for violation of the terms of the licenses and for violation of other duties of the Company in accordance with the Electricity Sector Law</u>

The Electricity Sector Law states, inter alia. that the execution of the activity that is licensable in accordance with the Electricity Sector Law (including in the field of generation of electricity) without a license constitutes a criminal offense punishable by three years' imprisonment or a fine that is four times the fine rate determined in Section 61(A)(3) of the Penal Code 1977 (hereafter: the "**Penal Code**") and an additional fine for each day that the offense continues, at four times the fine rate determined in Section 61c of the Penal Code.

In addition, the Electricity Sector Law states that a violator of the provisions of Sections 17(B) (dealing with the preparation of Financial Statements in accordance with the principles prescribed by the Ministers), 17(C) (dealing with the duty of collection of payments in accordance with the charge rates determined by the Electricity Authority), 34 (dealing with accounting entry and reporting to the public requirements that will apply to a holder of an essential service supplier license, as determined by the Electricity Authority) or 35 (dealing with requiring the holder of an essential service supplier license to submit to the Electricity Authority reports and any information in accordance with its demands, for fulfilling its duties), or a license holder violating any of the terms of the License, with respect to the activity of the license holder, is liable for one year's imprisonment or a fine of three times the rate of the fine determined in Section 61(A)(2) of the Penal Code, and an additional fine for each day on which the offense has continued, at three times the rate of the fine determined in Section 61(C) of the Penal Code. In addition, in accordance with Section 65 of the Electricity Sector Law, this law is part of the list of laws specified in the first addendum to the Administrative Offenses Laws - 1985.

The Electricity Sector Law further states that the violator of the provisions of Section 17(A) (dealing with provision of service to the entire public without discrimination, according to the criteria set by the Authority, reliably and efficiently, according to the terms of the license and the law, purchase of electricity from a private producer and provision of infrastructure and Backup Services to a private producer, according to the terms of the license and the law, provision of Backup Services to a self-generation license holder according to its request, according to the terms of the license and the law, and ensuring the provision of all of its services throughout its license period, including provision of services in accordance with the development plan that was approved pursuant to Section 19, while performing all actions required for providing these services) is subject to three years' imprisonment or a fine that is four times the fine rate as stated in Section 61(A)(3) of the Penal Code and an additional fine for each day on which the offense continues, at four times the fine rate set forth in Section 61(C) of the Penal Code. In addition, the Electricity Sector Law states that an officer who has violated a duty to supervise and do everything possible to prevent violations of the law by the Company or any of its employees is punishable by one year's imprisonment or a fine (as stated in Section 61(A)(3) of the Penal Code). The Electricity Sector Law states that if a violation of it has been committed by a corporation or any of its employees, it is presumed that the officer in the Company violated the duty of regulation, unless he proves that he acted without *mens rea* and without negligence and did everything he could to fulfill his duty.

[38] Although in the Regulations, authority has been conferred upon the Minister, in accordance with Amendments to the Electricity Sector Law, the regulations should be read as granting this authority to the Electricity Authority.

22.1.6 <u>Provisions of the Electricity Sector Law and the Resolutions of the Electricity Authority with respect to the electricity charge rate</u>

In accordance with the provisions of the Electricity Sector Law, the Electricity Authority prescribes the electricity charge rate. As described above, most of the electricity consumers pay one weighted charge rate for electricity, which includes all segments of activity.

For purposes of setting rates, the Authority will perform actions of costs control of the holder of an essential service provider's license, and it is permitted not to take into account, in the matter of setting rates, all or part of the expenses that it deems unnecessary to fulfill the obligations of the holder of an essential service provider's license. In implementing the cost principle for determining the rates, the Authority will recognize the costs deriving from all of the following: (1) the Minister's policy principles; (2) the Minister's instructions regarding the operation of the electricity sector in times of emergency; (3) the Minister's instructions regarding the operation of the gas sector in times of emergency in accordance with the Natural Gas Sector Law, and (4) the Minister's instructions regarding a response to needs deriving from emergency situations, which are required for execution during an emergency, given in writing to the holder of an essential service provider's license In accordance with any law or in accordance with the terms of his license.

See Sections 7.11 and 9.10 for details on the principles for setting the charge rate and the manner of setting the electricity charge rate in each of the segments.

22.2 <u>Contentions of the Company with respect to the electricity charge rate</u>

The Company's revenues are based on the electricity rate collected from the various electricity consumers. In accordance with the Electricity Sector Law, the electricity rates and ways of updating them are determined exclusively by the Electricity Authority. The Company's financial position, revenues, profits and cash flows are therefore materially affected by the level and structure of the electricity rates. In general, the rate is determined according to the mechanism of recognition of the costs required to fulfill the Company's obligations as an essential service provider in the various segments, such as: fuels, operating and maintenance costs and capital costs (depreciation, financing and return on capital). For further details regarding the manner of determining and updating the electricity rate, see Note 3 to the Financial Statements.

In various decisions of the Electricity Authority in connection with the electricity rate, the Electricity Authority states that its decisions are made while balancing the need to allow the Company to carry out its activities in the electricity chain segments while maintaining its financial strength, and safeguarding the interests of consumers to minimize Company costs reflected in the rate.

According to the law, for the purpose of determining rates, the Authority is required to carry out cost control, and it is permitted not to take into account, for the purpose of setting rates, all or part of the expenses which it believes are not required to fulfill the obligations of the holder of an essential service provider's license.

Over the years, disputes have arisen between the Authority and the Company, and the Company has filed arguments against the Authority with respect to delays in making decisions regarding rate recognition of the costs borne by the Company.

In cases where the rate does not cover the Company's costs or is not updated in time, it may have a negative impact on the Company's financial position or on its operating performance.

As of the date of publication of the report, there are open, controversial issues regarding the electricity rate, which are handled and discussed on an ongoing basis by the Company's management with the Electricity Authority.

22.3 Resolutions of the Government and the Cabinet

22.3.1 Government resolutions regarding the electricity sector

In accordance with that which has been stated above, the operations of the Company are materially affected by the resolutions of the government, including on the issue of the Electricity Sector and because of its identity as a "government company" (see Section 22.5). During the years that have passed since the date the Electricity Sector Law was legislated, the Government of Israel and government entities adopted a number of resolutions and recommendations with respect to the Electricity Sector, some of which were later adopted as amendments to the Electricity Sector Law, and some were not adopted by the law and were not even implemented, because of various considerations, including the continued discussions between the Company and Government entities on the issue of the Structural Change.

As aforesaid, on June 3, 2018, a Government Resolution was adopted regarding the reform. Furthermore, and following this resolution, on September 3, 2019, a Government Resolution was adopted to establish the Ntiv HaOr Company which is a company fully owned by the Company. For additional details see Note 1e in the Financial Statements.

22.3.2 The innovation program in government companies and conditional approval under section 11(a)(9) of the Government Companies Law, for government companies to establish, together with others, companies in the field of innovation:

Further to the State's efforts to promote technological innovation in government companies, on May 7, 2018, the Ministerial Committee for Social and Economic Affairs (the Socio-Economic Cabinet) reached a resolution which was effected as a Government Resolution (no. 3837) on May 24, 2018, regarding "Innovation Program in Government Companies and Conditional Approval under the Government Companies Law, for Government Companies to establish or purchase Companies in the Field of Innovation" (in this section: the "**Resolution**") which allows the government companies, listed in the appendix to the resolution (including the Company),and their subsidiaries, to establish together with others companies, or to purchase, or to receive in another way shares in existing companies, which are mainly engaged in technological innovation, as defined in the resolution and subject to its terms, in lieu of , government approval as required under section 11(a)(9) of the Law. In addition, the resolution determined the establishment of an inter-ministerial steering committee to remove barriers preventing government companies from adopting innovative technologies.

22.3.3 Multi-annual plan to execute issue of minority stakes in government companies

On October 5, 2014, the Ministerial Committee for Social and Economic Affairs (Socio-Economic Cabinet) (hereinafter: the "**Cabinet**") approved a "Multi-annual Plan to Execute Issue of Minority Stakes in Government Companies" which was approved by the Government Resolution number 2093 of October 7, 2014 (in this section; the "**Decision**"). Within the Decision it was decided, inter alia, to approve a multi-annual plan to execute issue of minority stakes[39] in government companies (hereinafter: the "**Plan**"), and to promote the creation of an appropriate legal infrastructure for executing the issue of minority stakes in government companies in order to implement the Plan. The Cabinet classified the Company as a company in which the State has an interest in maintaining long term government control. Within the Plan outline, in was decided that in 2017, subject to a Government decision to perform a structural change in the Company, and minding the nature of the structural change that will be formulated, an issue of minority stakes of the Company will be executed at a total amount of up to 25% of the share capital of the Company (fully diluted). As of the date of the report, the decision has not been implemented and to the best of the Company's knowledge, no follow-up decision of any kind has even been made on this matter by the Government.

22.3.4 Improving preparedness for emergency situations

Pursuant to Government Resolution 2017 of October 30, 2016, in order to ensure the preparedness for emergency situations and to enable continuity in the supply of services and products which are essential for the population's existence, the following actions will be taken:

a. A Government Ministry will take the necessary actions to ensure in advance that services and products which are essential for the population's existence, which are routinely supplied by it or their supply is under its responsibility, will also be provided in a state of emergency - and it will also act so that its auxiliary units, the Government Companies and statutory corporations under its responsibility will be prepared as aforesaid, insofar as it is under its authority to do so according to the law.

[39] According to the Decision, minority issues are issues of a total rate between 25% on a fully diluted basis and 49% on a fully diluted basis of the companies' share capital.

b. A Government Ministry which is about to enter a contract to provide a service or product that is essential for the existence of the population, or to extend the validity of such a contract, will consider the need to include in the contract terms to ensure that the entity it is contracting with is prepared for a state of emergency.

c. An authorized authority which is in charge of granting a license, permit or approval under a law or by virtue of a law, will determine reasonable and proportionate terms, insofar as it is in line with the provisions of the authorizing law, which will ensure the preparedness of the license receiver. The permit or approval, as applicable, for continuity in the supply of products and services which are essential for the existence of the population in a state of emergency.

d. A proposal for privatization of a Government Company will not be submitted to the Ministerial Committee for Privatization Affairs under Chapter H1 of the Government Companies Law, unless the following aspects have been considered with respect to the Government Company:

- Whether there is another Government body which provides the services and products essential for the existence of the population in a state of emergency that are provided by the Government Company.
- If there is no such Government body, the terms required to ensure the adequate preparedness of the Company to respond in a state of emergency, including the need to declare it as an "essential enterprise" under the Emergency Work Service Law and the need to determine essential interests with respect to the Company, by order, under section 59h(a) of the Government Companies Law.
- This section does not derogate from the authority of the Ministerial Committee for Privatization Affairs under chapters H1 and H2 of the Government Companies Law.

Furthermore, Amendment 16 to the Electricity Sector Law determines that the Minister may decide on policy in the field of the electricity sector, inter alia on the following issues:

a. Electricity sector activity in emergency situations and in other special situations.

b. When the Electricity Authority determines a rate, it is obliged by the amendment to take into account the Minister's directives pertaining to the operation of the electricity sector in times of emergency, given under section 58(b) of the Law, and the Minister's directives with respect to addressing needs stemming from an emergency situation, which are required to be executed in times of emergency, which were given in writing to an essential service provider license holder in time of emergency, under any law or according the terms of its license.

22.4 Regulation applying to the corporation's operation

22.4.1 Regulation by virtue of the Government Companies Law

As of the date of the report, the Company is a "government company" as per its definition in the Government Companies Law. As a government company, the Company is subject to the provisions of the Government Companies Law and the relevant regulations and rules. The subsidiaries of the Company, which are government subsidiaries as defined in the provisions of the Government Companies Law (a company of which over half of its voting powers in its general meetings or its right to appoint more than half of its directors are held by a government company, a government subsidiary, or a government company with a government subsidiary), are governed by most of the provisions of the Government Companies Law, with the modifications stated in Section 57 of the Government Companies Law.

Pursuant to section 2 of the Government Companies Law, the Companies Ordinance will apply to the Company, all subject to the provisions of the Government Companies Law.

The following is a concise description of some of the principal provisions which apply to the Company by virtue of the Government Companies Law.

22.4.2 Government investments in the Company[40]

As long as the Company is a government company, the Government shall not invest in the Company except with the approval of the Knesset Finance Committee.

[40] Section 10 of the Government Companies Law.

22.4.3 Actions and decisions that require the approval of the Government

Pursuant to section 11 of the Government Companies Law, a number of Government company decisions require the approval of the Government, as detailed henceforth: (1) a change in the objectives of the Company; (2) increase of the registered share capital of the Company; (3) a change in the rights attached to the shares of the Company; (4) allocation of Company shares or consent to transfer shares as required by the incorporation documents - if they may cause a material change in the balance of power between the members of the Company or grant a new member with 10% or more of the nominal value of the share capital or voting power of the Company or the right to appoint a director; (5) issue of redeemable preference shares by the Company; (6) issue of debentures convertible into shares, and conversion into shares of debentures issued without conversion right or loan received by the Company; (7) transforming the Company from a company which is not private to a private company, or from a private company to a company which is not private; (8) reorganization of the Company, its voluntary liquidation, compromise, arrangement or merger with another company; (9) establishing a company, alone or with others, and purchase of shares in an existing company, except for purchase of shares on the stock exchange by a company for whom such a purchase is part of its regular business; if a company is of the opinion that an action or transaction does not require approval and the Government Companies Authority disagreed, the action or transaction will be presented for approval by the Government; regarding this - “company” - including another corporation, and an enterprise which satisfies the conditions as determined by the Minister of Finance; "enterprise" – engagement, including continuation of an engagement, to execute financial activity, provided it can materially affect the Company's profitability, property or liabilities; (9a) a right granted by the Company or obligation undertaken by the Company that may limit the Government, directly or indirectly, whether in its governmental role or in its position as a shareholder of the Company, including with respect to executing structural changes and privatization, promoting competition and regulating the sector in which the Company operates; regarding this issue, "right or liability" – including a right or a liability under which a Government act or omission, which is not controlled by the Company, will grant a third party remedies and reliefs against the Company; (9b) offering securities to the public under a prospectus, if the Companies Authority was of the opinion that as a result of publication of the Prospectus the State, being the controlling shareholder of the Company, may be liable for damage which will caused due to a misleading detail that was in the Prospectus, pursuant to the Securities Law, and so informed the Company; (10) operation as a shareholder of a government subsidiary in one of the issues stated in paragraphs (1) to (9b); (11) commitment to one of the operations stated in paragraphs (1) to (10). Such decisions by a government subsidiary also require government approval, and will be presented to the Ministers by the parent company to obtain such approval[41].

A decision by a Government Company to sell shares it holds in its government subsidiary also requires the approval of the Government and the Finance Committee of the Knesset[42].

22.4.4 Business considerations and designation of profits

Business considerations

Pursuant to section 4(a) of the Government Companies Law, a government company will operate in accordance with business considerations under which a non-government company operates, should operate, except if the Government determined for it, with the approval of the Finance Committee of the Knesset, other operating considerations. As of the date of the report, other operating considerations have not been determined for the Company.

Designation of profits

Pursuant to section 33(c) of the Government Companies Law, a decision of the Board of Directors regarding the designation of the profits of the Company or regarding distribution as defined in the Companies Law requires the approval of the Companies Authority. If the Companies Authority disagreed with the decision of the Board of Directors, the Company will act according to the decision of the Companies Authority as was approved by the Government. Under the Government Companies Authority’s Circular 2018-5-2 of December 11, 2018, on its policy regarding distribution and designation of profits in government companies, the term “profit designation” is broader than dividend, as it includes “distribution”, as its definition in the Companies Law, or designation of the Company’s profits in any other way, such as transferring surplus to funds, or for any other purpose. In accordance with the said circular, the main points of the Companies Authority’s policy for designating profits to dividend payments are as follows: (a) as a rule, a governmental company must allocate at least 50% of its current profits annually, before a bonus is paid out of the earnings to employees, for the purpose of distributing cash dividends; (b) the Companies Authority may prescribe, in accordance with the law, a distribution policy different from that stated in section (a) above and may also make a decision that deviates from the policy mentioned in section (a) above and all in light of

[41] Section 57(2) of the Government Companies Law.
[42] Section 15a of the Government Companies Law.

the individual circumstances of the company. Regarding the distribution of a dividend, taking note of the outline of the structural change, see Note 1e6c to the Financial Statements. For the decision of the Board of Directors regarding the dividend see Note 25 to the Financial Statements.

22.4.5 <u>Financial Statements in Government Companies</u>

(a) Section 33(a) of the Government Companies Law determines that the Board of Directors has to annually take care of the preparation of the balance sheet, profit and loss statements including earnings designation, report of resources and manner of their use, and in companies with subsidiaries – consolidated financial statements. Furthermore, section 33(b) of the Government Companies Law determines that the Minister of Finance may oblige a government company to prepare an additional report and to determine the date of its submission. Accordingly, regulations were promulgated, pursuant to which government companies are required to attach to the Financial Statements an additional report with respect to the actions that have been taken and the representations that have been given to secure the correctness to the Financial Statements and the report of the Board of Directors, including separate signed declarations of any officer who has signed those reports. In addition, pursuant to that section, regulations have been promulgated, whereby certain government companies, including the Company, have a duty to attach to the Financial Statements an additional statement with respect to the effectiveness of the internal control over financial reporting based, elaborating the material weaknesses, if any, and including signed declarations of each officer signing the statements, and a report of the independent auditor of the Company that will include his expert opinion on the effectiveness of the internal control of the financial reporting in the Company and material weaknesses that he has identified (the government companies regulations noted in this section will henceforth be named, jointly and severally: "**Government Companies Regulations**").

Pursuant to the amendment to the Securities Regulations (Periodical and Immediate Statements) - 1970 (hereafter: the "**Reporting Regulations**"), the duty applies to all reporting corporations whose securities are listed for trading on the Tel Aviv Stock Exchange, to declare the effectiveness of their internal control over their financial reporting and disclosure.

Furthermore, the Chairman of the Securities Authority has the authority, in accordance with Regulations 9B(F) and 38C(F) of the Reporting Regulations, to establish that a government company, which is also a reporting corporation in accordance with the Securities Law, which implements the Government Companies Regulations, is to report the effectiveness of the internal control in the form prescribed in the Government Companies Regulations.

The Company applied to the Chairman of the Securities Authority with a request for him to exercise his authority so that the reporting of the effectiveness of the Company's internal control, as a government company, will be in accordance with the Government Companies Regulations, so that the Company will not be required to submit an additional report regarding the effectiveness of the internal control also under the Reporting Regulations.

In answer to the application of the Company, the Chairman of the Securities Authority decided on January 4, 2011, to grant its request, for the reports of the Company with respect to the effectiveness of the internal control to be made out in the form prescribed in the provisions of the Government Companies Regulations, as long as the Company would comply with these instructions.

This arrangement is subject to the undertaking of the Company whereby on each statement date, the Company shall examine whether any changing event involving the set of facts that was shown before the staff of the Securities Authority in the applications of the Company has occurred and shall inform it of any such change. Within this undertaking, the Company shall examine changes in the provisions of the Regulations or the provisions of the Government Companies Regulations, changes in the status of the Company that affect the law applying to it, changes in the manner of implementation of the provisions of the Government Companies Regulations in the Company and any other relevant change.

As of the date of the report, the Company has complied with the stipulations that have been imposed upon it and has found no change in the Regulations or other relevant change.

(b) Section 33A of the Government Companies Law determines that in addition to the provisions of any law, the Minister of Finance, in consultation with the Minister of Justice, and in relation to a public company - in consultation with the Securities Authority, may prescribe rules, according to the proposal of the Government Companies Authority, for preparing financial statements of a government company for which it has been determined that it provides an essential service to the public, including the details to be included in them, the accounting principles for their preparation, and the statements and explanatory notes that will be attached thereto.

(c) Section 33B of the Government Companies Law determines that should the Government Companies Authority perceive that the public interest so requires, it is permitted to instruct a Government company as to the manner in which to present details in its financial statements, or in any other report that the Company is required to submit pursuant to any law, provided that the instructions covering this matter are not determined in the rules, laws or generally accepted accounting principles or generally accepted reporting principles; and it is permitted, if it should perceive that the public interest so requires, to instruct the Company to disclose the position of the Companies Authority, and to describe the dispute in the reports, to the Companies Authority's satisfaction.
As of the date of the Report, to the best of the Company's knowledge, the Company is implementing the instructions of the Government Companies Authority as aforesaid, as far as they apply to it.
For details regarding the rules for preparation of Financial Statements by Government Companies, as well as for additional details and instructions provided by the Companies Authority to the Company with respect to the manner of presenting details in the reports, see Note 36 to the Annual Financial Statements.

22.4.6 The Government Companies Authority

The Government Companies Law states[43] that the Government Companies Authority shall consult the Government, via the Minister of Finance, and shall consult the ministers on matters related to the government companies; shall handle, in accordance with the directives of the Government, matters that are shared by all of the government companies or classes of companies; shall track the fulfillment of the recommendations of the State Comptroller relating to government companies and shall assist in their fulfillment; shall advise and assist government companies in the conduct of their business affairs; shall continuously track the activity of each of the government companies, the fulfillment of their goals, course of business, financial state and wage policy and shall announce its findings to the Ministers; shall inspect reports that are submitted to it from a government company and the material on which the reports are based and shall make its comments on them to the company and to the Ministers; shall deal with and handle the formation and the execution of liquidation, merger, compromise, settlement, renewal, organization and sale of shares of government companies; deal with and assist in the construction and execution of liquidation, merger, compromise, arrangement, renewal, organization and sale of government companies; consult the Ministerial Committee privatization issues and deal with the execution of privatization resolutions; shall act to promote and achieve appropriate representation for populations determined by law among the employees of government companies; shall discharge towards a government company any duty that the Government or the Ministers impose on it and any other duty that is intended for it in accordance with the Government Companies Law.

22.4.7 Directors on Behalf of the State

(A) Appointment of directors on behalf of the State

A director for the State in a government company (in this Subsection: "**Director for the State**" or "**Director**") is appointed by the Ministers after consultation with the Appointments Scrutiny Committee whose composition and functions are elaborated in the Government Companies Law.

(B) Competency to serve as a Director for the State

In provisions of the law and various directives (including the Government Companies Law and its regulations, the Attorney General's directive 6.5000, "Appointments in Government Companies and Public Corporations", and Government Resolution No. 3849 of July 27, 2008, "Appointment of Directors in Government Companies, Government Subsidiaries and Mixed Companies - Continued Discussion"), terms of competency for serving as a director on behalf of the State were set (including with respect to a director who has personal, business or political interest with any of the Government's Ministers, where the nomination of candidates with such interest will not be routine, but in exceptional cases and when such appointments are worthy beyond any doubt due to a most unique and honorable contribution), qualifications to competency for serving as a director, the term of office, terms of service, provisions on the expiry of the office and suspension of directors, provisions on conflicts of interest (inter alia, the prohibition of being in a state of concern of conflict of interest which also applies to the personal conflict of interest of the officers and also to institutional conflicts of interest).

It was further determined that the head of the Government Companies Authority may determine, in consultation with the Minister in charge of the company's affairs, with respect to directors who are not civil servants, aptitude conditions dealing with expertise and professional competency, considering, *inter alia*, the fields of occupation of the company, its scope of activity and the composition of its Board of Directors, which will apply to up to a third (1/3) of the maximum number of directors in the company. The aptitude conditions set forth shall bind the ministers when they appoint directors. Accordingly, the Director General of the

[43] Sections 54 of the Government Companies Law.

Government Companies Authority stated that the company would have: one director with at least 7 years of experience and expertise in the financial field and a relevant academic degree, one director who has server or is serving in a senior function (VP at least) in a company to a financial volume of NIS 300 million and higher, and one director who is an engineer in the field of occupation of the company, with 7 years of experience in his function.

(C) Instructions with respect to compensation and expenses of directors on behalf of the State

Compensation for directors from among the public is set, according to the Company's classification, pursuant to the sums specified in the Government Companies Regulations (Rules of Compensation and Expenses of a Director from the Public in Government Companies), 1994 ("**Government Compensation Regulations"**), and the Company's classification in this matter is 10 (1).

As the Company is a public company, the compensation of external directors is pursuant to the Companies Regulations (Rules of Compensation and Expenses of an External Director), 2000.

Amendment no. 20 of the Companies Law deals with the terms of office and employment of officeholders in public companies and debenture companies (as defined in the Companies Law) ("**Remuneration Policy**"). Accordingly, section 267a of the Companies Law determines that the Board of Directors of a public or private company which is a debenture company will determine a Remuneration Policy of the company which will require the approval of the general meeting. However, the Companies Regulations (Relief Regarding the Duty to Set Remuneration Policy) - 2013 that apply to the company, provide an exemption for a government company or a government subsidiary, under certain conditions set in the regulations, from approving the Remuneration Policy at the general meeting. Additionally, the regulations enable the remuneration committee or the Board of Directors of a government company or a government subsidiary not to provide in the remuneration policy details of issues detailed in Part A of the First Schedule A of the Companies Law and not to determine in it provisions as detailed in Part B of the stated Schedule, regarding components of the remuneration policy which were determined in instructions by virtue of the Government Companies Law or were approved by the Government Companies Authority by virtue of the stated law, or were determined in collective employment terms approved pursuant to section 29 of the Budget Foundations Law, all in a manner which does not leave the company with discretion as to the scope or sum of remuneration in those issues.

22.4.8 Directors from among employees

A Director on behalf of a company's employees will be appointed in a Government Company employing at least one hundred employees ("Elected Representative"). The Government Companies Regulations (Rules for Determining a Selected Representative out of the Employees of the Company as a Director) 1977 state the manner and process of election of Elected Representatives, the terms of their competency, which are specific terms of competency, which are not identical to the ordinary rules of competency prescribed in Section 16A of the Government Companies Law with respect to a Director for the State and this section does not apply to an elected representative provided he is at least 25 years old on the day of appointment. The number of Directors out of the employees of the Company shall be two. As of the date of the report, one Director on behalf of the Employees is serving on the Board: Ms. Anat Oren-Elad, who was appointed on September 22, 2022.

22.4.9 Instructions with respect to the composition of the Board

In accordance with Section 17(D) of the Government Companies Law, the number of directors out of the employees of the Company shall not exceed two thirds (2/3) of all members of the board who have been appointed as representatives of the Government.

In accordance with Section 18A and Section 18A1 of the Government Companies Law, the composition of the Board of the Company as a government company shall give adequate expression to the representation of both sexes and the representation of the Arab population, including the Druze and Circassian population. As of the time of the report, a total of seven directors serve on the Board of Directors of the Company, of which three are female directors, and there is representation of the Arab population in the Board of Directors.

Under Section 18A2 of the Government Companies Law, proper representation will be provided for persons with disabilities, persons of whom they or one of their parents was born in Ethiopia, the Ultra-Orthodox population, and new immigrants, as defined in the Civil Service Law (Appointments), 1959.

22.4.10 Duties of disclosure of information to the State by the director on behalf of the State

Section 20 of the Government Companies Law states that a director on behalf of the State must, in accordance with any other law, give the Ministers and the Government Companies Authority, upon their demand, information on the affairs of the Company and his actions therein. In addition, under section 20(b) of the Government Companies Law, when a director becomes aware of a matter of the Company in which it is found to allegedly be in violation of the law or of integrity, he must bring this without delay to the knowledge of the Chairman of the Board of Directors, the Ministers, the Government Companies Authority and the State Comptroller.

22.4.11 Quorum and its completion

In accordance with Section 28 of the Government Companies Law, the quorum for a meeting of the Board of Directors is a majority of its members, among them at least one director on the part of the State; the decisions will be made with a majority of ballot participants; in the case of a tie – the chairman will break the tie; all when there is no provision to the contrary in the foundation documents. In accordance with the Articles of the Company, the quorum for meetings of the Board of Directors is three directors. In accordance with the provisions of section 23A of the Government Companies Law, if the number of members of the Board of Directors who are allowed to participate in its meetings is less than the quorum for its meetings, and this situation continues for more than 30 days, or the number of members is less than the minimal number prescribed in the Articles of Incorporation of the company and this situation lasts for more than 60 days, the Government is allowed, upon consulting the Appointments Scrutiny Committee, to appoint a director or directors to the number required to complete the quorum.

22.4.12 Provisions with respect to the Board of Directors of a Government Company

(A) The Chairman of the Board of Directors

Section 24 of the Government Companies Law states that the Board of Directors of a government company shall elect one of its members as the chairman of the Board of Directors, and his election requires the approval of the Ministers after consultation with the Appointments Scrutiny Committee. The Government is allowed to appoint a chairman of a board from among its members, if it has considered this to be necessary and after having consulted the Appointments Scrutiny Committee.

Section 16A of the Government Companies Law sets conditions for the competency of the Chairman of the Board of Directors. Additionally, it is determined that the company CEO will not be the Chairman of the Board of Directors. The Chairman of the Board of Directors is obliged, notwithstanding any other law, to provide the Ministers and the Government Companies Authority, once every six months and at any time upon demand by the Ministers or the Authority, with a written report of the operation of the Company and the work of the Board of Directors. He must also present them with the budget proposal, work plans and the draft of the financial statements, before discussing them.

As of the date of publication of the report, the Company does not have a Chairman of the Board of Directors.

(B) Work of the Board of Directors

Section 26(A) of the Government Companies Law prescribes that the meetings of the Board of Directors of the company shall be held in accordance with the needs of the company and at least once every two months, unless the Ministers have determined after consultation with the Government Companies Authority, other times, based on the nature of the business affairs of the company. In addition, the Board of Directors must hold a special meeting if the ministers, the Government Companies Authority or any one of the directors have demanded this. An invitation to meetings of the Board of Directors and its committees shall also be delivered to the Government Companies Authority, and it is allowed to send to any meeting a representative who shall be allowed to participate in the meeting, and his status shall be that of a director, but he shall not be considered in the quorum and shall not have a voting right. Section 29 of the Government Companies Law prescribes provisions with respect to the Board of Directors' ability to establish from among its members permanent committees or committees per a certain issue, and section 30 of the Government Companies Law prescribes provisions with respect to delegation of powers of the Board of Directors, except for non-delegable powers (which are specified in the Government Companies Law) and the power decided by the government or that the Ministers informed the company that it cannot be delegated.

(C) Functions of the Board of Directors

Section 32 of the Government Companies Law prescribes the functions of the Board of Directors, inter alia, the duty to discuss any issue that the Ministers or the Government Companies Authority have chosen to put on the agenda.

22.4.13 The Chief Executive Officer (CEO)

In accordance with Section 37 of the Government Companies Law, the Chief Executive Officer is appointed by the Board of Directors, and the appointment requires the approval of the Ministers after consultation with the Appointments Scrutiny Committee, but the Government is allowed to appoint the Chief Executive Officer if it considers this to be necessary, and the provisions of the Government Companies Law will also apply in this regard.

The Government Companies Law determines terms of competency for the Chief Executive Officer of a government company and restrictions thereof, as well as provisions pertaining to the expiry of his term, among them removal from office by the Government.

The general meeting is allowed to restrict or qualify the powers of the Chief Executive Officer, as is the Board of Directors.

22.4.14 Approval by the Government Companies Authority to the appointment of special functionaries in a Government Company

The Government Companies Law determines that the appointment of an accountant to a Government company and the appointment of a legal adviser to a Government company require approval by the Government Authority.

The accountant of a government company is required, notwithstanding any other law, to provide the Board of Directors, the Ministers and the Government Companies Authority, upon their demand, information on the affairs of the company, conduct special audits and give a report on their results.

22.4.15 Instructions with respect to the election of senior officers

The senior officers in a Government company (CEO, VP and deputies of the CEO, section heads, head of financial affairs, the internal auditor, company secretary and other positions that the Ministers determined in this regard, after consultation with the Government Companies Authority), are appointed with the approval of the company's board of directors, in accordance with the recommendation of the CEO. The CEO is appointed in accordance with that detailed in section 22.4.13 above.

22.4.16 Receipt of information from a Government Company

(A) Information to the Companies Authority

In accordance with Section 55 of the Government Companies Law, the Government Companies Authority, including whoever has been authorized by it for this purpose, is allowed, for the purpose of the discharge of its duty, to demand of a government company or involved company[44], and of a director on behalf of the state, of the Chief Executive Officer of a government company, and through him, of any person who works at the government company or is employed in its ranks, information and material on the matters of the a government company, and is allowed to inspect records and documents of such a company.

In accordance with the Government Company Regulations (Rules of Authorization of an Inspector by the Authority), 2005, if the Government Companies Authority decides, for the purpose of discharge of its duty, to execute an inspection, it is permitted to authorize an inspector in its behalf who is authorized to inspect the records and documents of the Company, and demand of the Company, or of the persons enumerated in section 55 above, information and material on the affairs of the Company.

On May 30, 2018, the Company received a letter from the Companies Authority under which, as part of a cross-sectional examination conducted by the Government Companies Authority in the government companies, it intends to conduct an audit in the Company on ethics and proper management in government companies. The audit is in process.

In June 2019, the Company received a letter from the Government Companies Authority stating that, as part of a cross-sectional examination conducted by the Government Companies Authority in government companies, it intends to audit the Company regarding "the Company's financial conduct vis-à-vis the workers' organization". The audit is in process.

(B) Information to the general public

The Freedom of Information Law 1998 ("**the Freedom of Information Law**") applies to a public authority, including a government company and a government subsidiary, except companies that have been excluded from the effect of the Freedom of Information Law in full or in part, as determined by the Minister of Justice with the

[44] As long as more than one quarter of the voting power in the general meeting or the right to appoint more than a quarter (1/4) of its number of directors lies with the State.

approval of the Knesset Constitution, Law and Justice Committee. As of the date of the report, the Company has not been fully or partially excluded from the application of the provisions of the Freedom of Information Act and therefore it applies to it.

The Freedom of Information Law states that any Israeli citizen or resident is granted a right to receive information from a public authority in accordance with the provisions of the Freedom of Information Law.

In accordance with the provisions of the Freedom of Information Law, the Company is allowed to reject a request to receive information in certain circumstances, and not provide information when there is concern that information as aforesaid would harm the security of the state, its foreign relations or public security, or the security or safety of a person, or with regard to any information on a subject that the Minister of Defense has prescribed in an order and that its disclosure invades privacy (as per its definition in the Privacy Protection Law 1981) and any information that must not be disclosed by law. To the best of the Company's knowledge, as of the date of the report, there are no orders for the Company on this matter.

In addition, in accordance with the Freedom of Information Law, the Company is allowed not to disclose information in certain cases, *inter alia* information which may disrupt its normative functioning or its ability to carry out its function, information about policy in stages of formation or about details of negotiations with an entity or person outside the Company, information about the internal management of the Company that has no bearing on the public, information that is a commercial secret or a professional secret or that has economic value whose publication may cause genuine damage to its value, and is allowed not to disclose information in additional circumstances as prescribed in the Freedom of Information Law.

Furthermore, the Freedom of Information Regulations (Disclosure of Information on Environmental Protection for Public Inspection) 2009 prescribe that a public authority must disclose for public inspection information with respect to a substance, odor or radiation that has been measured or emitted into the air, into the soil, into water or into the sea and that is of a type that may cause an environmental hazard, in ways and at times that have been prescribed in these regulations.

From time to time, the Company updates information as stated on the Company's website.

22.4.17 <u>Provisions pertaining to hiring employees</u>

As a government company, the Company is subject to the provisions of the Government Companies Law and the regulations issued thereunder, as well as to the directives of the Companies Authority and government decisions, inter alia on the issue of personnel.

The procedures for hiring employees for the Company are subject to the Government Companies Regulations (Rules of Employment of Relatives) - 2005, and to the internal instructions of the Company, which are adjusted for the regulations and directions of the Board of Directors of the Company. In view of the above, restrictions have been prescribed in the Company with respect to the employment of relatives in functions in which there are subordination relations or when concern of conflict of interests may arise. Within the internal audit of all of the operations of the Company, the issue of employment of relatives is also audited, and the Company acts in accordance with the recommendations of the Internal Auditor of the Company.

As a Government Company, the Company is subject to provisions concerning the proper representation of various sectors among its employees, as appropriate.

22.4.18 <u>Privatization</u>

The Government Companies Law prescribes provisions applicable to a government company that the Ministerial Committee on Privatization has decided to privatize, in one of the ways listed in this law or a combination thereof: sale of shares by prospectus or otherwise, issuance of shares by the company, issue of securities convertible into shares, the sale of a material asset of the company or all of its assets, a change in the rights attached to shares, reorganization, merger, and any other manner determined by the Ministerial Committee (hereinafter: "Company under Privatization"). Among other things, the Government Companies Law allows the Government Companies Authority to convene a general meeting to make decisions for the purpose of executing the privatization and to vote in them by virtue of the state's holdings; imposes obligations on a company under privatization and its senior officials, including the obligation to disclose to the Government Companies Authority and experts on its behalf, or to provide for their perusal, information and documents as required, for the execution of the privatization decision, or for the assessment of the company, its shares or assets; it is compulsory to provide information to a candidate for the purchase of the company's shares or assets, approved by the Government Companies Authority, or to experts on its behalf, insofar as it is required in the opinion of the Government Companies Authority for evaluation of the Company value, its shares or assets, subject to confidentiality agreements; It is compulsory to prepare any outline or prospectus that will be required for a sale proposal to execute the privatization decision. As of the date of the report, the Company is not a company under privatization.

22.5 Laws, regulations and other orders applying to the Company as a government company

22.5.1 The Budget Foundations Law - 1985

A government company is considered to be a "budgeted body" as this term is defined in the Budget Foundations Law, and therefore a number of instructions apply to the Company, the main ones being as follows:

(1) In accordance with the provisions of Section 29 of the Budget Foundations Law, the Company cannot consent to changes in wages, retirement or pension conditions, or other financial benefits that are related to work, or enact such changes or benefits, other than in accordance with the agreement or custom with respect to all civil servants or with the approval of the Minister of Finance.

(2) Notwithstanding that which has been set forth above in any law, any agreement or arrangement is void if it contravenes the provisions of Section 29 of the Budget Foundations Law. If the Minister of Finance deems a budgeted body to have failed to fulfill the provisions of Section 29 of the Budget Foundations Law, he is allowed to deduct an amount that is equal to the amount that has been paid due to this from the amounts that must be transferred to that body from the state budget by law, and he is allowed to terminate or reduce any bonus or participation that the body would have received from the Government were it not for the deviation, as long as the body is making payments in contravention of the provisions of this section, and he may set directives that will apply to the budgeted body regarding its obligation to return a benefit received under an agreement or arrangement contrary to the provisions of section 29 of the Budget Foundations Law .

(3) The Company as a budgeted body must provide the Director General of the Ministry of Finance, upon his demand, any information that is needed for the purposes of tracking the execution of the Budget Foundations Law or annual budget law.

(4) The Company as a budgeted body must deliver to the Commissioner of Wages and Employment Agreements at the Ministry of Finance, once a year, information, at a time and in the manner prescribed in the Regulations.

22.5.2 The Equal Rights for Women Law - 1951

In accordance with this law, adequate representation is to be given, in the circumstances of the matter, in a public body that includes a government company and in tender and appointment committees of a public body, to the representation of women.

22.5.3 Resolution of conflicts between the Company and the State or other government companies

In accordance with Directive 6.1201 of the Attorney General, no civil action shall be filed by the State of Israel against a Government Company until after receipt of the approval of the following: the Attorney General, the State of Israel Attorney, the Assistant State Attorney or the Director of the Civil Department in the State of Israel Attorney's Office. Initially an attempt at conflict resolution shall be conducted by way of negotiation, mediation, giving of an expert legal opinion or otherwise, and if the conflict is not resolved within a reasonable time, the Attorney General will decide as to the next steps.

Directive 6.1201 of the Attorney General indicates a course of action whereby litigation in Court must be avoided to the extent possible for legal conflict resolution on civil affairs between a government company and the State or a corporation founded by law or another government company, and a government company should make every effort to resolve such a conflict other than by filing an action to the Court. In accordance with the directive, a government company that has not succeeded in resolving the conflict in another way, and which requests to file a suit, shall announce this to the Director General of the Government Companies Authority, who will act to settle the conflict out of court in the ways set forth in the directive. To the extent that the conflict is not settled in a reasonable time, the Director General of the Government Companies Authority shall refer the conflict for handling by the Attorney General or the party authorized by him for that purpose. If the conflict is not resolved within a reasonable time, the Attorney General shall express his opinion before the parties on how to act subsequently. If the circumstances oblige an urgent application to the court so as not to miss a date set in law or to prevent a change of situation or other serious damage, an effort will be made to extend the date or prevent the damage, as the case may be. And if it appears that it is not possible, it will be possible to apply to the court as required under the circumstances, and to immediately afterwards take steps to settle the dispute as detailed above.

22.5.4 Resolution of conflicts between government companies on infrastructure matters

Pursuant to the Government Companies Law, the Company is an infrastructure and therefore the provisions of the Government Companies Law dealing with the resolution of conflicts between government companies on matters of infrastructure apply to it. Among others, pursuant to the Government Companies Law, a conflict resolution committee will be established, and it will rule in conflicts between government companies on matters of infrastructure, including conflicts on coordination with respect to infrastructure works, the scope of infrastructure works, the schedules for the execution of infrastructure works, the payment required for the execution of infrastructure works, coordination with respect to passing through land held by an infrastructure company and other conflicts that delay or could delay infrastructure works (hereinafter: "**Conflict Resolution Committee**"). The Conflict Resolution Committee will have the exclusive authority to hear and rule on such a conflict, unless it has decided not to rule on the conflict.

The Conflict Resolution Committee is allowed to present a compromise to which all parties to a conflict have agreed the effect of a final decree. A final decree of the Conflict Resolution Committee may be appealed by a question of law only to the Court for Administrative Affairs, if approval was granted for this by a judge of the Court for Administrative Affairs. A final decree of the Conflict Resolution Committee for which no leave to appeal has been filed within the time set for that purpose or for which no leave to appeal has been received shall be considered as a final verdict of a court.

22.5.5 The State Comptroller Law

The State Comptroller Law - 1958 [Consolidated Version] (hereafter: the "**State Comptroller Law**") subjects any "audited entity" as per its definition in the State Comptroller Law, and states, *inter alia*, that: any government company is an audited body that will be subject to the scrutiny of the State Comptroller; an audited body is subject to various instructions to serve documents and information and assumes a duty to appoint a team to rectify the deficiencies and make resolutions found in an audit; by law, a person may file a complaint to the Public Ombudsman against an audited body and the Ombudsman may, in the case of finding the complaint to be justified, indicate the need to correct the deficiency and the way and time to do so.

The public complaints commission in the Company is responsible for processing complaints and objections of the customers of the Company and is in contact with the State Comptroller on this matter.

Reports of the State Comptroller:

Debt management report:

On October 19, 2021, the State Comptroller's Report No. 72a was published, regarding "Debt Management in the Israel Electric Corporation". The report examined the debt management in the Company, including the steps taken by the Company and the regulators to reduce the debt and its costs. The report noted positively the dramatic improvement that has occurred in the Company's financial position between 2013-2019, which is expressed, inert alia, in a significant decrease exceeding 40% in the Company's financial debt (from a total of approximately NIS 52 billion in 2012 to a total of approximately NIS 36 billion in 2019 and NIS 30 billion in 2020). This is in addition to the Company's leverage level and improvement in debt coverage. Following this, stated the Office of the State Comptroller, the Company's capital raising terms have improved, and the marginal interest rate of capital raisings is the lowest since the Company began raising.

Alongside this, the report includes criticism of the Company on several issues, including financial strength targets and its credit rating (which should be improved according to the Comptroller's Office), the Company's debt and financing costs (the Company has to examine the viability of taking steps to reduce them according to the Comptroller's Office), and development plan targets (which according to the Comptroller's Office set a low investment volume, that does not meet the needs of the sector). The Company submitted its response to the report findings and its position was presented within the final report.

On January 20, 2022, the Company's Board of Directors approved a 'fault repair plan', prepared and approved by a team headed by the CEO, as required by virtue of the State Comptroller Law. Within this framework the Company stated, inter alia, that it is acting and will continue to act in a variety of channels to improve efficiency and its financial position, along with meeting the development plan and the full investments required to develop the grid.

This plan was distributed to the Office of the State Comptroller, the Companies Authority, and the Division of State Audit Affairs in the Prime Minister's Office, as required by the State Comptroller Law, the Government Companies Authority's circular and the Company's procedure.

Investment Management report:

On October 19, 2021, the State Comptroller's Report No. 72a was published, regarding “Investment Management Among Various Bodies”. The report examined the financial investment management among various bodies, including the Company. Inter alia, the Comptroller’s Office examined the composition of the Company’s investment portfolios, the Company’s investment policy, and the manner of its approval and the work of the Company’s Investment Committee. Most of the criticism directed at the Company was omitted from the final report following the Company's response to the draft report, which was forwarded to the Comptroller’s Office. The final report includes a number of recommendations of a technical nature, most of which are acceptable to the Company, and are already in the process of implementation.

On January 20, 2022, the Company's Board of Directors approved a ’fault repair plan’, prepared and approved by a team headed by the CEO, as required by virtue of the State Comptroller Law. Within this framework the Company stated that immediately upon publication of the report, it is acting to implement the recommendations given therein.

This plan was distributed to the Office of the State Comptroller, the Companies Authority, and the Division of State Audit Affairs in the Prime Minister’s Office, as required by the State Comptroller Law, the Government Companies Authority's circular and the Company's procedure.

Climate Crisis Report:

On October 26, 2021, a State Comptroller's Report was published, regarding “Actions by the Government of Israel and its Preparedness for the Climate Crisis”. This is a special and comprehensive audit report in which various aspects concerning the activities of dozens of government ministries and government and public bodies on the issue of national preparedness for the climate crisis were examined. Among other things, the following were examined: the actions taken to reduce greenhouse gas emissions and energy efficiency, preparedness to deal with the risks associated with the climate changes, the economic implications of the climate crisis, how to formulate policies and work processes for dealing with the climate crisis, etc. Although the report criticizes some of the government ministries and various bodies, the Company is mentioned positively, particularly with regard to its preparedness for coping with extreme climate events.

On January 20, 2022, the Company's Board of Directors approved a ’fault repair plan’, prepared and approved by a team headed by the CEO, as required by virtue of the State Comptroller Law. Within this framework the Company stated that it will continue to optimally act to reduce greenhouse gas emissions and to be prepared to cope with extreme climate events.

This plan was distributed to the Office of the State Comptroller, the Companies Authority, and the Division of State Audit Affairs in the Prime Minister’s Office, as required by the State Comptroller Law, the Government Companies Authority's circular and the Company's procedure.

Report on Preservation and Conversion of Coal-Fired Electricity Generation Stations

On November 24, 2022, the State Comptroller's Report No. 73A was published, regarding “Preservation and Conversion of Coal-Fired Electricity Generation Stations”. The report examined the manner of decision making at the Ministry of Energy regarding preservation and conversion of coal-fired electricity generation stations to natural gas, including the calculations carried out and the alternatives it considered at the basis of these decisions. The report is divided into two major parts: (1) conservation of units 1-4 at the Orot Rabin station; (2) converting the coal-fired stations at Orot Rabin to natural gas.

The findings of the Comptroller’s Office regarding the conservation of units 1-4 at the Orot Rabin station:

It was found that the preservation alternative involves a considerable excess cost, which may amount to approximately NIS 4.3 billion. This, when there is doubt as to whether the units, which are among the oldest units in the electricity sector, will be able, in an emergency, to return from conservation to full function in the time period that will be required for this. Even if the units return to activity, they will operate at the expense of units 70-80, new stations which are much more efficient and less polluting, in a way that creates a fear of damaging the generation capacity of the entire site.

Since the Orot Rabin station has the infrastructure for the full operation of units 70-80 during routine and emergency situations, the preservation project of units 1-4 constitutes an alternative that is not as good as units 70-80 for sectorial insurance in time of emergency.

The Comptroller’s Office recommends that the Ministry of Energy, the Electricity Authority and the Electric Company examine the conservation project and its implications in light of its excess costs, the risks inherent in it and the alternatives that exist for it.

It was found that the project of converting the coal-fired units is an economically viable project and constitutes the most viable alternative to end the use of coal, so long as there are technological limitations that require the ability to back up with conventional installed capacity for electricity generation with renewable energies.

In addition, there is a potential for substantial savings from seasonal operation of the converted units, instead of constant operation at minimal output (Must Run). Therefore, the Comptroller's Office recommends that the Electricity Authority and the System Management Company examine the adoption of a seasonal operating regime for the converted units.

At the same time, it is important that the Ministry of Energy, the Electricity Authority and the Electric Company examine the technological development in the field of energy storage and work to remove the barriers to the development and assimilation of storage technology and to increase the generation with renewable energies, and examine the need to continue implementing the conversion alternative.

On November 19, 2022, the Company's Board of Directors approved a "deficiency correction plan" prepared and approved by a team headed by the CEO, as required by virtue of the State Comptroller's Law. Within this framework, the Company noted that immediately upon publication of the report, it began to implement the recommendations made within it. This plan was distributed to the State Comptroller's Office, the Companies Authority and the Division for State Audit Affairs in the Prime Minister's Office, as required by the State Comptroller's Law, the Government Companies Authority's circular and the Company's procedure.

<u>Audit Report on the Progress of the Light Rail Project in Gush Dan</u>

On November 24, 2022, the State Comptroller's Report No. 73A was published, regarding "Progress of the Light Rail Project in Gush Dan". The report examined the progress of the construction project of the light rail lines in Gush Dan - the red line, the purple line and the green line. This is a comprehensive report of about 100 pages, which deals with a variety of issues, including the delay in operating the light rail lines, the increase in the project's cost estimate, the assistance to businesses on the light rail route, the difficulties and barriers in the interface between infrastructure companies and the NTA Metropolitan Mass Transit System Ltd ("NTA"), and more.

The examination by the Comptroller's Office was carried out at NTA, the Ministry of Transportation, the Ministry of Finance and the relevant municipalities. The report does not focus on the Electric Company, but refers to it on two issues that were examined in its framework: (1) delays in projects; (2) failures in coordinating infrastructure along the project's route.

The findings of the Comptroller's Office concerning the Electric Company, under the topic "project delays":

It was found that the completion of the construction of additional segments in the project is expected to be delayed, inter alia, due to delays by the Electric Company in the execution of electrical works and due to delays by NTA's contractors in engineering works. There are also disputes between NTA and the Company regarding responsibility for the aforesaid delays.

According to the Comptroller's Office, these findings indicate the need to establish an integrating government body that will make decisions in disputes between infrastructure companies working to establish national infrastructures. The Comptroller's Office recommended to the Ministry of Transportation to act to promote the establishment of such a body.

The findings of the Comptroller's Office concerning the Electric Company, under the subject "failures in coordinating infrastructure works along the project route":

Although a decade has passed since the approval of the light rail project by the government, the audit revealed that difficulties in coordinating infrastructure works with the Electric Company and other infrastructure companies are a common thread in the forums and in various reports on the progress of the project.

It was found that coordination with the Electric Company is done on an ad hoc basis, without a general service agreement being signed between the companies. The Comptroller's Office recommended that NTA and the Company work to complete the signing of the aforementioned agreement, which may help the Electric Company to prepare as early as possible and allocate resources to tasks related to the project on the one hand, and on the other hand will help NTA receive an efficient and predictable response to the planning, moving and construction of the electrical infrastructure in the project.

In addition, in light of the great importance of the project, it was recommended that the Electric Company, in cooperation with NTA, examine whether the resources allocated by the Company for the benefit of the project are sufficient for its promotion and whether the existing work processes meet the needs of the project.

It was further recommended that the companies work in coordination with each other and with the Ministries of Transportation and Finance to bridge the gaps between them, and to find ways to optimize the execution of the works and determine their content and cost.

On November 19, 2022, the Company's Board of Directors approved a “deficiency correction plan” prepared and approved by a team headed by the CEO, as required by the State Comptroller's Law. Within this framework, the Company noted that immediately upon publication of the report, it began to implement the recommendations made within it. This plan was distributed to the State Comptroller's Office, the Companies Authority and the Division for State Audit Affairs in the Prime Minister's Office, as required by the State Comptroller's Law, the Government Companies Authority's circular and the Company's procedure.

Report on Aspects of the Cumulative Pension and the Pension Distribution Market

On November 24, 2022, the State Comptroller's Report No. 73A was published, regarding “Aspects of the Cumulative Pension and the Pension Distribution Market - a follow-up audit”.

This is a follow-up audit on a previous report by the Comptroller’s Office, which was published in 2016, and dealt with the pension arrangements in Israel. In the current report, the main deficiencies found in the previous report were followed up on the issues of the rate of management fees, the default funds in the cumulative pension and the pension distribution market.

This is a specific report that focuses on the activities of the Capital Market, Insurance and Savings Authority to correct the deficiencies identified in the previous audit report. Alongside this, inspections were also carried out in several Government Ministries and Government Companies, including the Electric Company, on the issue of the frequency of providing pension advice and/or marketing during the employee's lifetime. The examination was divided into three time periods: (1) the beginning of the employee's work; (2) the employee's employment period; (3) the employee's retirement.

An inspection carried out at the Electric Company found that during the employee intake phase, the Company refers all employees to a pension broker. Only managers employed under a personal employment contract are sent at this stage to a pension insurance agent; during the employee's employment phase, the Company recommends to managers with a personal employment contract only, to hold a meeting with a pension insurance agent with whom the Company contracted, at the Company's expense. In addition, during an occupational or personal change, the Company recommends that the employee hold a service meeting with a pension broker; at the retirement phase, the Company recommends that employees hold a meeting on the meaning of retirement in financial and pension aspects and in taxation aspects, at the Company's expense.

Paying attention to the findings regarding the Electric Company and the other audited companies, the Comptroller’s Office recommended to the Capital Markets Authority to examine ways to increase the frequency of pension advice given to employees on a periodic basis, and in particular at key points in time such as starting a job, changes in the personal or family circumstances, and the date of retirement.

In addition, the Comptroller’s Office recommended to the CEOs of the various entities (among them the Electric Company) to formulate a procedure for referring employees to pension consultation on a periodic basis.

On November 19, 2022, the Company’s Board of Directors approved a “deficiency correction plan” prepared and approved by a team headed by the CEO, as required by the State Comptroller's Law. Within this framework, the Company noted that immediately upon publication of the report, it began to implement the recommendations made within it. This plan was distributed to the State Comptroller's Office, the Companies Authority and the Division for State Audit Affairs in the Prime Minister's Office, as required by the State Comptroller's Law, the Government Companies Authority's circular and the Company's procedure.

Report on the Natural Gas Distribution Network

On November 24, 2022, the State Comptroller's Report No. 73A was published, regarding the “Natural Gas Distribution Network”.

The report examined the layout of the natural gas distribution network, including the distribution grid development policy, the Government assistance provided to the distribution companies and end consumers, the bureaucratic barriers in the development of the distribution network and the economic model of the distribution network. The report also examined the correction of the deficiencies found in a previous report published by the Comptroller’s Office, in 2016, regarding the connection of consumers to the natural gas distribution network.

The report found that 13 years after the first distribution licenses were granted, the rate of natural gas needs in the distribution network is only approximately 22% of the set target, with the economic meaning being a loss of savings of approximately NIS 0.8-1.9 billion. In addition, the Natural Gas Authority reduced the target for connection to the distribution network, without an orderly examination procedure being carried out and without a Government Decision being made regarding the matter.

The reference of the report to the Electric Company is found in the section concerning barriers in the development of the distribution network, with an emphasis on delays related to the Electric Company.

Thus, it was found that the limitations set by the Noga Company, for the absorption of generation facilities operated by gas in different regions of the country, make it difficult to integrate facilities into the electricity grid and to develop the natural gas distribution network. Therefore, it was recommended that the Noga Company and the Electric Company cooperate for the purpose of developing the electricity grid and adapting it to accommodate new electricity generation facilities in the network.

Additionally, it was found that only 80% of the winners of the regulation received a positive answer from the Electric Company to their request to connect to the electricity grid, and that the connection date of approximately 70% of the positive answers is only in 2025.

Giving negative answers to some of the electricity producers and setting late connection dates, delays the absorption of the generation facilities into the electricity grid.

Therefore, the Comptroller’s Office recommended as follows: “It is recommended that the Company act to update negative distributor answers given to producers and replace them with partial or limited positive answers and advance connection dates, in accordance with the principles outlined by the Electricity Authority, so as to enable the connection of generation facilities to the electricity grid".

On November 19, 2022, the Company’s Board of Directors approved a “deficiency correction plan” prepared and approved by a team headed by the CEO, as required by the State Comptroller's Law. Within this framework, the Company noted that immediately upon publication of the report, it began to implement the recommendations made within it. This plan was distributed to the State Comptroller's Office, the Companies Authority, and the Division of State Audit Affairs in the Prime Minister’s Office, as required by the State Comptroller Law, the Government Companies Authority's circular and the Company's procedure.

<u>Report on the State Comptroller’s Report – “Streamlining in the Israel Electric Corporation Ltd.”</u>

On November 23, 2022, the State Comptroller's Report was published, regarding the “Streamlining in the Israel Electric Corporation Ltd.”. The report deals with the implementation of the reform in the electricity sector during the examined period (May-December 2021) and looking forward to the future. This alongside an examination of the Company's streamlining in various areas.

As part of the audit report, the Comptroller’s Office stated that the Company is implementing the various steps set in the reform, including:

The Company is meeting the goal set in the reform for the permanent employee headcount, and even beyond it;

In recent years, there has been a significant improvement in the Company's financial position, which is reflected, inter alia, in the reduction of the debt, the decrease in debt costs and the improvement in various financial indices;

The Company meets the goals of the reform to reduce its share in the generation segment by selling power stations according to the planned schedule;

There was a decrease in the Company’s salary costs by approximately NIS 1 billion per year, compared to a scenario without reform;

There has been a decrease in grid development costs.

At the same time, the audit report includes a number of determinations and conclusions that, in the Company's opinion, do not reflect the full data presented to the audit team prior to the publication of the report, and it includes criticism that is not justified (for example, with regard to the worsening trend in the non-supply minutes index, the deviation from the reform goal regarding the situation of the temporary employees, the increase in the Company's operating costs and the deterioration in the service indicators of the 103 call center). This, alongside the downplaying of achievements that are of great significance to the Company and the electricity sector as a whole. The Company's position on these matters has been integrated in the appropriate places throughout the report.

On October 27, 2022, the Company's Board of Directors approved a “deficiency correction plan” prepared and approved by a team headed by the CEO (this, prior to the publication of the report - with reference to the final report in a confidential format that was transferred to the Company), as required by the State Comptroller's Law. Within this framework, the Company noted that immediately upon publication of the report, it began to implement the recommendations made within it. This plan was distributed to the State Comptroller's Office, the Companies Authority, and the Division of State Audit Affairs in the Prime Minister’s Office, as required by the State Comptroller Law, the Government Companies Authority's circular, and the Company's procedure.

22.5.6 The Public Complaints Commissioner

In accordance with the State Comptroller Law, the Public Complaints Commissioner is allowed to adjudicate complaints against the Company in its capacity, as determined, as an “audited body”, as its meaning in section 9 of the State Comptroller Law, owing to an act or default or delay in an action that directly harms the complainant himself, or that denies him directly a benefit, or an action that directly harms another person or that denies him directly a benefit, when the complainant has received, to the satisfaction of the Public Complaints Commissioner, the consent of that person to file a complaint on his matter, or when the complainant is a member of the Knesset - even an act that directly harms another or directly prevents him from receiving a benefit. The findings of the Public Complaints Commissioner with respect to the inquiry made and his recommendations to correct deficiencies are forwarded to the audited body.

The public complaints commission in the Company is responsible for processing complaints and objections of the customers of the Company and is in contact with the State Comptroller on this matter.

22.5.7 Tender Law

According to the Obligation for Tenders Law – 1992, which applies to the Company as a Government Company, the Company shall not execute a contract for executing a business arrangement involving goods or land, or for the execution of work, or for the purchase of services, except in accordance with a public tender that gives any person an equal opportunity to participate therein. The Obligation for Tenders Regulations - 1993 (“**Obligation for Tenders Regulations**”) determine provisions regarding tender proceedings and circumstances under which conducting a tender is exempted, and special obligations and provisions for government companies and government subsidiaries.

In addition to the aforesaid, the Obligation for Tenders Regulations (Preference for Israeli Produce) - 1995, and the Obligation for Tenders Regulations (Obligation for Industrial Cooperation) – 2007 (“Obligation for Industrial Cooperation Regulations”), apply to the Company.

In addition to the Obligation for Tenders Law and the Regulations promulgated under it, the provisions of the Government Procurement Agreement (GPA) in the World Trade Organization (WTO) apply to the Company. The Obligation for Tenders Law determines that the provisions determined pursuant to the law will apply insofar as they are not contradictory to an obligation by the State in an international treaty.

22.5.8 Internal Audit Law

The Internal Audit Law - 1992 (“**Internal Audit Law**”) applies, inter alia, to a public body (as its definition there) including a government company. According to the Internal Audit Law, an internal audit will be executed in every public body by an internal auditor.

22.6 Planning and construction

The construction of all of the facilities of the Company is carried out in accordance with construction permits that are issued pursuant to the provisions of the Planning and Construction Law, or as part of the various exemptions prescribed in the regulations enacted by virtue of the Planning and Construction Law. The construction of overhead electricity grid facilities as per its definition in the Planning and Construction Regulations (Regulation of Transmission, Distribution and Supply of Electricity), 1998, which is carried out in accordance with the authorizations given pursuant to the said regulations and according to the Planning and Construction Law.

If it is found that the Company has any construction works, which require such a permit, that have not been performed in the past as required by Law, the Company acts before the relevant authorities to receive permits for working by Law. According to the Planning and Construction Law, working without a permit may expose the Company to criminal proceedings against it and against its executives, as well as for the issue of administrative and/or legal orders for demolition of the illegal construction.

In accordance with the provisions of the National Planning and Construction Council, for the purpose of construction of 400 kV lines, national outline plans are required. The preparation of the outline plans, as well as the procedural processes for their approval, are carried out in accordance with the provisions of the Planning and Construction Law.

In accordance with the Planning and Construction Law, a land rights holder is allowed to submit against the local committee to whose jurisdiction an outline plan applies a claim for compensation for decrease in value of the land, not by way of expropriation, as a result of the approval of the plan. For certain outline plans, that the Company promoted and submitted for approval as the initiator of the plan, the Company has undertaken to indemnify the local committees in whose jurisdiction these plans apply to the full amounts that the committees would have to pay to the affected landowners, subject to and in accordance with the provisions in the text of the indemnification statement.

Appeals have been submitted against some of the local committees, in whose areas an outline plan as aforesaid applies, to the relevant appellate committees that deal with decrease in value. In accordance with the provisions of the indemnification statements, the Company was enrolled in the appeals as a party that might be harmed by their acceptance (see also Note 35b5b to the Annual Financial Statements). In the statements of indemnification delivered by the Company, or in the indemnification clauses in the plan, compensation amounts are not indicated, but rather the indemnification is at a rate of 100% or another rate out of the amount of the appeal that has been filed against the local committee. The total claims are stipulated in the Financial Statements and are updated from time to time. For additional details with respect to planning and construction see sections 7.12.8 and Note 35b5b to the Financial Statements.

On October 2, 2022, the Noga Company notified the Company that according to Noga’s position, the issue of signing letters of indemnification with regard to the plans that are under its authority according to its license, which grants it exclusive authority to statutorily plan the transmission grid, should be in Noga’s exclusive area of responsibility and it will be the one to sign letters of indemnification for compensation claims with respect to impairment in value, and accordingly will also handle compensation claims as aforesaid, if submitted.

To the best of the Company’s knowledge, the notice as aforesaid was delivered by Npga to the Electricity Authority, which is supposed to regulate the issue in the licenses it issues, both for Noga and the Company.

As of the date of publication of the report, the final decision of the Electricity Authority in this matter has not yet been received, however, Noga has already began handling the issue of letters of indemnification with Committees regarding plans that are handled by it.

22.7 Business licensing

22.7.1 In accordance with the Business Licensing Law, the Company is required to receive a business license for about 149 licensable items out of those stipulated in the Business Licensing Order (Businesses Requiring Registration), 2013, including, *inter alia*, power stations, fuel stations, dining rooms and other sites and facilities. The operation of the sites of the Company without a business license constitutes a violation of the Business Licensing Law and may lead to the termination of the activity of the business.

22.7.2 As of the date of the report, the Company has a license for about 72% of these items only and applications have been prepared or submitted for about 28% of the total items. The Company is acting to regulate a business license for items that require a business license at the sites and facilities of the Company, in accordance with the Business Licensing Law and pursuant to an internal procedure of the Company on the issue. Regulation of the issue of licensing requires compliance with the requirements of the fire brigade, in accordance with the most current standards, whose cost for regulation in 2021 may reach approximately NIS 24 million for each of the sites (most of the works with respect to firefighting). From time to time the Company receives warnings for activity without business licensing and in the past indictments have even been filed against the Company and its employees. As of the date of the report, there are no indictments against the Company. A few warnings that were received by the Company were in part dealt with and removed and in part are being dealt with.

22.7.3 As of the date of the report, most generation units in the generation sector themselves have business licenses, which are updated or renewed from time to time. In addition, the Company has received conditions from the Ministry of Environmental Protection for granting a business license for the generation units of the Company, and the Company is acting to fulfill the conditions of the Ministry. See Sections 7.12, 8.9 and 9.9 with respect to environmental conditions within business licenses.

For additional details with respect to business licensing see sections 7.12.11, 7.12.13 and 21.3.

22.8 Economic Competition

Pursuant to his authority under the Economic Competition Law 1988 ("**the Economic Competition Law**" or under its previous name, the Antitrust Law, 1988), on January 5, 1999, the Commissioner of Competition (in this section: the "**Commissioner**") declared the Company to have a monopoly in the fields of electricity supply (generation and sale of electricity), electricity transmission and distribution and provision of Backup Services for electricity consumers and producers.

It should be noted that on January 1, 2019, the Economic Competition Law was amended within the framework of the amendment to the Restrictive Trade Practices Law (Amendment No. 21) (Strengthening Enforcement and Easing the Regulatory Burden), 2019 (in this section: the "**Amendment to the Law**").

Through the date of publication of this report, the declaration of the Company as a monopoly had no material effect over its activity, profitability or financial state. Notwithstanding, the Company cannot estimate the future implications of the aforesaid declaration on the Company's activity, its profitability and financial position, although it is possible that there will be material implications in future, taking into account, inter alia, the existing level of control over the Company, on the part of the Competition Authority, and also that within the framework of the amendment to the law, the ceiling of the monetary fine that the Competition Authority has to impose on a corporation that violated the provisions of the law has risen significantly and stands at approximately NIS 100 million. To this one should also add the Acting Commissioner's decision of March 6, 2017, which is detailed below, within which monetary fines have been imposed on the Company, on a serving office holder and on a former officer.

In addition to the foregoing, the Company is subject to the provisions of the Economic Competition Law, including with respect to binding arrangements, monopoly and mergers. The Company is implementing an internal enforcement plan on the issue of the competition laws. The enforcement plan is intended to prevent in advance, to the extent possible, a violation of the Economic Competition Law, through assimilation of the competition laws in the Company, and minimize the damage of violations that have occurred. In effect, a Corporation procedure has been disseminated, and is in effect as of the time of the report, which is intended for prescribing principles and courses of action, including: responsibility, establishing the internal enforcement officer as the supreme professional authority on issues of competition laws, appointment of a national internal enforcement team and unit internal enforcement teams, procedures and their approval, dealing with cases of violations of law or fear of such violation, keeping of documents, instructing, Internal auditing, presenting the CEO with an annual report, and reporting to the Board of Directors about internal enforcement on competition laws , updates for the management and employees, handling of data demands, and more. The procedure imposes responsibility on each Vice President to fulfill the provisions of the Economic Competition Law and the procedure in the units that answer to him directly and imposes responsibility on each branch / unit manager to fulfill the provisions of the Economic Competition Law and the procedure within his responsibilities.

On March 6, 2017, the determination of the acting General Director was received by the Company, under which the Company abused its monopolistic position regarding client portfolio management services in contravention of the provisions of sections 29a(a), 29a(b)(2), 29a(b)(3), and 29a(b)(4) of the Economic Competition Law, and financial sanctions in the amount of NIS 13 million were imposed on the Company, in the amount of NIS 110,00 on a serving officer, and in the amount of NIS 165,000 on a former officer (the "**Determination**").

In 2018, appeals by the Company, a serving officer, and a former officer were filed with the Competition Tribunal. On January 19, 2021, a ruling was rendered, according to which the aforesaid appeals are dismissed. On May 20, 2021, an appeal against the ruling was submitted on behalf of the Company and a serving officer to the Supreme Court in Jerusalem (sitting as a Court of Civil Appeals). A hearing of the appeal on behalf of the Company and a serving officer (as well as an appeal submitted by a former officer) was held on September 15, 2022. Following this, on September 22, 2022, a notice and an application were submitted to the Court on behalf of the appellants – the Company, a serving officer and a former officer, regarding acceptance of the Court's proposal to withdraw the appeals, without an order for costs. On the same day, the Supreme Court sitting as a Court of Civil Appeals rendered its judgement, in which the appeals were struck out without an order for costs while returning the guarantee to the appellants. For further details see Note 1h to the Financial Statements.

On November 3, 2017, an application was filed to recognize an action as a class action in the amount of NIS 175 million, claiming damage allegedly caused to the applicant and the consumers represented by him, as a result of the Company allegedly causing a delay in the production volume of the private electricity producers, who produce electricity with a rate estimated by the applicant to be lower by approximately 8%-10% from the Company's rate. Following an application filed by the Company for the stay of proceedings until the Competition Court rules in an appeal that the Company will file concerning the determination of the Acting General Director with respect to the issue at the heart of the application for approval, a hearing was held. Within the hearing, it was agreed that the application to approve a class action will be stricken off, but all the rights of the applicant and the claiming group that exist today (if any) will be preserved until 120 days have elapsed since the date of the final judgment regarding the determination. The said consent was validated by a judgment on March 6, 2018, and the application for approval was stricken off. A final judgment regarding the determination was given on September 22, 2022.

22.9 Law for Promoting Competition and Reducing Centralization

On December 11, 2013, the Law of Centralization was published. Chapter B of the law deals with weighing pan-economy centralization considerations and sectorial competition considerations when allocating rights. Within the Law of Centralization, a "committee for reducing centralization" (the "**Committee**") was appointed, and its members are the Commissioner of Competition (as Chairman of the Committee), the Director General of the Ministry of Finance or head of division of the Ministry of Finance who fills a position of Head of the Economic Division (if the Minister of Finance appointed him as member of the committee) and the head of the National Council of Economics which operates pursuant to the Government's decision or one of his deputies (if the Prime Minister appointed him as a member of the committee).

The Law of Centralization may have a principal significance for the Company in light of the fact that the Committee determined in light of the law that the Company is a centralistic factor, as defined in Section 3 of the Law of Centralization, due to it being a significant real corporation under the definition in section 4 of the Law of Centralization, and because the scope of its accumulated activity in an area of essential infrastructure (as this term is defined by the Law of Centralization), exceeds half of the total activity in that field.

The definition of the Company as a centralistic power may affect the Company as detailed below:

22.9.1 Allocation of rights, as well as renewal or extension of rights granted to the Company - according to the provisions of the Law of Centralization, every factor authorized to allocate, renew or extend a right (right meaning license, contract or holding of a significant rate as defined by law) in a field of essential infrastructure should consider pan-economy centralization considerations when allocating the right. The allocating regulator is permitted not to allocate it to a centralistic factor. If it wishes to allocate it to a centralistic factor or to enable a centralistic factor to participate in the process of allocation, it must first consult with the committee. Additionally, Part C of Chapter B of the Law of Centralization requires the regulator to consider considerations of promoting sectorial competition when allocating certain rights. In addition, if the allocated right will be included in a list published by the Commissioner of Competition, he will have to consult with him prior to the allocation. Regarding Part C the definition of "right" includes in addition to the aforesaid a license in a field of activity that is not an essential infrastructure if the number of operators in that field is inherently limited.

22.9.2 Extending the Company's operation to an additional essential infrastructure field by process under the Government Companies law - the Law of Centralization requires to weigh pan-economy centralization considerations when reaching a Government resolution that enables a Government Company that is a centralistic factor to operate in an additional essential infrastructure field. Under the Law of Centralization, the Government Companies Authority has to consult with the committee prior to formulating its opinion for the Government in this manner.

Furthermore, since the Company is a Government Company, the Law of Centralization affects the Company as detailed below:

22.9.3 Allocation of an essential infrastructure right by the Company - according to the Law of Centralization, insofar as a Government Company wishes to enter an agreement with a third party for executing an activity that is one of the essential infrastructure fields, this is a process of allocating a right by the Company. In this situation, the tender committee of the Government Company, as an allocating factor, must weigh pan-economy centralization considerations in the process of allocation. Accordingly, the Government Company is permitted not to allocate the right to a centralistic factor. If the Government Company wishes to allocate the right to a centralistic factor, it must first consult with the committee. Additionally, under Part C of Chapter B of the Law of Centralization, in addition to any other consideration the tender committee has to consider by law pertaining to the allocation, it will be required to consider considerations of promoting sectorial competition when allocating those rights. In addition, if the allocated right will be included in a list published by the Commissioner of Competition, it will have to consult with him prior to the allocation.

22.9.4 Extending the validity of a right - pursuant to Part D of Chapter B of the Centralization Law, the same law which applies to the extension of validity of a right applies to the allocation of a right and the provisions of Part B or Part C of Chapter b of the Centralization Law will apply to it, as the case may be, upon fulfillment of the following: (a) the holder of the right regarding which an extension of validity is requested is holding it for a period exceeding yen years, whether set by a single allocation or accumulated in several allocations;

and (b) the allocation of the right or a previous extension of its validity were not examined pursuant to the provisions of Chapter B of the Centralization Law during the ten years preceding the requested extension of validity. During a hearing of the extension of validity of the right, the Tender Committee of the Company will be required to consider, among the gamut of considerations, the characteristics of the proceeding to extend the validity of the stated right and its circumstances.

22.9.5 Privatization of a Government Company - when formulating a decision to privatize a Government Company (as defined in section 1 of the Government Companies Law), the Government Companies Authority will consult with the committee before formulating its opinion or a memorandum on its behalf, under section 59B of the Government Companies Law, regarding the possibility of allocating rights in a Government Comp0any to a centralistic factor and regarding the terms for this, and regarding the definition of the centralization considerations as an essential interest. In addition, under Part C of Chapter B of the Law of Centralization, as part of the stated opinion, the Government Companies Authority will consider considerations of promoting the sectorial competition. In addition, if the allocated right will be included in a list published by the Commissioner of Competition, it will have to consult with him prior to the allocation.

23. Material agreements

For details of interim agreements in which the Company contractually engaged with the Palestinian Electricity Transmission Ltd. ("**PETL**"), with regard to connection of four substations (in Jenin, Nablus, Ramallah and Tarqumiya) to the Company's transmission grid in order to sell electricity to PETL and providing accompanying services, see Note 6c2 to the financial statements.

For details of an agreement the Company contractually engaged with the East Jerusalem Electricity Company ("**EJEC**"), destined to settle EJEC's debt to the Company, which includes EJEC's obligations with respect to electricity bills not paid for the periods specified in the agreement, as well as to terminate all legal proceedings between them, see Note 6c2 to the Financial Statements.

For details of the principles of the structural change outline and the agreements signed within the framework of its implementation, see Note 1e to the Financial Statements.

For details of the agreements for the supply of natural gas from the "Tamar Field" and the agreement for the short-term purchase of gas from the "Leviathan Field" see Note 35a to the Financial Statements.

24. Legal proceedings – pending actions

A breakdown of material legal proceedings[45] that the Company is a party to, as of the time of the report:

24.1 Class actions

See Note 35b to the Financial Statements for information on class actions.

24.2 Pending proceedings

Pending proceedings that are not stated in Note 35 to the Financial Statements, in which the Company is the plaintiff in the proceeding, follow below.

(A) On October 20, 2010, the Company filed a declaratory action, at the Tel Aviv - Jaffa District Court against the Tel Aviv Municipal Council (in this section: "**Municipal Council**") with respect to land that the Company is leasing from the municipal council of a total area of tens of thousands of square meters, and various buildings that serve the Company are built on them. The lease contracts with the Municipal Council are for a period of 60 years (that ended on August 31, 2010) and with a right to extend the lease period by 49 years more (the "**Company's Proceeding against the Municipality**", "**Option**" and "**Additional Lease Period**", respectively).

On June 17, 2010, the Municipal Council delivered a "lessee guide" to the Company, which detailed the conditions that the Municipal Council set for exercising the right to extend the lease period as stated.

Within the lessee guide it was determined, inter alia, that the lessee has to pay the Municipal Council 91% of the value of the land for exercise of the option (if the lessee will choose to pay the Municipal Council capitalized lease fees for every 49 years, in advance) or 29% of the value of the land for every 7 years (if the lessee will choose to pay the Municipal Council lease fees every 7 years, in advance), and that at the end of the Additional Lease Period the leasehold will be returned to the possession of the Municipal Council, including all that is built on it and planted in it, and the lessee will not be entitled to any consideration from the Municipal Council.

As part of the action that was filed against the Municipal Council, the Court was requested to declare, inter alia, that the conditions that were prescribed by the municipal council in the lessee guide are depriving, unfair, illogical and contravene the original lease contracts that were signed between the parties and the intent of the parties and are therefore void.

On December 6, 2011, the municipal council sent the Company a proposal for an interim arrangement ("**the Municipal Council Interim Arrangement Proposal**"), for the period from the date of signing the new lease contract until the date of receipt of a final ruling in the matter.

According to the Municipal Council Interim Arrangement Proposal, the Electric Company will pay lease fees under one of the following alternatives: a sum equal to 20.3% of the value of the land for the first seven years of the Additional Lease Period; or, alternatively, a sum equal to 63.7% of the value of the land for all the lease period (49 years).

It should be noted that within another united claim submitted against the Municipal Council for the same cause of action, some lessees filed with the District Court an application for stay of proceedings of the eviction claims that were filed against them by the Municipal Council with the Magistrate's Court of Tel Aviv-Jaffa (the "**Lessees Proceeding against the Municipality**").

On October 15, 2013, the Court's decision was given, denying the application for stay of proceedings because, inter alia, the Court was of the opinion that a situation in which lessees use land without paying lease fees to the Municipal Council should not be enabled, and since the interim arrangement proposed by the Municipal Council is a correct and just arrangement for clarifying the issue. An application for leave to appeal the decision that was filed with the Supreme Court was also denied, and following this the parties were referred by the Court to formulate an arrangement between them. A mediation agreement was formed between the lessees and the Municipality, which was also given the effect of a judgment in the framework of the lessees' proceedings against the Municipality.

As at the date of this statement, agreements have been signed with respect to two assets (Ashdar and Anielewicz) which arrange the renewal of the lease period and payment thereof, pursuant to the principles of the mediation agreement formed as part of the lessees' proceeding against the Municipality.

[45] This section includes legal proceedings that are class actions and pecuniary actions in an amount in excess of NIS 100 million.

An agreed mechanism was determined within the assets arrangement for evacuation, betterment, marketing and consideration distribution with respect to “Giborei Israel” and “Hamekaz Hatechni” assets. For these, the principles of the mediation agreement will not be applied, but the individual agreement set forth in the assets arrangement will apply.

Accordingly, the hearing in the Company's proceedings against the Municipality became redundant and the case was closed.

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

For further information regarding ongoing procedures against the Company, Note 35 of the Financial Statements.

25. Insurance

25.1 General

Based, *inter alia*, on the risk management policy, and the risks that have been identified in the risk review that the Company carried out, the Company determines what the risks worth insuring against are. The Company is a company rich in assets that conducts extensive activity throughout the State. Thus, the Company is purchasing insurance policies such as insurance for property, liabilities, construction, liability of officer holders, vehicle insurance and maritime insurance, which are supposed to provide an appropriate solution to damages that may be sustained by the Company's property, its employees and for actions of third parties. It must be noted that the insurance policies usually make an exclusion for damages that originate from acts of terrorism and war, that are covered by way of a special fund that the State of Israel makes available for the purpose of compensation for damages that result from acts of terrorism and war, by virtue of the Property Tax and Compensation Fund Law.

25.2 The principal insured risks

The principal risks insured are as follows: physical damage to property, loss of revenue and increased fuel expenses, natural damages and liabilities towards third parties and towards employees.

The Company purchases insurance policies as prescribed in the electricity license. In addition, the Company purchases additional insurance policies with the goal of providing adequate, broader coverage for the risks to which it is exposed, in accordance with the Company's procedures and the decision of the competent organs in the Company, after consultation with professional parties in the Company and insurance consultants outside it. The insurance policies that are purchased by the Company are as follows:

(A) An “all risks" insurance policy for the coverage of damages to the property of the Company (except the electricity grid), the coverage limit of this policy is USD 1 billion. The coverage includes loss of revenue and increased fuel expenses. In addition, the policy includes an expansion to cover property damages from cyber risks with a coverage limit of USD 100 million.

(B) A liability insurance policy that includes coverage of general third party liability, product liability, professional liability, liability for accidental pollution damages, liability for electromagnetic radiation, employers' liability, and third party liability for cyber damages (body and property). The limit of coverage within the framework of this policy is USD 100 million.

(C) An officers' liability insurance policy that covers the liability of the office holders of the Company. The limit of coverage is USD 220 million.

(D) Third party maritime liability and lessees liability insurance that covers the maritime operations of the Company (such as: the loading / discharging of fuel, towing of ships carrying coal and more). The limit of liability within the framework of this policy is USD 150 million.

(E) Mandatory and third party insurance for the fleet of vehicles of the Company.

(F) Cargo insurance for sea, air and ground transport.

(G) Insurance for the watercraft of the Company.

(H) Additional insurance such as construction insurance and insurance for contract works, in accordance with the needs of the Company.

The Company estimates that the purchased insurance policies as stated provide adequate insurance coverage.

26. Objectives and business strategy

26.1 Vision

26.1.1 General:

The Company strives to continue to be the leading business company in Israel in the energy sector and to this end aspires to be the leading electricity supplier in Israel, an efficient and advanced electricity producer and one of the leading and most advanced grid infrastructure companies in the world. The Company strives to operate efficiently, professionally and fairly, in a developing competitive environment, and with changing and advanced technology, in order to ensure adequate profitability and financial strength for the Company, which are required to supply available and high quality electricity to the economy and to the continued development of the electricity sector.

The Company intends to continue to develop and adapt the Company to the changing market structure conditions and the economic, social and technological changes in Israel and worldwide, including the fields of renewable energies, increasing energy efficiency, energy storage, electrical vehicles and "smart grid", and in order to also strive to operate in new and international markets.

For this purpose, the Company will develop and supply products and services that optimally meet the needs of its customers, provide excellent service, ensure quality and safety at the highest level, strive for managerial excellence, technological innovation and maximum efficiency, all while optimally safeguarding the environment and promoting principles of corporate sustainability.

The key goals of the Company are, inter alia:

- To provide an optimal response to the needs of its customers and provide an innovative, available and high-level service at an efficiency level that is adjusted to the market conditions.
- To meet the market's needs and supply the services and products with the required nature and quality.
- To operate with dignity, integrity, fairness and reliability towards customers, employees, competitors, suppliers, lenders, shareholders and government entities.
- To recognize its employees as the Company's central asset, respect them and conduct open communication with them, support their promotion, create a sense of pride, team spirit and belonging, and encourage them to act out of trust and mutual cooperation, with passion, commitment and creativity.
- To demonstrate leadership and take responsibility for decisions and activities performed by the Company and their results.
- To serve as an example of excellence in management, operating, technological innovation, proper governance and appropriate transparency, while promoting and fostering appropriate organizational norms and values, and zero tolerance for any deviation from them.
- To resolutely act to safeguard the environment while producing and connecting to the grid cleaner energy and striving for sustainable development.
- To be attentive to the human environment in which the Company operates, in collaboration with the community and with involvement, caring and social responsibility.

26.1.2 The goals will be achieved, inter alia, through:

26.1.2.1 Development

(A) The continued establishment of two natural gas generation CCTG units with an H technology, selling power stations in accordance with the reform outline, and maintaining the Company's existing generation capacity in accordance with required availability and reliability standards.

(B) Promotion of the gas conversion project of the six large coal fired units and making other investments in the field of environmental protection.

(C) Development of the transmission and transformation systems and adapting them to the increase in the sector's needs, the Ministry of Energy's goals for renewable energies in 2030, and entry of new private producers at standards that ensure the transmission of the energy s at the required levels of reliability and quality.

(D) Development of the distribution system as an answer to the increase in the number of consumers, for the increase of demand from existing consumers, for the reception of decentralized generation in distribution, for preparation to electric vehicles and the development of a smart grid while performing accelerated deployment of smart meters, for achieving the level of reliability and quality of electricity that is required, and an answer to safety problems, while minimizing costs.

(E) Development of additional areas of engagement, subject to the Law.

26.1.2.2 Operation

(A) Adoption of an environmental operation and development policy in accordance with environmental considerations and the Company's environmental protection policy.

(B) Optimal operation of the Company's generation, transmission, transformation, and distribution assets, while maintaining economic balance in the proper allocation of resources, at a high level of availability and reliability.

(C) Implementation of an optimal operation and maintenance policy and an accepted engineering protocol, which ensures the reliability of electricity systems during peak demands, and conducting maintenance, based on economic viability considerations.

26.1.2.3 Customers

(A) Development of new products and services for the customers.

(B) Provision of optimal and equal service for all customers with respect to the needs of the different market segments.

(C) Development of relations with the customers of the Company while implementing a customer relations management approach.

(D) Advancement of digital systems and tools to improve customer services, in a variety of channels.

26.1.2.4 Resource management

(A) Preservation, enhancement and development of the human resources through development of professional and managerial promotion and training tracks.

(B) Adjusting the mix and scope of the Company's workforce to the changing needs of the Company.

(C) Management of the Company's assets in accordance with asset management methodologies based on risk management.

(D) Conducting intelligent acquisitions of fuel in accordance with the operation requirements, with attention to the quality and cost of fuels, environmental protection, reliability of electricity supply, and diversification of fuel sources.

(E) Responsible financial management that will provide for achievement of adequate profitability, maintaining of a stable cash flow, capital raising for financing the needs of the Company, maintaining the Company's credit rating and acts to improve the rating.

(F) Implementation of the organizational changes and streamlining of the Company, in accordance with the outline of the reform in the Electricity Sector.

26.2 Company objectives and plans for 2023

(A) Meeting the objectives of the structural change:

Completing the sale of the "Eshkol" power station

Furthermore, continuing the construction of two generation units with CCGT technology at the “Orot Rabin” site and continued advancement of the implementation of the asset arrangement.

(B) Focusing the Company on its business core, with emphasis on the grid and the field of customer service.

(C) Improving customer services in the commercial and technical aspects.

(D) Enhancing the service in a variety of digital channels.

(E) Developing human capital in light of changes in the business environment.

(F) Management development.

(G) Improving, streamlining and adjusting work processes while removing barriers.

(H) Continued compliance with financial goals as defined by the Board of Directors.

(I) Activating the first unit that is converted to operate with gas and promoting the conversion of the remaining five big coal-powered units to operate with gas, at the Rutenberg and Orot Rabin power stations.

(J) Promoting the project of extending the life of the generation units at the Reading site or any other decision made by the State regarding Reading.

(K) Executing the plan for the development of the transmission and transformation network.

(L) Continuing to promote strategic development projects: the ADMS project and the TMS project.

(M) Accelerated execution of the smart meter project.

(N) Promoting the construction of storage facilities in sub-stations, pursuant to the decision of the Electricity Authority.

(O) Promoting a project for the integration and connection of charging stations for electric vehicles and electric public transport in the grid.

(P) Promoting the Company’s preparation for competition in the supply segment.

(Q) Continued preparation for extreme events (extreme weather, national emergencies and cyber events).

(R) Promoting the purchase of additional services within the framework of “outsourcing”.

(S) Safety: emphasizing the safety issue and assimilating the proactive safety issue in the Company, and continued execution of safety training and workshops.

(T) Traffic safety: continued execution of traffic training, increased enforcement and executing driving simulations.

(U) Continued promotion of the innovation array in the Company, creating a supportive organizational culture of innovation.

(V) Employee health: encouraging proper nutrition, sports activities, periodic examinations and early detection tests.

(W) Cyber: continuing to deal with the threat of cyber and information security.

(X) Improving the Company's image among the public, while reinforcing trust in the Company’s commitment and by improving the service, improving the relationship with interfacing interested parties, and improving customer experience.

(Y) Sustainability and quality of the environment: continued ongoing communication with environmental organizations. Taking the initiative to make the Company a leading entity and partner in developing the renewable energy and energy storage field in Israel.

(Z) Information systems: upgrading the Company's information systems strategy in accordance with the Company's strategy, with an emphasis on service.

(AA) Business development: formulating a plan for business development in a changing technological and business environment while managing existing knowledge infrastructures and capabilities in the Company.

(BB) Promotion of the Electric Company’s heritage program, whose main goals are the establishment of a heritage center and focusing on sites relating to the Company's heritage.

(CC) Promoting the project for the preservation of units 1-4 at the Orot Rabin site.

(DD) Continued promotion of a process of examining the use of hydrogen as a green future fuel in the various generation units.

(EE) Having leading cross-company innovation to enable the Company to realize its strategic goals and deal with the technological and business changes in the electricity sector.

26.3 Information on business development

The business development unit operates to locate and realize business activities in addition to and separately from the activity of the Company as an essential service supplier, in Israel and abroad. The goals of the unit are the expansion of the areas of engagement of the Company to bring about optimal use of the professional knowhow and resources, to improve professional capabilities, and to increase the Company’s revenues and profits. The business development activity overseas is mainly in the fields of planning and consultation services and in services in the field of cyber protection. The business development activity in Israel is focused on selling services and intelligent utilization of the Company’s infrastructures and resources.

As a result of the government's resolution on the reform, an internal process is taking place alongside an external process vis-a-vis the relevant regulatory bodies, which is intended to formulate the Company's updated development strategy and which will focus on exploiting assets, (services abroad and in Israel) and innovation. Concurrently, the Company is acting with State entities to assimilate the business development activity in the Coal Company, which parallel to its role in the fields of coal procurement will constitute a subsidiary that will deal primarily with business development abroad.

As of the date of the report, the unit is operating in a number of main fields:

<u>Sale of services:</u>

(A) Sale of knowhow, consulting services and engineering services in Israel and abroad.

(B) Sale of cyber protection services for critical systems abroad and in Israel.

(C) Asset based services: antennas, fuel unloading, unloading of products, utilization of infrastructure balances.

(D) The commercialization of the byproducts that are created as a result of the generation of electricity – such as ash, coal, gypsum, and so on.

<u>Selling related services:</u>

(E) Professional laboratories, training, storage, logistics.

(F) The communications field

For details regarding the establishment of a communications company see Note 11b1 to the Financial Statements.

(G) Business operation in the field of innovation

Following the Government’s resolution of May 24, 2018, for the “Innovation Plan in Government Companies”, the Company is acting to implement the innovation activity accordingly. At the same time, the Company is acting to assimilate the establishment or acquisition functions of companies in the field of innovation, subject to the aforementioned Government resolution and in accordance with the terms detailed therein.

(H) Assimilation of the business development activity in the Coal Company

(I) Agreement with Cyber Gym. For details on this issue see Note 11b2 to the Financial Statements.

27. Forecast of the investments that will be required for execution of the development plan of the Company

Pursuant to the long-term financial plan for 2023-2027, which was approved by the Board of Directors on December 15, 2022, the following investment plan was presented:

In 2023, a sum of approximately NIS 5.9 billion will be invested, and in 2024-2027 approximately NIS 6.1 billion will be invested each year (on average).

The data are without additional accounting burdens.

In 2022, a sum of approximately NIS 5.8 billion (after remeasurements and depreciation deduction) was invested in the development plan of the Company.

The estimates that have been described above with respect to the forecast of investments that will be required for executing the Development Plan of the Company constitute forward looking information, as per its definition in the Securities Law, which are based on the forecasts and assumptions described above, which the Company has as of the date of the report, and at the end of the formulation of an updated investment forecast or due to instructions that will be given to the Company by the Minister as an essential service supplier with respect to the Development Plans that it must implement, the Company may be required to make investments that differ from those described above. This information includes forecasts, subjective assessments, estimates and other plans of the Company as of the date of the report with respect to the working assumptions that it used in the development of the forecast and the dates of materialization of those assumptions. Such information is based on future figures whose materialization is not certain and that are not under the exclusive control of the Company. The main factors that might affect the forward looking information such that it will not materialize or that changes will occur in the estimated timetable for the execution of the development plan and the investments thereof, according to the aforesaid, are, inert alia: a change in the expected growth rate of the demand for electricity; manner of implementation of the structural change of the electricity sector and the Company (see Note 1e to the Financial Statements and section 1.3); availability of natural gas for use in the generation system; difficulties in obtaining a license and/or change in regulation in the field of quality of the environment and licensing; changes with respect to the development plan, lack of suitable rate cover (see Note 3 to the Financial Statements), and the ability of the Company to raise the financing required for executing the development plan.

28. Event or matter outside of the ordinary business affairs of the Company

For details of an action filed by the Company against the Company's officers and employees who were convicted of taking bribes from the Siemens AG Company and Siemens Israel Ltd, see Note 35b1 to the Financial Statements.

29. Discussion of risk factors

Risks constitute an integral part of the business environment and the work and management processes in the Company and are affected by both external and internal factors at the same time. The Company's risks are divided into strategic risks, operational risks, financial risks, and compliance and regulation risks. The Company operates in accordance with the Government Companies Authority Circular of February, 2017, regarding: "The Company's preparations for implementation of an acceptable control model as part of the control of the effectiveness of the internal control", and in accordance with the Government Companies Authority Circular 2020-13-1, regarding corporate risk management in government companies and government subsidiaries which was published on January 8, 2020.

On December 5, 2019, the plenum of the Board of Directors approved a comprehensive risk survey, in accordance with the directives of the Companies Authority circular.

Presented below are the main actions that are taken by the Company:

- Regular reporting to the management and the Board of Directors' Budget, Financial Management and Risk Management Committee, in addition to annual reporting to the plenum of the Board of Directors.
- Control of all the issues pertaining to risk management in the Company through a committee for risk management, headed by the head risk manager.
- Executing periodical risk surveys.
- Identifying new risks according to goals and examining their implications for the Company, including determination of policy for handling them.
- Determining the Company's risk appetite which enables proper business conduct for achieving Company goals.
- Preparation of work plans for reducing the level of risks and/or implementing controls/preventive actions and implementing them in the Company's activities.
- Use of a computerized information system for risk management.
- Ensuring business continuity for critical processes in the event of disruptions such as emergency situations or an emergency event.

The policy objectives for risk management are, *inter alia*:

(A) Reducing risks for achieving the Company's objectives in operating, financial, strategic and other areas, and minimizing losses that derive from failure events to which the Company is exposed while meeting the limitations of the Company's risk appetite.

(B) Identification, as early as possible, of the risks that may affect the Company's objectives, by mapping the connection between the Company's/Divisions' objectives and the risks that may harm them while implementing a work plan to reduce them.

(C) Implementing an effective management culture of risk management in order to increase awareness to risk management in in decision making processes, including improved monitoring and control processes of risk reduction.

The table that appears below shows the risk factors of the Company, which have been rated, in accordance with the estimate of the Company, by the degree of effect that they may have over the operations of the Company and the probability of their occurrence:

The risk factors of the Company are listed below:

	Effect			Classification of the risk factor
	High	**Medium**	**Low**	
	Significant effect on the Company	**Moderate effect on the Company**	**Slight effect on the Company**	
Macro risks				
(1) Regulation and new legislation		X		Compliance and regulation risks
(2) Political, geopolitical and economic situation, and security situation	X			Operational risks
(3) Natural disasters and managing emergency events		X		Operational risks
(4) Explosion and fire	X			Operational risks
(5) Information and cyber security	X			Operational risks
(6) Availability of computing systems		X		Operational risks
Industry risks				
(1) Setting of the electricity charge rate		X		Financial risks
(2) Fuels		X		Operating risks
(3) Environmental protection	X			Compliance and regulation risks
(4) Procurement and contractual engagements		X		Operational risks
(5) Health and safety management	X			Operational risks
(6) Traffic safety		X		Operational risks
(7) Project management		X		Operational risks
Risks unique to the Company				
(1) Financial management – market, raising, and liquidity		X		Financial risks
(2) Accounting and taxation			X	Financial risks
(3) Competition	X			Strategic risks
(4) Implementation of the structural change		X		Strategic risks
(5) Legal		X		Compliance and regulation risks
(6) Management of the customer array	X			Operational risks
(7) Generation array management and technical failures	X			Operational risks
(8) Managing of the electricity grid	X			Operational risks
(9) Embezzlements and fraud		X		Compliance and regulation risks
(10) Communications management		X		Strategic risks
(11) Human capital and implementation of the structural change		X		Operational risks

29.1 Macro risks

29.1.1 Regulation and new legislation

As a Government and public company, and as an owner of an "essential service provider" license, the Company is subject to extensive supervision by the legislature and the Government and other regulatory bodies. The Company is also regularly affected by new legislation and legislative updates to which it is obligated.

The regulatory uncertainty, stemming, inter alia, from the Company's subordination to the numerous regulators supervising it, as well as to new and existing laws and regulations related to the business and operational environment of the Company that could lead to considerable financial implications for the Company, damage to its competitive business ability and to operating limitations. The principal risks included in this issue are damage to the Company's operation as a result of new legislation, changes in existing legislation, or as a result of government decisions and damage to the Company's operation as a result of the decisions of other regulators (including the Government Companies Authority, the Competition Authority, etc.) which are applicable to the Company and may affect its operation, particularly if the costs of compliance or non-compliance with the provisions of the law that will be legislated in future (including government and regulators decisions) will not be fully recognized in the rate or if recognized in it, will not be recognized on time.

Additionally, and as detailed above, the Company is operating pursuant to the provisions of the licenses given to it by virtue of the Electricity Sector Law and which have been extended from time to time. For additional details see Note 1e to the Financial Statements.

The abstention from extension of the licenses of the Company or changes in the terms of the licenses or other provisions that are prescribed in the Electricity Sector Law may have a material adverse effect over the Company's business activity and financial results.

For details of the provisions of the Electricity Sector Law and the Company licenses see section 22.1.

29.1.2 Political, geopolitical and economic situation, and security situation

Political, geopolitical and economic situation

The political, geopolitical and economic situation in the State of Israel and its surrounding area directly affects the Company, whose assets and activity are located in the State of Israel in their entirety or nearly so.

The emergence of major hostilities in the Middle East against Israel, lack of stability in the political situation in Israel or neighboring countries, or deterioration in Israel’s international trade relations may materially impair the operations of the Company. For details regarding financial management risks see section 29.3.1.

Security situation

Security events may impair the activity of the Company in each of its sectors, including in the electricity generating, transmission, switching, transformation and distribution facilities and the fuel transport and storage arrays. Harm to the facilities of the Company would impair its generation capacity and might impair its ability to provide electricity continuously, reliably and to a high level of quality to all of its customers. Emergency officials and the Company estimate that some of the facilities may be an objective for terrorist attacks or other security events.

The Company, in coordination with the Power Authority (a designated authority of the Ministry of Energy, responsible for the operational continuity of the electricity sector in emergency situations, which is under the responsibility of the Noga Company) and the Director of the Electricity Affairs Administration at the Ministry of Energy, holds discussions whose aim is to make resolutions on all matters related an emergency. In addition, the Company is executing a series of actions to deal with the various threats, among them applying to the heads of the emergency entities in the country for the provision of defense for the sensitive Company installations, promoting the handling of save and rescue issues in the Company, executing internal exercises and joint exercises with external entities to improve the preparedness, coordinating the arrangements for times of emergency with the Israel Police, the home front command and so forth.

Due to the essential services that the Company provides to the State of Israel and its residents, the Company may be at risk and constitute a target for hostile actions that are directed against its facilities, including cyber actions. The Company makes sure to maintain extensive guarding of its facilities and receives directions from authorized parties on various security issues, including the National Emergency Authority, the Ministry of Defense, the police, the Home Front Command and others. With respect to the generation of electricity, the Company has assessed this threat and takes preventive steps relating to staff at its facilities. The Company cannot anticipate with certainty whether or not attacks of this kind against its facilities will occur in the future or not, or if its facilities will be damaged in wartime and what the effect of such damage, if any, will be.

The insurance policies that are purchased by the Company usually exclude damages that originate from terrorism and war, that are covered by a special fund that the State of Israel extends for compensation due to terrorist and wartime damages pursuant to the Property Tax and Compensation Fund Law. If it is determined in the future that the Company is not entitled to payment by virtue of the Property Tax Law with regard to the payment of direct war damages, or if the amounts of the compensation that are set for the Company are lower than those to which the Company is currently entitled in accordance with the provisions of the law, this may have an adverse effect over the outcomes of the Company.

29.1.3 **Natural disasters and management of emergency events**

The Company and its facilities are exposed to natural hazards such as particularly extreme or exceptional weather, floods and flooding, severe earthquake in the region (that may even cause the materialization of other disasters such as explosion, fire and additional safety and security risks), that may affect the Company's facilities and its business affairs.

A steering committee is operating in the Company, headed by the Deputy CEO for Operation and Logistics, on the subject of earthquakes and tsunamis (in this section: the "**Steering Team**"), under which three subcommittees operate, which deal in the planning and execution of the preparations of the Company for these events in order to reduce and minimize the damage to life and installations as a result of an earthquake event, and to enable reduction of the rehabilitation period after an event.

The steering committee has established a multiannual work plan for coping with earthquakes and tsunami, including execution of seismic studies at some of the sites of the Company, and analyzing various scenarios which aid in identifying weak points that may be harmed. Based on the analysis of these scenarios, recommendations for executing reinforcements and anchoring of administrative buildings (with many employees) and various components of the electricity system are delivered, and their implementation is included in the work plans of the various sub-committees. In addition, the Board of Directors appointed a sub-committee to oversee and monitor the Company's preparations for emergency situations that deals with this activity. The Company reports on its activity regarding this matter to the National Committee for Preparation for Earthquakes and to the Power Authority.

The Company is preparing for continued operational continuity during exceptional weather events. The Company's divisions carry out preparation actions, including: preparations for a higher peak demand than expected according to the forecast, maintenance of substation units, transmission and distribution lines according to the work plan, pruning vegetation and clearing, refreshing division procedures about activating headquarters in an emergency situation, and examinations were carried out for their operational preparedness. In addition, a senior steering committee headed by the CEO was established for the Company's preparedness for extreme weather events stemming from the climate crisis and global warming. The committee established reference scenarios for the various climate phenomena and defined the risks deriving from the climate changes, among them extreme precipitation, significant snow, extreme winds, floods and floodings, extreme sand or dust storms, mudslides, extreme lightning storms and heat or cold waves. The Company collaborates with professional bodies on the subject of forecasting weather phenomena, and with regulatory bodies in the field of emergencies, in order to predict the frequency and severity of these events in the future.

Every year, the Company carries out two national exercises of preparedness for summer and winter (an exercise of preparedness for summer was carried out in May 2022, and an exercise of preparedness for winter was carried out in September 2022). In preparation for these exercises, all the Company's supporting information and monitoring systems are examined, and the readiness of the divisional and branch operating headquarters is examined, for weather events typical of the relevant season and other emergency events. The exercises provide a response for improving the preparedness, including for the purpose of functional continuity of critical processes as required by risk management. Drawing conclusions was regularly performed after each of the exercises and the implementation of the conclusions is monitored. In addition, the Company is also involved in national exercises, general staff exercises and exercises of the Ministry of Energy, the Power Authority, and various government ministries and infrastructure bodies.

The Company is acting, together with the Power Authority in time of emergency and the Ministry of Energy, to update the scenarios for preparation regarding war and earthquakes. After their update, the Company will construct a response plan, identify gaps, and work with the relevant bodies to close them.

In addition, the Company's control and supervision systems are being upgraded and updated to improve the ability to assemble a situation report. Within this framework, a system for event management, performing status evaluations and assembling situation reports has been developed, a main and alternate operating headquarters has been established for the CEO, and new emergency headquarters have been set up for the CEO Deputies. The Company is updating relevant procedures for times of emergency and is working with additional entities in the Electricity sector such as the Power Authority and the Ministry of Energy to define joint procedures. The Company gathers and updates data regarding essential factories at the national level and the essential factories in the Company according to the new organizational structure, and audits are carried out in the essential factories of the Power Authority. Additionally, the Company maintains the competency of the independent search and rescue array, including procurement of suitable equipment and conducting relevant training, and maintains contact and cooperation with first responders (fire and Rescue, Magen David Adom, the Israel Police) to improve initial response capabilities for natural disaster events.

The Company works together with the Ministry of Energy, the Electricity Authority, the Ministry of Defense and the Home Front Command to improve protection at critical points in the electricity sector and in addition, works in cooperation with the Ministry of Energy the Air Defense Array and the Ministry of Defense to build active protection capabilities at critical Company sites. As part of this project, interception systems are deployed at selected Company sites.

The company holds operational and strategic inventories of fuels, materials and equipment for response to emergencies and operational failures and is working to implement decision 611B of the State Security Cabinet to increase strategic emergency inventory for the use of the electricity sector.

As of the first quarter of 2020, the world was visited with an event with macroeconomic consequences, stemming from the spread of the Corona virus. Many countries around the world, including Israel, took significant steps to try to prevent the spread of the virus. The Company worked extensively on this issue and took a conservative approach to the epidemic and follows strict guidelines, in consultation with the Company's doctors and a special consultant appointed for the epidemic. In light of a significant decrease in the number of sick people globally and with the removal of most of the strict guidelines and restrictions to prevent the spread of the COVID-19 virus in Israel and around the world, the Company's employees have accordingly been given lenient instructions. The Company continues to monitor the extent of illness among the Company's employees and the guidelines of the Ministry of Health and will update its guidelines for employees if and as often as necessaryץ

For information on the effect of the Corona virus on the Company and its results and the Company's estimates with respect to the spread of the Corona virus, see Note 1i1 to the Financial Statements.

The information included in this report, and within the Company's financial statements, regarding the above Company's estimates relating to the possible implications of the Coronavirus spread event on the Company is forward looking information, as per its definition in the Securities Law. This information is based on data held by the Company as of the date of publication of the report, including, inter alia, publications in Israel and abroad on the subject of the spread of the Corona virus and the related implications. This data is not under the control of the Company and therefore the aforesaid information may not materialize or may materialize in a different manner than the manner expected by the Company, inter alia as a result of the rate of spread of the virus in practice, the spread of new variants against which the vaccine is ineffective or less effective, and as a result of government and regulators' directives on the subject and the continuity of activity in the economy.

It is noted that "all risks" insurance of the Company's property covers the risk that is involved in natural disasters, except with respect to the electricity grid and subject to the deductible specified in the insurance policy of the Company.

29.1.4 **<u>Explosion and fire</u>**

The facilities of the Company, including the power stations, substations (including underground substations in places of high civilian concentration), workshops, warehouses, etc., are exposed to various types of explosion and fire risks, due to the presence of fuels, hazardous materials, fire explosives (concentration of flammable materials), high temperatures and pressures, many electricity and control installations and revolving machines which cause friction, as well as maintenance work with naked flame.

The occurrence of a fire at a power station may lead to direct damages to equipment, damages resulting from the cessation of the activity of generation units, and may cause indirect damages as a result of the operation of the other stations using more expensive fuels. Fire events involve cleaning, repair, replacement of facilities, disposal of waste and so on.

In addition, fires may constitute a safety threat to the employees at the Company's installations.

Regarding the natural gas-operated power stations, which have risks of explosion and fire and are affected, inter alia, by the natural gas risks, the Company meticulously constructed natural gas installations in accordance with the requirements of the standards and executes maintenance work or other work near gas installations according to legislative requirements of the State of Israel, and is supervised by the Gas Authority.

The Company received a discharge permit for natural gas in accordance with the standards for all generation sites.

The Company operates an array for coping with fire risks, which includes natural gas leak detection systems as well as sophisticated fire detection and extinguishing systems that have been designed and installed in accordance with the requirements of strict Israeli and international standards. The firefighting and rescue system at the Electric Company’s generation facilities operates in accordance with the principles established in the framework of a service treaty signed between the Company's CEO and the Commissioner of the Fire Authority and includes chief firefighters supervising the firefighters who have undergone dedicated training to handle the unique risks for the Company's activities and are equipped with fire trucks and/or ATVs to provide an immediate response to the suppression of fires. In addition, the Company has established a professional training facility to exercising the skills of the fire fighters and emergency teams working in the Company. The National Fire and Rescue Department is in charge of the field of inspections of the Fire Authority for obtaining permits and it reviews the activities of maintenance contractors who provide service to equipment and permanent systems that are used by the Company, monitoring water pressure and provides advice and professional service to all the Company's divisions in the field of firefighting, including the preparation of fire and maintenance reports for the entire firefighting field of the Company The Fire Brigade and site emergency teams conduct joint exercises with the firefighting services in order to examine the cooperation and practice the operational abilities that are required for extinguishing major blazes, and conduct considerable training for the Company employees, in order to increase their awareness to fire risks and provide them with tools to cope with fires. It is also important to note that the Company acts to prevent fires of individual trees, forests and woods near strategic power lines and facilities through pruning and visual inspection for the proximity to power lines, while making sure that the required pruning distances are maintained. Beyond all of the above mentioned, in the hazard reviews that are conducted by the engineers of the insurance companies and by the engineers of the insurance brokers within the framework of the “all risks” insurance policies for the Company’s assets, fire risks at the facilities for the Company are assessed, among other things, and recommendations are received for their reduction or elimination.

“All risks” insurance for the Company's property covers direct and indirect fire damage subject to a deductible specified in the insurance policy.

29.1.5 **<u>Information security and cyber</u>**

The Company is a strategic national infrastructure company which generates, transmits, distributes and supplies electricity to the State of Israel. Business procedures in the electricity chain are dependent on complex teleprocessing infrastructures, and therefore a cyber-attack may harm the process of the electricity chain in the country. Hacking the teleprocessing infrastructures may cause damage to financial business procedures, operating procedures, leakage of sensitive information or damage to the Company's image.

It should be noted that in recent years, there is a gradual increase in the level of the aforesaid risk, in the quantity and severity of the events, in Israel and worldwide.

The cyber domain is managed according to a risk management methodology, while mapping key business processes and operating processes, mapping the Company's key assets and examining the potential damage of cyber threats to these processes.

It is noted that the Company is guided in the cyber field by a regulator - the Israel National Cyber Directorate (“**NCD**”). The Company updates the NCD and is in coordination with it (in routine and in emergency situations). The Company fulfills the NCD’s requirements, is authorized by it at the highest level, and implements its instructions.

The Company is operating to prevent failures in the operating, teleprocessing and information systems, *inter alia* through control, prevention, defense, backup and security mechanisms. The Company is acting to improve and increase the level of protection from cyber threats in several aspects: operating a national cyber center to monitor and handle a cyber-event in the Company’s networks, local monitoring of critical installations such as power stations, increasing the level of cyber protection of the critical networks, secure link between the administrative network and critical networks, secure internet connection and secure connection between critical installations and the manufacturer of the systems installed in those installations which provides the Company with maintenance services for those installations. The activity is carried out through the formulation of secure architectures, testing and assimilation of advanced tools. The Company carries out regular information activities for the purpose of increasing awareness to the subject among the Company employees. The Company maintains a comprehensive training system for a variety of parties to enrich their knowledge on the subject. Additionally, the Company performs exercises in units/sections/divisions and a cyber drill at Company and Management level to check the strength of the Company and raise awareness of employees to the subject. In addition, as part of the Company’s preparation for handling information security and cyber incidents, the Company has set up response teams for handling a cyber-incident or suspected cyber incident. Furthermore, the Company has internal procedures in the field of cyber and operates according to them.

The CEO of the Company heads a senior steering committee for cyber protection in the Company and is updated once a year by the forum of VPs about the status of the strength of the Company. The VP of information and communication professionally leads all information and cyber security activities in the Company, under the Company's cyber administration operates in subordination to him, and its members hold key positions in this field in all the Company's units. The Company operates according to a policy on cyber protection and information security, according to a work plan that is approved by the VP of IT and the Head of critical information infrastructures and implemented by the Head of the Cyber Sector (organizational CISO) who is subordinate to the VP of IT and the members of the cyber administration. If necessary, the Company uses external experts from time to time. In addition, periodic discussions on cyber are held By the Board of Directors and its committees.

The teleprocessing and computerized systems equipment of the Company is covered, like the rest of the operating property of the Company, within a cyber insurance and an "all risks" insurance which includes loss of profits following damages, subject to the deductible specified in the policy.

In light of the aforesaid and as on the date of publication of the report, the Company estimates that the Company effectively manages the risk, including identification of the risk and assessing it, analysis of current risk, control and monitoring factors.

29.1.6 <u>Availability of the teleprocessing systems</u>

The teleprocessing systems in the Company support, inter alia, the central business processes including information systems that support the management operation of the generation and supply of electricity, financial processes, logistic processes, maintenance, customer services, project execution, human resources and more.

Lack of availability of the information and communication systems and/or numerous failures may lead to disruptions in the Company's business operation and lead to financial damage, damage to operation, and damage to image.

The major risks included in within this framework are related to situations of lack of availability of a computerized network or the critical systems for over 24 hours, and absence of innovation.

As part of handling of these risks, the following, inter alia, are carried out: planning and construction of components with high availability, backups, existence of UPS systems and emergency generator, prevention of connection of unauthorized equipment, and antivirus software. Additionally, the Company has two data centers, in Haifa and in Tel Aviv, with mutual backup between them, including determination of recovery modes and time for emergency situations in the field, and carrying out an annual exercise for mutual backup. In addition, master plans are created for computing, refreshment and technological innovation.

29.2 Industry level risks

29.2.1 Setting of the electricity charge rate

As a rule, the revenues of the Company are based on the electricity charge rate that the Company collects from consumers. In accordance with the Electricity Sector Law, the electricity charge rates and manners of update are determined exclusively by the Electricity Authority. The financial status, revenues, profits and cash flow of the Company are affected materially by the level of the electricity charge rates. As a rule, the charge rate is determined in accordance with a mechanism of recognition of the costs that are required for fulfilling the duties of the Company as an essential service supplier, such as: fuels, operation and maintenance costs and capital costs (depreciation, financing and return on capital). See Section 7.11 for further information on the manner of setting and updating the electricity charge.

Under the Electricity Sector Law, for purposes of setting rates, the Electricity Authority is required to carry out cost control, and it may disregard, in the matter of determining rates, all or part of the expenses which in its opinion are not required for the fulfillment of obligations of the holder of an essential service provider's license.

In cases where the rate does not cover the Company's costs or the rate base is not updated in time, this may have a negative impact on the Company's financial position.

The Electricity Authority published a decision regarding the generation rate base which applies retroactively from February 1, 2022. For further details, including with regard to the implications of the aforesaid decision for the Company, see Note 3d to the Financial Statements. A delay in updating certain components of the rate sometimes results in damage to cash flow only in the Company, since the return received includes interest and linkage.

Thus, in light of the continued rise in coal prices which has led to significant increases in the electricity rate, the Electricity Authority decided to spread the fuels debt for 2023, of approximately NIS 3 billion, across 3 years. For details on the applications of the Company to the Electricity Authority with respect to various issues that are related to the electricity charge rate, see Note 3 to the Financial Statements.

29.2.2 Fuels

Due to the increasing dependence of the Company on the generation of electricity using natural gas, there are risks stemming from a shortage in the supply of natural gas to the Company. With the beginning of the gas flow from the "Leviathan" field at the end of December 2019, and the beginning of the gas flow from the "Karish" field at the end of October 2022, the number of e natural gas suppliers was extended, and the likelihood of natural gas shortage due to the dependence on a limited number of suppliers was reduced, but the risks of shortage in the supply of natural gas due to restrictions of the gas suppliers and/or restrictions related to the natural gas transmission system still exist.

As of the date of the report, the sources of natural gas supply are the “Tamar” reserve, the “Leviathan” reserve, and the ”Karish” reserve. The supply of liquefied natural gas (LNG) through the gasification ship (in this section: the “**Gas Suppliers**”) ended on December 8, 2022. In the present reality, shortage in the supply of natural gas can be created as a result of one of the gas suppliers not supplying the quantities defined in each of the agreements, from failure in the piping transmitting the natural gas from the gas reserves to the coastal system entry points at Ashdod and/or at Dor, and from the incapability of the national transmission system to supply the Company with the contractual gas quantities that are at its disposal.

For additional details of the Company’s engagements with the gas suppliers, see Note 35 to the Financial Statements.

Disruptions in the gas supply may cause the Company to power its generation system using more expensive and more pollutant alternative fuels, in order to satisfy its consumers’ demand for electricity. Disruptions in the transmission of the gas from the gas fields to the coast and/or in the national gas conduction system whose repair may take a long time, are estimated to be of low probability by the Company, but in these cases, the Company’s fuel costs may be higher than forecasted costs according to which the electricity rates are determined at the beginning of the year (the ”**Excess Fuel Costs**”). Although the Company believes that the excess fuel costs will eventually be covered in the rate, the time gap between the date on which the Company incurs expenses with respect to the excess fuel costs and the date on which the rate will be updated and the Company will be compensated with respect to these costs, may cause temporary damage to the Company’s cash flow.

Prolonged interruption of gas flow to the Company, although defined as very unlikely, which leads to increased use of alternative fuels (when such use is also limited in time in some units according to the manufacturer's instructions, for fear of damage to equipment) may result in lack of availability of these fuels so that the Company will not have adequate generation capability with alternative fuels in order to supply the demand for electricity, a scenario which may have negative financial and image-wise implications.

In addition, the coal used by the Company in the electricity generation process is acquired directly or indirectly from sources outside of Israel. Due to the great dependence on foreign sources, the Company is exposed to many risks, such as a delay in the supply of fuels, that may result from political or security instability in our region or in the source regions, including in the case of a long war or closure of seaports or airports in its wake, boycott of goods against Israel, and strikes in ports. The disruptions in the supply of coal have adverse consequences for the Company financially and image-wise.

In February 2022, the Russia-Ukraine war broke out, and it has implications for the prices of coal purchased by the Company and the quality of coal. For further details regarding the possible effects on the Company as a result of the war, see Note 1i2 to the Financial Statements.

In order to examine the contractual obligations of the Company to buy fuels, the Company executes an examination of the short and long term forecasted fuels consumption. The estimate is based on analytical tools and a wide range of data (demand forecasts for electricity), performance of the generation system, fuels price forecast, etc.) regarding which there is a high level of uncertainty. A plan was formulated to reduce the risk of over / under estimating the expected fuels quantities. It is a detailed plan to execute the calculation process, including sources for the various data and approval factors for the premises and calculation results, which is intended to mitigate the risk.

29.2.3 <u>Environmental protection</u>

The activity of the Company is exposed to various environmental risks, including pollutant emissions into the air of fuel combustion products, storage and use of hazardous and combustible materials, soil and water source pollution, industrial effluents, asbestos, coal ash, noise, non-ionizing radiation, and others.

Therefore, the Company's activity is subject to extensive regulation in the field of the environment. In recent years, there has been a worsening of the environmental requirements that apply (or are in legislative proceedings) to the Company's activities, as well as the supervision and enforcement of these requirements. The Company estimates that this trend is expected to continue and even worsen in the coming years, in accordance with international awareness and requirements and, inter alia, in accordance with what is customary in Western countries.

The Company estimates that as of the date of this report, it is materially complying with the material provisions of the Law in the field of quality of the environment. The Company holds the environmental licenses required for its operation and is acting to obtain them in places where they are missing. Failure to comply with the provisions of the law and regulations in the field of environmental protection may expose the Company and its directors to criminal and administrative responsibility, including imposition of fines and sanctions and issue of closure orders for facilities and exposure to expenses for cleaning and rehabilitating environmental damage. In addition, against the background of the expanding phenomenon, in Israel and abroad, of filing class actions in the environmental field, claims may arise from time to time in the field of environmental protection even when the Company meets all the requirements of the relevant laws and standards.

The Company is studying the consequences of the proposed laws and regulations in the environmental protection field, is acting to prevent or minimize the environmental risks that may occur during its activity, is preparing for economic, legal and operational consequences that stem from the laws and regulations, and is allocating money in its budgets for the purpose of compliance with the laws and regulations in the field of environmental protection that apply to it and that are expected to apply to it. However, there is no certainty that the costs that will be demanded of the Company with respect to the laws and regulations existing and expected in the field of environmental protection will not exceed the amounts that have been allocated by the Company for these purposes; however, the Company estimates, as of the time of this report, and based on the provisions of the Electricity Sector Law, that the material costs that will be imposed on it as a result of new regulatory requirements shall be covered within the electricity charge rate, subject to cost control, however, the decision on cost recognition lies with the authority of the Electricity Authority.

The aforesaid with respect to the estimates of the Company regarding the stricter environmental requirements that apply to the Company's activity, as well as the estimations of the Company regarding the cover of the material costs that will be imposed on the Company as a result of these regulatory requirements within the framework of the electricity rate, are forward looking information, as per its definition in the Securities Law, which is based on information held by the Company as of the date of the report. The materialization of these estimates depends on various factors that are not under the control of the Company and accordingly, these estimates may not materialize or may materialize partially or differently than expected.

See Sections 7.12, 8.9, 9.9, 10.5, and 21 for details on environmental risks and manner of their management.

It should be noted that sudden and unexpected damages to third parties as a result of contamination events are covered under the Company's liability insurance, in accordance with the terms of the policy and its exceptions.

29.2.4 **Procurement and Contractual Engagements**

Failures in the Company's procurement proceedings and/or with the suppliers in operating, financial and other fields (without fuel procurement) may harm, inter alia, the Company's ongoing operation and the electricity supply, in executing projects and in preparation for emergency situations.

An event of insolvency of a supplier of equipment or of a critical raw material could result in shortages and adversely affect the generation capacity and the current operation. Additionally, a low stock level due to budget restrictions, delays in supply and the supply of defective equipment could adversely affect the current operation and the meeting of project timetables. A service supplier who fails to meet requirements of quality of the environment may lead to breach of laws, regulations and regulation in the field of quality of the environment. It is noted that the Company carries out acts to minimize these risks such as a red-light examination[46] of suppliers before winning tenders and examination of the existence of suitable permits of the supplier as a precondition to various engagements. Additionally, as a strategy in contractual engagements to purchase critical items, the Acquisition Section tends to split the order to at least two suppliers in order to minimize the risk.

In addition, the manner of transport and storage of the equipment and raw materials that may be impaired as a result of various factors, including faults in transport, limited access to ports, natural hazards and so on. The Company stores the equipment in accordance with the instructions of suppliers and in conformity with procedures in order to avoid the storage of equipment and/or hazardous materials in an uncontrolled manner.

Shipments of raw material and equipment purchased by the Company from suppliers abroad may or may not be delayed due to political instability, embargoes, port strikes, security tensions, sabotage, etc. For example, due to the spread of the Corona virus in the last three years, and due to the Russia-Ukraine war that broke out in February 2022, there have been severe disruptions in the world's supply chains, which have led to an increase in the prices of goods and services.

As part of the risk mitigation activity, the Procurement Division operates:

1. To advance orders from suppliers while maintaining high levels of security inventory in general and spare parts in particular for power stations and grid items and connection to homes.
2. Splitting winning tenders to multiple suppliers and expanding sources of supply.
3. To indemnify suppliers who have proved significant damage due to the global wave of price increases (after an external accountants inspection), - contributes to maintaining good relationships with suppliers and strengthening their commitment to contracting with the Company.

As on the date of publication of the report, the Company has not been materially affected by the disruptions described above, but it cannot estimate how additional disruptions in future will affect the Company. For additional details see section 29.1.3 and Note 1i to the Financial Statements.

29.2.5 **Work Safety and Occupational Health**

The operating activities of the Company involve various safety hazard risks that can harm the health of its employees and its business and with respect to which the Company may be exposed to claims due to physical injury or other damages. The Company takes all of the measures for cancellation or reduction of these risks and their cancellation. The Company formulates work instructions, safety instructions and procedures which reflect the requirements of the law and the standards which apply to it in the field of health and safety, and are even stricter regarding them, and acts according to these instructions and procedures, for the purpose of safeguarding the wellbeing and health of its employees. Additionally, in order to reduce the risks as a result of risk factors such as: fire, hazardous material, height, electricity and possible lack of synchronization in safety issues in working with Noga, safety management programs are written by the various units of the Company, and the units operate according to them. Despite the abovementioned, the Company cannot prevent completely this risk. It should be noted that the Company has insurance coverage for employees and for third parties, subject to the deductibles specified in its insurance policies.

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[46] Red lights - the Company receives credit information about businesses, companies and entities from the BDI (Business Data Israel) information company, such as alerts regarding strategic customers on various financial issues including bankruptcies, blocked accounts, etc.

29.2.6 Traffic safety

The Company has a large number of vehicles, ranging from small vehicles designed to travel on paved roads only, to heavy vehicles and work vehicles designed for complex field work whose driver requires a dedicated license and high skill level.
The risk includes the risks of road accidents in all of the abovementioned vehicles, with an emphasis on accidents due to the fault of the driver.
The actions to reduce the risk include, inter alia, preventive driving instruction for the drivers and strict maintenance of the entire vehicle fleet, installing safety warning systems and installing advanced safety systems, primarily in heavy vehicles.

29.2.7 Project management

The Company deals in the management of various projects. This activity involves exposure to risks such as: shortage of resources, delays in receiving permits, safety events, failure in engagements with suppliers, project budget, effect of extreme weather conditions, and more.

The realization of project risks may cause damage to the reputation of the Company, constitute a cause to file actions against the Company, cause deviations from regulations, laws and statutory requirements failure to meet schedule, budget, and quality of the projects, disruptions in the electricity supply chain, bodily injury or property damage due to safety events, and harm to the financial position of the Company.

In the field of environmental quality – the Company conducted the project for emission reduction at the coal fired power stations (Orot Rabin and Rutenberg) which was successfully completed in May 2022, and is presently promoting the project of converting the coal-fired power stations to operating with natural gas. The completion of the projects will enable the Company to meet the provisions of the emission permits.

An additional high investment project is the construction of two combined cycle units at the Orot Rabin site for the Netiv HaOr – Orot Rabin Company Ltd., as part of the implementation of the structural change. The expected date of stable activation of the first unit is September 2023, and the expected date of stable activation of the second unit is June 2024. The expected date for commercial operation of the first unit is December 2023, and the expected date for commercial operation of the second unit is September 2024. These projects embody various kinds of risks, including financial, regulatory, safety and the like.

In the field of transformation, in order to meet the requirements of the Company's development plan, the Company is required to complete construction of between 7-10 new substations/switching stations (in average) per year (including reference to the Government plan to increase the goals of electricity generation with renewable energies to 30% by 2030, as detailed in section 6.5), compared to an average construction of 3-5 substations/switching stations each year in previous years, along with expansion projects.

In addition, in the field of transmission, the division is dealing with planning and construction of high and extra-high voltage lines and is required to meet a very challenging work plan for the next five years, which includes the strategic projects- -Eshkol Negev, Eshkol North, Eitan-Dimona line, Zafit-Gezer line, and many others.

The importance of the generation projects and the transformation and transmission projects both in terms of investment and in terms of the risk targets the Company management's attention to them, and they are regularly reported to the Company CEO and Board of Directors.

Any change in the schedule of the generation and the transmission and transformation projects requires approval from the various Government Ministries. The company is in constant contact with the relevant offices, and reports about the projects' progress, including delays in the schedule of the projects. For additional details see Note 1g to the Financial Statements.

29.3 Risks that are unique to the Company

29.3.1 Financial management – market raising and liquidity

The risk relates to failures in implementing the Company's financial management and securing the financial resources required for the Company's operation that may lead to a lack of financial liquidity, a cause for immediate repayment of financial liabilities and impairment of the Company's regular operation and realization of its objectives.

For details regarding the Company’s market, debt raising and liquidity risks see Note 26 to the Financial Statements.

For details of the main terms of the Company's financing contracts that may cause immediate repayment, see Note 20d to the Financial Statements.

29.3.2 Accounting and taxation

The risk of accounting and taxation is a risk that expresses a situation in which there are failures in internal controls that can lead to errors, delays or deficiencies in the Company's financial statements, and deficient implementation of the tax law regarding the taxation aspects.

Materialization of the risk may impact, among other things, the Company's image and investor relations, impose fines and personal liability on officers, and in certain circumstances may lead to events as detailed in Note 20 to the Company’s Financial Statements.

In dealing with the risk, the company performs, inter alia, the following steps:

- Implementation of the accounting and tax methodology and information requirements among the parties involved in an activity that has accounting implications.
- Implementation of the Government Companies Regulations (Additional Reports on the Effectiveness of Internal Control Over Financial Reporting), 2007.

29.3.3 Competition

As of the date of the report, the Company generates, transmits, distributes and supplies electricity consumed in the State of Israel. The Company was declared in January 1999 by the Commissioner of Competition (in this section - the “Commissioner”) as a monopoly in the fields of electricity supply (generation and sale of electricity), electricity transmission and distribution, and providing backup services for electricity consumers and producers. However, in recent years, with the entry of the private electricity producers into the electricity sector, a steep decrease has occurred in the Company's market shares in sale of electricity to big electricity consumers (consumers of ultra-high and high voltage), and in 2016, the Company's market share dropped for the first time below 50% in sale of electricity to big electricity producers who are connected to the extra high and high voltage grid.

As described in Section 6.5, the decrease in the Company’s market shares in the sale of electricity to big electricity consumers (consumers of extra-high and high voltage) derives from a lengthy process by the Government of Israel and the Electricity Authority aimed at encouraging the competition in the electricity sector while increasing the electricity generation capacity of the private electricity producers, some of whom also have supply licenses. Accordingly, in recent years a list of resolutions, regulations and other arrangements have been adopted, and they have increased the share of the private electricity producers in the Electricity Sector in Israel, while granting a safety net and certain arrangements that are designed to benefit the private electricity producers and to significantly decrease the risks that apply to them in their operation. The Company estimates that these resolutions are expected to continue to cause an increase in the energy generation volume of the private electricity producers, including generation using renewable energy.

As part of the implementation of the structural change, the Company sold the Alon Tavor, and Ramat Hovav generation sites and the eastern part of the Hagit site, and it is expected to sell, within the implementation of the structural change, the Eshkol site during 2023 (for details regarding the implementation of the structural change in the generation segment, including the sale of sites by the Company, see Note 1e to the Financial Statements).

Accordingly, a continued decline is expected in the Company’s volume of generation relative to the total generation in the sector, and an additional reduction of the Company’s market share in this sector.

Another decline in the market share is expected due to a change in the operating regimes of the coal-fired units and due to implementation of the plan to stop the use of coal and convert the said stations to use of natural gas.

For additional details regarding the implications of increase in the private production on the operation of the Company in each of its activity segments, including impact on revenues and profitability of the Company, see sections 7.4, 8.4, 9.4 and 10.4.

For further details regarding the structural change, including in relation to its effects on the generation, transmission and distribution segments as well as the supply segment, see Note 1e to the financial statements.

For details regarding the Government's decision to increase the renewable energy electricity generation targets and the effects it may have on the Company, see section 7.4 and Note 35a5 to the financial statements.

Despite the increase in the scope of private production, in accordance with the structural change, the Company will continue to operate as an essential service provider in the transmission and distribution grid segments and will continue to construct, maintain and operate the grid's installations, so that all of the private electricity producers will continue to use the Company's transmission grid and most of them even the distribution grid. Additionally, the volume of investments by the Company in the transmission and distribution grid is planned to increase in the coming years in order to enable, inter alia, the connection of various types of private producers to the grid.

An increase in independent production by producers and consumers that will be connected in the distribution segment is expected in the coming years. There are some consumers and producers, such as historical distributors in the Kibbutzim, that are not expected to use the Company's transmission and distribution grids, except at the most as backup services. It is clarified that in light of the transfer to a rate structure of capacity and energy, as long as these independent producers will be connected to the Electricity grid, they will be charged with payment with respect to the grid's capacity and with respect to system rates, at a partial volume, and as will be determined by the Electricity Authority from time to time.

In the field of the Company's electricity supply and sale operation, the fact that private producers hold a supply license in addition to the production license, which enables them to also operate as suppliers to end consumers, accordingly causes a decrease in the Company's activity in this segment. In addition, the government's decision on the reform determines that the supply of electricity to high-voltage extra-high voltage, and ultra-high voltage consumers will be opened to full competition, but the Company will not be permitted to act as a competitive factor in this segment. It is clarified that the government's decision stipulates that the issue will be reexamined five years after the reform date (2023), inter alia, in accordance with the market's terms of competition in the low voltage supply segment. Regulation began to apply in September 2021 for suppliers operating without generation devices, within which the supply market was gradually opened to competition. By the date of approval of the Financial Statements, 37 supply licenses have been granted to various entities that are not the Company. In addition, on September 7, 2022, the Electricity Authority published a decision on the subject of a distribution market model that regulates the activity of the generation facilities connected or integrated into the distribution grid and in particular their possibility to sell electricity in bilateral transactions to private suppliers without means of production beginning in 2024. In accordance with this decision, the supply segment should be opened to full competition. This decision is expected to further reduce the Company's market share in the supply segment. For additional details regarding the granting of supply licenses to suppliers without means of production and the opening of the supply market to competition, see Note 3c to the Financial Statements. In accordance with the Government's Decision on the reform, the Company will be permitted to compete (in a fair manner and subject to regulation that will be determined) in the supply segment only if its customer rate drops below 60% in this sector, subject to regulation by the Electricity Authority. Additionally, from the date on which the number the Company's consumers in this segment drops below 75% of the total consumers in the low voltage supply segment, the Company may provide cyber services to all the consumers and "smart home" and energy efficiency services only to consumers of low voltage, subject to receiving a new supply license upon expiry of the unified license.

For details regarding the structural change in which, inter alia, it was determined that the Company will reduce its operation in the generation segment, including by means of selling existing gas-operated Company generation sites (some of which have already been sold as aforesaid), the opening of the supply segment to competition, separating the system management activity from the Company (a process that was completed on November 1, 2021), and the continued operation of the Company in the transmission and distribution segments (up to and including the meter), including the actions executed by the Company for implementation of the structural change and details regarding the Structural Change Outline in the generation and supply segments, see Note 1e to the Financial Statements and section 1.3. The implementation of the structural change is expected to have a very material impact on the Company's share in the generation segment and the supply segment.

29.3.4 <u>Implementation of the structural change</u>

Implementation of the structural change detailed in Note 1e to the Financial Statements includes, inter alia, the sale of the Company's generation sites, construction of two combined cycle units for the Netiv HaOr – Orot Rabin Company Ltd., removal of the system management activity from the Company, execution of an organizational change and an efficiency plan in the Company, as well as other actions, as detailed in Note 1e to the Financial Statements. The implementation of the structural change may encounter delays that are not under the Company's control, since the actions to implement the structural change involve, inter alia, the receipt of regulatory approvals, granting licenses, and regulation by the Electricity Authority, and as of the date of the report it is not fully certain as to the date of their determination, receipt and final terms.

If delays occur in the implementation of the structural change, or if the terms of the regulation and/or the licenses received by the Company will be different from those expected by the Company, this may affect the implementation of the structural change and, in certain circumstances, may cause an adverse effect on the Company, its financial position and results.

In addition, and as detailed above, the structural change is set for an 8-year period, and at the date of the report there is uncertainty regarding the question of whether after this period an additional outline will be implemented or additional or other actions will be taken to change the structure of the Company, and what will be the implications of such outline or actions for the Company, insofar as will be implemented.

It is noted that the Company estimates that the following actions, which are required to be executed within the framework of implementation of the structural change, may involve unique complexities and risks from the Company's point of view:

a. The process of sale of the power stations is characterized by a regulatory complexity, and relating to some of the stations, also by a technical complexity to prepare the stations for sale, and a challenging timetable. For details see Note 1e to the Financial Statements.

b. Implementation of the organizational changes and the efficiency plan. For details, see Note 1e8 to the Financial Statements.

In order to deal with all the issues related to implementation of the outline of the structural change, the Company has established a steering team, headed by the Company CEO, which reports to the Board of Directors, the Strategy Committee and additional committees of the Board of Directors. The steering team consists of operating teams headed by senior executives and they deal with procedural, technological and infrastructure aspects, organizational aspects, aspects of incorporation of the management system, and financial and regulatory aspects.

In addition, there are risks in the field of implementing the efficiency plan, which are handled by an organizational change administration team headed by the head of the organizational change administration.

29.3.5 Legal

Material actions and/or approval of applications for class actions against the Company may lead to image and financial implications for the Company. As detailed in Note 35 to the financial statements, legal actions have been submitted against the Company in amount totaling, as of the date of publication of the report, approximately NIS 15.9 billion: (1) 12 applications for class actions totaling NIS 7.4 billion; (2) 4 applications for class actions which do not specify an amount (of which one is estimated by the applicants in hundreds of millions); (3) 1 application for a class action that was recognized totaling approximately NIS 5 billion and an extension of one application in the amount of approximately NIS 3 billion which is still pending and has not yet been recognized; (4) other legal actions in the ordinary course of business of the Company of approximately NIS 0.52 billion.

As part of the risk reduction plans, steps are taken such as: general third party liability insurance and executive liability insurance; segmentation of claims into issues and categories and systemic treatment of issues in which there is an upward trend in claims filed against the Company; specific treatment of hazards that are the subject of demands/claims filed against the Company and found by it to be justified; ongoing handling of claims and actions filed against the Company through internal entities and through external law firms; existence of enforcement programs for antitrust, securities law, corporate and government companies law, and prohibition of bribery of public employees.

29.3.6 Customers management

The Company provides its customers credit and as a result of this, it is exposed to a risk of monetary loss as a result of customer insolvency or a decrease in the credit quality of debtors or parties to contracts or to risks deriving from unique characteristics of some of the customers of the Company (for example, see Note 6c regarding the debt balance of the Palestinian Authority). The Company is acting on the issue of collection enforcement both by a collection center and collection employees at the office and in the field. Furthermore, is the Company is assisted by external law firms with respect to collection of debts in electricity accounts. The Company uses external databases for obtaining information with respect to deterioration in the business status of its strategic customers. This information is received on a regular basis from the business information companies and is transferred to the service centers.

The Company provides service to about 2.99 million customers. Failures to provide optimal customer response may lead to damage to the Company's image. Therefore, the Company invests in the implementation and assimilation of a service concept which emphasizes fostering excellence and innovation in the field of service and customer experience while strictly providing transparency, fairness and reliability in providing service.

In 2022, the Company continued to act to improve the customer services while implementing the concept that "the customer is at the center" as an organizational value paying attention to understanding the customers' needs, alongside integration of advanced teleprocessing technologies and systems compatible with this concept. Furthermore, the Company executed additional organizational changes in customer services, that will support the quality of the service and customer experience.

On January 20, 2022, the High Court of Justice rendered its ruling in the petition filed against the Minister of Energy, the Electricity Authority and the Company, regarding the amendment of criteria for debt collection procedures including electricity disconnections, in which the High Court of Justice ruled that before making a decision on disconnecting a consumer from the electricity supply, his claims must be heard and his individual case must be examined, in a format to be determined by the Electricity Authority (for additional details see Note 35b5c) to the Financial Statements) ("**Rosenzweig High Court of Justice Case**"). Following this, the Electricity Authority made amendments to the criteria as aforementioned, within which the groups entitled to recognition of an exemption from disconnecting the electricity supply were significantly expanded, and significantly limited the Company's ability to use the disconnection of the electricity supply as a collection tool. The decision of the Electricity Authority regarding the criteria has not yet been published in the Official Gazette and will enter into effect only 90 days after its publication in the Official Gazette.

Additionally, it is noted that the Company has refrained from disconnecting domestic customers since the date of the ruling in January 2022 and until the entry into effect of the 'Temporary provision for the implementation of the High Court of Justice disconnections case (Rosenzweig) for the interim period', under which disconnecting from the electricity supply cannot be used as a collecting tool from customers who have submitted supporting documentation of a difficult financial and/or medical situation as detailed in the aforementioned 'temporary provision'. In light of the aforesaid, an increase has occurred in the Company's debt balance (for additional details, see Note 20 to the Financial Statements).

29.3.7 Generation Array Management and Technical Failures

The reliability of the equipment existing in the power stations may have an impact on the reliability of the entire station and the reliability of the electricity system. In case of equipment failure, the station may be restricted in the generation capacity, and even worse, may leave the generation cycle. Repair of extensive failures involves very high direct and indirect costs of equipment, spare parts, experts, contractors and Company employee labor, and in addition also to costs deriving from the operation of less efficient units while using more expensive alternative fuel, due to disabled stations working on natural gas / coal and activation of other stations working on diesel oil. Additionally, in accordance with the methodology that was determined at the new generation base, a situation in which the availability of the generation units in practice is lower that the determined normative availability, may harm the Company's revenues.

Non-optimal operation and/or maintenance of the generation units (such as under extreme operation regimes or not according to the manufacturer's instructions) may lead to non-fulfillment of the requirements of the Noga Company and regulatory requirements, damage in generation performance, increased wear of the generation units and shortening their life span, and malfunctions in the generation array. In addition, there is risk of technical failures in the generation installations, due to various technical and physical reasons which may cause cessation of generation or its restriction for a long time. In order to reduce this risk, the Company executes maintenance and operation controls (such as: managing the risks for operating operations, maintenance management and planning while also examining the commercial aspect of the unavailability of generation units, monitoring the condition of the equipment, analyzing sensitive events, vulnerable points and recurring faults, transferring information between the various stations in professional forums, improving skills of the operating and maintenance team and management and control of the strategic parts inventory).

Insofar as this risk will materialize and lead to non-compliance with the requirements for the units' availability, it may be interpreted as the Company not meeting its liabilities under its licenses or the provisions of the law, and may therefore adversely affect the Company, in its outcomes and its image in the public eye.

The Company estimates that correct operation, continuous monitoring of data, strict forecasted maintenance and planned maintenance in the recommended gaps, ensuring the existence of spare parts for critical equipment, and acquisition of reliable equipment, based on known technologies, are the efficient means to reduce technical failures and to improve the reliability of the equipment.

The Company is conducting renovations in the generation units, in order to maintain employee safety, compliance with rules and regulations, fulfillment of manufacturers' instructions (to preserve the warranty), and for reasons of reliability and availability of the units. The Company also carries out system improvements on the basis of a techno-economic consideration to secure availability and reliability of the generation units.

The Company studied and continues to study the implications of the Minister pertaining to renewable energies on its generation units that will be reflected in the operating routines and maintenance implications, and is carrying out operating and maintenance operations to reduce the damage as a result of the expected change in the aforementioned operating regime.

“All risks” insurance for the Company's property covers direct and indirect physical property damage subject to a deductible specified in the insurance policy.

In the risk surveys conducted by insurance company engineers and insurance broker engineers as part of “all risks” insurance for the Company's property, physical property risks to the Company's facilities are assessed, inter alia, and recommendations are made to reduce or eliminate them.

29.3.8 <u>Managing the electricity grid</u>

Sub-optimal management of the transmission, transformation and distribution array and/or work interfaces with Noga may be reflected, among other things, in the absence of adaptation of the development plan of the transmission, transformation and distribution grid to actual needs, the lack of synchronization and coordination between the Company and Noga in the transmission system planning, failures in the implementation of the development plan in the transmission and transformation sector – including damage to the Company’s ability to connect decentralized generation installations to the grid and non-compliance with the government’s goals for 2030, failures In the operation and maintenance of equipment in the electricity grid, in the absence of compliance with the provisions of the law and Company procedures in connection with the management of the electricity grid, in the poor implementation of the Company's knowledge retention policy, in the selection of equipment in a non-optimal manner and in the difficulty of combining innovation in the management of control and supervision of the grid.

Sub-optimal management as aforesaid may cause an increase in technical failures, damage to the reliability of electricity supply, increased public exposure to the dangers of electric shock and fire, which could lead to injury to persons or damage to property, economic damage, as well as damage to the Company's image and service provided to its customers, as well as impair the company's ability to be a major player in a competitive market.

29.3.9 <u>Embezzlement and Fraud</u>

The Company conducts extensive business operations of billions of Shekels a year, and is therefore exposed to a wide range of risks of embezzlements and fraud that may cause financial damage and harm its image.

Included in this risk are, inter alia, misuse of assets, means of payment, biased tenders, etc.

The central work processes of the Company are supported by, inter alia, several information systems. The risk of embezzlement or fraud may materialize within the work process or through the information systems that support it. The main exposures that have been identified may materialize in the following fields: Acquisition and contractual engagements with suppliers, tender management, revenues from collection and execution of special projects, storage and inventory management, wages, investment management and use of means of payment, information management and trade secrets.

The Company regularly conducts risk surveys in the field of embezzlement and fraud in various divisions and areas of activity. The implementation of the survey recommendations is carried out as part of the reduction plan whose gradual implementation includes, inter alia, actions to minimize the risk arising from the structural and functional change in the Company, the identification and prevention of new risk scenarios, the institutionalization controls in the area of prevention of bribery and corruption and damage to Company assets under the SOX controls, the separation of duties project, deepening the actions for controlling sensitive roles and more.

As another step to reduce the risk of embezzlement and fraud, the Company implemented a system for management and control of business processes (“**BMC System**”). The BMC System is a computerized tool which warns of anomalies in business processes according to a methodology for assessing the risk of embezzlement and fraud.

Within the framework of the reduction plan, amongst others, an internal enforcement plan is also carried out in the area of prohibition of bribery. In this framework, the Company formulated an outline for a plan in the field of prohibition of bribery of a foreign public servant in accordance with the guiding criteria which were determined, inter alia, by the OECD, and a general prohibition on bribery according to Israeli law. An internal enforcement plan to prevent bribery was promoted, within which the Company procedure "Prohibition of giving bribes and enforcement array" was published, and actions were taken to further advance the enforcement plan, including the appointment of officers according to the procedure.

During 2019-2021, the Company worked to validate the list of sensitive positions, engaged in the preparation of embezzlement and fraud risks survey in the IT Division, Fuels Administration, the invoices array and the Engineering Projects Division.

Additionally, the Company continually performs steps to assimilate and maintain an organizational culture in accordance with the policies for prevention of embezzlement and fraud which include training and seminars, carrying out a cross-company campaign on awareness for prevention of embezzlement and fraud. Furthermore, it continued the separation of powers in the computer systems, and acted to implement control procedures for holders of sensitive positions at high and very high risk.

The Company operates in accordance with the approved policy for the prevention of embezzlement and fraud, and has even published a Company procedure that regulates the prevention of embezzlement and fraud in the framework of this risk management by the Company.

Once a period, the risk controller reports the status of progress of the multi-annual reduction plan to a designated steering committee for embezzlement and fraud headed by the relevant Deputy CEO. The status is also reported to the various committees of the Board of Directors.

29.3.10 Communications Management

The lack of preparedness and inadequate media handling of internal or external events which have a negative impact on image and/or strengthening of negative public opinion about the Company may harm the confidence of public stakeholders[47] regarding the Company's desire to operate and lead the Company to significant operating and managerial changes and damage to the Company's image.

In order to deal with this risk, the Company is engaged, inter alia, in routine and emergency situations, with the existence of ongoing and continuous contact with all types of the media, and with diverse communication activities including the transfer of information, instructions, updates and messages during the occurrence of various crises related to the electricity supply, providing optimal customer service, labor relations, environmental quality, financial issues, etc.

29.3.11 Human capital and implementation of the organizational change

The risk relates to human resource management failures, routine and in times of emergency (failure to meet regulatory requirements, difficulties in employee recruitment, retention and development, knowledge retention and more), difficulties in implementing the structural change which includes a reform in the electricity sector, disputes with the employee union in the implementation of the organizational change that can lead to tension in labor relations and damage to current operations and business continuity and lead to financial expenses and failure to meet Company objectives, and - a lack of actuarial balance in the employees' pension fund that could lead to damage to the financial stability.

The Company handles this risk through medium and long-term planning of human resources, ongoing human resources replacement, mobilization and rotation, plans regarding change of the salary structure for the new employees, and arrangements for preserving human resources for required permanent and temporary employees without a time limit, technological and designated training, and preparing a managerial reserve.

The labor relations in the Company are based mainly on collective labor agreements and collective labor arrangements including the labor laws and the procedures issued by virtue thereof. These agreements and arrangements constitute the main normative source with regard to hiring at the Company, termination of employment, employment conditions and labor relations. The contractual validity of the labor rules, whose legal status is a bilateral collective arrangement, expired on December 31, 2015, as detailed in section 14.5.2. The Company continues to operate in accordance with policy and the agreements existing in the labor code even though its validity has expired. There is currently no active activity for ratifying or writing a new work code. Nonetheless, arrangements agreed upon with the employees' union in agreements and/or collective arrangements in recent years (including the reform agreement of 2018), prevail over old provisions that were anchored in the labor code and replace them.

For details on the subject of the structural change, organizational change and efficiency plan, within which the Company's employee headcount will be reduced, see Note 1e to the Financial Statements.

The Company acts to maintain good labor relations, while holding an ongoing dialog with the labor union, the Histadrut and the relevant State entities. Changes in the field of labor relations, including due to relevant directions or decisions of the regulators that regulate the Company, including the Commissioner of Wages, may be expressed in labor disputes, which may lead to employee sanctions to the point of a long, all-out strike. The Company will continue to operate in such a manner that the changes will be made with the consent and approval of the relevant parties. For details regarding the labor dispute declared on August 1, 2021 by the Histadrut's Trade Union Division,

[47] All the groups, internal or external to the Company, which affect or may be affected by the Company's operation, products or services.

see section 14.9. As of December 2022, the Company is working in dialogue with the workers' organization and the State to continue the implementation of the reform and resolve gaps and disputes, as they come to light.

Although in the past no material impairment in the supply of electricity has resulted, in the future, all out or protracted sanctions or strikes may impair the regular supply of electricity to the customers of the Company, the revenues, business outcomes, image and reputation of the Company.

The Central Provident Fund of the Company’s employees (the “Fund”) is intended to enable the Company to pay pension payments to employees entitled to a budgetary pension (the “Eligible Employees”). Deposits to the fund with respect to the eligible employees are determined by the actuarial balance calculated by the fund actuary at the end of the year. The balance sheet is based on future discounting flow in accordance with a set of actuarial assumptions. There is a risk that the actuarial deficit in the fund will be higher than forecast which is performed in the Company. In such case, the Company will be required to deposit amounts to the fund to complete the commitment that may accrue to material amounts.

The actuarial model for the calculation of the deposits into the Fund may change in the future, inter alia in accordance with changes in the life expectancy, in regulatory provisions and in the economic climate, which may affect the interest to discount the liabilities. Changes in the actuarial model, as aforesaid, may oblige the Company to execute additional deposits, of material amounts, to the fund.

The reform agreement which came into effect in November 2018, that includes, inter alia, an early retirement agreement and the loan of employees for a limited period of time, to private producers that will purchase generation sites from the Company, and will afterwards terminate their employment in the Company, caused an increase in the actuarial liability at the amount of the cost of bringing forward the pension payments to retirees with a budgetary pension. The legislative arrangement required the transfer of funds for the purpose of completing the deficit in respect of the cost of advancing the above retirements, within one year from the date of entry into force of the agreement. Following the Company’s application to the Capital Market Authority, on November 20, 2019, an amendment was issued to the circular of instructions for the management of a central provident fund containing the arrangement for the spread of the deposits to the fund with respect to the increase, as stated, subject to the approval of the Commissioner of the Capital Market, Insurance and Savings in advance and in writing. On March 9, 2020, the Commissioner's approval of the Company's request for the spread of deposits was obtained. This cost is taken into account in the forecast of the fund deposits cash flow.

Meir Spigler Chief Executive Officer	Shlomo Arbiv External Director*

Date: March 16, 2023

* **On August 1, 2021, Mr. Yiftah Ron-Tal concluded his tenure as the Chairman of the Company’s Board of Directors, and as of the date of the signing of the Statements, a new Chairman of the Board of Directors has not yet been appointed.**
In light of the aforesaid, in its meeting of March 16, 2023, the Company’s Board of Directors authorized Mr. Shlomo Arbiv, who serves as an External Director, to sign the Company’s Update Report of Description of the Company’s Business Affairs for the period ending December 31, 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 Company's Affairs

For the Year Ended
December 31, 2022

<u>Prominent Disclaimer</u>

This English translation of the "**Company's Board of Directors' Report on the Status of the Company's Affairs**" for the year ended December 31, 2022 ("English Translation") is provided for informational 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, 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.

The Board of Directors of the Israel Electric Corporation (the "Company") hereby presents the Directors' Report on the status of the Company's affairs for the year ended on December 31, 2022, ("The Report 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 Status of the Company's Affairs

1. Brief Description of the Company and its Business Environment

a) General

The Company operates as one combined and coordinated system that deals in supplying electricity to consumers, starting from the electricity generation stage through the transmission, distribution, supply and trading electricity stages, all in accordance with licenses granted for each type of activity. The Company also deals in the construction of infrastructures required for these activities.

The Company is owned by the State of Israel which holds approximately 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 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, inter alia, in accordance with the amendment to the Electricity Sector Law, see Note 1 to the Financial Statements of December 31, 2022.

b) Condensed Review of the Changes in the Business Environment during the Report Period

1) For details regarding Government resolutions concerning the electricity sector, see Note 1c to the Financial Statements.
2) For details regarding the implementation of the outline for structural change in the Company which includes, inter alia, updates on the following issues: the sale of the "Hagit East" power station, the Company's activities to promote the sale of the Eshkol site, extension of the Company's licenses at the Reading site and the implications for the site's operation as a result of the Arrangements Law, updating the activation dates of the CCGTs at Orot Rabin, see Note 1e of the Financial Statements
3) For details regarding material provisions of the Law applying to the Company in the area of environmental protection, including details and developments regarding the removal of inactive fuel pipelines at the Reading site, further updates concerning coal-fired units, and converting units to gas, see Note 1g of the Financial Statements.
4) For details regarding electricity tariff amendments and regulations, in particular a new rate base for the generation segment, granting a distribution license, as well as the Electricity Authority's decisions during the period of the Financial Statements, see Note 3 to the Financial Statements.
5) For details regarding EJEC and the Palestinian Authority's debts, see Note 6c to the Financial Statements.
6) For details of the Company's credit rating, and of raisings and repayments of debentures and loans in the reporting period and after the date of the Statement of Financial Position, see Note 20 to the Financial Statements
7) For details regarding class actions and other material actions, see Note 35b 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 during the Report Period (continued)

8) For details regarding the entry into effect of the amendment to the agreement for the supply of gas from the "Tamar" field, as well as for details regarding the beginning of supply from the “Karish” reserve, see Note 35a to the Financial Statements.

9) For details regarding impact of the Russia-Ukraine war 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 regarding the COVID-19 virus, see Note 1i of the Financial Statements.

10) For details regarding changes in the Company’s Board of Directors and management, see section b below.

11) During the recent period, most of the world's economies, including Israel’s, are characterized by sharp increases in the 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 for raising foreign capital as long as these increases continue. At the same time, in light of the fact that the rate coverage for the Company's recognized assets is linked to the consumer price index and the return on the foreign capital in the rate takes into account the marginal interest rate, this is not expected to have a material effect on its future financial position and the results of its operations. In addition, to the extent that these increases continue and will be 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 negatively affect the value of the Company's assets and cause a decrease in value in accordance with IAS 36. For details about a study to examine impairment of the Company's assets carried out during the report period, see Note 13 to the Financial Statements. The study was performed by an independent value appraiser and is attached to the Financial Statements.

    For details regarding CPI risks and risk with respect to variable interest rates see Note 26c to the Financial Statements.

    The Company continuously monitors the developments in the Israeli and the global capital markets and since this is an event that is not under the control of the Company, the Company is unable to assess the implications of this event, including its future impact on the Company’s future financial position and the results of its operations.

12) After the Statement of Financial Position date, on March 13, 2023, a crane collapsed at the coal dock at the “Rutenberg” power station. As a result of the collapse, the ability to unload coal at the coal dock was damaged.

    The Company is examining the significance of the event and is examining alternatives and possible courses of action. As of the date of approval of the Financial Statements, it is not possible to estimate the impact of the event on the Company's financial position and the results of its operations.

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) Business Targets and Strategy

1) Financial targets

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

a) Real net financial debt ratio to EBITDA: the target is a ratio of 4.3, interim target for 2023* – 5.4.
In practice, as of December 31, 2022, the ratio is approximately 5.45.
The ratio is based on the real net financial debt of the Company as of December 31, 2022, in the amount of NIS 34,726 million and on EBITDA including transaction in regulatory accounts and neutralizing special and non-current events for 2022, in the amount of NIS 6,367 million).
Regarding financial indicators that are not based on accepted accounting principles (non- GAAP), see Note a7 below.

b) Total debt to total assets ratio (leverage) will gradually decrease to 65%.
In practice, as of December 31, 2022, the ratio stands at approximately 67%.

c) An international rating of at least 'BBB'.
For details of the Company's credit rating see Note 20f to the Financial Statements.

d) The safety cushion will be of a monetary value of no less than NIS 3 billion, and will be composed of: balance of cash and short-term deposits will be no less than NIS 1.5 billion and unused secured credit lines valid for a period exceeding one year up to NIS 1.5 billion.
As of December 31, 2022, the Company complies with the objective.

e) The real net financial debt will not exceed NIS 31 billion for 2025 and NIS 36.5 billion for 2023*, and all subject to compliance with the financial targets specified above, with regards to debt ratios.
For the composition of the financial debt, see section a7 below.

Furthermore, the Company's Board of Directors adopted three additional targets pursuant to the circular of the Government Companies Authority (see section a7c 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 December 31, 2022, the ratio stands at 7.2%.

g) FFO + interest expenses divided by interest expenses ratio greater than 3.
In practice, as at December 31, 2022, the ratio stands at 3.51%.

h) Return on Capital Employed (ROCE) ratio of 3.3% in 2023*.
In practice, as at December 31, 2022, the ratio stands at 3.1%.

* The interim goals for 2023 (real net financial debt to EBITDA ratio, real net financial debt and return on capital employed ratio) were updated due to the publication of a new rate base for the generation segment as well as following the Annual Update for 2023 which includes the spreading of consumer debt to the Company with respect to the impact of the increase in coal prices over three years and the decrease in the rate of return in the generation segment, for more details see Note 3d-j to the Financial Statements.

2) Additional Targets

For general details of the Company's business targets and strategies see section 26 of Chapter A - Report of Description of the Business Affairs of the Corporation as of December 31, 2022.

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) Business Targets and Strategy (continued)

3) The Electric Company's strategic emergency awareness and readiness plan:

The Company's preparations for emergency and the main points of the "strategic emergency awareness and readiness plan" were presented and approved for the first time in a meeting of the Board of Directors of the Company of August 14, 2013. This topic is presented annually. The latest updates of the plan's status were presented to the Board of Directors on November 3, 2022.

The plan is based on directives of the Government Companies Authority, as detailed in the Companies Authority circular on the subject of July 11, 2012. The plan includes the policy and targets of the Company for continued functional continuity and emergency electricity supply on the basis of priorities defined primarily for essential plants and after that for the rest of the customers of the Company in times of emergency.

As part of the preparations of the Company for times of emergency, an accumulative scenario including several scenarios was received from the National Emergency Management Authority, and the Company made preparations to provide a response, in cooperation with the Power Authority. The Company is formulating a response plan for the updated war scenario, and will present it for approval by the Company CEO and management, the Ministry of Energy, the Power Authority and the Electricity Authority, in order to approve resources for strengthening the abilities.

A plan for closing identified gaps will also be presented for approval by the Company's management, the Ministry of Energy, the Electricity Authority, and the Power Authority.

The Company acts in cooperation with the Power Authority, the Ministry of Energy Department of Emergency, Security, Information, and Cyber, and with guiding entities in the State, constructs scenarios and defined plans of response to them, prepares emergency plans and procedures, coordinates service levels for emergency, confine emergency manpower, acts to enhance operational continuity in the Company, operates an organizational and personal resilience array, conducts instructions, training and practice for employees and systems for various situations, and draws conclusions from actual events and drills and monitors their implementation.

The Company acts to improve physical protection at critical sites for the continued supply of electricity through the "Raincoat" project carried out with the cooperation of the Ministry of Energy and the Home Front Command, and concurrently acts to improve and expand the active defense system in its critical facilities in cooperation with the National Emergency Authority, the Ministry of Defense, the IDF and the air defense system.

In light of the moderation in the spread of the COVID-19 epidemic, the Company removed the restrictions imposed on the employees and, at the same time, continues to monitor the number of patients in the country and in the Company and will update its guidelines on the subject, if it detects a renewal of the epidemic.

The Company has a risk management system subject to regulatory requirements, including risk identification programs and activities to minimize them.

The Company purchased an insurance policy for damages and indirect expenses as a result of natural disasters, fire, explosion, contamination and mechanical damage.

The Company also acts in the field of earthquakes and tsunamis through a management steering committee and 4 sub-committees for the identification of vulnerabilities in its facilities and works to reduce the damage on the one hand and the ability to rehabilitate quickly after an event on the other hand.

The Company is also preparing for exceptional weather through the performance of special drills in preparation of the winter and summer, developing control systems for the performance of prevention actions and the ability to provide quick response after an event, in order to restore the electricity supply as quickly as possible to its customers.

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) Business Targets and Strategy (continued)

3) The Electric Company's strategic emergency awareness and readiness plan: (continued)

The Company holds an inventory of fuels, materials, and equipment intended for emergencies and operational failures, and is acting to supplement a strategic inventory to be used by the electricity sector under cabinet decision no. 116b.

The Company is acting to increase redundancy in the electricity sector, and, among other things, will act to convert coal-fired generation units to natural gas use, and the preservation of coal-fired units at the Orot Rabin power station.

The Company has established an array of headquarters for control in times of emergency, alternative headquarters that can change locations in times of need, and reporting rules and systems for emergencies that are practiced every year.

The Company has a security, firefighting, search and rescue teams array for initial and immediate response, including the necessary emergency measures.

The Company is making preparations for business continuity in the computer, communication, public relations and public information systems.

The Company, together with the whole electricity sector, conducts two internal national drills on a regular annual basis, and enhances cooperation with other entities by integrating in national exercises, exercises by the Ministry of Energy and other government ministries, designated authorities, home front command, and the Israeli Police, at the national level and the district and local level.

Together with the Ministry of Energy, the Power Authority, the Electricity Authority, the Ministry of Defense, and the Home Front Command, the Company is working to improve security in critical points of the electricity sector.

The Company is acting in cooperation with the Ministry of Energy and the Ministry of Defense to create an active defense capacity at the Company's essential sites.

The Company is acting to categorize essential enterprises with the Ministry of Energy and is updating a data center concerning nationally essential enterprises.

The Company implemented the changes resulting from the reform in the electricity sector, including the transfer of responsibility for the power authority in times of emergency to the Noga Company, and drilling its emergency activity under the reform changes. In this framework, the Company also evacuated the emergency operating headquarters in the system management facilities and established new operating headquarters that will serve it in times of emergency in Haifa and in Tel Aviv.

Regarding the impacts of the spread of COVID-19 and the Russia-Ukraine war on the Company's financial position and work plan, see note 1i of the Financial Statements.

d) Report of gaps between the recognized costs of the electricity rates and the actual costs for 2022

This disclosure is provided in accordance with the decision of the Electricity Authority, as aforesaid, and in the format determined by it. Its purpose is to compare sums recognized with respect to each component of the rate with the results in practice. However, the attribution to the various rate components was carried out on the basis of assumptions and estimates executed by the Company, on the basis of its understanding of the electricity rate. Regarding the allocation of costs and the assumptions on which this allocation is based, see Note 36 to the Financial Statements regarding the activity segments of the Company. This disclosure does not relate to financing expenses and tax.

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)**

d) **Report of gaps between the recognized costs of the electricity rates and the actual costs for 2022 (continued)**

Electricity generation and purchases segment

Section	Rate Components NIS in millions						
	Total income	Fuels	Electricity purchases and arrangements	Operation	Efficiency, income attributed to financing reform costs	Depreciation	Gross weighted recognized return/operating profit
Income according to actual rate/rate in force as calculated by the Company plus income (expenses) as part of the accounting with the Noga Company (1)	11,324						
Less/plus consumer debt refund with respect to previous years which is included in the actual rate	669						
Less/plus compensation with respect to delay in update for the current year (*)	1,795						
Total income in books	13,788						
Deviation in actual income due to deviation in consumption distribution (2)	-						
Payments from the EJEC Agreement and the Palestinian Authority, after deduction of cash-based income	174						
Theoretical income from rates before efficiency application less deviation of consumption distribution and adjustment of non-recognition of income East Jerusalem Company (3)	13,962	9,641	50	2,850	(272)	869	824
Efficiency and income attributed to financing reform costs	-	-	-	(270)	272	(2)	-
Theoretical income from rates after efficiency deduction less deviation of consumption distribution and adjustment of non-recognition of income East Jerusalem Company	13,962	9,641	50	2,580	-	867	824
Classifications compared to the Financial Statements (4)							
Classification 1 - fuel related	-	205	-	(205)	-	-	-
Classification 2 - investments in operating power stations	-	-	-	(188)	-	188	-
Classification 3 - capital services with respect to joint property	-	-	-	(130)	-	93	37
Classification 4 - capital services with respect to spare parts	-	-	-	(49)	-	26	23
Classification 5 - financing of suppliers' credit working capital	-	-	-	(10)	-	-	10
Total theoretical income from rates classified according to Financial Statements	13,962	9,846	50	1,998	-	1,174	894
Actual results according to the Segmental Reporting Note (5)	14,231	9,224	2,927	2,060	(22)	2,782	(2,740)
Plus/less deducted/added regulatory assets (6)	2,465	-	-	-	-	(1,251)	3,716
Various income (7)	(8)	-	-	-	-	-	(8)
Classification 1 - investment renovations	-	-	-	250	-	(250)	-
Classification 2 – additional costs arising from reform costs exceeding the retirement costs	-	-	-	(8)	-	(1)	9
Classification 3 – Fuels depreciation	-	213	-	-	-	(213)	-
Classification 4 – Egyptian gas compromise agreement	-	(22)	-	-	22	-	-
Classification 5 – wages for fuel related fees	-	124	-	(124)	-	-	-
Classification 6 – accounting with Noga	(2,899)	-	(2,877)	-	-	-	(22)
Subtotal	13,789	9,539	50	2,178	-	1,067	955
Differences (8)	(173)	307	-	(180)	-	107	61
Income/expenses with respect to previous years against which regulatory assets were not recorded	-	-	-	-	-	-	48

* Without neutralizing the impact of not collecting an average rate and non-recognition of income from the East Jerusalem Electricity Company.
The regulatory assets do not include regulatory assets with respect to financing recorded in expenses.
Main reasons for the differences are stated below.

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

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

d) Report of gaps between the recognized costs of the electricity rates and the actual costs for 2022 (continued)

Transmission segment

Section	Rate Components NIS in millions					
	Total income	Electricity purchases	Operation	Depreciation	Income attributed to reform costs	Gross weighted recognized return/ operating profit
Income according to actual rate/rate in force as calculated by the Company plus income (expenses) as part of the accounting with the Noga Company (1)	1,890					
Less/plus consumer debt refund with respect to previous years which is included in the actual rate	(43)					
Less/plus compensation with respect to delay in update for the current year	(183)					
Total income in books	1,664					
Payments from the EJEC Agreement and the Palestinian Authority, after deduction of cash-based income	11					
Deviation in actual income due to deviation in the consumption distribution (2)	-					
Theoretical income from rates before efficiency application less deviation of consumption distribution and cash-based recognition of East Jerusalem Company and PA (3)	1,675	-	475	871	(75)	404
Income attributed to financing reform costs	-	-	(72)	(3)	75	-
Theoretical income from rates after efficiency application less deviation of consumption distribution and cash-based recognition of East Jerusalem Company and PA	1,675	-	403	868	-	404
Classifications compared to the Financial Statements (4)						
Classification 1 - capital services with respect to common property	-	-	(38)	24	-	14
Total theoretical income from rates classified according to Financial Statements	1,675	-	365	892	-	418
Actual results according to the Segmental Reporting Note (5)	1,912	22	371	557	-	962
Plus/less deducted/added regulatory assets (6)	(226)	-	-	311	-	(537)
Various income (7)	(1)	-	-	-	-	(1)
Classification 1 –reform costs	-	-	(11)	-	-	11
Classification 2 – accounting with Noga	(22)	(22)	-	-	-	-
Subtotal	1,663	-	360	868	-	435
Differences (8)	(12)	-	5	24	-	17
Income/expenses with respect to previous years against which regulatory assets were not recorded	-	-	-	-	-	(2)

* Without neutralizing the impact of not collecting an average rate and non-recognition of income from the East Jerusalem Electricity Company.
The regulatory assets do not include regulatory assets with respect to financing recorded in expenses.
Main reasons for the differences are stated below.

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

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

d) **Report of gaps between the recognized costs of the electricity rates and the actual costs for 2022 (continued)**

Distribution segment

Section	Rate Components NIS in millions					
	Total income	Purchases of Electricity	Operation	Depreciation	Income attributed to reform costs	Gross weighted recognized return/ operating profit
Income according to actual rate/rate in force as calculated by the Company plus income (expenses) as part of the accounting with the Noga Company (1)	6,053					
Less/plus consumer debt refund with respect to previous years which is included in the actual rate	(142)					
Less/plus compensation with respect to delay in update for the current year	424					
Total income in books	6,335					
Deviation in actual income due to deviation in the consumption distribution (2)	-					
Payments from the EJEC Agreement and the Palestinian Authority, after deduction of cash-based income	-					
Theoretical income from rates before efficiency application less deviation of consumption distribution and cash-based recognition of East Jerusalem Company and PA (3)	6,335	2,824	1,677	1,333	(213)	714
Efficiency and income attributed to financing reform costs	-	-	(208)	(5)	213	-
Theoretical income from rates after efficiency application less deviation of consumption distribution and cash-based recognition of income East Jerusalem Company and PA	6,335	2,824	1,469	1,328	-	714
Classifications compared to the Financial Statements (4)						
Classification 1 - Capital services with respect to common property	-	-	(301)	229	-	72
Classification 2 –Capital services with respect to meters	-	-	(123)	99	-	24
Total theoretical income from rates classified according to Financial Statements	6,335	2,824	1,045	1,656	-	810
Actual results according to the Segmental Reporting Note (5)	6,338	2,977	1,264	1,371	(6)	732
Plus/less deducted/added regulatory assets (6)	282	-	-	157	-	125
Various income (7)	(117)	-	(118)	-	-	1
Classification –reform costs	-	-	(8)	(12)	-	20
Classification 2 – accounting with Noga	(168)	(168)	-	-	-	-
Classification 3 – other income	-	(6)	-	-	6	-
Subtotal	6,335	2,803	1,138	1,516	-	878
Differences (8)	-	21	(93)	140	-	68
Income/expenses with respect to previous years against which regulatory assets were not recorded	-	-	-	-	-	44

* Without neutralizing the impact of not collecting an average rate and non-recognition of income from the East Jerusalem Electricity Company.
The regulatory assets do not include regulatory assets with respect to financing recorded in expenses.
Main reasons for the differences are stated below.

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

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

d) **Report of gaps between the recognized costs of the electricity rates and the actual costs for 2022 (continued)**

Supply segment

Item	Rate component NIS in million					
	Total income	Operation	Depreciation	Electricity purchases	Income attributed to reform costs	Gross weighted recognized return/ operating profit
Income according to actual rate/rate in force as calculated by the Company plus income (expenses) as part of the settlement with the Noga Company (1)	470					
Less/plus consumer debt refund with respect to previous years which is included in the actual rate	(13)					
Less/plus compensation with respect to delay in update for the current year	(2)					
Total income in books	455					
Deviation in actual revenue due to deviation in the distribution of consumption (2)	-					
Theoretical income from rates before efficiency application less deviation of consumption distribution and cash-based recognition of East Jerusalem Company and PA (3)	455	459	-	-	(4)	-
Income attributed to financing reform costs	-	(4)	-	-	4	-
Theoretical income from rates after efficiency application less deviation of consumption distribution and cash-based recognition of East Jerusalem Company and PA	455	455	-	-	-	-
Classifications compared to the Financial Statements (4)						
Classification 1 Capital services with respect to common property	-	(31)	31	-	-	-
Total theoretical income from rates classified according to Financial Statements	455	424	31	-	-	-
Actual results according to the Segmental Reporting Note (5)	518	433	49	-	-	36
Plus/less deducted/added regulatory assets (6)	(16)	-	-	-	-	(16)
Various income (7)	(39)	(37)	-	-	-	(2)
Classification –reform costs	(1)	(1)	-	-	-	-
Classification 2 – accounting with Noga	(7)	(7)	-	-	-	-
Subtotal	455	388	49	-	-	18
Differences (8)	-	36	(18)	-	-	18
Income/expenses with respect to previous years for which regulatory assets were not recorded	-	-	-	-	-	-

* Without neutralizing the impact of not collecting an average rate and non-recognition of income East Jerusalem Company.
The regulatory assets do not include regulatory assets with respect to financing recorded in expenses.
Main reasons for the differences are stated below.

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

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

d) Report of gaps between the recognized costs of the electricity rates and the actual costs for 2022 (continued)

Specific instructions:

(1) Total consumer charges with respect to electricity consumption in the reporting year (including charges with respect to advances, spread, compensation for update delay and other consumer debts and charges not yet invoiced at the end of the reporting period) as well as supplement of income/(expenses) as part of the accounting with Noga.

(2) The sum reflects the deviation created as a result of the rates for a quantity unit being determined by a theoretical distribution, whereas the actual distribution is different.

(3) The theoretical income with respect to the reporting period (meaning without return of consumer debt with respect to the past) if there had been no deviations in the consumption distribution and the rate had been continuously updated. The costs the Company deems should be approved for it with respect to the reporting period and have not yet been approved and has recorded regulatory assets with respect to them at the end of the period. Meaning, this income also includes profit that is defined as unrealized profit according to the accounting principles.

(4) Sums included in the rate in a certain component included in the Financial Statements in a different component.

(5) Columns “Fuels” to "Gross weighted recognized return/operating profit” are identical to the total expenses of the segment, except for financing expense and tax.

(6) Reduction/addition of deducted/added regulatory assets in the expense items of the Profit and Loss Statement.

(7) Income from unregulated operation is included in the segment’s income. The segment’s income includes income that has not been attributed with costs.

(8) The differences between theoretical income classified according to Financial Statements and the subtotal.
The income and gross weighted recognized return/operating profit, meaning surplus actual income over the theoretical is presented with a positive mark. In the other columns, the surplus expense over the income is presented with a negative mark.

In all other columns, surplus expenses over income is presented with a negative mark.
The Authority, when determining the rate, recognized some of the expense items not according to the classifications recorded in the Financial Statements. Accordingly, adjustments were made to the income and the expenses of those items that were recognized by the Authority in a different manner than that recorded in the Financial Statements, in order to allow a proper comparison between the Company’s income and its expenses.

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)

d) Report of gaps between the recognized costs of the electricity rates and the actual costs for 2022 (continued)

Following are details of the main explanations for the gaps according to components

1. Fuel –

The gaps in fuels are due to the following reasons:

- Profit/loss from fuels - composed of profit/loss from the price due to gaps between the recognized price and the cost of fuel consumed from inventory and gas incentive.
- Gap from fuel related - results from gaps between the related costs with respect to fuels in practice and the normative related costs.

2. Operation –

The lack of recognition mainly derives from the administrative and general expenses component in the generation segment (including non-recognition of bad debts), a fine for non-compliance with availability and lack of recognition in the distribution segment.

3. Income from previous years –

Income supplement with respect to the 2023 Annual Update and index differences on opening balances of regulatory assets.

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)

e) Major Open Issues with the Electricity Authority

Details of material issues in dispute between the Company and the Electricity Authority. The sums detailed in this table represent the Company’s estimates only with regard to the financial implications of the existing gaps, and there is no certainty that the Electricity Authority will recognize all or part of the sums detailed below:

The issue	Details
Generation segment rate base for 2022-2027	On January 9, 2023, the Authority published a decision concerning a new rate base for the generation segment for 2022-2027. The decision was made within a short period of time from the submission of the response to the hearing, therefore, some of the Company's claims were not studied in depth and did not receive a response. There are a number of unresolved issues regarding the new rate base, such as the revenue collection mechanism for fixed components in the generation rate according to availability, the weighted cost of capital, wage costs linkage, non-recognition of doubtful debts, etc. The Company intends to contact the Authority and hold discussions in order to close the gaps.
Project of converting the coal-fired units to gas	According to the Directive of the Minister of Energy of September 2019, the Company is required to convert the coal-fired units at Orot Rabin and Rutenberg, where the conversion of the Rutenberg unit 1 will be considered as a pilot, after which the rest of the units will be approved. The Company has applied several times to the Electricity Authority and the Ministry of Energy to obtain approval in principle for the project costs and to shorten the schedule. For details of a clarifying letter received in this matter, see Note 3v to the Financial Statements.
Non-recognition of the full pension costs of the Company’s employees	On February 5, 2018, the Electricity Authority published a decision regulating the recognition of the retirement costs of the Company’s employees. The Company’s position is that there are still open issues with the Authority that are related to recognition of the pension costs. It was determined that the discussions to close these issues will take place in 2023.

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

	NIS in millions			
	December 31, 2022	December 31, 2021	Increase (decrease)	Percent %
CURRENT ASSETS				
Cash and cash equivalents	3,654	2,454	1,200	49%
Short term investments	459	332	127	38%
Trade receivables for sales of electricity	4,702	4,290	412	10%
Other current assets	886	665	221	33%
Inventory – fuel	2,412	1,489	923	62%
Inventory – stores	166	128	38	30%
Assets held for sale	-	160	(160)	(100%)
	12,279	**9,518**	**2,761**	**29%**
NON-CURRENT ASSETS				
Inventory - fuel	1,413	1,624	(211)	(13%)
Long-term receivables	2,111	2,294	(183)	(8%)
Investment in associate	13	4	9	225%
	3,537	**3,922**	**(385)**	**(10%)**
Assets with respect to post-employment benefits:				
Excess pension plan assets over pension liability	9,816	6,787	3,029	45%
Funds in trust	1,184	1,493	(309)	(21%)
	11,000	**8,280**	**2,720**	**33%**
Fixed assets, net:				
Fixed assets in use, net	52,133	51,863	270	1%
Fixed assets under construction	7,478	7,260	218	3%
	59,611	**59,123**	**488**	**1%**
Intangible assets, net	1,153	1,188	(35)	(3%)
Total assets	**87,580**	**82,031**	**5,549**	**7%**
Debit balances of regulatory deferral accounts	11,384	8,581	2,803	33%
Total assets and debit balances of regulatory deferral accounts	**98,964**	**90,612**	**8,352**	**9%**

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

	NIS in millions			
	December 31, 2022	**December 31, 2021**	**Increase (decrease)**	**Percent %**
CURRENT LIABILITIES				
Credit from banks and other credit providers	5,360	5,425	(65)	(1%)
Trade payables	3,807	2,786	1,021	37%
Other current liabilities	1,365	1,238	127	10%
Customer advances, net of work in progress	834	740	94	13%
Provisions	684	686	(2)	(0%)
	12,050	**10,875**	**1,175**	**11%**
NON CURRENT LIABILITIES				
Debentures	30,791	24,488	6,303	26%
Liabilities to banks	3,546	5,155	(1,609)	(31%)
Liabilities with respect to other benefits after employment termination	5,374	6,874	(1,500)	(22%)
Deferred taxes, net	8,051	7,198	853	12%
Liability to the State of Israel	1,876	1,793	83	5%
Lease liabilities	460	542	(82)	(15%)
Other liabilities	514	592	(78)	(13%)
	50,612	**46,642**	**3,970**	**9%**
EQUITY				
Share capital	908	908	-	-
Capital reserves	744	684	60	9%
Capital remeasurement reserve	(562)	(2,074)	1,512	(73%)
Retained earnings	31,081	29,307	1,774	6%
	32,171	**28,825**	**3,346**	**12%**
Total liabilities and capital	**94,833**	**86,342**	**8,491**	**10%**
Credit balances of regulatory deferral accounts	4,131	4,270	(139)	(3%)
Total liabilities, equity and credit balances of regulatory deferral accounts	**98,964**	**90,612**	**8,352**	**9%**

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 major part of the increase in cash and cash equivalents is caused mainly by the consideration received as a result of the sale of the Hagit site and debenture issues during the period. For additional details, see Note 29 of the Financial Statements and the Statement of cash flows of the Company's in the Financial Statements.

2) The increase in customer balance derives mainly from an increase in the electricity rate, for additional details see Note 6 to the Financial Statements.

3) The increase in the trade receivable balance are mainly due to an increase in forward transactions and currency swaps due to an increase in the USD exchange rate and an increase in prepaid expenses.

4) The increase in the current fuels inventory derives mainly from an increase in the prices of coal due to the Russia-Ukraine war, see Note 8 to the Financial Statements for additional details.

5) The decrease in assets held for sale derives from the sale of the Hagit site, for details see Note 9 to the Financial Statements.

6) Increase in the excess pension plan assets over pension liability itemderives mainly from an increase in the interest rates vector used for capitalization of the liability offset by the negative return in the plan's assets during the report period. for further details, see Note 12a to the Financial Statements.

b) Investments in Fixed Assets

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

	For the year ended on	
	December 31, 2022	**December 31, 2021**
	In NIS millions	
Power stations, CCGTs, structures	923	1,010
Sub-stations and high voltage lines	818	853
Switching stations and ultra-high 400 Kilowatt voltage lines	575	560
Distribution grids and meters	1,697	1,648
Inventory – stores	192	65
CCGTs 70-80	770	1,298
Others	479	522
Total	**5,454**	**5,956**

Investments include the implementation of IAS 19 – remeasurements capitalized to fixed assets.
After neutralizing this effect, there is a decrease in investments in an amount of approximately NIS 90 million (from NIS 6,140 million in 2021 to NIS 6,050 million in 2022).

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

2. Financial Position (continued)

c) Current and Non-Current Liabilities

1) The increase in suppliers mainly derives from an increase in fuel suppliers due to the rise in the price of coal as well as from debt to a Russian coal supplier at whose request the debt has not yet been paid.

2) The increase in total financial liabilities mainly derives from taking out loans (mainly short-term) and issue of debentures during the report period partially offset by the repayments executed during the report period (for details see Note 20 to the Financial Statements).

3) The decrease in liabilities with respect to other benefits after employment termination mainly derives from a transfer of funds to the company managing the reform pension supplement funds, and the increase of the interest rate vector for capitalization of the liabilities. For additional details see Note 12c to the Financial Statements.

d) Regulatory deferral account

For details regarding the increase in balances of regulatory deferral accounts and changes in them in the report period see Note 15 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 Operations and Other Comprehensive Income in NIS Millions:

	For the year ended on						
	December 31, 2022		December 31, 2021		Change		Paragraph
Statements of Operations	In NIS millions	%	In NIS millions	%	In NIS millions	%	
Revenues	23,105	100%	22,150	100%	955	4%	b
Cost of operating the electricity system	22,428	97%	19,573	88%	2,855	15%	c
Profit from operating the electricity system	**677**	**3%**	**2,577**	**12%**	**(1,900)**		
Other expenses (revenues), net	(1,405)	(6%)	15	0%	(1,420)	(9467%)	f1
Sales and marketing expenses	819	4%	853	4%	(34)	(4%)	
Administrative and general expenses	856	4%	782	4%	74	9%	
Income from liabilities to pensioners, net	(148)	(1%)	(47)	0%	(101)	215%	
Reform agreement and other agreements results	212	1%	348	2%	(136)		f4
Profit (loss) from current operations	**343**	**1%**	**626**	**3%**	**(283)**		
Financial expenses	1,356	6%	1,912	9%	(556)	(29%)	e
Profit (loss) before income tax	**(1,013)**	**(4%)**	**(1,286)**	**(6%)**	**273**		
Tax on income	(226)	(1%)	(266)	(1%)	40	(15%)	
Profit (loss) after income tax	**(787)**	**(3%)**	**(1,020)**	**(5%)**	**233**		
Company share of the loss of associated companies	-	0%	(9)	0%	9	(100%)	
Profit (loss) before regulatory deferral accounts	**(787)**	**(3%)**	**(1,029)**	**(5%)**	**242**		
Movements in regulatory deferral accounts balances, net of tax	2,561	11%	2,314	10%	247	11%	f2
Profit for the period	**1,774**	**8%**	**1,285**	**6%**	**489**		
Consolidated Reports of Other Comprehensive Income (Loss):							
Remeasurement of a defined benefit plan, net of tax	1,693	7%	776	4%	917	118%	f3
Hedge accounting cash flow, net of tax	60	0%	(74)	0%	134	(181%)	
Movement in regulatory deferral accounts balances, net of tax	(181)	(1%)	110	0%	(291)		
Other comprehensive income for the period	**1,572**	**7%**	**812**	**4%**	**760**		
Comprehensive profit (loss) for the period	**3,346**	**14%**	**2,097**	**9%**	**1,249**		

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

Total revenues for the reporting period are NIS 22,105 million compared to NIS 23,150 million for the previous year.

Revenues from the sale of electricity for the reporting period amounted to approximately NIS 22,834 million, compared to approximately NIS 21,923 million for the previous year. An increase of approximately NIS 911 million in revenues from electricity sales, which constitutes an increase of approximately 4%. The increase derives mainly from the increase of the electricity rates offset in part due to the decrease in the quantity of kWh sold to the Company’s customers. For additional details, see Note 27 of the Financial Statements.

c) Cost of Operating the Electricity System

The cost of operating the electricity system in the reported period amounted to approximately NIS 22,428 million, as compared to approximately NIS 19,573 million last year, an increase of NIS 2,855 million (approximately 15%), mainly deriving from:

1) Fuels consumption cost

The cost of fuels consumed in the reporting period (including related expenses) amounted to a sum of approximately NIS 9,561 million, compared to approximately NIS 5,875 million the previous year, an increase of approximately NIS 3,686 million, which constitutes an increase of approximately 63%. The change in fuel consumption costs derives mainly from the increase in the price of coal.

Following are details of the changes in NIS millions for the year ended on December 31, 2022

Fuel Type	Change in Consumption	Change in Prices	Total
Crude	30	-	30
Coal	(123)	3,656	3,533
Diesel oil	79	5	84
Natural gas	223	(72)	151
Liquid gas - LNG	(332)	306	(26)
Total	**(123)**	**3,895**	**3,772**
Change in fuel related costs, and provision for impairment of crude			(39)
Change in Tamar agreement credit			(47)
Total changes			**3,686**

2) A decrease in electricity purchases of approximately NIS 939 million deriving mainly from a decrease in the quantity of electricity purchased due to the transfer of the activity from private suppliers to direct dealings with Noga (the System Manager), and from the sale of the Hagit power station to private producers, and conversely, the entry of new electricity producers in to the market, primarily in the fields of renewable energies.

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 and Amortization

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

	The year ended December 31			
	2022	2021		
Depreciation and Amortization Expenses	NIS in millions		**Difference**	**Change in %**
Electricity system operation	4,425	4,315	110	3%
Sales and marketing	175	173	2	1%
Administrative and general	161	160	1	1%
Other expenses	-	16	(16)	(100%)
Total depreciation expenses	**4,761**	**4,664**	**97**	**2%**

The increase in depreciation expenses in operating the electricity system mainly derives from investments in transmission and distribution, operating the emission reduction project at Rutenberg, and from investments in the removal of pipelines at Reading and from a decrease resulting from the update of the life of the combined cycle units.

The decrease in depreciation expenses mainly derives from impairment of the rate value of the system management unit whose activity was sold in the previous year.

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 year ended December 31		
		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 a 13.15% increase in the representative exchange rate and NIS/Yen differences as a result of an approximately 1.3% decrease in the representative exchange rate during the report period	1,442	(618)	2,060
	Revaluation of hedging transactions resulting from changes in the period of the exchange rates	(1,629)	641	(2,270)
	Revaluation of hedging transactions resulting from changes in the period of the Consumer Price Index	724	289	435
	Revaluation of hedge transactions to their fair value mainly deriving from changes of capitalization interest rates and credit risk which occurred during the report period	(298)	593	(891)
	Linkage differentials due to index linked financial liabilities which increased at a rate of 5.28% in the report period compared to 2.4% increase in the same period the previous year	755	306	449
	Expenses due to exchange rate differences and linkage differences and revaluation of hedge transactions	**994**	**1,211**	**(217)**
B.	**Interest and Other Expenses**			
	Interest expenses	1,085	1,105	(20)
	Other financing income	(232)	(106)	(126)
	Total interest and other expenses	**853**	**999**	**(146)**
	Total financing expenses before capitalization	**1,847**	**2,210**	**(363)**
C.	**Capitalization of credit costs**			
	Financing expenses which were capitalized on projects under construction	491	298	193
	Total financing expenses	**1,356**	**1,912**	**(556)**

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 are for replacing its foreign currency liabilities with NIS liabilities (part of which are CPI-linked and part are not CPI-linked). Additionally, the Company recognizes regulatory deferral accounts with respect to the CPI linkage differentials. For details see Note 15 to the Financial Statements. For details of swap transactions designated as an accounting hedge see Note 26i.

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 other revenue compared to the previous year derives from the sale of the Hagit site. For further details see Note 29 to the Financial Statements.

2) For details regarding the movement in regulatory deferral account balances as well as the impact of the 2022 and the 2023 annual rate updates on the Company’s results in the report period and the regulatory deferral account balances as of December 31, 2022, see Note 3f, 3g, and Note 15 to the Financial Statements.

3) The increase in other comprehensive profit with respect to re-measurements of a defined benefit plan of approximately NIS 917 million after the effect of tax, in comparison to the same period last year, deriving mainly from actuarial profit primarily due to the increase in the interest rates vector for the capitalization of the liability offset by losses in the plan’s assets and funds in trust during the report period.

4) For details regarding the impact of the results of the reform agreement in the amount of approximately NIS 212 million and in the amount of approximately NIS 348 million for the year ended on December 31, 2022 and 2021, respectively, see Note 12f 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 Comparison Periods:

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

	For the year ended on						
	December 31, 2021		December 31, 2020		Change		Paragraph
Statements of Operations	In NIS millions	%	In NIS millions	%	In NIS millions	%	
Revenues	22,150	100%	23,778	100%	(1,628)	(7%)	b
Cost of operating the electricity system	19,573	88%	18,481	78%	1,092	6%	c
Profit from operating the electricity system	**2,577**	**12%**	**5,297**	**22%**	**(2,720)**		
Other expenses (revenues), net	15	0%	(2,816)	(12%)	2,831	(101%)	
Sales and marketing expenses	853	4%	886	4%	(33)	(4%)	
Administrative and general expenses	782	4%	971	4%	(189)	(19%)	f4
Income from liabilities to pensioners, net	(47)	0%	(24)	0%	(23)	96%	f1
Reform agreement and other agreements results	348	2%	708	3%	(360)		
Profit (loss) from current operations	**626**	**3%**	**5,572**	**23%**	**(4,946)**	**(89%)**	
Financial expenses	1,912	9%	511	2%	1,401	274%	e
Profit (loss) before income tax	**(1,286)**	**(6%)**	**5,061**	**21%**	**(6,347)**	**(125%)**	
Tax on income	(266)	(1%)	1,189	5%	(1,455)	(122%)	
Profit (loss) after income tax	**(1,020)**	**(5%)**	**3,872**	**16%**	**(4,892)**	**(126%)**	
Company share in loss due to included companies	(9)	0%	(6)	0%	(3)	50%	
Profit (loss) before regulatory deferral accounts	**(1,029)**	**(5%)**	**3,866**	**16%**	**(4,895)**	**(127%)**	
Transactions in balances of regulatory deferral accounts, net of tax	2,314	10%	(2,163)	(9%)	4,477	(207%)	
Profit for the period	**1,285**	**6%**	**1,703**	**7%**	**(418)**	**(25%)**	
Consolidated Reports of Other Comprehensive Income (Loss):							
Re-measurements of a defined benefit plan, net of tax	776	4%	486	2%	290	60%	f3
Hedge accounting cash flow, net of tax	(74)	0%	147	1%	(221)	(150%)	
Movement in regulatory deferral accounts balances, net of tax	110	0%	(58)	0%	168		
Other Comprehensive loss for the period	**812**	**4%**	**575**	**2%**	**237**		
Comprehensive profit (loss) for the period	**2,097**	**9%**	**2,278**	**10%**	**(181)**		

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

4. Comparison and Analysis of Operating Results for the Comparison Periods: (continued)

b) Revenues

Total revenues for 2021 are NIS 22,150 million compared to NIS 23,778 million for 2020.

Revenues from the sale of electricity in 2021 amounted to approximately NIS 21,923 million, compared to approximately NIS 23,504 million in 2020. This consists of an approximately NIS 1,581 million decrease in revenues from electricity sales, a decrease of approximately 7%. The decrease derives mainly from the decrease of the electricity rates and a one-time income received in the previous year in an amount of NIS 740 million from the East Jerusalem Electricity Company.

c) Cost of Operating the Electricity System

The cost of operating the electricity system in 2021 amounted to approximately NIS 19,573 million, as compared to approximately NIS 18,481 million in 2020, an increase of NIS 1,092 million (approximately 6%), mainly deriving from:

1) Fuels consumption cost

The cost of fuels consumed in 2021 (including related expenses) amounted to a sum of approximately NIS 5,875 million, compared to approximately NIS 6,220 million in 2020, a decrease of approximately NIS 345 million, which constitutes a decrease of approximately 6%.

The change to the cost of fuels consumption derives mainly from the decrease in generation compared to the previous year, offset by the increase in the price of coal in the market and the excise tax applicable to it, and on the other hand a decrease in the price of natural gas, for details see Note 35a to the Financial Statements.

Following are details of the changes in NIS millions for the year ended on December 31, 2021

Fuel Type	**Change in Consumption**	**Change in Prices**	**Total**
Crude	(8)	-	(8)
Coal	(332)	1,107	775
Diesel oil	(71)	(1)	(72)
Natural gas	(276)	(536)	(812)
Liquid gas - LNG	(318)	256	(62)
Total	**(1,005)**	**826**	**(179)**
Change in fuel related costs, and provision for impairment of crude			**(96)**
2020 Tamar agreement credit			**(70)**
Total changes			**(345)**

2) An increase in electricity purchases of NIS 1,603 million deriving mainly from the sale of power stations to private owners and the entry of new electricity producers into the market, mainly in the fields of renewable energies.

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

4. Comparison and Analysis of Operating Results for the Comparison Periods: (continued)

d) Depreciation and Amortization

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

	The year ended December 31			
	2021	2020		
Depreciation and Amortization Expenses	NIS in millions		**Difference**	**Change in %**
Electricity system operation	4,315	4,253	62	1%
Sales and marketing	173	176	(3)	(2%)
Administrative and general	160	140	20	14%
Other expenses	16	113	(97)	(86%)
Total depreciation expenses	**4,664**	**4,682**	**(18)**	**(0%)**

The increase in depreciation expenses in operating the electricity system mainly derives from the operation of the Rutenberg emission reduction facility in the period.
The decrease in depreciation expenses mainly derives from impairment of the rate value of the Ramat Hovav site that was classified as held for sale in the previous year's 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 Comparison Periods: (continued)**

e) **Financial Expenses**

	For the year ended December 31		
	2021	2020	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 a 3.27% decrease in the representative exchange rate and NIS/Yen differences as a result of an approximately 13.37% decrease in the representative exchange rate during the report period	(618)	(900)	282
Revaluation of hedging transactions resulting from changes in the period of the exchange rates	641	844	(203)
Revaluation of hedging transactions resulting from changes in the period of the Consumer Price Index	289	(79)	368
Revaluation of hedge transactions to their fair value mainly deriving from changes of capitalization interest rates and credit risk which occurred during the report period	593	(338)	931
Linkage differentials due to index linked financial liabilities which increased at a rate of 2.4% in the report period compared to 0.6% in the same period the previous year	306	(80)	386
Expenses (income) due to exchange rate differences and linkage differences and revaluation of hedge transactions	**1,211**	**(553)**	**1,764**
B. Interest and Other Expenses			
Interest expenses	1,105	1,248	(143)
Other financing income	(106)	(31)	(75)
Total interest and other expenses	**999**	**1,217**	**(218)**
Total financing expenses before capitalization	**2,210**	**664**	**1,546**
C. Capitalization of credit costs			
Financing expenses which were capitalized on projects under construction	298	153	145
Total financing expenses	**1,912**	**511**	**1,401**

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 are for replacing its foreign currency liabilities with NIS liabilities (part of which are CPI-linked and part are not CPI-linked). Additionally, the Company recognizes regulatory deferral accounts with respect to the CPI linkage differentials. For details see Note 15 to the Financial Statements. For details of swap transactions designated as an accounting hedge see Note 26i.

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

4. Comparison and Analysis of Operating Results for the Comparison Periods: (continued)

f) Additional Business Results during the Reporting Period:

1) On January 31, 2022, the Electricity Authority published a decision concerning the 2022 annual update of the electricity rate, and on February 27, 2022, the Electricity Authority published a decision proposal for a hearing under which the fuel cost recognized for the Company will be decreased, since the rate of excise tax for coal will be decreased. For details of the impact of these decisions on the Company's results in the report period and the regulatory deferral account balances as of December 31, 2021, see Note 3f and Note 15 to the Financial Statements.

2) The increase in other comprehensive profit with respect to re-measurements of a defined benefit plan of approximately NIS 290 million after the effect of tax, in comparison to 2021, deriving mainly from the yield on funds during the report period offset by the change in the capitalization interest rate used to calculate the actuarial liability.

3) For details regarding the impact of the results of the reform agreement in the amount of approximately NIS 348 million for the year ended on December 31, 2021, see Note 12f to the Financial Statements.

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

5. 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		
	December 31, 2022		December 31, 2021				Paragraph
Statements of Operations	NIS in millions	%	NIS in millions	%	NIS in millions	%	
Revenues	5,199	100%	4,882	100%	317	6%	b
Cost of operating the electricity system	5,377	103%	4,700	96%	677	14%	c
Profit (loss) from operating the electricity system	**(178)**	**(3%)**	**182**	**4%**	**(360)**	**(198%)**	
Other expenses (income)	(15)	(0%)	13	0%	(28)	(215%)	
Sales and marketing expenses	216	4%	221	5%	(5)	(2%)	
Administrative and general expenses	226	4%	235	5%	(9)	(4%)	
Revenues from liabilities to pensioners, net	(36)	(1%)	(1)	(0%)	(35)	3500%	
Reform agreement and other agreements results	44	1%	113	2%	(69)		
Loss from current operations	**(613)**	**(12%)**	**(399)**	**(8%)**	**(214)**		
Financial expenses	191	4%	440	9%	(249)	(57%)	d
Loss before income tax	**(804)**	**(15%)**	**(839)**	**(17%)**	**35**		
Expenses (revenues) of taxes on income	(185)	(4%)	(174)	(4%)	(11)	6%	
Loss after income tax	**(619)**	**(12%)**	**(665)**	**(14%)**	**46**		
Company share in loss due to included companies	(2)	0%	-	0%	(2)		
Loss before regulatory deferral accounts	**(621)**	**(12%)**	**(665)**	**(14%)**	**44**		
Transactions in balances of regulatory deferral accounts, net of tax	14	0%	849	17%	(835)	(98%)	
Profit (loss) for the period	**(607)**	**(12%)**	**184**	**4%**	**(791)**		
Consolidated Reports of Other Comprehensive Income (Loss):							
Remeasurements of a defined benefit plan, net of tax	91	2%	(418)	(9%)	509		
Cash flow hedge accounting, net of tax	37	1%	(113)	(2%)	150		
Movement in regulatory deferral accounts balances, net of tax	27	1%	27	1%	-		
Other comprehensive income (loss) for the period	**155**	**3%**	**(504)**	**(10%)**	**659**		
Comprehensive profit (loss) for the period	**(452)**	**(9%)**	**(320)**	**(7%)**	**(132)**		

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

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

b) Revenues

The total revenues for the quarter are NIS 5,199 million compared to NIS 4,882 million for the corresponding quarter the previous year, an increase of approximately NIS 317 million mainly due to an increase in electricity rates partly offset by to the decrease in the quantity of kWh sold to the Company's customers.

c) Cost of Operating the Electricity System

The cost of operating the electricity system in the quarter amounted to approximately NIS 5,377 million, as compared to approximately NIS 4,700 million in the corresponding quarter last year, an increase of approximately NIS 677 million mainly deriving from:

1) Fuels consumption cost

The cost of fuels consumed in the quarter amounted to a sum of approximately NIS 2,403 million, compared to approximately NIS 1,663 million for the corresponding quarter the previous year, an increase of approximately NIS 740 million, which constitutes a decrease of approximately 44%.

The change in the cost of fuels consumption derives mainly from an increase in the coal price which is partly offset by a decrease in generation.

Following are details of the changes in NIS millions for the three months ended on December 31, 2022

Fuel Type	**Change in Consumption**	**Change in Prices**	**Total**
Crude oil	11	-	11
Coal	(86)	898	812
Diesel oil	7	1	8
Natural gas	(63)	(13)	(76)
Liquified gas - LNG	10	17	27
Total	**(121)**	**903**	**782**
Change in fuel related costs			(42)
Total changes			**740**

2) A decrease in electricity purchases of approximately NIS 132 million deriving mainly from the sale of power stations to private owners and the entry of new electricity producers into the market, mainly in the fields of renewable energies.

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

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

d) Financial Expenses

		For the three months ended December 31		
		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	32	(496)	528
	Revaluation of hedging transactions resulting from changes of the exchange rates during the period	(55)	547	(602)
	Revaluation of hedging transactions resulting from changes in the Consumer Price Index during the period	122	25	97
	Revaluation of hedge transactions to their fair value mainly deriving from the changes of capitalization interest rates and credit risk during the report period	(145)	156	(301)
	Linkage differentials due to index linked financial liabilities that increased in the quarter at a rate of 0.84% compared to 0.2% the corresponding quarter of the previous year	143	27	116
	Expenses due to exchange rate differences and linkage differences and revaluation of hedge transactions	**97**	**259**	**(162)**
B.	**Interest and Other Expenses**			
	Interest expenses	277	264	13
	Other financing income	(76)	(16)	(60)
	Total interest and other expenses:	**201**	**248**	**(47)**
	Total financing expenses before capitalization	**298**	**507**	**(209)**
C.	**Capitalization of credit costs**			
	Financing expenses which were capitalized on projects under construction	107	67	40
	Total financing expenses	**191**	**440**	**(249)**

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

6. Liquidity for the Reporting Period

a) General:

1) The report period (2022 compared to 2021)

	For the year ended on			
	2022	**2021**	**Difference**	**Item**
Net cash derived from operating activities	2,210	4,760	(2,550)	a)
Net cash derived from (used in) investing activities	(3,804)	(5,247)	1,443	b)
Net cash derived from (used in) financing activities	2,751	(1,163)	3,914	c)

a) For details regarding the change, see Annex A of the Statement of Cash Flow in the Financial Statements.

b) This change mainly derives from consideration received from the sale of the Hagit site (see Note 1e9), together with the increase in investments in fixed assets during the period.

c) This change mainly derives from receiving long-term loans and issue of long-term debentures in the period, and a decrease in debenture and long term loan repayments compared to the corresponding period the previous year (for details, see Note 20j of the Financial Statements).

2) The comparison periods (2021 compared with 2020)

	For the year ended on			
	2021	**2020**	**Difference**	**Item**
Net cash derived from operating activities	4,760	6,539	(1,779)	a)
Net cash derived from (used in) investing activities	(5,247)	680	(5,927)	b)
Net cash used in financing activities	(1,163)	(6,266)	5,103	c)

a) For details regarding the change, see Annex A of the Statement of Cash Flow in the Financial Statements.

b) This change mainly derives from consideration received from the sale of the Hagit site, partly offset by investments in fixed assets during the period.

c) This change mainly derives from receiving long-term loans and issue of long-term debentures in the period, and a decrease in debenture and long-term loan repayments compared to the corresponding period the previous year (for details, see Note 20j of the Financial Statements).

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

6. Liquidity for the Reporting Period (continued)

b) Financing Sources

1) General

The Company finances its actions from its own sources, from issuing debentures in Israel and abroad and from loans from banking corporations in Israel and abroad. For details of the Company's recruitment of funds in the reporting period, see Note 20c to the Financial Statements.

2) Long Term Debentures and Loans

The balance of long-term financial liabilities of the Company as of December 31, 2022 and December 31, 2021, is approximately NIS 36,213 million, and approximately NIS 31,436 million, respectively, detailed as follows:

	As at December 31, 2022	As at December 31, 2021
	NIS in Millions	
Negotiable debentures	16,080	8,982
Non-negotiable debentures	1,530	2,786
Loans to the State of Israel	1,935	1,858
Total	19,545	13,626
Negotiable debentures	1,224	1,902
Loans	1,500	1,500
Total	2,724	3,402
Dollar Linked Liabilities		
Debentures in the US	14,041	10,854
Loans (*)	287	339
Total	14,328	11,193
Liabilities denominated in other foreign currencies:		
Debentures in Japan in Yen	1,467	1,486
Loans in Euros	291	340
Total	38,355	30,047
Coal Company's USD loan	-	27
Premiums, discount and deferred expenses	204	595
Classification into current maturities	(4,006)	(2,366)
Long term hedge transactions	1,660	3,133
Total debentures, liabilities to banks, debentures to the State of Israel and long term liabilities to the State of Israel (**)	**36,213**	**31,436**

(*) Including loans guaranteed by the State of Israel equaling NIS 131 million as of December 31, 2022, and NIS 162 million as of December 31, 2021.

(**) Following the war between Russia and Ukraine (for details, see Note 1i2 to the Financial Statements) and the increase in fuel prices globally, as well as following the publication of a new rate base for the generation segment and an Annual Update for 2023, which includes the spreading of consumer debt to the Company with respect to the impact of the increase in coal prices over three years, and a decrease in the rate of return in the generation segment (for more details, see Note 3d-j to the Financial Statements), the Company had to raise debentures in order to bridge the resulting cash flow gap.

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

6. Liquidity for the Reporting Period (continued)

b) Financing Sources (continued)

3) Average Long Term Credit as of December 31, 2022

Credit is taken from banking corporations and others. The average credit for the reporting periods was approximately NIS 36,385 million and represents mainly long term loans and debentures (including hedging transactions, deferred, premium/discount of debentures).

4) Suppliers' and Customers' Credit

	As of December 31			
	2022		2021	
	Days	Credit average	Days	Credit average
Trade payables (*)	33	2,145	38	1,876
Trade receivables (**)	59	3,708	56	3,437
Trade receivables excluding the debts of the Palestinian Authority and the East Jerusalem Electricity Company (see Note 6 to the Financial Statements) (*) (*)	45	2,566	44	2,441

(*) As of November 1, 2021, following the sale of the system management activity to the Noga Company, for details see Note 1e9 to the Financial Statements, there is a decrease in supplier credit days with respect to contractual engagements with private suppliers and producers that are no longer carried out with the Company.

(**) The credit days presented above represent the credit days from the invoice issue date until the payment date.
(Past debts with respect to system costs are neutralized from the calculation).

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

7. 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 fulfill the goals defined as part of the structural change outline (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 year ended on December 31		
	Note	2022	2021	2020
		(NIS in millions)		
Profit before tax		(1,013)	(1,286)	5,061
Financial expenses	33	1,356	1,912	511
Depreciation and reductions		4,761	4,664	4,682
EBITDA before normalization		5,104	5,290	10,254
Movement in regulatory deferral accounts	15	1,407	2,352	(2,163)
Neutralizing special and non-current events (*)		(144)	(169)	(630)
Normalized EBITDA		6,367	7,473	7,461

(*) The details of the central events neutralized from the calculation according to years are as follows:

2022 - Mainly derives from income with respect to regulatory deferral accounts with respect to previous periods in the amount of approximately NIS 144 million.

2021 - Mainly derives from income with respect to regulatory deferral accounts with respect to previous periods in the amount of approximately NIS 136 million, as well as from the decrease in provision for credit losses with respect to customers that the Company created last year due to the effects of the COVID-19, in the amount of approximately NIS 50 million.

2020 - Mainly derives from recognition of income which was not previously recognized, with respect to EJEC’s debt in a total net amount of NIS 740 million, following payments received during January 2020. For details, see Note 6 of the Financial Statements. In addition, income was received with respect to regulatory deferral accounts with respect to previous periods in an amount of approximately NIS 305 million. Simultaneously, the Company recorded expenses with respect to the collective agreement signed for the increase of the retirement goals as part of the reform by 200 additional employees, in an amount of approximately NIS 365 million. In addition, as part of the effects of the COVID-19 crisis, the Company created a provision for customer credit losses in an amount of NIS 50 million.

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

7. 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, debentures and 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 results for this report period are as follows:

	Note	For the year ended on December 31		
		2022	2021	2020
		(NIS in millions)		
Credit from banking corporations and other credit providers	16	5,360	5,425	3,831
Debentures	20	30,791	24,488	25,817
Liabilities to banking corporations	20	3,546	5,155	3,278
Liabilities to the State of Israel	20	1,876	1,793	1,762
Liabilities for leases	22	460	542	709
CPI linkage differentials regulatory account	15o	(1,990)	(913)	(264)
Real financial debt, gross		40,043	36,490	35,133
Cash and cash-equivalents	4	3,654	2,454	4,107
Hedging transactions and deposits for securing the swap transactions	7,10	1,204	1,275	655
Short-term investments	5	459	332	358
Financial debt, net		**34,726**	**32,429**	**30,013**

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 year ended December 31,	
	2022	2021
	(in NIS millions)	
Real net financial debt (see section b above)	34,726	32,429
Neutralizing regulatory asset for linkage differential	1,990	913
Neutralizing hedge transactions debit balances and deposits to secure swap transactions	1,204	1,275
Plus interest and accrued expenses	771	658
Total debt pursuant to the Companies Authority circular	**38,691**	**35,275**

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

7. 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 year ended December 31,	
	2022	2021
	(in NIS millions)	
EBITDA before normalizations (see section a above)	5,104	5,290
Change in employee benefits according to cash flow report	188	426
Other expenses (revenues), net	(1,405)	15
Interest and taxes paid according to the cash flow report	(1,106)	(1,316)
FFO	**2,781**	**4,415**
Plus interest and taxes paid according to the cash flow report	1,106	1,316
Less depreciation and amortization	(4,761)	(4,664)
Plus movement in regulatory deferral accounts	3,206	1,990
Return (ROCE)	**2,332**	**3,057**

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

	For the year ended December 31,	
	2022	2021
	(in NIS millions)	
Equity	32,171	28,825
Debt pursuant to the circular of the Companies Authority	38,691	35,275
Plus cash and short-term investments	4,113	2,786
Capital employed	**74,975**	**66,886**

b. Aspects of Corporate Governance

1. Contributions

The Company is prevented from making contributions in light of Companies Authority directives.

2. Directors possessing accounting and financial expertise and external directors

a) On April 6, 2022, the meeting of the Company's shareholders decided to appoint Mr. Michael Schnider as External Director of the Company for a period 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 under the Companies Law, 1999.

b) As determined by the Board of Directors of the Company, the minimal number of Directors in the Company possessing accounting and financial expertise will be 5 Directors, taking into account, inter alia, the Company's size, type of activity, and number of members of its Board of Directors. The Company estimates that this number will enable the Company's Board of Directors to meet the duties imposed on it according to law and the incorporation documents of the Company.

On January 24, 2022, Mr. Arik Forer ended his term of office as an External Director in the Company. As of that date, the number of directors with accounting and financial expertise in the Company dropped below the minimal number set by the Board of Directors.

As of the date of the report, the Company does not comply with the minimal number of directors with accounting and financial expertise as set by the Board of Directors.

c) At the beginning of September 2022, 4 of the members of the Company's Board of Directors ended their term. With the end of the term of the last director among them, on September 10, 2022, the quorum of directors serving in the Company decreased to six directors only, while the requirement for a legal quorum set in the Company's Articles of Association stands at no less than 7 directors ("legal quorum"). On September 22, 2022, an additional director was appointed to the Company, and as of that date the number of directors serving in the Company meets the minimum requirement set in the Company's Articles of Association.

During the report period, the Company applied to the Ministers and the Companies Authority, requesting that they to act to appoint additional directors to the Company (above the legal quorum), in particular the appointment of directors with accounting and financial expertise. It is clarified that the authority to appoint directors in the Company does not lie with the Company but with the Ministers, after consultation with the Committee for Reviewing Appointments.

For further details concerning the members of the Company's Board of Directors, see Note 26 in Chapter D.

3. Independent Directors

The Company did not adopt in its articles of association a provision regarding the number of independent directors.

4. Chairman of the Board of Directors

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

b. Aspects of Corporate Governance

4. Chairman of the Board of Directors (continued)

b) On April 6, 2022, the Company's Board of Directors decided to elect 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, even before the aforementioned approval of the Ministers, Mr. Dov Baharav announced his resignation from his position as a Director of the Company, while making claims regarding the correctness of the proceedings for identifying a CEO for the Company and the procedure for identifying the Secretary of the Company's Board of Directors, as detailed in an immediate report dated April 26, 2022 (reference number: 2022-01-051172), which is included in this report by way of reference. For more details regarding the examination the correctness of procedures for identifying a CEO and identifying a Secretary of the Board of Directors, see section 5(c) below.

c) On December 18, 2022, the Company received a letter of demand for a financial sanction according to Section 52r of the Securities Law, 2018, in which the Securities Authority informed the Company of its decision to impose a financial sanction on the Company in the amount of NIS 900,000 (after reduction) due to the violation of Section 94(a) of the Companies Law, in view of not appointing a Chairman of the Board of Directors for the Company for over 60 days.
After the Report of Financial Position date, on January 18, 2023, the Company paid the financial sanction under protest and at the same time filed an administrative petition against the decision of the Securities Authority, and this, inter alia, because the Company's position (which was backed up by the Government Companies Authority) is that the imposition of the financial sanction was done illegally and without authority, inter alia because the decision completely ignored the position of the Government Companies Authority and the fact that the reason for not appointing a Chairman of Board of Directors is rooted in factors external to the Company and not due to the Company's failure, since in accordance with a practice over the years, the candidates proposed for the position of Chairman of the Company's Board of Directors are proposed and determined by the Ministers and not by the Company. A hearing of the petition is scheduled for May 1, 2023.

d) The Company has recently once again applied to the Ministers of Finance and Energy, alerting them to the current situation and requesting that they advance the handling of the matter in their area of responsibility so that the procedure for appointing a Chairman for the Company can be completed as soon as possible.

5. Company CEO

a) On February 10, 2022, the Company CEO, Mr. Ofer Bloch, notified the Company of the end of his service as CEO of the Company, as of May 9, 2022. From May 9, 2022, and until the appointment of a permanent Company CEO was completed, Mr. Ram Erlichman served as acting Company CEO.

b) On April 14, 2022, the Company's Board of Directors unanimously decided to adopt the recommendation of the search committee and to appoint Mr. Meir Spigler to the position of Company CEO. On June 20, 2022, the Committee for Reviewing Appointments in Government Companies approved the appointment of Mr. Spigler to the position of CEO of the Company, subject to the approval of the Ministers.

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 Director of the Government Companies Authority, respectively, in which the Company was asked to provide clarifications and references regarding the appointment procedures for the positions of the Company's CEO and the Secretary of the Board of Directors, for the purpose of examining the correctness of the aforementioned appointment procedures. The Company's position, as communicated to the Minister and the Government Companies Authority, is that both the procedure for locating the CEO and the procedure for locating the Secretary of the Board of Directors were conducted in a professional, proper, fair and appropriate, equitable, transparent, documented and reasoned manner, all in accordance with the provisions of the law, rulings, circulars of the Government Companies Authority and the Company's instructions and/or procedures. On May 3, 2022, the Director General of the Government Companies Authority informed the Company that she had ordered an inspection, through an independent external inspector on behalf of the Authority, regarding the search procedures for selecting a CEO and Secretary of the Board of Directors (hereinafter: the "**inspector**" and the "**special inspection**", respectively).

b. Aspects of Corporate Governance

5. Company CEO (continued)

The results of the special inspection were received by the Company on June 28, 2022, according to which it was found that the process of identifying 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 database, a senior representative from the Government Companies Authority, and representatives of the Company's legal department. The inspector further determined that allegations made by Mr. Baharav regarding the search procedure and the work of the CEO Search Committee were groundless, and the same was true of the identification process for a Secretary of the Board of Directors. At the end of the inspector’s work and in light of his conclusions, the appointment procedure for the Secretary of the Board of Directors was completed and she began her duties.

d) Due to the delay in completing the procedure for the appointment of Mr. Spigler as CEO of the Company, the Company turned to the Director of the Government Companies Authority and to the Ministers with an urgent request to assist it in advancing the aforementioned appointment. In addition, on September 29, 2022, the Company filed a petition with the High Court of Justice addressed to the Minister of Energy, regarding the completion of the appointment of Mr. Meir Spigler as CEO of the Company.

e) On October 19, 2022, the Company received a letter of appointment signed by the Ministers for the appointment of Mr. Spigler as the CEO of the Company. In light of receiving the aforementioned signed letter of appointment, the Company withdrew the petition it filed with the High Court of Justice in the matter and the petition was struck off.

f) Mr. Meir Spigler began serving as the Company's CEO on November 1, 2022.

6. Appointments and Terminations of Office

a) On September 1, 2022, the term of office of Mr. Avi Doitchman, VP of Finance, Economics and Risk Management of the Company, ended. As of that date, Mr. Gilad Hassid serves as acting VP of Finance, Economics and Risk Management in the Company, in accordance with the decision of the Company's Board of Directors of August 18, 2022.

b) On October 1, 2022, the term of office of Advocate Yael Nevo, VP, Company's Legal Advisor, ended. As of that date, Advocate Gershon Berkovich serves as the Company's acting Legal Advisor, in accordance with the decision of the Company's Board of Directors of August 18, 2022. On March 1, 2023, Adv. Berkovich was chosen by the Search Committee headed by the Company's CEO to serve as the Company's VP, General Counsel, and on March 2, 2023, the Company's Board of Directors approved the aforementioned appointment. On March 15, 2023, the Government Companies Authority approved the appointment of Adv. Gershon Berkovich as Company VP, General Counsel and the appointment entered into effect.

c) On October 31, 2022, the term of office of Mr. Dov Cohen, the Company's VP of Operations and Logistics, ended. As of that date, Ms. Tamar Fekler served as acting VP of Operations and Logistics, in accordance with the decision of the Company's Board of Directors of August 18, 2022. On February 2, 2022, Ms. Tamar Fekler was chosen by the Search Committee headed by the Company's CEO, to serve as the Company's VP of Operations and Logistics, and on March 2, 2023, the Company's Board of Directors approved the aforesaid appointment, and the appointment of Ms. Tamar Fekler as VP of Operations and Logistics, entered into effect.

d) On January 1, 2023, Mr. Ram Erlichman's term of office as VP of Generation and Energy in the Company ended. Starting from that date, Mr. Joseph Roffe served as acting VP of Generationand Energy in the Company, in accordance with the decision of the Company's Board of Directors of December 15, 2022. On February 14, 2023, Mr. Roffe was chosen by the Search Committee headed by the Company's CEO to serve as the Company's VP, Generationand Energy, and on March 2, 2023, the Company’s Board of Directors approved the aforementioned appointment, and the appointment of Mr. Roffe as VP Generationand Energy entered into effect.

e) On January 11, 2023, Mr. Haim Rubin, VP of Engineering Projects, announced the end of his term of office in the Company as of April 13, 2023.

b. Aspects of Corporate Governance (continued)

7. The Company's Internal Auditor

a) Details of the Internal Auditor

1) Accountant Rachel Ben Moshe.
2) On April 1, 2022, accountant Rachel Ben Moshe began her position as Internal Auditor and Ombudsman of the Company.

   As of May 2022, following organizational changes in the Company, the Public Complaints Commission was transferred to the Marketing, Service and Regulation Division, and from this date, the Internal Auditor fulfills the duty of the Internal Auditor and the Complaints Commissioner.
3) The Internal Auditor meets the conditions set in section 146(b) to the Companies Law, 1999 (hereinafter: the "Companies Law") and the provisions of sections 3a and 8 to the Internal Audit law, 1992 (hereinafter: the "Internal Audit law").
4) The Internal Auditor is an employee of the Company and does not fulfill another function in the Company in addition to internal auditing, except for the function of Supervisor for Complaints. Fulfilling the additional function does not harm the fulfillment of her main function (fulfilling this additional function is also enabled according to the law).
5) The Internal Auditor does not hold any securities of the Company or of anybody related to it and the Internal Auditor does not have material business relationships or other material relationships with the Company and does not fulfill any function outside the Company that creates or may create conflict of interests with her function as Internal Auditor.

b) Manner of Appointment of the Internal Auditor

On December 15, 2021, the Board of Directors of the Company, in accordance with a Companies Authority circular on the subject, approved the format of selection of the Internal Auditor according to the recommendation of the Audit Committee. A Search Committee that was appointed for the process examined the candidates that participated in the process under the set format, ranked the candidates according to predetermined criteria, and recommended accountant Rachel Ben Moshe as the most suitable candidate for the function.

On January 27, 2022, the Board of Directors of the Company decided to adopt the recommendation of the Search Committee and Audit Committee and appoint accountant Rachel Ben Moshe as Internal Auditor of the Company with a position of VP.
Rachel Ben Moshe began her term in office on April 1, 2022.

c) Identity of the Supervisor of the Internal Auditor

1) The Internal Auditor and Complaints Commissioner is subordinate to the Chairman of the Board of Directors and the CEO of the Company.
2) The identity of the supervisors conforms to the directives of section 148 and section 49 of the Government Companies Law, 1975.
3) The duties and authorities of the internal auditor are determined in accordance with section 4(a) to the Internal Audit Law and by the Audit Committee, according to the authority delegated to it for this purpose on May 24, 2012 by the Company's Board of Directors.
4) The obligations and authorities of the Internal Auditor are set in the Company's procedure "The Internal Audit and Public Complaints Commissioner" (the Audit Charter). The procedure is reexamined every year, and whether it needs to be updated. On January 27, 2022 and July 21, 2022, the Audit Committee discussed the procedure's updates and approved them.

b. Aspects of Corporate Governance (continued)

7. The Company's Internal Auditor (continued)

d) Work Plan

1) The 2020-2022 Multi-Annual Work Plan and the Risk Survey, which, inter alia, served as the basis for the plan, were discussed and approved by the Board of Directors' Audit Committee on November 20, 2019, and by the Board of Directors' plenum on December 19, 2019.

   The Internal Audit's 2022 Annual Work Plan was presented and approved by the Board of Directors' Audit Committee on November 25, 2021, and by the Board of Directors' plenum on December 16, 2021.

   The Internal Audit's 2023 work plan was presented and approved by the Board of Directors' Audit Committee on November 24, 2022, and by the Board of Directors' plenum on December 15, 2022.

2) The Internal Audit's Multi-Annual Work Plan (2020-2022) is based on an organized methodology for its preparation, including a risk survey – the survey is conducted at the same time as the comprehensive risk survey in the Company, within which the material risks affecting the Company's ability to achieve its updated goals were identified and evaluated. The risk survey for the internal audit and the multi-annual work plan for 2020-2022 were conducted in the months of April to November 2019. The 2021 and 2022 annual work plans were prepared, among other things, based on the Company's updated risk map.

   The Internal Audit's 2022 semiannual report, which includes detailed information regarding the implementation of the 2022 work plan, was presented to the CEO, and the Chairman of the Audit Committee. The report was presented at the Board of Directors' Audit Committee on July 21, 2022.

   The Internal Audit's 2022 Annual Report was presented to the CEO and the Chairman of the Audit Committee. The report was discussed in the Audit Committee of the Board on February 23, 2023. Among other things, the report includes information about the actual performance of the work plan and audits compared to the plan (pertaining to all the tasks - planned, in addition to the work plan, accompanying audit, implementation of recommendations, and more), details of all audit reports regarding the reports discussed by the Audit Committee, details of follow-up reports of faults corrections following internal audit reports and following State Comptroller's reports, as well as updates made to the internal audit procedure and Complaints Commission.

3) The internal audit's Work Plan includes the resources required for executing planned audits, unannounced audits at the Company's sites, and audits to follow-up the implementation of recommendations from audit reports and reports of the State Comptroller. In addition, the work plan includes allocation of resources for audits and unscheduled inspections which are conducted at the request of the Chairman of the Board of Directors, the Chairman of the Audit Committee, the CEO, members of the Board of Directors and the Internal Auditor, at times with priority over other tasks. In addition, the plan includes resources for handling complaints not from the field of consumption, as well as a related audit project.

4) The Company estimates that, according to the multi-year and annual Work Plans, which were approved by the Audit Committee and by the Board of Directors, the work scope of the Internal Audit is adequate and sufficient to cover all the entities in the Company about once every three years (as required by the provisions of the law).

5) In October 2022, an audit report was distributed concerning "The Company's Agreements with Principal Holders and Affiliated Parties (January-December 2021)" (including transactions requiring approvals pursuant to Section 270 of the Companies Law, and extraordinary transactions, as this term is defined in the Companies Law.

b. Aspects of Corporate Governance (continued)

7. The Company's Internal Auditor (continued)

e) Audit of Held Companies

1) An independent Internal Auditor was appointed for the National Coal Supply Corporation ("The Coal Company"). The supervision of the work of the Internal Auditor at the Coal Company is performed by the Audit Committee and the Board of Directors of the Coal Company. The Company's Internal Audit conducts periodic meetings with the Coal Company audit, during which the Coal Company audit provides a review of its work plan status, as well as details of findings and emphasis relevant to the Electric Company, if any.

2) The "Netiv HaOr" Company carried out a process of locating and appointing an Internal Auditor during 2022. The process was completed in October 2022. The appointed Internal Auditor began his term in office on January 1, 2023.

f) Scope of Employment

1) The Internal Auditor is employed on a full-time basis.

2) The number of employment hours of the Audit Unit during the report year (not including secretarial staff/administration employees and not including studies and training):

	Internal Audit - Work Plan, Requirements, Handling Complaints which are not from the field of consumption, Follow-up Audit of Implementation of Recommendations and Site Audits	Handling Public Complaints from the Field of Consumption (until 5/2022)
Audit of activities in Israel	Approx. 26,014	Approx. 4,461

* The hours do not include general hours, studies and continuing education

3) As of the reporting date, the Internal Audit and Public Complaints Ombudsman unit has 20 budgeted positions for employees in the field of internal audits and complaints which are not in the field of consumers, including the Internal Auditor and 2 administration employees.

g) Performance of the Audit

1) Audits are conducted according to accepted professional standards, and in accordance with the laws, including the Internal Audit Law and the directives of the Government Companies Authority, furnished from time to time in circulars of the Government Companies Authority.

2) The Board of Directors and the Audit Committee assess that the Internal Auditor complied with the requirements specified in the professional standards.

h) Access to Information

The Internal Auditor and her representatives are granted free, continuous and direct access to every hard copy or digital document, data, database, or information, including financial data, for performing their tasks. The Internal Auditor and her representatives are entitled to enter every asset and inspect it, in conformance with the contents of Section 9 of the Internal Audit Law.

b. Aspects of Corporate Governance (continued)

7. The Company's Internal Auditor (continued)

i) Reports of the Internal Auditor

1) The internal audit reports are submitted in writing. Among others, discussions regarding the reports are held with the participation of the Company's Management and the Board of Directors' Audit Committee, as applicable. An annual report is submitted annually, and it includes a summary of the work of the Internal Audit, a follow-up on implementation of decisions and recommendations.

2) During the work year, the Internal Auditor submits final versions of reports to the Chairman of the Board of Directors, to the CEO and to the Chairman of the Audit Committee of the Board of Directors. Audit reports are submitted to the members of the Board of Directors, to members of Management and to the audited entities through the Secretary of the Board of Directors. Additionally, the financial statements are also distributed to the Company's Management, the external auditor, Risk Manager, Company Spokeswoman, Head of the SOX Department, and the Embezzlement and Fraud Risk Controller.

   During January – December 2022 a total of 109 reports were distributed (56 of them were follow-up reports distributed to the management only): during this period, the Audit Committee of the Board of Directors held 11 discussions on the Internal Auditor's reports which took place on January 27 2022, February 24, 2022, April 7, 2022, May 26, 2022, June 23, 2022, July 21, 2022, August 25, 2022, September 29, 2022, October 27, 2022, November 24, 2022, December 29, 2022.

   A written annual report is prepared every year, summarizing the auditing activity during that year. The annual report of the Internal Audit is submitted to the Chairman of the Board of Directors, the Chairman of the Audit Committee of the Board of Directors, and the CEO.

   The 2021 Internal Audit annual report was submitted in January 2022 to the CEO, the Chairman of the Audit Committee and the members of the Board of Directors. It was discussed by the Board of Directors' Audit Committee on January 27, 2022.

   The 2022 Internal Audit annual report was submitted to the CEO and the Chairman of the Audit Committee. The report was discussed by the Board of Directors' Audit Committee on February 23, 2023.

j) Evaluation of the Board of Directors of the Internal Auditor's Activities

The scope, nature and activity of the Internal Audit are sufficient and reasonable in order to realize the audit objectives in the Company. In addition, the material subjects are covered at least once every 3 years as required by the provisions of the law.

k) Remuneration

The Internal Auditor is an employee of the Company.
The Internal Auditor is employed under a standard work agreement of Governmental Companies Authority. The Board of Directors estimates that her wages do not affect the ability of the Internal Auditor to exercise her professional balanced judgement.

l) Termination of the term in office of the previous Internal Auditor r

At the end of 2021, the (then) Internal Auditor, Accountant Nitza Rogozinski, notified the Company CEO, the Audit Committee and the Board of Directors of her desire to end her term in office after approximately 8 years in that position. The Internal Auditor terminated her term in office on April 1, 2022.

b. Aspects of Corporate Governance (continued)

8. Internal Enforcement Plan in the Field of Securities and Government Companies

On June 14, 2012, the Board of Directors of the Company approved an outline for a Securities Law Internal Enforcement Plan that was formulated by the Company, according to criteria published by the Securities Authority on August 15, 2011, for recognizing an Internal Enforcement Plan in the field of Securities Laws as an effective enforcement plan (hereinafter: the “Criteria” and “Internal Enforcement Plan”, respectively).

Based on the outline, the Company has adopted an Internal Enforcement Plan for the Company, and the Board of Directors of the Company appointed a designated Committee of the Board of Directors - a Corporate Responsibility, Regulation, Environmental Protection, and Rate Committee (hereinafter: “Corporate Responsibility Committee”), that deals, inter alia, with supervision on the implementation of the Internal Enforcement Plan in the Company. Additionally, the Board of Directors appointed a supervisor in charge of the internal enforcement in the Company, and national enforcement and compliance team, unit enforcement and compliance teams and additional factors that constitute part of the internal enforcement array of the Company were also appointed. The Company formulated and prepared master procedures in the field of the internal enforcement and it is taking intensive enforcement actions for implementing and assimilating the Internal Enforcement Plan in the Company, including conducting of tutorials to all the relevant enforcement factors of the Company.

According to the provisions of the administrative enforcement arrangement signed by the Company and the Securities Authority, which was approved by the Administrative Enforcement Committee on November 28, 2013 (hereinafter in this section: the “Arrangement” or the “Enforcement Arrangement”), in February 2014, the Company appointed an external inspector whose duty is, inter alia, to ensure completion of the formulation and effective implementation of the Securities Law Enforcement Plan and its procedures, and to submit reports to the Securities Authority on the findings of his inspection (hereinafter: the “External Inspector”). (For additional details regarding the Enforcement Arrangement see immediate report of November 28, 2013, reference number: 2013-01-208542).

Against the background of the great importance attached by the Board of Directors to the supervision of the Internal Enforcement Plan, the Board of Directors decided to extend the period of engagement with the External Inspector several times, voluntarily. The inspector’s reports are submitted to the Corporate Responsibility Committee. The inspector reviews all the aspects of the internal enforcement in his reports. The inspector’s reports are positive and all the external inspector’s recommendations were implemented by the Company.

On October 15, 2015, the Companies Authority published a Circular of criteria to examine applications to grant advance undertakings to indemnify office holders in Government Companies (hereinafter in this section: the "Circular"). Within the document, inter alia, are details of the criteria the Authority should consider when formulating its recommendation to the Ministers regarding an undertaking to grant indemnification to the office holders, which also include adoption and assimilation of an internal enforcement plan in Government Companies by the Company pursuant to that stated in the document. The Company acted to assimilate the required aspects within the Internal Enforcement Plan.

The Circular instructs to deliver a report to the Authority, every year, regarding the manner of implementation of the enforcement plan in the Company. A report as aforesaid can be included in the Board of Directors’ Report, and accordingly the details regarding the implementation of the enforcement plan in the Company.

Pursuant to the Board of Director’s decisions, a periodic annual discussion regarding the enforcement plan is held both by the Corporate Responsibility Committee and by the plenum of the Board of Directors.

Since the plan was adopted, two external compliance surveys were performed to identify potential gaps and failures in the Company’s activity and its exposures in the relevant fields, by the firm of Ziv Haft Consulting and Management Ltd. (“Ziv Haft”). The 2014 compliance survey only dealt with Securities Law, and a survey of 2018 also included the Corporate and Government Companies Laws, in the format agreed upon with the Government Companies Authority. The results of the compliance surveys indicate that the Internal Enforcement Plan is performed adequately in all material aspects and does not constitute any significant risk for a material violation of the provisions of the law. The Company is preparing for the execution of an additional external compliance survey in the near future.

b. Aspects of Corporate Governance (continued)

8. Internal Enforcement Plan in the Field of Securities and Government Companies (continued)

On August 3, 2022, an Annual Enforcement Report for 2021-2022 was submitted, regarding Securities Law, Companies Law and Government Companies Law, and based on effective statements received from the unit Managers, the Chair of the National Team, the deputy legal counsel for commercial civil issues, the Enforcement Plan Supervisor, and the CEO, the Corporate Responsibility Committee determined in a discussion of November 17, 2022, that the Enforcement Plan regarding the Securities Law, Companies Law and Government Companies Law that is conducted by the Company is effective based on the criteria set out in the Authority's Circular regarding an Internal Enforcement Plan and which have been adopted and adapted to the nature of the Company's operations and is prepared in accordance with the requirements of the Commissioner of the Enforcement Plan, the National Team and Company procedures, and recommended to the Board of Directors to reach a decision on the effectiveness of the plan as required by the Circular of the Companies Authority. In a discussion conducted on January 5, 2022, the Board of Directors determined that the Enforcement Plan is effective, based on the effectiveness statements received, and on the decision of the Corporate Responsibility Committee.

The Company is in contact with the Government Companies Authority with respect to the Company’s compliance with the Circular’s requirements and continues with intensive and practical activity to effectively implement the plan.

9. Policy for the Compensation of Senior Officers under Amendment No. 20 to the Companies Law

On November 18, 2021, the Board of Directors of the Company, in accordance with the recommendation of the Remunerations Committee of November 4, 2021, re-approved the updated remuneration policy for senior officers of the Company (the “Remuneration Policy”). The above approval was given after the Board of Directors discussed and considered the recommendations of the Company's Remuneration Committee, taking into consideration the criteria prescribed in the Companies Law and taking into account the considerations and principles detailed below. The compensation package was adapted to the size of the Company, the nature of its activity, the Company's desire to retain its Officers, and the fact that the Company is a government company subject to the provisions of the Government Companies Law and its various regulations and the directives of the Government Companies Authority, which restrict the Company’s ability to act independently in matters of wages and employee benefits. Company objectives and considerations and principles at the base of the policy reflecting the updated Company objectives, approvals required for approval or update of the terms of employment of officers of the Company, parameters relating to examination of the remuneration terms, the remuneration terms for the Company's Officers, remuneration in connection with employment termination, and the liability insurance clause for Officers, were updated, among others, within the approved remuneration policy. The Remuneration Policy was approved at the General Meeting of February 3, 2022.

For further details and the full version of the Remuneration Policy see the Company’s Immediate Reports of January 26, 2022, reference no.: 2022-01-010755, and of February 3, 2022, reference no.: 2022-01-015226.

b. Aspects of Corporate Governance (continued)

10. External Auditors of the Company

Fees of the External Auditor

The fees of the external auditor are determined in accordance with the rules of the Government Companies Authority (Appointment of External Auditors and their Fees) – 1994 and according to its circulars, including the scope of hours and rate per hour, without the involvement of the Company. Current advance payments are paid to the external auditor during the audit year, according to the progress of the regular audit and review work, for services related to the audit and for tax services, up to the ceiling determined for these types of work. The balance of the fee (less advance payments paid) is paid at the end of the audit year, pursuant to the approval of the Government Companies Authority.
During the audit year, the external auditor also receives payment of fees related to providing additional services, which are not included in the aforementioned list, according to the progress of the work and subject to the approval of the Companies Authority.
The Board of Directors approves, based on Management's report and the recommendation of the Financial Statements Committee, that the External Auditor is qualified to perform its duties and that its fees and scope of work in connection with auditing the company, the scope and hours as determined by the Companies Authority, are satisfactory in view of the nature of the activities of the Company and its complexity.
This resolution is brought before the General Assembly of Shareholders, which is holding a hearing on the matter and approving the appointment of the external auditor, subject to the approval of the Companies Authority, and his remuneration.

The total fees of the outside auditor in respect with audit services and other services relating to tax services audit and other related services for the years 2021 – 2022 are detailed below:

	For the year ended December 31, 2022	For the year ended December 31, 2021
	Somekh Chaikin	Somekh Chaikin
	NIS thousands	
a. Fees for audit services, for services related to audits and for tax services	3,754	3,988
b. Fees for additional work (special tax work, prospectuses in Israel and abroad, and special confirmations)...	535	1,075

The Board of Directors will examine the work hours report and fees submitted by the auditor in light of the circulars of the Companies Authority, emphasizing the level of the rates and the distribution among the professionals and will submit the conclusions of its examination for approval by the Companies Authority.

In the opinion of the Company, performances of the related services provided by the external auditors do not affect the independence of the external auditors.

c. 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 under International Financial Reporting Standards (IFRS) and their interpretations published by the International Accounting Standards Board (IASB). Additionally, the Financial Statements are prepared in accordance with the Securities Regulations (Annual Financial Statements), 2010. The Company consolidates 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 Financial Statements.

2. Critical Accounting Estimates

a) Preparation of the Financial Statements in accordance with accepted accounting principles requires that the Management of the Company 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 use of critical accounting estimates of the Company, see Note 2ad to the Financial Statements.

b) Following are additional details regarding the critical accounting estimates of the Company:

1) Employee benefits:
For details of the critical accounting estimates related to employee benefits see Note 12 to the Financial Statements.
There is a difference of approximately NIS 9.4 billion between the actuarial liability according to the Financial Statements of the Fund as of December 31, 2022 and the actuarial liability according to the Financial Statements of the Company as of December 31, 2022, (with respect to the pension payments). The difference derives from a difference in calculation methodology between the bodies, which partly derives from different professional approaches, according to the rules that oblige each of the bodies: the Company calculates the actuarial liability in accordance with the accounting rules applied to the Company (in accordance with International Financial Reporting Standards, including IAS 19 and the directives of the Securities Authority), while the Fund acts in accordance with the instructions of the Capital Market, Insurance and Savings Authority, where the Actuary of the Fund noted that the assumptions used to prepare the statement of financial position comply with the instructions of the Capital Market, Insurance and Savings Division Authority for preparing actuarial statements of financial position.
The main difference between the assumptions derives from the discount rate, used to capitalize the actuarial liability, i.e. the Fund capitalizes the actuarial liability according to the discount rate of government debentures and the Company according to corporate debentures, (see Note 12j to the Financial Statements), and the assumption of the real increase in salary with respect to wage agreements.

2) Fair value for financial instruments - see Note 26 to the Financial Statements.

3. Material and Highly Material Valuations

a) In light of the update of Legal Position number 105-23 concerning parameters to examine the materiality of valuation, the Company policy in all that relates to materiality of valuations conforms to the position of the Securities Authority. Accordingly, a material valuation in the Company is a valuation that satisfies at least one of the following tests:

(1) Statement of financial position test – examining the valuation in relation to the total assets of the Company constitutes at least 5% of the total assets of the Company, as presented in the consolidated statement of financial position as of the last date of the reported period.

(2) Results test –the effect of the change in the value as a result of valuation of the net profit or comprehensive income, as the case may be, constitutes at least 5% of the net profit or comprehensive income of the Company, respectively, as well as constituting at least 2.5% of the Company's equity as of the end of the reporting period.
A highly material valuation is a valuation that complies with a quantity threshold that is twice the material valuation according to the above detailed parameters (namely, 10% instead of 5% and 5% instead of 2.5%).

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

3. Material and Highly Material Valuations (continued)

b) Disclosure with respect to a valuation that served as the basis to determine the value of data in the Financial Statements

Highly Material Valuations

Details of valuations classified as highly material according to the above-mentioned materiality tests, in accordance with regulation 8b(i) to the Securities Regulations are presented below:

The Company conducts very high materiality valuations of the actuarial liability with respect to benefits to employees in accordance with IAS 19.

Identification of Valuation subject	Actuarial obligation for employee benefits in accordance with International Accounting Standard 19 (IAS 19)
The timing of the evaluation:	December 31, 2022
Determined in accordance with the evaluation	NIS 33,832 million
Identifying the appraiser and his characteristics:	Assessment was carried out by Alan Fefferman – Actuarial Services Ltd. by Alan Fefferman and the staff supervised by him. Alan Fefferman has an M.B.A from the Booth School of Business, University of Chicago, U.S.A., and he is an authorized Actuary (full member of the Israel Association of Actuaries – FILAA, and the Society of Actuaries in the U.S.A. – FSA). His professional experience over the past 33 years includes actuarial estimates of employee benefits of similar types to that of the Company, actuarial estimates of pension funds, and determining assumptions and methods for actuaries of pension funds and insurance companies, in duties of an assessing actuary, an examining actuary and a regulatory actuary.
Date of engagement with the evaluation appraiser	May 26, 2016
Dependency on evaluation order	The Company actuary is not dependent on the work or the Company. The Company Actuary receives fees for this work and for additional consulting services. The fees are not dependent on the outcome of the work.
Evaluation model which the appraiser used	Discounted Cash Flow (hereinafter: “DCF”)
Assumptions according to which the appraiser performed the valuation, depending on the model estimates:	Weighted grossed up real interest rate in the current value of the liability is 2.78% Real update of salary during the work period - Individual salary development model of active employees and including salary increase with respect to current salary agreements. Real update of post-employment pension amounts –pension development model since January 2012 the pension is linked to the CPI. Pensioners and survivors' mortality including updating mortality rates – according to the Ministry of Finance circular of 2017-3-6, and a mortality survey for the Company's pensioners and surviving relatives. For additional actuarial assumptions, see the Actuary's Opinion in Annex A.
The body in the Company that decided to enter an agreement with the appraiser	Head of the Accounting Division and Acting Senior Vice President Finance, Economics and Risk Management.
Prior consent of the appraiser to the addition of the assessment	Exists
Indemnification agreement	On May 26, 2016, the Company granted the appraiser an indemnity undertaking with respect to any amount or expense to be paid by him with respect to a claim or demand filed against him and connected directly or indirectly to an act or omission that the Company is responsible for the results deriving therefrom, insofar as such amount or expense exceeds three times the scope of the Company's basic engagement with the appraiser.

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

3. Material and Highly Material Valuations (continued)

c) The Company has a highly material valuation regarding asset impairment, according to the instructions of IAS 36:

Identifying the valuation subject	Assets impairment – assessment of the impairment of the Company's assets as part of the implementation of the IAS 36 guidelines – assets of the Company's activity segments.
Valuation date:	December 31, 2022
The value of the subject of the valuation prior to the valuation date, if GAAP, including depreciation and reductions, would not have required a change in its value in accordance with the valuation:	NIS 65,312 million
Value of the subject of the valuation determined according to the valuation	NIS 66,419 million
Assessor identity and characteristics thereof	Wise Counseling Group (hereinafter: "Wise") Wise is a company specializing in the provision of economic, accounting and financial consultancy services. The company's services include: valuations, preparation of financial models, economic feasibility assessments and financial professional opinions to courts, assistance in tenders, strategy, and game theory. This assessment was performed by CPA Yoel Sakara. CPA Sakara holds a BA in Economics and Accounting from Haifa University, and an MA in Accounting from Bar Ilan University. CPA Sakara has of over 15 years of experience in the field of accounting and financial consultancy, including valuations in similar scopes to those of the subject of the current valuation (including a previous valuation to assess the value of the Company's assets, performed as part of the Financial Statements as of June 30, 2020).
Dependence on assessment requester	No
The valuation model used by the appraiser	Discounted Cash Flow method - DCF
The assumptions under which the evaluation assessor made the valuation, in accordance with the evaluation model:	A forecast of future cash flow, which may derive from one cash-generating unit, was performed based on the current tariff structure, as well as based on, among other things, assumptions reflecting the financial conditions expected to exist during the useful life span of the unit's assets. For details concerning the main assumptions on which the assessment was based, see Note 13g of the Financial Statements.
The function in the Company which decided on the agreement with the appraiser	Head of Accounting Division and Acting Senior Vice President Finance Economics and Risk Management

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

4. Disclosure of the Forecasted Cash Flow of the Company for Financing Repayment of Corporate Liabilities

As of the report date, there are no warning signs that apply to the Company as detailed in Regulation 10(b)14(a) of the Securities Regulations.

The Company has a cash flow from operating activities for the reporting period, which amounts to approximately NIS 2,210 million, a balance of cash and short-term loans as at December 31, 2022, amounting to NIS 4,113 million, and the Company has a positive working capital as on December 31, 2022, in the amount of approximately NIS 229 million. For details regarding the Board of Directors decision about the safety cushion, see section a1c above.

5. Evaluations of the Effectiveness of Internal Controls and Disclosure Controls over the Financial Statement

a) According to Government Companies Authority Regulations (Additional Report on Actions Taken and Presentations Made to Assure Correctness of the Financial Statements and the Board of Directors' Report - 2005) Government companies, including the Company, are required to attach to their yearly and quarterly Financial Statements an additional report concerning the activities taken and the presentations given so as to ensure full disclosure in the Financial Statements and the Directors' Report. In order to implement this directive, the Company is managing a system the purpose of which is to confirm and assess disclosure controls, information gathering processes and information processing for the Financial Statements. This, so as to permit functionaries signing the Financial Statements and the Directors' Report to declare in the additional report, that the Financial Statements and the Directors' Report do not contain incorrect presentations of material facts and that they properly reflect in all material aspects the Company's financial condition, operating results, changes in shareholders' equity and cash flows as of the dates and for the periods presented in the reports.

According to Government Companies Authority Regulations (Additional Report on Actions Taken and Presentations Made to Assure Accuracy of Additional Reports on the Subject of the Effectiveness of Internal Controls on Financial Reporting) – 2007, as of 2009, Government companies, among them the Company, are required to attach to their annual Financial Statements an additional report concerning actions taken to ensure the accuracy of the financial reporting. As part of these provisions, the Company's Management is required to document and examine all the business processes that are material to the financial reporting and the disclosure, to map the risks of a material error in these processes, to design suitable controls and estimate the effectiveness of these controls, for the purpose of the Management's assessment of the adequacy of internal controls over the financial reporting and disclosure. In addition, the Management is required to identify and assess the risks, design controls and evaluate the effectiveness of the Entity Level Controls (ELC), Information Technology General Controls (ITGC), and controls in the closing and financial reporting processes. The Company implements the regulations, all in accordance with the accepted Standards, methodologies and the updated models. For the purpose of implementing the Regulations, the Company has a body responsible for the establishment and ongoing maintenance of the processes, risks, and controls, documentation of the controls executed and their results, and carrying out follow-up after fault corrections. Within this framework, the Company engaged the Deloitte Israel consulting firm to act as an expert that will accompany the Company with the implementation of that required by the Regulations. In addition, every quarter, as part of the preparation of the financial reporting, a Discovery Committee, headed by the Company CEO, comprised of senior management functionaries convenes to examine the material issues requiring disclosure in the Company's report.

In addition, the Company regularly audits the process of evaluating the effectiveness of control of the financial reporting and disclosure in the subsidiary - the National Coal Supply Company Ltd. If there are significant deficiencies in the internal control of the subsidiary - these are reported to the Committee for Reviewing the Financial Statements of the Company.

As stated in Note 1e9, during 2020, a new subsidiary was founded – Netiv Ha'Or – Orot Rabin Ltd. (hereinafter: the "Subsidiary"). As on the statement of financial position date, there are no assets or liabilities exceeding a total of NIS 400 million in the Subsidiary's books and therefore it is not required to implement SOX (section 404).

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

5. Evaluations of the Effectiveness of Internal Controls and Disclosure Controls over the Financial Statement (continued)

a) (continued)

In its additional report on the internal controls over the financial reporting in accordance with the Government Companies Regulations, attached to these Financial Statements, the Board of Directors and the Management of the Company announced that the internal controls in the Company over the financial reporting of the Company for the period ending on December 31, 2022 are ineffective, due to a material weakness of the internal controls over financial reporting, for an expansion see the Second Addendum to the Report of the Board of Directors.

Correspondingly, Somekh Chaikin, the external auditors of the Company, who audited the Financial Statements of the Company for the period ending on December 31, 2022, issued an opinion on the effectiveness of the internal controls over the financial reporting of the Company.

In its opinion, the external auditor refers to the aforementioned material weakness.

b) On November 24, 2009, the Finance Committee of the Knesset approved an amendment to the Securities Regulations (Periodic and Immediate Reports) - 1970 ("The Amendment"). This amendment requires all reporting corporations that have securities registered for trade in the Tel Aviv Stock Exchange to declare the effectiveness of their internal controls over financial reporting and disclosure.
On October 7, 2010, the Companies Authority published regulations (Additional Reporting on the Effectiveness of the Internal Controls over Financial Reporting) (Amendment) – 2010 and Regulations (Additional Report Regarding Actions Taken and Representations Made to Ensure the Accuracy of the Financial Statements and the Directors' Report) (Amendment) – 2010. Implementation of the aforementioned amendments in the regulations is intended to enable the Chairman of the Securities Authority to exercise his authority, according to sections 9b(f) and 38c(f) to the Securities Regulations and determine that a Government Company that is also a reporting company according to the Securities Law – 1968, that implements the said regulations of the Companies Authority will report the effectiveness of the internal controls in the format stipulated in the Companies Authority Regulations.
The Company appealed to the Chairman of the Securities Authority, requesting him to exercise his authority to determine that the Company, under its definition as a Government Company that complies with all Government Authority Regulations, including the aforementioned, will report the effectiveness of the internal controls in the format specified by the Companies Authority Regulations.
In response to the request of the Company, the Chairman of the Securities Authority decided on January 4, 2011, to accept the Company's request to report the effectiveness of the internal controls in the format specified by the Companies Authority Regulations, as long as the Company complies with these regulations. This arrangement is subject to the commitment of the Company to review the facts presented to the staff of the Securities Authority in the request on every report date and report any change to them. This includes a review of changes in the regulations or in Government Companies Regulations, changes in the status of the Company which affect the laws applied to it, changes in the implementation mode of Government Companies Regulations in the Company and any other change relevant to this subject. As at the date of the report, the Company complied with the requirements of the stipulations and found that there was no change in the regulations or any other relevant change.

6. Disclosure with Respect to the Financial Reporting Required according to the Government Companies Circular on Financial statements

a) Report concerning the follow-up on lawfulness and completeness of the registration of properties managed on behalf of others

The Company does not manage or hold properties for others. However, see additional details regarding certain properties used by the Company in Note 11a4 of the Financial Statements.

d. Dedicated Disclosure to Debentures Holders

1. Details of the Bonds of the Corporation

a) Following are details of debentures issued by the Company, as of December 31, 2022, as required in the eighth addition to the Securities Regulations:

1)

Debenture Series	Series 26	Series 27	Series 29	Series 30	Series 31	Series 32	Series 33
	NIS in millions						
Nominal value on the initial issue date	437	404	914	412	1,239	532	638
Nominal value including expansions that have been executed	678	2,610	2,956	547	3,889	1,202	4,292
Nominal value including linkage to the CPI (in the CPI-linked series)	678	2,834	3,231	547	4,180	1,276	4,559
Accumulated interest	7	24	49	4	28	6	33
Stock exchange value (which also constitutes fair value)	689	3,113	3,505	542	4,276	1,236	3,983
Initial issue date	June 7, 2015, pursuant to a prospectus of May 27, 2015	June 7, 2015, pursuant to a prospectus of May 27, 2015	March 27, 2017, pursuant to a prospectus of November 27, 2015	November 12, 2018, pursuant to a prospectus of April 27, 2018	November 12, 2018, pursuant to a prospectus of April 27, 2018	July 22, 2021, pursuant to a prospectus of May 28, 2021	July 22, 2021, pursuant to a prospectus of May 28, 2021
Interest type	Fixed annual interest at a rate of 4.8%	Fixed annual interest at a rate of 3.85%	Fixed annual interest at a rate of 4.5%	Fixed annual interest at a rate of 2.55%	Fixed annual interest at a rate of 2.39%	Fixed annual interest at a rate of 1.0%	Fixed annual interest at a rate of 1.25%
Principal payment dates	The principal will be repaid in eight unequal annual payments which will be paid on October 12 of each of the years 2016-2023 (inclusive) according to the following rates from the nominal value of the original principal: 3% on each of the dates of October 12, 2016 to October 12, 2020 (inclusive), 25% on October 12 2021, 30% on October 12, 2022 and 30% on the final repayment date of October 12, 2023	The principal will be repaid in thirteen unequal annual payments which will be paid on April 12 of each of the years 2017 until 2029 (inclusive) in accordance with the following rates of the nominal value of the original principal: 1% on each of the dates April 12 2017 until April 12 2026, 20% on April 12, 2027, 35% on April 12, 2028 and 35% on the final repayment date on April 12, 2029	The principal will be repaid in two equal annual payments which will be paid on February 28, 2025 and February 28, 2026	The principal will be repaid in one payment on March 20, 2024	The principal will be repaid in three unequal annual payments which will be paid on September 20 of each of the years 2029 until 2031 (inclusive) in accordance with the following rates of the nominal value of the original principal: 25% on each of the dates September 20, 2029 and September 20, 2030, 50% on the final repayment date on September 20, 2031	The principal will be repaid in one payment on July 22, 2027	The principal will be repaid in one payment on May 30, 2036

d. <u>Dedicated Disclosure to Debentures Holders (continued)</u>

1. <u>Details of the Bonds of the Corporation (continued)</u>

a) <u>Following are details of debentures issued by the Company, as of December 31, 2022, as required in the eighth addition to the Securities Regulations: (continued)</u>

1)

<table>
<tr><th>Debenture Series</th><th colspan="2">Series 26</th><th colspan="2">Series 27</th><th colspan="2">Series 29</th><th colspan="2">Series 30</th><th colspan="2">Series 31</th><th colspan="2">Series 32</th><th colspan="2">Series 33</th></tr>
<tr><td>Interest payment dates</td><td colspan="2">On October 12 and April 12 of each year from October 12, 2015 until October 12, 2023</td><td colspan="2">On October 12 and April 12 of each year as of October 12 2015 until April 12 2029</td><td colspan="2">On February 28 and August 28 every year from August 28 2017 until February 28 2026</td><td colspan="2">On March 20 and September 20 every year from March 20, 2019 until March 20, 2024</td><td colspan="2">On March 20 and September 20 every year from March 20, 2019 until September 20, 2031</td><td colspan="2">On July 22 every year from July 22, 2022, until July 22, 2027</td><td colspan="2">On May 30 every year from May 30, 2022, until May 30 2036</td></tr>
<tr><td>Linkage basis</td><td colspan="2">Without linkage</td><td colspan="2">Linked (principal and Interest) to the CPI published on May 15, 2015, of April 2015</td><td colspan="2">Linked (principal and Interest) to the CPI published on March 15, 2017, of February 2017</td><td colspan="2">Without linkage</td><td colspan="2">Linked (principal and Interest) to the CPI published on October 15, 2018, of September 2018</td><td colspan="2">Linked (principal and Interest) to the CPI published on July 15, 2021, of June 2021</td><td colspan="2">Linked (principal and Interest) to the CPI published on July 15, 2021, of June 2021</td></tr>
<tr><td>The debentures are convertible</td><td colspan="2">No</td><td colspan="2">No</td><td colspan="2">No</td><td colspan="2">No</td><td colspan="2">No</td><td colspan="2">No</td><td colspan="2">No</td></tr>
<tr><td>The entity is entitled to execute early redemption or enforced conversion of the debentures into other securities, insofar as it exists, and the terms for its exercise</td><td colspan="2">Yes. The full terms are detailed in section 7 of the Deed of Trust</td><td colspan="2">Yes. The full terms are detailed in section 7 of the Deed of Trust</td><td colspan="2">Yes. The full terms are detailed in section 7 of the Deed of Trust</td><td colspan="2">Yes. The full terms are detailed in section 7 of the Deed of Trust</td><td colspan="2">Yes. The full terms are detailed in section 7 of the Deed of Trust</td><td colspan="2">Yes. The full terms are detailed in section 7 of the Deed of Trust</td><td colspan="2">Yes. The full terms are detailed in section 7 of the Deed of Trust</td></tr>
<tr><td>A guarantee has been provided for payment of the corporation’s liability under a deed of trust</td><td colspan="2">No</td><td colspan="2">No</td><td colspan="2">No</td><td colspan="2">No</td><td colspan="2">No</td><td colspan="2">No</td><td colspan="2">No</td></tr>
<tr><td>Pledged assets</td><td colspan="2">A floating charge has been placed in favor of the Trustee – Hermetic Trust (1975) Ltd.</td><td colspan="2">A floating charge has been placed in favor of the Trustee – Hermetic Trust (1975) Ltd.</td><td colspan="2">A floating charge has been placed in favor of the Trustee – Hermetic Trust (1975) Ltd.</td><td colspan="2">A floating charge has been placed in favor of the Trustee – Hermetic Trust (1975) Ltd.</td><td colspan="2">A floating charge has been placed in favor of the Trustee – Hermetic Trust (1975) Ltd.</td><td colspan="2">A floating charge has been placed in favor of the Trustee – Hermetic Trust (1975) Ltd.</td><td colspan="2">A floating charge has been placed in favor of the Trustee – Hermetic Trust (1975) Ltd.</td></tr>
<tr><td>Rating / Rating Company</td><td>Ma’alot S&P</td><td>Midroog</td><td>Ma’alot S&P</td><td>Midroog</td><td>Ma’alot S&P</td><td>Midroog</td><td>Ma’alot S&P</td><td>Midroog</td><td>Ma’alot S&P</td><td>Midroog</td><td>Ma’alot S&P</td><td>Midroog</td><td>Ma’alot S&P</td><td>Midroog</td></tr>
<tr><td>Series rating on date of issue</td><td>ilAA</td><td>Aa3.il</td><td>ilAA</td><td>Aa3.il</td><td>ilAA</td><td>Aa2.il</td><td>ilAA</td><td>Aa2.il</td><td>ilAA</td><td>Aa2.il</td><td>ilAA+</td><td>Aa1.il</td><td>ilAA+</td><td>Aa1.il</td></tr>
<tr><td>Series rating on the statement of financial position date</td><td>ilAAA</td><td>Aa1.il</td><td>ilAAA</td><td>Aa1.il</td><td>ilAAA</td><td>Aa1.il</td><td>ilAAA</td><td>Aa1.il</td><td>ilAAA</td><td>Aa1.il</td><td>ilAAA</td><td>Aa1.il</td><td>ilAAA</td><td>Aa1.il</td></tr>
<tr><td>Is this debenture series considered material under regulation 10(b)(13) of the Securities Regulations?</td><td colspan="2">No</td><td colspan="2">Yes</td><td colspan="2">Yes</td><td colspan="2">No</td><td colspan="2">Yes</td><td colspan="2">No</td><td colspan="2">Yes</td></tr>
</table>

d. Dedicated Disclosure to Debentures Holders (continued)

1. Details of the Bonds of the Corporation (continued)

a) Following are details of debentures issued by the Company, as of December 31, 2022, as required in the eighth addition to the Securities Regulations: (continued)

For details of the expansion of the debentures series 31, series 32, and series 33, during the report period see Note 20c of the Financial Statements.

2) Details of trustee for the liabilities - debentures:

Name of trustee company:	Hermetic Trust (1975) Ltd.
Name of responsible person:	Adv. Dan Avnon
Address:	30, Derech Sheshet Hayamim, Bnei Brak
Telephone:	03-5544553
Fax:	03-5271451
Website:	www.hermetic.co.il

3) Commitment to comply with the Conditions of the Debentures

As on the date of the report, the Company complied with all the conditions and commitments according to the deed of trust for the debentures and there was no cause to place the debentures for immediate repayment. In addition, 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 the said deed of trust.

e. Miscellaneous

1. Environmental Plan, Environmental Hazards and Management thereof

For details of the environmental hazards and their management see Chapter A - Report of the Business Affairs of the Corporation sections 7.12, 8.9, 9.9 and 21.

2. Dividend Distribution and Appropriation of Income

See details on this subject in Section 4 in Chapter A - Report of the Business Affairs of the Corporation and Note 25 to the Financial Statements.

3 Taxation

See Note 21 to the Financial Statements.

4. Legal Proceedings and Labor Disputes

See Note 35b and 35c to the Financial Statements.

5. Agreements including Agreements Requiring Government Approval

For details of the contractual engagements of the Company including those requiring Government approval see Note 35a to the Financial Statements.

6. Limitations and Supervision on Activities of the Company

See Section 22 in Chapter A - Report of the Business Affairs of the Corporation.

7. Transactions of the Company with Related Parties and Interest Holders, Including Indemnification Letters

See Note 34 to the Financial Statements.

8. Discussion of Risk Factors

See Section 29 in Chapter A - Report of the Business Affairs of the Corporation.

9. The State Comptroller’s Report

For details of the State Comptroller’s report see section 22.5.5 in Chapter A - Report of the Business Affairs of the Corporation.

10. Corporate Sustainability Report ESG

Since 2012, the Electricity Company has been publishing annual sustainability reports, reflecting the Company’s activity in non-financial fields: Environmental Protection, Social, and Corporate Governance. The sustainability reports for 2012-2014 were written according to the leading international reporting standards of the Global Reporting Initiative (GRI), and underwent external control. During 2015-2018, the Company continued publishing annual sustainability reports in the spirit of the GRI standard.
The 2019 sustainability report was written according to disclosure demands from international rating companies, examining the Electric Corporation’s activity according to risk management criteria in the ESG (Environmental, Social, Governance) fields, and which annually rate the viability of investing in the Electric Corporation for investors, according to these criteria, as part of an ESG rating.
The 2020 and 2021 Sustainability Reports were reported according to an up-to-date standard published by the GRI Organization (GRI-STANDARDS), including external diligence control, and was reported to the Government Companies Authority.
The report is public and is available on the Company’s website.
The publication of annual sustainability reports constitutes part of the Company’s commitment for transparency towards its interested parties.

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

Meir Spigler	Shlomo Arbiv
Chief Executive Officer	External Director*

Date of Approval: March 16, 2023

* **Mr, Yiftach Ron-Tal’s term of office as Chairman of the Company’s Board of Directors ended on August 1, 2021, and a new Chairman of the Board of Directors has not yet been appointed as of the date of signing the reports.**
In light of the aforesaid, in its meeting of March 16, 2023, the Board of Directors authorized Mr. Shlomo Arbiv, who serves as an external director, to sign the Company’s Board of Directors’ report for the year ended on December 31, 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 Year Ended
December 31, 2022

Prominent Disclaimer

This English translation of the **"Additional Report Regarding the Effectiveness of the Internal Control Over Financial Reporting"** for the year ended December 31, 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 CONTROLS OVER FINANCIAL REPORTING IN ACCORDANCE WITH GOVERNMENT COMPANIES REGULATIONS (ADDITIONAL REPORT REGARDING THE EFFECTIVENESS OF THE INTERNAL CONTROLS 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 is a process designed to provide a reasonable measure of assurance regarding the reliability of the financial report 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 internal controls over financial reporting are not intended to provide an absolute assurance that a material misstatement will be prevented or discovered.

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

Based on this evaluation, the Company's Management and Board of Directors concluded that the internal controls over financial reporting of the Company for the period ended on December 31, 2022, are not effective, due to a material weakness of the internal controls over financial reporting, as detailed below:

The Company did not maintain effective controls to ensure that the rights and benefits according to which payroll and pension payments are made and are included in actuarial obligations, are authorized in conformity with requirements of the Law.

Disclosure concerning the material weakness was first provided in the Report on the Internal Controls Over Financial Reporting, which was attached to the 2009 periodic report.

Correction of the material weakness and actions to ensure reliability of the financial reporting
The Company took actions to reinforce the controls pertaining to this matter and established a procedure, which was approved by the Company's Board of Directors, in 2011, concerning the rights and the benefits according to which payroll and pension payments are made and actuarial obligations are included. The procedure is implemented in practice. In relation to salary rights originating in the past, the Company has received an opinion from its legal counsel and in 2011 has applied to the Wages Commissioner for his approval of the effectiveness of salary rights for which an approval has not yet been issued. The Commissioner's comprehensive approval has not yet been received.

The Company believes that these actions have strengthened the internal control over financial reporting in the matters pertaining to the prospective treatment of the employee salary rights balance 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 potential impact of the material weakness described above with regards to financial reporting and disclosure is non-quantifiable.

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

The Opinion of the External Auditor
The external auditor of the Company, Somekh Chaikin, who audited the financial statements of the Company for the period ended on December 31, 2022, issued an opinion on the effectiveness of the Company's internal control over financial reporting.

In its opinion, the external auditor referred to the material weakness specified above.

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

Date of approval of the reports: March 16, 2023

*** Mr, Yiftach Ron-Tal's term of office as Chairman of the Company's Board of Directors ended on August 1, 2021, and a new Chairman of the Board of Directors has not yet been appointed as of the date of signing the reports.**
In light of the aforesaid, in its meeting of March 16, 2023, the Board of Directors authorized Mr. Shlomo Arbiv, who serves as an external director, to sign the declarations regarding the Company's Financial Statements for the year ended on December 31, 2022, in lieu of the signature of the Chairman of the Board of Directors.

Translated to English from the Hebrew original

Auditors' Report to the Shareholders of The Israel Electric Corporation Ltd in accordance with the Government Companies Regulations (Additional Reports Regarding the Effectiveness of Internal Control over Financial Reporting) – 2007

We have audited internal control over financial reporting of The Israel Electric Corporation Ltd (hereinafter “the Company”) as of December 31, 2022 based on criteria determined in the combined framework of internal control published by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter:- "COSO"). The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company’s internal control components over financial reporting accompanying the attached Directors' and Management Report on internal control over financial reporting.. Our responsibility is to express an opinion on the Company’s internal control components over financial reporting based on our audit.

We did not audit the effectiveness of internal control over financial reporting of a consolidated subsidiary whose asssets and income included in consolidation represent less than 1% and 0% respectively of the relevant amounts in the consolidated financial statements as at December 31,2022 and for the year then ended.The effectiveness of internal control over financial reporting of that company were audited by other auditors whose reports were presented to us and our opinion, inasfar as it relates to the effectiveness of internal control over financial reporting, is based on the reports of the other auditors.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the United States in respect of audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. These standards requires us to plan and perform the audit to obtain reasonable assurance about whether, in all material respects, effective internal control was maintained over financial reporting. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

Internal control over financial reporting of a government company is a process designed to provide a reasonable measure of assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS),the instructions of the Government Companies Authority.and the instructions of the Securities Regulations (Annual Financial Statements) – 2010. Internal control over financial reporting of a government company includes those policies and procedures which: (1) relate to the management of recording which, with reasonable detail, accurately and adequately reflect

the transactions and transfers of company assets (including removing them from its authority); (2) provide a reasonable level of assurance that transactions are recorded as required in order to allow for preparation of financial statements in accordance with IFRS, instructions of the Government Companies Authority and the instructions of the Securities Regulations – (2010) and that the receipt and payment of company funds are only effected in accordance with authorizations of the Company's Board of Directors and Management and subject to the permissions of the required State authorities according to law ; and (3) provide a reasonable level of assurance regarding prevention or timely disclosure of unauthorized acquisition, use or transfer (including removal from authority) of Company assets, which may have a significant effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a defect, or combination of defects, in the internal control over financial reporting, which is of such a severity that a reasonable possibility exists that a material misstatement in the annual or quarterly financial statements will not be prevented or discovered in a timely manner.

The following material weakness was identified and included in the evaluation of the Board of Directors and Management:

The Company did not maintain effective control over the fact that rights and benefits, according to which salaries and pensions are paid and in which respect actuarial liabilities are included, are authorized in accordance with law.

This material weakness was taken into account in determining the materiality, timing and scope of the auditing procedures applied in our audit of the Company's financial statements as of December 31, 2022 and for the year ended on that date, and this report does not affect our report on the said financial statements.

In our opinion, based on our audit and the reports of the other auditors, due to the effect of the material weakness identified above on the achievement of the control criteria objectives, the Company did not maintain effective internal control over financial reporting as of December 31, 2022, based on the criteria determined in the combined framework of internal control as published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company’s consolidated financial statements as of December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and our report dated March 16, 2023 expressed an unqualified opinion and drew attention to certain matters as detailed in that report based on our audit and the reports of other auditors.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 16, 2023

The Israel Electric Corporation Ltd.

Chapter C

Consolidated Annual Financial Statements

For the Year Ended
December 31, 2022

<u>Prominent Disclaimer</u>

This English translation of the **“Consolidated Annual Financial Statements”** for the year ended December 31, 2022 ("English Translation") is provided for information purposes only.

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Translated to English from the Hebrew original

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

We have audited the accompanying consolidated statements of financial position of The Israel Electric Corporation Ltd (“the Company”) as of December 31, 2022 and 2021, and the consolidated statements of profit or loss, comprehensive income or loss, changes in equity and cash flows for each of the three years in the period ended on December 31, 2022. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have not audited the financial statements of a consolidated company whose assets included in consolidation represent less than 1% of all consolidated assets as at December 31, 2022 and 2021 respectively, and its income included in consolidation represents approximately 0% of all consolidated income for the years ended December 31, 2022. 2021, and 2020 respectively.

The financial statements of this company were audited by other auditors whose reports were presented to us and our opinion, insofar as it relates to amounts included in respect of that company, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor’s Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2022 and 2021, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended on December 31, 2022 in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements), 2010.

Without qualifying our opinion we would draw attention to that mentioned in Notes 35b and 1g regarding class actions, requests to recognize class actions, contingencies related to environmental laws and significant other claims submitted against the Company, the possible chances of success or expected effects of which on the Company's financial position and results cannot be estimated, and to the uncertainty in respect of the effects on the Company's financial situation and results of operations as a result of the event subsequent to the financial statements date detailed in Note 1j relating to the collapse of a crane at the Rutenburg power station.

We have also audited, in accordance with standards of the PCAOB in the United States in respect of audit of the internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Company’s components of internal control over financial reporting as of December 31, 2021, based on criteria determined as part of the combined framework on internal control published by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter – "COSO") , and our report dated March 16, 2023 included a negative opinion on the effectiveness of internal control on the Company's financial reporting due to the existence of a significant weakness.

Key Audit Matters

The key audit matters detailed below are those matters which were communicate, or should have been communicated, to the Company's Board of Directors and which, in our professional opinion, were particularly significant in the audit of the consolidated financial statements for the current period. These matters included, among others, any matter which: (1) relates, or may relate, to items or significant disclosures in the consolidated financial statements and (2) our discretion in its respect was challenging, subjective or particularly complex. These matters were addressed as part of our audit and were included in the formation of our audit opinion on the consolidated financial statements. The communication of these matters below does not alter our opinion on the consolidated financial statements in general and we do not provide a separate opinion on these matters or the disclosures which relate to them.

Examination of asset impairment of the Company in accordance with the instructions of IAS-36

As detailed in Note 13g to the Consolidated Financial Statements , in every reporting period, management evaluates whether indications of Company asset impairment exist. Should such asset impairment indicators exist and in order to determine whether there is actual asset impairment, the Company compares the recoverable amount for the Company's assets which constitute a one cash-generating unit with forecasts of future cash flows expected to accrue from all the Company's activities.

Due to the increase in the weighted average cost of capital (WACC) together with the publication of a new rate base for the generation segment at the end of 2022 (which will take effect retroactively from February 1, 2022 to December 31, 2027) the Company identified indications of impairment which require the carrying out of an asset impairment evaluation as detailed above – for more details in respect of the Electricity Authority's decision see note 3d to the consolidated financial statements.

Management, through an independent external value appraiser, carried out an examination of the impairment in value of the Company's assets as compared to the usage value of the Company's assets, as determined based on the forecasted capitalized cash flows. Evaluation of the usage value requires management to carry out significant estimates, inter alia, regarding the weighted average cost of capital (WACC), the date of update of the network rate within which framework the Company expects that the accepted rate of return on the electricity rate will also be updated on the generation segment and its effect on the Company's income, estimation of the operating income and expenses and service of capital during the forecasted period and the assumption of expected full cover at the date of publication of the next basis generation and network rates.

We identified the examination of the impairment in value of the Company's assets as a key audit matter as the examination of the central assumptions and critical estimates used by management in order to determine the usage value amount, which involves significant uncertainty, required us to exercise significant discretion in order to examine their reasonability.

The primary audit procedures we performed to address this key audit matter are as follows:

- We identified and tested the design, implementation and effectiveness of key controls relating to the examination of impairment carried out by Company management including key controls relating to critical assumptions and estimates used by management assisted by appraisers in order to determine the recoverable amount.
- We carried out a comparison between forecasts used in a prior examination of impairment as compared to actual results and the forecasts in this examination in order to estimate the adequacy of management estimates.
- Using an independent calculation of experts in the economic department of our office we examined the weighted average cost of capital (WACC) determined by the value appraiser while using market data and Company specific information.
- We examined the reasonability of assumptions regarding the date of update of the network base rate within the framework of which the yield rate (GWACC) applicable for the electricity rate also in the generation segment for the years 2024-2027 will be received and its effect on the Company's income.
- We examined the completeness and accuracy of the data used for calculating Company income from operations and capital servicing in accordance with the decision regarding the generation base rate for the years 2022-2027 and the network base rate for the years 2018 to 2023 based on the significant estimates as detailed above and examination of their reasonability in relation to prior years and Company work plans.
- We carried out an examination of management sensitivity analysis of critical work estimates as detailed above in order to examine the effect on the results of the impairment examination.
- We examined the adequacy of the disclosure given in Note 13g in respect of examination of impairment including principal estimates and assumptions used by the company as the basis for the examination.

Evaluation of the pension obligations and other post employment benefits

As detailed in the Company's note on accounting policy and Note 12 to the Company's consolidated financial statements, the Company has defined benefit plan pension obligations in the sum of NIS 28,458 million and other post employment benefit obligations in the sum of NIS 5,374 million as at December 31, 2022. The Company estimates the actuarial obligation in accordance with the instructions of IAS-19 using an external independent actuary. The actuarial valuation requires management to carry out complex calculations and make actuarial assumptions, the most significant of which are the rate of capitalization and the real rate of salary increases in respect of general salary agreements ("rate of increase in real salaries").

We identified the evaluation of the pension obligation and other post employment benefits as a key audit matter as examination of the calculations and significant actuarial estimates used by management required us to use significant discretion and use of our office's actuarial department experts and an external independent actuary.

The primary audit procedures we performed to address this key audit matter are as follows:

- We identified and examined the design, application and effectiveness of key controls relating to the calculation of the actuarial calculation including the significant actuarial assumptions used by the Company with the assistance of the Company's external actuary and a verifying actuary on its behalf.
- We were assisted by an expert from the actuarial department of our office and an independent external actuary in order to examine the significant actuarial calculations and assumptions used in the calculation of actuarial obligations, including:

- The adequacy of weighted real discount rate used by the Company through an independent calculation while, inter alia, using weighted real discount vectors in reliance on accepted data bases in carrying out actuarial valuations in accordance with IAS-19.
- Management assumption in respect of the rate of real salary increase based on examination of salary research carried out by the Company actuary including examination of reasonability of assumptions used in this research based on salary agreements expected to materialize in the public sector and examination of the reasonability of real salary increases in future perods based on prior experience.
- Completeness of salary components and pension benefits and post employment benefits in Company calculations as compared to Company employment agreements.
- Completeness and accuracy of data bases used by the Company in calculating pension and other post employment benefits.
- Results of the independent actuarial valuation of the external actuary who assisted the audit team as compared to the valuation of the Company's actuary.
- Analysis of the losses/profits from the remeasurements recorded during the period to locate unexplained differences.

- We examined the adequacy of the disclosure given in the note on accounting policies and in Note 12 in respect of the detailed actuarial valuation of the Company's actuary which was attached to the Company's periodic report for 2022 and in comparison to the disclosure requirements in accordance with IAS-19.

Valuation of balances of regulatory deferral accounts

As detailed in the Company's accounting policies note and Note 15 to the Consolidated Financial Statements, the Company has debit balances of regulatory deferral accounts in the sum of NIS 11,384 million and credit balances of regulatory deferral accounts in the sum of NIS 3,254 million as at December 31, 2022.

The Company operates in accordance with the Electricity Sector Law -1996 and its related amendments, and the electricity rates and the method of their update are determined by the Electricity Authority (hereinafter – "the Authority") – for further details see Note 3 to the Financial Statements.

As mentioned in Note 15a to the Financial Statements, as from January 1, 2014, (the date of transition to IFRS), the Company implements IFRS 14, which means the continuation of implementation of the existing practice in the matter of recognition of regulatory deferral accounts. In its Financial Statements, the Company recognizes, in regulatory deferral accounts, amounts which are materially comparable to regulatory assets and liabilities which existed in the Company's books prior to the Company's transition to reporting according to IFRS, as detailed in Notes 2, 3 and 15 to the 2022 Financial Statements.

We identified the valuation of the balances of regulatory deferral accounts as a key audit matter, as the examination of the critical assumptions and estimates used by management requires significant discretion, including examination of the reasonability of the recognition level of balances of regulatory deferral accounts (which exceed the level of approximately 70%), assumptions regarding decisions in effect, proposed decisions for hearing and future decisions of the Authority and other authorized bodies, in order to measure the future coverage of costs and investments which have arisen. Since management estimates are based upon future assumptions of coverage of the rates as will be determined by the Authority, audit of these assumptions requires knowledge and understanding in the sector of regulatory rates in respect of the Company, which are affected by the inherent complexity relating to estimates and calculations of balances of regulatory deferral accounts.

The primary audit procedures we performed to address this key audit matter are as follows:

- We identified and examined the design, implementation and effectiveness of key controls relating to the calculation of the regulatory deferral account balances, principally in all that relates to critical assumptions and estimates used by management.
- We examined the decisions and proposed decisions for hearing which were published by the Authority until the date of approval of the Financial Statements and appraised the effect of the calculations, critical assumptions and estimates used by the management in determining the balances of regulatory deferral accounts.
- In instances where no Authority decision has yet been published, we received documentation of correspondence with the Authority, memos for discussions carried out with the Authority by experts in the income and rates department of the Company, Authority decisions which were published for hearing and Authority decisions given in the past in similar matters, opinions given by the legal counsel of the Company, with the objective to appraise the reasonability of the critical assumptions and estimates used by management in determining the balances of regulatory assets and liabilities, in respect of which Authority decisions have not yet been published.
- We examined the completeness and accuracy of the Company's calculations of regulatory assets and liabilities, in accordance with applicable Authority decisions, and for those instances where Authority decisions have yet to be published, in accordance with assumptions and estimates as detailed above.

We examined the adequacy of disclosure given in Note 15, in accordance with the requirements of IFRS 14.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 16, 2023

Translated to English from the Hebrew original

The Board of Directors

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

1 Netiv Haor, Haifa

Dear Sirs,

Re: Consent letter in respect of a shelf prospectus of Israel Electric Corporation 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 shelf prospectus to be published by the Company insofar as this will be published in respect of the shelf prospectus from May 2021.

1. The Report of the Auditors dated March 16, 2023 on the consolidated financial statements of the Company as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022.
2. The Report of the Auditors dated March 16,2023 in accordance with the Government Companies Regulations (Additional Reports Regarding the Effectiveness of Internal control over Financial Reporting) – 2007 as at December 31, 2022.

Yours truly

Somekh Chaikin

Haifa, March 16, 2023

ADDENDUM
(REGULATION 2)
ADDITIONAL REPORT

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

I, Gilad Hassid, certify that:

1. I have reviewed the Periodic Report within the meaning of Chapter B of the Securities Regulations (Periodic and Immediate Reports) – 1970, of The Israel Electric Corporation Limited (“the Company” or the “Electric Corporation”) for the year ended December 31, 2022 ("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 subsidiary corporations, 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 anyone else, pursuant to any law.

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

March 16, 2023

ADDENDUM
(REGULATION 2)
ADDITIONAL REPORT

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

I, Meir Spigler, certify that:

1. I have reviewed the Periodic Report within the meaning of Chapter B of the Securities Regulations (Periodic and Immediate Reports) – 1970, of The Israel Electric Corporation Limited (“the Company” or the “Electric Corporation”) for the year ended December 31, 2022 ("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 subsidiary corporations, 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 anyone else, pursuant to any law.

Meir Spigler
Chief Executive Officer

March 16, 2023

ADDENDUM
(REGULATION 2)
ADDITIONAL REPORT

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

I, Shlomo Arbiv, certify that:

1. I have reviewed the Periodic Report within the meaning of Chapter B of the Securities Regulations (Periodic and Immediate Reports) – 1970, of The Israel Electric Corporation Limited ("the Company" or the "Electric Corporation") for the year ended December 31, 2022 ("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 subsidiary corporations, 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 anyone else, pursuant to any law.

Shlomo Arbiv
External Director *

March 16, 2023

*** On August 1, 2021, Mr. Yiftah Ron-Tal concluded his tenure as the Chairman of the Company's Board of Directors, and as of the date of the signing of these Statements, a new Chairman of the Board of Directors has not yet been appointed. In light of the aforesaid, in its meeting of March 16, 2023, the Company's Board of Directors authorized Mr. Shlomo Arbiv, who serves as an External Director, to sign certifications relating to the Company's Financial Statements for the period ending December 31, 2022, in lieu of the signature of the Chairman of the Board of Directors.**

THE ISRAEL ELECTRIC CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NEW ISRAELI SHEKELS, IN MILLIONS)

	Note	As of December 31 2022	As of December 31 2021
CURRENT ASSETS			
Cash and cash equivalents	4	3,654	2,454
Short term investments	5	459	332
Trade receivables for sales of electricity	6	4,702	4,290
Other current assets	7	886	665
Inventory - fuel	8	2,412	1,489
Inventory - stores		166	128
Assets of disposal groups classified as held for sale	9	-	160
Total current assets		12,279	9,518
NON-CURRENT ASSETS			
Inventory - fuel	8	1,413	1,624
Long-term receivables	10	2,111	2,294
Investment in associates	11b	13	4
Assets with respect to benefits after employment termination:	12		
Excess pension plan assets over pension liability		9,816	6,787
Funds in trust		1,184	1,493
		11,000	8,280
Fixed assets, net	13		
Fixed assets in use, net		52,133	51,863
Fixed assets under construction		7,478	7,260
		59,611	59,123
Intangible assets, net	14	1,153	1,188
Total non-current assets		75,301	72,513
Total assets		**87,580**	**82,031**
Debit balances of regulatory deferral accounts	15	11,384	8,581
Total assets and debit balance of regulatory deferral accounts		**98,964**	**90,612**

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

THE ISRAEL ELECTRIC CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NEW ISRAELI SHEKELS, IN MILLIONS)

	Note	As of December 31 2022	2021
CURRENT LIABILITIES			
Credit from banks and other credit providers	16	5,360	5,425
Trade payables		3,807	2,786
Other current liabilities	17	1,365	1,238
Customer advances, net of work in progress	18	834	740
Provisions	19	684	686
Total current liabilities		12,050	10,875
NON-CURRENT LIABILITIES			
Debentures	20	30,791	24,488
Liabilities to banks	20	3,546	5,155
Liabilities with respect to other benefits after employment termination	12	5,374	6,874
Deferred taxes, net	21	8,051	7,198
Liability to the State of Israel	20	1,876	1,793
Lease liabilities	22	460	542
Other liabilities	20	514	592
Total non-current liabilities		50,612	46,642
Total liabilities		62,662	57,517
EQUITY			
Share capital	23	908	908
Capital reserves	24	744	684
Capital remeasurement reserve	24	(562)	(2,074)
Retained earnings	25	31,081	29,307
Total equity		32,171	28,825
Total liabilities and equity		**94,833**	**86,342**
Credit balances of regulatory deferral accounts and deferred taxes with respect to regulatory deferral accounts	15	4,131	4,270
Total liabilities, equity and credit balance of regulatory deferral accounts		**98,964**	**90,612**

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

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

Date of approval of the Financial Statements: March 16, 2023

* **On August 1, 2021, Mr. Yiftah Ron-Tal concluded his tenure as the Chairman of the Company's Board of Directors, and as of the date of the signing of these Statements, a new Chairman of the Board of Directors has not yet been appointed. In light of the aforesaid, in its meeting of March 16, 2023, the Company's Board of Directors authorized Mr. Shlomo Arbiv, who serves as an External Director, to sign the Company's Financial Statements for the period ending December 31, 2022, in lieu of the signature of the Chairman of the Board of Directors.**

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

	Note	For the Year ended December 31		
		2022	2021	2020
Consolidated Statements of Profit (Loss):				
Revenues	27	23,105	22,150	23,778
Cost of operating the electricity system:	28			
Fuels		9,561	5,875	6,220
Purchases of electricity	36	5,933	6,872	5,269
Operation of the generation system		4,094	4,086	4,143
Operation of the transmission and distribution system and others		2,840	2,740	2,849
		22,428	19,573	18,481
Profit from operating the electricity system		677	2,577	5,297
Other expenses (revenues), net	29	(1,405)	15	(2,816)
Sales and marketing expenses	30	819	853	886
Administrative and general expenses	31	856	782	971
Income from liabilities to pensioners	12n	(148)	(47)	(24)
Reform agreement and other agreements results	12f	212	348	708
		334	1,951	(275)
Profit from current operations		343	626	5,572
Financial expenses, net	33	1,356	1,912	511
Profit (loss) before income taxes		(1,013)	(1,286)	5,061
Income Tax expenses (revenues)	21	(226)	(266)	1,189
Profit (loss) after income tax		(787)	(1,020)	3,872
Company's share of the loss of associated companies	11b	-	(9)	(6)
Profit (loss) before regulatory deferral accounts		(787)	(1,029)	3,866
Movement in regulatory deferral accounts balances, net of tax	15	2,561	2,314	(2,163)
Profit for the year		**1,774**	**1,285**	**1,703**
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	26i	60	(74)	147
Amounts that will not be attributed in the future to the Statement of Profit (Loss):				
Remeasurement of a defined benefit plan, net of tax	12l	1,693	776	486
Movement in regulatory deferral accounts balances, net of tax	15	(181)	110	(58)
		1,512	886	428
Other comprehensive income for the year, net of tax		**1,572**	**812**	**575**
Comprehensive income for the year		**3,346**	**2,097**	**2,278**

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

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

	Paid-up share capital	Capital reserves	Capital remeasurement reserves	Retained earnings	Total
			In NIS millions		
Balance as of January 1, 2020	**908**	**611**	**(3,388)**	**26,519**	**24,650**
Profit for the year	-	-	-	1,703	1,703
Other comprehensive income for the year	-	147	428	-	575
Transactions with the owners recorded directly to equity:					
Dividend Paid	-	-	-	(200)	(200)
Balance as of December 31, 2020	**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**
Profit for the year	-	-	-	1,774	1,774
Other comprehensive income for the year	-	60	1,512	-	1,572
Balance as of December 31, 2022	**908**	**744**	**(562)**	**31,081**	**32,171**

For details regarding assignment of profits and the dividend distribution policy see Note 25 below.

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

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

	For the Year ended December 31		
	2022	**2021**	**2020**
Cash flow from operating activities:			
Profit (loss) before regulatory deferral accounts according to the Statement of Profit and Loss	(787)	(1,029)	3,866
Adjustments required to present cash flow from operating activities – Annex A	2,997	5,789	2,673
Net cash provided by operating activities	**2,210**	**4,760**	**6,539**
Cash flow for investing activities:			
Investment in fixed assets and intangible assets	(5,472)	(5,502)	(4,099)
Proceeds from sale of fixed assets	1,781	149	4,255
Proceeds from compromise agreement	-	-	450
Loan to associate company	(9)	-	-
Long-term receivables, net	(4)	106	14
Investment in exchange traded funds	(100)	-	-
Repayment of bank deposits, net	-	-	60
Net cash, deriving from (used in) investing activities	**(3,804)**	**(5,247)**	**680**
Cash flow from financing activities:			
Issuance of long-term debentures	7,929	1,200	990
Other long-term loans received	-	1,500	-
Repayment of long-term debentures	(2,065)	(2,504)	(3,057)
Repayment of other long-term loans	(208)	(181)	(1,158)
Proceeds (payment) from settlement of derivatives	49	(1,412)	(1,091)
Repayment (depositing) deposits to secure swap transactions, net	604	(822)	206
Repayment of short-term commercial securities, net	-	-	(394)
Changes in short-term credit from banks, net	(2,215)	2,633	53
Repayment of lease liabilities	(264)	(275)	(280)
Dividend paid	-	-	(200)
Interest and commissions paid, net	(1,079)	(1,302)	(1,335)
Net cash, derived from (used for) financing activities	**2,751**	**(1,163)**	**(6,266)**
Increase (decrease) in cash and cash equivalents	1,157	(1,650)	953
Impact of exchange rate fluctuations on balances of cash and cash equivalents	43	(3)	(36)
Balance of cash and cash equivalents at the beginning of the year	**2,454**	**4,107**	**3,190**
Balance of cash and cash equivalents at the end of the year	**3,654**	**2,454**	**4,107**

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

(NEW ISRAELI SHEKELS, IN MILLIONS)

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

		For the Year ended December 31		
	Note	**2022**	**2021**	**2020**
Income and expenses not affecting cash flow:				
Company's share in losses of associates	11	-	9	6
Depreciation and amortization and changes in impairment		4,761	4,664	4,682
Income tax expenses (income)	21	(226)	(266)	1,189
Expenses with respect to deductions assessment agreement		17	-	-
Change in liabilities with respect to employee benefits, net		188	426	848
Financing expenses recognized in Statement of Profit and Loss	33	1,356	1,912	511
Compromise agreement income	29	-	-	(450)
Loss (profit) on disposal and sale of fixed assets	29	(1,367)	51	(2,377)
		4,729	**6,796**	**4,409**
Changes in assets and liabilities:				
Change in trade receivables		(412)	310	(216)
Change in other current assets including long-term receivables)		34	171	105
Change in inventory (including noncurrent inventory)		(750)	(814)	69
Deposits in funds and payments not from funds		(1,844)	(1,130)	(1,979)
Change in customer advances for work ordered, net of work in progress		94	172	85
Change in trade payables (including long term)		966	400	(96)
Change in other current liabilities (including those presented in long-term)		207	(102)	311
		(1,705)	**(993)**	**(1,721)**
Taxes on income, which have been paid		(27)	(14)	(15)
		2,997	**5,789**	**2,673**

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

NOTE 1:- GENERAL

a. Company Activities

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

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

b. The Electricity Sector Law

From March 4, 1996, the activity of the Electricity Sector is regulated under the Electricity Sector Law, 1996 (hereinafter: the “Electricity Sector Law”) and the regulations thereunder, and the Company operates accordingly. The provisions of the Electricity Sector Law state that its purpose is to regulate the activity in the electricity sector for the benefit of the public, while securing reliability, availability, quality, efficiency and energy efficiency, and while creating conditions for competition and minimization of costs. On July 19, 2018, the Knesset approved the Electricity Sector Law (Amendment no. 16 and Temporary Provision) 2018, (hereinafter in this Note: the “Amendment to the Law”).

For further details regarding the Amendment to the Law see sections e and f below.

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. The main subjects affected by material decisions of the Government are as follows:

1. National Outline Plan - Tel Aviv Reading power station
In 2016, the government approved the (partial) National Outline Plan NOP 10\a\3 applicable to the generation units existing on the site.

This plan determines, inter alia, termination of operation of the existing units by January 1, 2021, stages of discontinued operation of certain sites, transitional positions, and more. For further details regarding the dates of termination of the station’s operation, including the Law of Arrangement’s reference to the issue, see section e9 below.

The approval of the NOP imposes material economic costs on the Company, inter alia:

- Financial expenses regarding, inter alia, alternative construction, clearing and obligation to execute building conservation.
- Land value impairment and land expropriation; it is not known if the Company will be compensated in this respect.
- Additional environmental costs.

The Company included appropriate provisions in its financial statements with respect to the site’s evacuation and restoration. For additional details regarding receipts from the Israel Land Authority with respect to these costs – see Note f2e below.

NOTE 1:- GENERAL (continued)

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

2. On March 6, 2011, the Israel Government published a decision (resolution number 2949), allowing the Company to establish, along with another, a company that will use the fixed communications infrastructure installed on the electricity grid and operate it for the purpose of providing telecommunications services (hereinafter: the "Communications Company") and to enable the Company to hold shares and means of control in the communications company, this in the terms specified in the decision. For additional details see Note 11b1 below.

3. Government Policy on Energy Generation from Renewable Sources and Reduction of Greenhouse Gas Emissions

   Following previous government resolutions on the subject, on October 25, 2020, a Government Resolution was published concerning the advancement of renewable energy in the electricity sector, under which the goal for renewable energy electricity generation was updated to a rate of 30% of all electricity consumption in 2030, and the intermediate goal was updated to stand at 20% by December 31, 2025. This Resolution was adopted following the Minister of Energy's decision of July 29, 2020, and in light of the policy principles determined by the Minister of Energy on November 24, 2019 regarding the phasing out of coal use in the generation segment of the electricity sector by 2026, following consultation with the Electricity Authority, and in accordance with its recommendation.

   On July 25, 2021, Government Resolution no. 171 was published regarding the transition to a low-carbon economy. In order to comply with Israel's undertaking, pursuant to Government Resolution no. 2041 regarding the approval of the Paris Agreement on international response to climate change as of November 14, 2016, to submit to the climate treaty secretariat an updated national goal for the reduction of greenhouse gas emissions as of 2030, and in addition to act to transition Israel to a low-carbon economy by 2050. This Resolution includes, inter alia, an update of the national goal for the reduction of greenhouse gases of approximately 30% as of 2030, setting a national goal for 2050, according to which the annual amount of greenhouse gas emissions in 2050 will be reduced by at least 85% of the annual amount measured in 2015, and setting sectorial goals for the reduction of greenhouse gas emissions and creating efficiency in the market's energy consumption.
   Further to Government Resolution no. 171, on August 1, 2021, Resolution no .286 was published regarding the pricing of greenhouse gas emissions. This Resolution stipulated, inter alia, that the Minister of Finance should be responsible for correcting the Order of Excise on Fuel (Imposition of excise), 2004 as well as the Order of Custom and Exemption Rate and Purchase Tax on Goods, 2017, so it can lead to a gradual internalization of the external and environmental costs of carbon emissions in accordance with the contents of the Resolution.
   On March 14, 2022, the government approved an update to the national plan for prevention and reduction of air pollution in Israel, in order to meet the national goals approved by the Government Resolution 171 as aforesaid.

   For further details, see section g below.

4. On June 3, 2018, the Government approved resolution no. 3859 regarding "The Reform in the Electricity Sector, Structural Change in the Electric Company", and on June 10, 2018, the text of the resolution was published. Following this resolution, on September 3, 2019, Government Resolution No. 4682 was approved which deals with the approval for the Company to establish a Government Subsidiary - wholly owned by the Company - within this framework, on March 15, 2020, the generation subsidiary was incorporated under the name "Nativ Haor – Orot Rabin Ltd.", for further details, see section e below.

5. For details of Government Resolutions and developments regarding the future of the units at the Orot Rabin power stations site, see Note 1g2.

6. With regards to the Government Resolution on the exercising of options to receive shares in CyberGym Control Ltd., see Note 11 b2 below.

NOTE 1:- GENERAL (continued)

d. Regulation and Statutory Provisions Applicable to the Company

The Company's operation is greatly affected by the regulation that applies to its operations, including the provisions of the Electricity Sector Law and the regulations thereunder, by virtue of which it is granted licenses for its activities, government policy and decisions (including decisions of the Ministry of Energy, the Ministry of Environmental Protection and the Ministry of Finance), criteria (as published from time to time in the Official Gazette), and decisions of the Electricity Authority (including with regard to the electricity rate which is determined by the Electricity Authority and collected from the Company's customers), the provisions of the Companies Law and its regulations (inter alia, regarding the Company's conduct as a public company), the provisions of the Government Companies Law and the regulations thereunder and the decisions of the Government Companies Authority (hereinafter: the "Companies Authority") (inter alia, regarding the Company's conduct as a government company), the manner of decision making by its organs, the manner of preparing its financial statements, the appointment of directors and special officers, etc.), the provisions of the Natural Gas Sector Law, 2002 (hereafter: the "Gas Sector Law"") and the decisions of the Natural Gas Authority (hereinafter: the "Gas Authority"), the provisions of the Economic Competition Law, and the decisions of the Competition Authority and the General Director of the Competition Authority (by virtue of the Company being a monopoly or by virtue of its entering into agreements requiring the receipt of approval from the Competition Authority), the provisions of the Budget Foundations Law, 1985 (hereinafter: the "Budget Foundations Law") (the Company is a "budgeted entity" as it is defined in the said law), the provisions of the Securities Law and the regulations thereunder and the guidelines of the Securities Authority (by virtue of the Company being a reporting corporation and a public company, as these terms are defined in the Companies Law), the provisions of the Law to Promote Competition and Reduce Centralization, 2013 (hereinafter: the "Law of Centralization") and the regulations pertaining to business licensing, planning and construction and the quality of the environment.

NOTE 1:- GENERAL (continued)

e. Structural Change

The purpose of the Electricity Sector Law is to regulate the activity in the Electricity sector for the public’s benefit, while ensuring reliability, availability, quality, efficiency, and energy efficiency, and while creating conditions for competition and minimizing costs. The Electricity Sector Law determines provisions, by virtue of which it is obligatory to maintain separation between the electricity generation, transmission, distribution and supply activities and management of the system, under conditions prescribed by the Electricity Sector Law, while specifying transition instructions and a timetable for implementing the instructions, which enable the Company to generate, transmit, distribute, supply (namely sell) electricity, according to the licenses granted to the Company in accordance with the Electricity Sector Law, and for the periods determined in the Electricity Sector Law.

As a result thereof, over the years, discussions have been held between the relevant entities, teams were appointed, and a number of possible outlines for implementation of a structural change in the Company were discussed.

On May 10, 2018, the relevant Government entities and the Company, following consultation with the employee representatives and the "Histadrut", reached understandings relating to an outline of principles regarding a structural change for a period of eight years (hereinafter: the “Structural Change Outline”). On the same date, the Structural Change Outline was approved by the Audit Committee and Company’s Board of Directors as a transaction of the Company with its controlling shareholder, for the sake of caution alone (in this Note below; the “Decision of the Board of Directors”).

The decision of the Board of Directors and compliance with the Company’s obligations within the Structural Change Outline were all, without exception, subject to, and conditional on, the adoption of a Government Resolution in accordance with the Structural Change Outline, the anchoring of arrangements required in primary and/or secondary legislation and/or the setting of policy principles by the Minister of Energy and/or regulation by the Electricity Authority, and granting licenses by the competent bodies in the State, all as required by any law.

Pursuant to the aforesaid and the Structural Change Outline, on May 17, 2018, the Minister of Energy published policy principles regarding structural changes in the electricity sector and the Company (hereinafter: the “Principles of the Minister’s Policy”). On June 3, 2018, Government Resolution no. 3859 was adopted on the Reform in the Electricity Sector and Structural Change in the Company and the Amendment of the Government Resolution (hereinafter: the “Government Resolution regarding the Reform”, or the “Government Resolution”) and on July 26, 2018, the Knesset approved the Electricity Sector Law (Amendment no. 16 and Temporary Provision) 2018, (hereinafter: the “Amendment to the Law” or the “Amendment to the Electricity Sector Law”).

The Structural Change Outline, the Government Resolution regarding the Reform, the Amendment to the Electricity Sector Law, the Principles of the Minister’s Policy under his authority pursuant to Section 57a of the Electricity Sector Law, and the Board of Directors’ decision, will be hereinafter together named the “Structural Change”.

For decisions of the Electricity Sector regarding sale of power stations by the Company see Note 3o, and regarding the Company’s TOP liability see Note 35a1 below.

The following is a description of the main points of the Structural Change Outline as determined, as applicable, in the main commitments of the Company, as adopted within the decision of the Board of Directors, and as applicable in the description of the main principles of the Minister's policy, the Government's Resolution regarding the Reform and the Amendment to the Law:

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

1. Production segment

The Company shall reduce its operations in the production segments, as follows:

a) Sale of sites

Within a period of approximately five years and as detailed in the table below, the Company will sell, in a competitive process, existing gas-operated generation sites to third parties, including the infrastructures and land of each site (hereinafter together: the "Sold Generation Sites"), as follows:

Site Name	Final date for transfer of possession *
Alon Tavor	December 3, 2019
Ramat Hovav	December 3, 2020
Reading	June 3, 2021
Hagit (The part of the site which includes a type E combined cycle area)	June 3, 2022
Eshkol	June 3, 2023

(*) See Section 9 below.

Area D - Part of the area at the Rutenberg power station (which was previously intended for a project that did not materialize) will be transferred by virtue of the Reform Agreement and pursuant to the outline determined in the Arrangement Agreements as defined in Note 1f below. As of the approval date of the Financial Statements, the stage of infrastructure clearing, and preparation of part of the area for transfer to the Israel Land Authority (ILA) has been completed, in accordance with the reform outline and the outline determined in the Arrangement Agreement, a version was approved for signing an agreement with ILA that will regulate the manner and details of the transfer. The agreement is expected to be signed during 2023. Pursuant to the agreement formulated by the parties, the Company is entitled to receive from ILA reimbursement of lease fees, migration costs and additional costs agreed upon between the parties in accordance with the outline in the arrangement agreement and the draft agreement that was drawn up.

The total installed capacity of the generation sites to be sold by the Company in accordance with the Structural Change Outline is approximately 4,500 megawatts. (583 megawatts of this total were sold in Alon Tavor, 1,137 megawatts in Ramat Hovav and 660 megawatts in East Hagit. The capacities are in accordance with those specified in the Company's licenses, while in actuality, capacities in the purchasers' generation licenses, which were determined or will be determined as applicable in the Noga Company's acceptance testing under ISO standard and the Electricity Authority's criteria, are higher).

Under the decision of the Electricity Authority of May 15, 2018, the Company's consideration in respect of the sale of the sites will be at the fair value of the asset and in any case will not be less than the value of the sale, plus the value of the land, as will be determined by the Authority. The "value of the sale" for these purposes is the site's value rate, plus any additional cost that will be recognized by the Electricity Authority and which will be created directly due to the sale process, including the vacation and construction of the Company infrastructures evacuated from said site, all subject to cost control by the Electricity Authority. The consideration to be paid to the Company with respect to sale of the site will be paid in cash on the date of delivery of possession thereof.

The Company's licenses for the Sold Generation Sites will be in effect with respect to all the activities carried out under the licenses, until the final date for delivery of possession thereof as detailed above, or until the actual date of delivery of possession thereof, according to – the earlier of the two, all under the terms specified in those licenses, provided that the Company will act in accordance with their provisions, the provisions of the Electricity Sector Law, and the provisions of any other law. The Electricity Authority, with the approval of the Minister of Energy, may extend the validity of the licenses of the Company's Sold Generation Sites by two additional periods not exceeding six months each and by a third period as aforesaid with the approval of the Economic Affairs Committee of the Knesset. Additionally, under special and exceptional circumstances, the Minister may, with the approval of the Economic Affairs Committee of the Knesset, postpone the validity of the license of only one of the Sold Generation Sites, as aforesaid, by a fourth period not exceeding six months. Notwithstanding the aforesaid, the validity of the Company's license for each of the Sold Generation Sites will expire immediately upon delivery of possession thereof.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

1. Production segment (continued)

a) Sale of sites (continued)

The Company is entitled to carry out operation and maintenance activities at the generation units that are being sold (hereinafter: the “Units to be Sold”) until the end of the validity of the generation license, and to loan employees to a generation license holder which acquired generation units from the Company for five years from the date of handing over possession. Furthermore, regarding the Units to be Sold, the Company is entitled to carry out planning activities under the Planning and Building Law, 1965 (hereinafter: the “Planning and Building Law”) and engineering design subject to the development plan for generation and transformation that was approved by the Ministers under section 19 of the Electricity Sector Law, or the development plan for the transmission and transformation system that was approved under the Amendment to the Law and the instructions of the Ministry of Energy.

The generation licenses for the generation units of the Company that are not included in the Sold Generation Sites will remain valid until the end of the engineering life of the generation units, with the Electricity Authority determining the engineering life of the generation units as aforesaid.
As of the date of approval of the Financial Statements, the decision of the Electricity Authority’s plenum on this issue has not yet been received.

Production activities in all generation units remaining in the Company will be reported through a separate profit center (subject to the audit of the auditor of the Company) in a manner which will enable transparency and the attribution of costs. As of the financial statements for 2021, after reaching consents with the relevant regulatory entities, the Company has begun implementation of these reporting requirements in its financial statements as part of Note 36 – Segmental Reporting.

For details regarding the sale of the Alon Tavor, Ramat Hovav, and East Hagit sites, and the Company’s actions for advancing the sale of the Eshkol site, as well details regarding the Reading site, see Section 9 below.

b) Construction of power stations operating with combined cycle gas turbines

1) For details regarding the establishment of the generation subsidiary, the actions for the establishment of the two CCGTs, and the postponement of the stable and commercial activation of the first CCGT, see section 9 below.

2) The Generation Subsidiary may establish 2 generation units operated by natural gas in the Orot Rabin site with combined cycle technology ("CCGT").

3) The Generation Subsidiary will purchase the planning, construction, operation and maintenance services of the two CCGT’s from the Company, and the Company may provide these services, subject to the following:

   (a) Until the establishment of the Generation Subsidiary, the Company may, by itself, carry out engineering planning activities and planning activities pertaining to the two aforesaid generation units, even if this is not by way of providing services.

   (b) As of the date of establishment of the Generation Subsidiary, planning the two CCGT’s shall only be carried out by the subsidiary through purchase of services from the Company. After establishment of the Generation Subsidiary, the Generation Subsidiary will purchase the construction, operation and maintenance services from the Company. The Generation Subsidiary will employ up to ten employees, all of whom will be employed by personal contracts.

4) The first combined cycle gas turbine will begin to operate by June 2022. Construction of the second combined cycle gas turbine will commence only after the sale of the Alon Tavor site and publication of a competitive process for the sale of the Ramat Hovav site. As of the date of the Financial Statements, these terms have been complied with. Both combined cycle gas turbines will be with a total installed capacity of approximately 1,200 MW (an upwards variance of 5% will not be considered a deviation from this capacity). Both combined cycle gas turbines will be of at least H technology level, in accordance with the products currently on the market.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

1. Production segment (continued)

b) Construction of power stations operating with combined cycle gas turbines (continued)

The Company or its Generation Subsidiary shall not establish, replace, operate, plan, maintain or engage in the development of power stations in Israel either by itself or as a contractor for a third party, nor shall it engage in the production of electricity, including as part of microgeneration or renewable energy in Israel.

5) The Company has undertaken to the State not to act to obtain new generation licenses or to construct new electricity generation stations and replace existing stations, and not to act to obtain permits for the operation of power stations for other parties in Israel. The aforesaid shall not prevent the Company or the Generation Subsidiary from engaging in operation and maintenance of their power stations and the planning required for such operations.

6) With regard to the generation units that are not sold pursuant to the Government Resolution regarding the Reform, the Company is entitled to engage in the operation and maintenance of those generation units, and, with the approval of the Authority and in accordance with the instructions of the Ministry of Energy, to engage in planning activities in accordance with the Planning and Building Law as well as the implementation thereof, and the engineering planning required for the Generation Units, except for the aforesaid planning and engineering planning activities, the purpose of which is to establish or replace the said generation units, and the Company is also permitted to deal with the construction of ‘scrubbers’ in the coal-fired generation units at the Rutenberg site, as well as planning activities in accordance with the Planning Law, the implementation thereof and the engineering planning required therefor, until the end of the engineering life of the aforesaid generation units, according to the determination of the Electricity Authority.

2. System Management

Following are the main points of the Government’s Resolution regarding the system management operation:

a) By December 3, 2019, a separate government company will begin operations as a license holder to manage the system (hereinafter: “Noga”).

b) Employees from the System Management Unit, Planning Development Technology Division (PDT), the Statistics and Market Research Department and employees from additional units, in accordance with the needs of the economy and in a manner that will enable the functioning of the system management company, will be transferred to Noga, as part of the sale of the operation, excluding employees or functions which were agreed would remain with the Company.

c) As part of the sale of the operation, the consideration to the Company with respect to the assets the Company will sell to Noga within the reform will be at the rate value of the assets, as recognized by the Electricity Authority, and subject to cost control by the Electricity Authority. In accordance with the Electricity Authority’s decision of May 15, 2018, the consideration that will be paid to the Company with respect to the assets that will be sold by it, will be paid in cash on the date of delivery of possession thereof.

d) The Minister, in consultation with the Electricity Authority and with the approval of the Minister of Finance, may require a system management license holder to submit for his approval, in a manner and at a date required, a development plan for the generation and delivery segments (transmission and transformation), in whole or in parts, for its activities under the terms of the license, and from the Company regarding the distribution segment.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

2. System Management (continued)

e) The Company will be the designated emergency authority until a date set by the Minister (that will not exceed 12 months from the date on which Noga will operate as a license holder under the Electricity Sector Law).
A system management license holder will not be permitted to hold production licenses. Additionally, the unified license (namely, a license within which the Company performs the activities of transmission, distribution, supply, sale of electricity and trade therein), will be in effect until the latest date from among these, provided that if a new license is granted for one of these activities or part of it, the unified license will no longer apply with respect to that activity or part of it:

1) The date on which a system management license is given to Noga, which will not be later than December 3, 2019. The Ministers, upon consultation with the Electricity Authority and the Government Companies Authority, may, by order, postpone the date for granting a license for system management by two periods not exceeding six months each, and by additional periods as aforesaid, also with the approval of the Economic Affairs Committee.

2) The date on which Noga will begin to purchase and store fuel types used by the Electricity sector, for their allocation and sale to generation license holders or to a person producing electricity who is exempt from the requirement of a license under the Law.

3) The date on which the Company was provided with new licenses for transmission, distribution and supply, whichever is the latest.

For details regarding sale of the full system management activity to Noga, see section 9 below.

3. Transmission control

The Company shall execute transmission control for the operation of the transformation and transmission system. For this purpose, the Company shall establish and operate a new transmission control system pursuant to the terms that will be set in the licenses and the Law, and pursuant to agreements with Noga, including with respect to the issue of switching.

For details regarding the establishment of a separate national transmission control system, see section 9 below.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

4. Transmission and distribution segments

The Company will continue to act as an essential service provider and execute the transmission operation in accordance with the transmission license to be provided to it and in accordance with the development plan for the transmission and transformation system as shall be approved from time to time. The Company will operate in the transmission and distribution segments through separate profit centers.

The transmission and distribution licenses will be granted for an extended period as customary in the field of public infrastructures such as the natural gas and water sectors, and will include provisions with respect to the obligation to install meters and transfer the information received therefrom and the distribution license will also include an obligation to sell electricity to every consumer in the distribution area defined in the license, if the consumer requests it. It is clarified that a distribution license holder will not carry out distribution in an area specified in a license of another license holder.

Further to the principles of the Minister's policy, on July 15, 2018, the Company received the Minister's letter in which it was noted that the Minister accepts the position of the professional echelon of the Electricity Authority, under which the validity of the distribution and transmission licenses that will be given to the Company should be set for 20 years, in light of the nature of the Company's operation and the long-term investments required of it, this without derogating from the provisions of any law, and subject to completion of the required legislation amendments.

A transmission license holder will be responsible for development of the transmission and transformation system in accordance with the development plan and in accordance with the planning of the transmission and transformation system by the system management license holder.

A transmission license will only be given to a Government company and only one license will be in effect at any time for this activity.

For additional details regarding the unified license and its validity, see section 2e above.

The volume of distribution licenses that will be given to non-Government Companies will not exceed 10% of the annual volume of consumption in the sector, however, in this matter, the natural increase in the volume of consumption and the distribution region prescribed in the license in comparison to the aforesaid volume of consumption shall not be taken into account at the time the license is granted.
In this matter, "natural increase in the volume of consumption in the distribution area" - including due to an increase in the number of consumers in the local body or industrial area or due to an increase in the area of the local body or industrial area, provided that for an industrial area - the area added thereto is adjacent to the existing industrial area. This restriction of the volume of licenses of up to 10% does not apply to a company that held a distribution license prior to the date of application of the Amendment to the Electricity Sector Law.

A distribution license holder will present the Minister with a development plan of the distribution system, and will prepare a development plan in accordance with the instructions of the license holder of the system management with respect to the connection points and the reciprocal effects between the transmission system and the distribution system.

Insofar as it will be decided to install smart meters for consumers of the Company, the system will be installed by the Company, which will own the meters as part of the distribution segment and the meters will be of the Open Access type, in accordance with the smart meter installation rules pursuant to the Electricity Authority's Resolution no. 62404 of February 2022.

A Government company that receives a distribution license, a supply license and a transmission license will not be granted a production license and will not carry out production activity (including engineering design), planning under the Planning Law, construction, operation, maintenance or replacement actions, all with respect to generation units serving or expected to be serving the electricity sector, as well as consultation regarding the abovementioned actions, whether for itself or for another engaging or interested in engaging in activity, except as subject to the conditions determined in the Amendment of the Electricity Sector Law. However, the Company will be permitted to construct and operate storage facilities only within the physical infrastructure of the transmission grid, while the storage in the physical infrastructure will be determined in the development plan to be prepared by the system management license holder. In addition, the Company will be permitted to plan, construct and operate storage facilities within the physical infrastructure of the distribution grid, all in accordance with principles that the Electricity Authority will determine to integrate storage facilities in the distribution grid. A resolution of the Electricity Authority was published on January 18, 2023, detailing the principles under which the Company will be permitted to establish storage facilities at a scope not exceeding 15% of the market share of the private market, subject to receiving a storage license. For further details regarding storage facilities see section 9 below.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

5. Supply section

a) The Company will be the default supplier for the supply segment which will operate as a separate profit center. The supply of electricity to high voltage and extra high voltage and ultra-high voltage consumers will be opened to full competition. The Company will not be entitled to operate as a competitive entity with these consumers. The Company will collect a rate as set by the Electricity Authority.

The subject will be reexamined after 5 years, inter alia in accordance with the market's terms of competition, by the Electricity Authority, the Ministry of Energy, the Ministry of Finance, and the Competition Authority.

b) In the low voltage supply segment, insofar as it will gradually be opened to competition, the Company will be permitted to compete (in a fair manner and subject to regulation that will be determined) only if the rate of its customers drops below 60% of the number of customers in the low voltage supply segment.

c) Until a new supply license is granted, the Ministers were instructed to give the Company approval in accordance with the provisions of the Electricity Sector Law, for carrying out cyber activity as detailed in the Government Resolution regarding the Reform, in consultation with the Electricity Authority. As of the date of approval of the Financial Statements, such approval has not yet been granted.

d) After expiry of the unified license, the Company will be permitted to supply value added services, only as detailed below:

1) Cyber services for all consumers in the ultra-high, extra-high and high voltage supply segments and for its low-voltage consumers.
2) As of the date on which the number of Company consumers in the low voltage supply segment will decrease below 75% of all consumers in this segment, the Company will be entitled to provide cyber services to all consumers and "smart home" services and energy efficiency for low voltage consumers only, and the subject will be defined in the supply license that will be given to the Company.

The "smart home" and "energy efficiency" services for this purpose are services providing information on the characteristics of consumer electricity consumption of each electrical device/appliance, providing consultation services on the ability to reduce power consumption and the efficiency of their use, as well as remote control services for home appliances, including by installation of appropriate equipment at the consumer's private facility for control services.

For additional details regarding competition in the supply segment, see section 9 and Note 3q below. For additional details regarding the unified license and its validity, see section 2e above.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

6. Financial stability

a) Financial goals

1) In accordance with the understandings with respect to the Structural Change Outline, on May 10, 2018, the Board of Directors of the Company approved a business plan that constitutes the basis for the financial model that was presented to the Board of Directors on the date of approval based on the principles of the Structural Change Outline formulated during the reform discussions.

2) The financial model, including the financial stability objectives set by the Board of Directors and the assumptions that served as its basis, were prepared by the Company, presented to the State and discussed as part of the reform discussions.

3) During the reform years, a team will be established, composed of Government entities headed by the Government Companies Authority Director, with the participation of the Budget Commissioner, the Accountant General and the Director General of the Ministry of Energy or anyone on their behalf, in order to monitor and audit, while consulting with the Company and on the basis of its reports to the team, the compliance with the financial stability targets and the compliance with the assumptions underlying the business plan relating to the reform and the Structural Change (hereinafter: "the Monitoring Team").

The monitoring team will convene once a year or soon after a significant event has occurred that has a direct connection to the implementation of the reform, which significantly affects the Company's financial stability targets, whichever is earlier. To the extent that it is agreed that there is an expected material deviation from meeting the financial stability targets or the assumptions at the base of the business plan relating to the reform and the Structural Change, the team will hold discussions with the Company regarding possible courses of action. As of the date of approval of the Financial Statements, the team has convened once with the participation of the Director of the Government Companies Authority and representatives of the State.

b) Restrictions and provisions included in the debt raising documents:

Pursuant to the decision of the Board of Directors, all sale or transfer of assets or liabilities by the Company, including to a subsidiary, or the sale of generation sites, will be made subject to any Law and subject to the restrictions included in the Company's debt-raising documents.

c) Distribution of dividends

Insofar as the Company’s Board of Directors decides not to distribute dividends, the Government will not require the Company to distribute dividends under Section 33(C) of the Government Companies Law until the end of 2025 or until achievement of the final financial stability goals as approved in the Board of Directors’ decision, according to the earliest among them.

For further details regarding the dividend distribution in 2020, see Note 25 below.

7. Business development subsidiary

The Government Decision regarding the Reform stipulated that the Ministers will submit a draft resolution to the Government for approval of the Company’s decision to establish an overseas business development subsidiary, and this, as necessary, after examining the need for approval under section 6(d) of the Electricity Sector Law. The establishment decision will determine that the Minister who will be responsible for the affairs of the Company under the Government Companies Law will be the Minister of Energy. As part of the decision, it will be determined, inter alia, that all employees of the Company will be employed under personal contracts and that their number shall not exceed twenty-five.

For details regarding the Company’s actions to establish of an overseas business development subsidiary, see section 9 below.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

8. Organizational changes and efficiency program:

The Company is undergoing a significant process of organizational change and an efficiency program in which the number of employees in the Company will be reduced by 1,803 employees over 8 years between 2018 and 2025. Following retirement of employees as stated, full-time positions will be deleted from the Company's employee roster, according to the number of early retirements carried out in practice.
In addition, there is a decrease in the number of employees following the transfer of employees to Noga as part of the sale of the operation, and the sale of the generation units. Pursuant to the collective agreement, the employees of the Generation Units which will be sold will be loaned for a period of 5 years from the Company to the companies which will acquire the Generation Units and thereafter they will terminate their employment in the Company.
The total number of permanent employees will decrease by approximately 2,200 permanent employees (relative to the beginning of 2018).

At the end of the reform period, the number of permanent employees in the Company will not exceed 6,400 permanent employees. In addition, from January 1, 2022 and during the remainder of the reform period, the number of temporary employees will be between 2,600 and 2,900. For details of a special collective agreement for the retirement of 200 additional employees, see Note 12f below.

The number of permanent employees at the end of the reform period, after the aforesaid special collective agreement for the retirement of 200 employees, will not exceed 6,315.
Insofar as the tasks imposed on the Company require the employment of additional temporary employees beyond the said volume of temporary employees, their employment will be subject to the approval of the Director of the Government Companies Authority and the Director General of the Ministry of Energy. For this matter – the "Reform Period" – eight years from the date of the Government's Resolution regarding the Reform. That stated in this section pertaining to permanent employees is subject to the removal of the system management activity and sale of the generation sites, as they are defined in the Collective Agreement, in a full manner and no later than by the end of the Reform Period. In accordance with the Company's request to postpone the timing of the reduction in the number of temporary employees for the implementation of the development plan to which the Company is committed, on January 27, 2020 the approval of the Director General of the Ministry of Energy and the Director of the Government Companies was granted to postpone the timing of the reduction in the number of temporary employees from January 1, 2022 to December 31, 2023. On October 2020, the Company applied to the Ministry of Energy and the Companies Authority, requesting to determine that the Company will be required to meet this goal at the end of the reform period (namely on December 31, 2025). The issue is under discussion with the stated entities in this matter.

Furthermore, the outline of the organizational change includes, among other things, an agreed framework for updating labor relations and changes in the organizational culture of the Company, the principles of changing the structure of the organization and efficiency and a timetable for achieving an agreement to change the salary structure for new employees to be hired. Moreover, agreements were reached regarding payments to permanent employees who will remain in the Company and to employees who retire during the reform period.
For details of the collective agreements as a result of the organizational change, see Note 12f below.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

9. Actions to implement the Structural Change

Pursuant to the Company's undertakings which were adopted by the Company's Board of Directors on May 10, 2018, in case the Government's decisions and/or the legislation amendments and/or the administrative decisions and/or Electricity Authority regulations and/or the aforesaid State licenses are not consistent with the understandings (insofar as these are required in the State's opinion), or that the collective agreement between the Company and the employees' representatives will not be in force, then all the Company's undertakings pursuant to the Company's Letter of Undertakings and its appendices shall not be in effect and the Government shall not make any claims and/or contentions towards the Company in respect of said undertakings.

On June 3, 2018, the required Government Decision was received, on July 19, 2018 the Knesset approved the Amendment to the Law, and on May 17, 2018, the Principles of the policy of the Minister and the Electricity Authority's Regulation as aforesaid were published. In addition, on November 4, 2018, the Collective Agreement came into effect after all the contingent conditions detailed therein were complied with.

The full implementation of the Structural Change will require additional regulatory approvals, additional decisions and regulations of the Electricity Authority and the granting of licenses which have not yet been received as at the date of approval of the financial statements, and there is no complete certainty as to the date of determination, acceptance and final terms thereof.

As of the approval date of the Financial Statements, the Company is unable to reliably estimate the exact implications of all the additional regulations and approvals that have not yet been formulated or received, on its financial position and results.

Below are details regarding the actions taken by the Company to implement the structural change:

The generation subsidiary

On November 5, 2018, the Company's Board of Directors approved the establishment of the Generation Subsidiary.

On September 3, 2019, Government Resolution No. 4682 was approved which deals with the approval for the Company for the establishment of a Government Subsidiary, wholly owned by the Company, whose objectives are: engineering design and planning operations for the two generating units operated using natural gas and diesel at the Orot Rabin site with combined cycle technology (CCGT) and their execution (hereinafter: the "Two CCGTs"); establishment, operation and maintenance of the Two CCGTs; and generating electricity through the Two CCGTs and sale of the electricity generated as aforesaid, subject to the Electricity Authority's rules and criteria.

The Generation Subsidiary was incorporated on March 15, 2020 as "Netiv HaOr – Orot Rabin Ltd." (hereinafter: "Netiv HaOr").

On December 30, 2021, the Company and Netiv HaOr signed agreements to regulate the relationship and service provision between the companies, as detailed below:

A parent company-subsidiary agreement – the framework agreement for regulating the relationship between the companies and the provision of services given by the Company to Netiv HaOr, the principles and the consideration for them. The appendices detailed below will be attached to this agreement:

1. A financing agreement – an agreement for the provision of equity, guarantees and a shareholder loan from the Company to Netiv HaOr.
2. An EPC agreement – an agreement for planning, acquisition and construction of two combined cycle electricity generation units (with a total installed capacity of approximately 1,260 megawatts), as described below.
3. A lease agreement - an agreement for the lease of the land on which the generation units will be constructed, which will include an appendix regulating the right of Netiv HaOr to use the installations outside the lease site, inside the area of the Orot Rabin station.

In addition to the signed agreements, there is an additional agreement – an agreement of the operating and maintenance services for the generation units, which as of the date of approval of the financial statements is still under negotiation and has not yet been signed.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

9. Actions to implement the Structural Change (continued)

The generation subsidiary (continued)

The agreements signed between the Company and Netiv HaOr were signed subject to a condition precedent under which the agreements and their appendices will enter into effect only after their approval by the authorized bodies of the parties to the agreement. Additionally, a clause is included under which insofar as the government team, which will be established under the auspices of the Government Companies Authority and with the participation of representatives from the Ministry of Energy and the Budget Division in the Ministry of Finance which will accompany the formulation of the said agreements (hereinafter: the “Government Team”), will have comments on the agreements/their appendices, the parties will work to adjust the agreement and/or the appendices, as required. The Company is working with Netiv HaOr to formulate the agreement that has not yet been signed (operating and maintenance services as described above).

The agreements that have been signed were delivered to the Companies Authority, the Ministry of Energy, and the Electricity Authority. The Company has requested the Companies Authority to assist in the formation of the Government Team pursuant to Government Resolution 4682 of September 3, 2019 and receipt of its comments. The complete comments of the Government Team have not yet been received as of the date of approval of the financial statements.

In light of the aforesaid, these agreements have not yet entered into effect as of the date of approval of the financial statements.

After the Statement of Financial Position date, on February 14, 2023, the Company applied to the Director-General of the Ministry of Energy, the Director-General of the Ministry of Finance, the Director-General of the Government Companies Authority, the Chairman of the Electricity Authority, and the Head of the Budget Division in the Ministry of Finance, requesting to consider the closing of the “Netiv Haor” subsidiary and assimilating its activity in the Company. The Company’s position is that the objectives and purpose for which the subsidiary was established are not being met. Closing the subsidiary and assimilating the activity in the Company will save costs, streamline the activity, eliminate disputes and bureaucracy, and this without harming the ability to quickly and efficiently sell the generation units, if the State decides to do so in the future, as was implemented by the Company as part of the reform.

It is also noted that closing the subsidiary will necessitate amendment of the Government’s Resolutions and of the Electricity Sector Law, all as required.

Establishment of power stations with combined cycle technology (CCGT)

On April 16, 2019, following a tender process conducted by the Company for the purchase of the equipment required for this purpose, long-term purchase and maintenance agreements were signed between the Company and GE Global Parts & Products GMBH ("GEGPP") and General Electric International Inc. ("GEII") (hereinafter jointly: the "Agreements"), which included the order of a purchase package for equipment and construction services, as well as long-term maintenance services for one of the CCGT units (hereinafter: “Unit 70") for an amount of approximately NIS 1 billion. Furthermore, as part of the agreements, the Company was given the option (which was exercised on September 24, 2019, as detailed below) to also purchase the aforesaid equipment and services for an additional CCGT unit (hereinafter: “Unit 80”). The supply in respect of Unit 70 was completed by the end of 2021.

On September 24, 2019, the Company announced to GEGPP and GEII the exercise of the option to purchase equipment and construction services as well as long-term maintenance services also in respect of Unit 80 for a total of approximately NIS 845 million. Supply with respect to Unit 80 was completed in 2022.

On April 8, 2020, the Company received the emissions permit for both CCGTs.

As of the date of the Financial Statements, the Company has invested approximately NIS 3,335 million in the establishment of the Two CCGTs at the Orot Rabin site.

The Company reached agreement with INGL for ordering a capacity of 4500 MMBtu per hour for the CCGTs at Orot Rabin. Insofar as will be needed in future, the Company will be able to increase its order. In addition, it was agreed that the Company will bear the costs of connection fees with respect to the construction of a PRMS facility for the new CCGTs at Orot Rabin, which will be constructed by INGL.
On February 1, 2023, the Company delivered a notice to the Electricity Authority regarding the update of the activation date of unit 70 at the Orot Rabin CCGT.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

9. Actions to implement the Structural Change (continued)

Establishment of power stations with combined cycle technology (CCGT) (continued)

In the aforesaid notice, the Company stated that despite all the efforts and many and varied measures the Company has taken in order to meet the schedules and reduce as much as possible the delays and postponements, the Company is updating the estimated forecast for the stable operation of Unit 70 to September 2023. The estimated forecast for the stable operation of Unit 80 is June 2024. The estimated forecast for the commercial operation of Unit 70 is December 2023, and of Unit 80 is September 2024.

"**Stable Operation**" – operation of the generation unit that is carried out, while synchronizing it with the transmission grid, after receiving an initial synchronization approval from the System Manager. The operation at this stage begins from a minimum load until reaching a maximum load and operating at this load over a period of time, and upon receipt of this synchronization approval as aforesaid, it is possible to begin the manufacturer's "self-operating tests" and upon their completion to begin the "acceptance tests" of the System Manager, as stated in the Electricity Authority's criteria.

"**Commercial Operation**" – the date on which the generation unit successfully passed all the acceptance tests of the System Manager as defined in the criteria published by the Electricity Authority, and the generation license entered into effect.

Business development subsidiary

The Company is examining with the relevant government bodies the manner of executing and implementing the business development activity by a separate entity, but consents have not yet been reached in the matter.

Sale of sites

Alon Tavor

On July 29, 2019, the acquisition agreement was signed with the Tender Winner, MRC Alon Tavor Power Ltd. (hereinafter in this Section: the "Buyer") and on December 3, 2019, possession of the Site was transferred to the buyer, upon the date stipulated in the Government Resolution regarding the Reform.

The consideration pursuant to the Winning Bid and the acquisition agreement consisted of an amount of NIS 1,876 million (after adjustments to the date of sale, according to the agreement), and was paid to the Company by the Buyer on the date of the transfer of possession of the Site.

The excess consideration beyond the sale value and the value of the land was returned to the consumers in accordance with the Authority's decision.

Ramat Hovav

On June 10, 2020, the winner of the international public tender published by the Company for the sale of the power station to the Ramat Hovav Power Plant Limited Partnership Group was announced. The Group's members are: Shikun & Binui Ltd., Edeltech Holdings 2006 Ltd., Eldelcom Ltd. and Havat HaChashmal Ltd. (hereinafter in this Section: the "Buyer"). On June 25, 2020, the sale agreement was signed with the Buyer. The Winning Bid was in an amount of approximately NIS 4,256 million.

On December 3, 2020, all contingent terms for the completion of the transaction were fulfilled, among other things, the Electricity Authority's decision was received regarding the provision of generation licenses to the Buyer, which have entered into effect after the Minister of Energy's approval, guarantees were deposited in accordance with the law, and the proceeds were paid to the Company, and as such, the transaction was completed and possession of the site was transferred to the Buyer.

For details of the Company's profit from the sale and the regulatory liability to return the excess proceeds over the sale value and the land value to consumers – see Notes 15 and 29 below.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

9. Actions to implement the Structural Change (continued)
Sale of sites (continued)

East Hagit

On December 9, 2021, the winner of the international public tender published by the Company for the sale of the East Hagit power station was announced ("East Hagit Power Plant Limited Partnership"). Its members are Shikun & Binui Energy, Edeltech Energy and Infrastructure, Edeltech Renewable Energy (hereinafter in this section: the "Purchaser"). On December 27, 2021, a sales agreement was signed with the Purchaser. The winning bid was in the amount of approximately NIS 1,602 million.

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, they entered into effect after approval by the Minister of Energy, guarantees were duly deposited and the consideration was paid to the Company, and as a result the transaction was completed and the possession of the site was transferred to the purchaser.

For details regarding the resulting profit for the Company and the regulatory liability to return to the consumers the excess proceeds over the sale value and the land value amounting to NIS 164 million pursuant to the Authority's decision, see Notes 15 and 29 below.

Reading

As aforesaid in Note 1e above, in accordance with the Government Resolution with respect to the Reform, the Company is obliged to sell the Reading generation site through a competitive procedure, and the deadline for the delivery of the site's ownership is June 3, 2021, while, pursuant to the provisions of Section 60a(b)(4) of the Electricity Sector Law, the Company's generation license shall remain in effect until the delivery of ownership deadline.

a. Generation license

The Law stipulates mechanisms for extending the license beyond the aforesaid date, adding two additional periods which shall not exceed six months each, and a third period as aforesaid, with the approval of the Knesset's Economic Committee, however, in special and exceptional circumstances, the Minister may postpone the specified date regarding one of the generation licenses specified in Section 60a(b)(2) to (6) of the Law (including Reading) by a fourth period which shall not exceed six months, and all with the approval of the Economic Committee.

Since the extension of the licenses is required for preserving the electricity supply reliability and system survivability, the Minister of Energy approved the extension of the Company's licenses for the Reading power station by an additional six months, until June 2022. It is noted that this is a second extension.

On June 1, 2022, the Company received generation 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 licenses' extension by an additional (third) extension period of half a year, until this date, pursuant to the provisions of section 60(a)(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 Company applied to the Electricity Authority, requesting to extend the validity of the Reading generation licenses until June 3, 2023, in accordance with the mechanism set in section 60 A(c) of the Electricity Sector Law-1996. The abovementioned application was delivered to the Electricity Authority for consideration beyond what is necessary and for the sake of caution alone, since the Reading D generation units were shut down at the end of September 2022 in order to remove the friable asbestos at the station and bury it in accordance with the Asbestos Law, as well as performing upgrade operations in the units that will allow the continued use of the units as of 2026. The Electricity Authority and the Minister of Energy approved the extension of the licenses, and in accordance with the requirement of the Electricity Sector Law, the application was transferred for approval by the Economic Affairs Committee of the Knesset, the approval of the Deputy Legal Counsel of the Electricity Authority was received on December 20, 2022, confirming that the asbestos' removal does not require a license under the Electricity Sector Law and does not constitute a violation of the prohibitions applicable to the Company by virtue of section 6A of the Electricity Sector Law. Therefore, there exists an approval by the Electricity Authority and the Minister of Energy for the extension of the Reading license, and the Company is waiting for the approval of the Economic Affairs Committee of the Knesset. Additionally, within the framework of the

NOTE 1:- GENERAL (continued)

e. <u>Structural Change (continued)</u>

9. <u>Actions to implement the Structural Change (continued)</u>

<u>Sale of sites (continued)</u>

Arrangements Law, the Company requested to amend section 60A of the Electricity Sector Law in order to allow continuation of works for rehabilitation of the station under the Asbestos Law, as the units at the station need to return to operation by June 2026.

b. The future of the station's operation

On November 5, 2021, the Knesset approved the financial plan (the: "Arrangements Law") in the second and third reading, which includes, inter alia, decisions regarding preparation for the purpose of preventing damage to the electricity supply in the Tel Aviv Metropolitan Area, including decisions postponing the deadlines for the deactivation of the Reading site and a delay of the establishment of the two combined cycle technology generation units at the Reading site in accordance with the Government Resolution concerning the reform.

The existing generation units at the Reading power station will be operated in accordance with the needs of the system manager until the earliest among: (1) completion of the transmission alternative within the required time period; or (2) the establishment and connection/integration of decentralized generation installations in the distribution grid with various technologies (renewable and gas) in the Gush Dan (Tel Aviv Metropolitan) area in a manner that allows the deactivation of the Reading power station (the "Conditions for the Deactivation of Reading").

In order to allow the regular activity of the Reading power station as aforesaid, at its meeting of December 21, 2021, the National Board approved the request for the extension of the validity of NOP 10/a/3 until January 1, 2026, in accordance with the decision of the National Board of December 21, 2021, the Noga Company is working to prepare an NOP 10/a/3/3 ("Reading Power Station Operation of the Generation Units until 2030") that will allow the continued operation of the existing units, if necessary, until 2030, with an option of extending their operation until 2032. On December 6, 2022, the National Board decided to transfer the plan for comments by the district committees and the public's reservations.

In addition, at its meeting of December 21, 2021, the National Board decided to split the NOP 10/A/3 ("Construction of New Generation Units at the Reading Power Station Site") into the generation components and the transmission components, such that the transmission lines in North Tel Aviv will be promoted in a separate NOP – NOP 10/A/3/2/a ("The Electricity Transmission System in North Tel Aviv"). This plan will be presented to the Board for discussion of transfer for comments by the district committees and the public's reservations together with the opinion of the Ministry of Environmental protection regarding the transmission lines which was provided for the review of the impact on the environment prepared for NOP 10/A/3/2.

In addition, the Company requested to receive an outline for rate recognition of the said investment for the continued operation of the units and to arrange a range of regulatory issues in order to enable the operation of the outline, including generation licenses, emission permits, statutory planning, etc., and including relevant legislative changes as required.

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, 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 cost not exceeding 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. As of the date of approval of the Financial Statements, these works have been executed.

As of the date of approval of the financial statements, as a result of the abovementioned uncertainties, and the fact that rate regulation has not yet been determined for potential purchasers, if at all, the Company has not classified the site as part of a disposal group classified as held for sale in these Financial Statements.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

9. Actions to implement the Structural Change (continued)

Sale of sites (continued)

Eshkol

As stated in section e1 above, in accordance with the Government's Resolution regarding the reform, the Company must sell the Eshkol site through a competitive process. The deadline for transferring possession is June 3, 2023.

After the Statement of Financial Position date, on March 9, 2023, the Electricity Authority published a decision for the regulation of the activity of the generation units at the Eshkol site, as well as a decision to update criteria 35z5, so that the Authority's plenum will be permitted to instruct the System Manager to commit to connect a generation facility constructed in the Electric Company's sites that are offered for sale pursuant to Government Resolution 3859 – "Reform in the electricity sector", and an instruction to the System Manager to commit to connect an additional generation unit at the Eshkol site.

For further details, see Note 3z below.

In light of the publication of the regulation at that time, the Company decided to postpone the date of submitting the financial offers in the tender for the sale of the site to April 19, 2023, while the date of transfer of possession is expected to be postponed to the last quarter of 2023. Accordingly, the Company applied to the Electricity Authority and the Ministry of Energy and Infrastructures with a request to extend the validity of the generation licenses at the site until the December 3, 2023 in accordance with the mechanism set forth in Section 60a(c) of the Electricity Sector Law and after receiving approval from the Minister of Energy.

As a result of the fact that the rate regulation for the potential buyers, which is an essential condition for conducting a tender for the sale of the site, was determined after the Statement of Financial Position date, the Company did not classify the site as part of disposal groups classified as held for sale in these financial statements.

The transmission and distribution segment

On November 17, 2022, the Electricity Authority reached a decision under which the Company will be granted a distribution license for a period of 20 years. The Minister of Energy's approval was received on January 16, 2023, after the Statement of Financial Position date, and the distribution license entered into effect, and its provisions will replace the provisions of the unified (general) license with regard to the distribution segment.

Competition in the supply segment

Commencing from 2021, regulations were published for suppliers who do not have generation means. Up to the date of approval of the Financial Statements, 37 supply licenses have been granted to various entities in the sector who do not have generation infrastructures. Furthermore, on September 7, 2022, the Electricity Authority published a decision regarding a market model for supply which regulates the activity of the generation facilities connected with or integrated into the distribution grid, particularly their ability to sell electricity through bilateral transactions to private suppliers without generation means as of 2024. In accordance with this decision, the supply segment should be opened to full competition in such a manner that the quotas will be removed. This decision is expected to lead to further reduction in the Company's market share of the supply segment.

Storage facilities

For details regarding the decisions of the Electricity Authority, see Note 3y.

NOTE 1:- GENERAL (continued)

e. Structural Change (continued)

9. Actions to implement the Structural Change (continued)

Transmission control

As part of the preparation for the separation of the system management operation, the Company established a transmission control unit in July 2018. As of December 1, 2019, the transmission control unit began operating, separately from the System Management. In the initial stage, the transmission control unit began operating at a narrow scope of supervision over the transmission and transformation systems only. In August 2020, the second phase of the project (switching) was activated, thus completing the separation of the operational activity between controls in accordance with the model agreed, and in accordance with the guidelines of the System Manager license holder. The transmission control unit became the SPOC (single point of contact) between the Company and private customers connected to the transmission system, and the System Manager. On November 1, 2021, the Company also completed the third stage, mainly an internal process in the Company.

Upon the full sale of the system management activity to Noga, the System Manager works with the transmission control unit on matters related to the transmission system.

Sale of the System Management operation

Further to that described in section e2 above, concerning the date of the full sale of the system management activity to Noga's responsibility, on November 1, 2021, all the system management activity was sold to Noga, in accordance with the Government Resolution and decisions of the Electricity Authority on this subject. For further details regarding the Electricity Authority's decision with respect to agreements and employee transfer as part of the sale of operation to Noga, see Note 12f below.

10. Financial implications of the Structural Change

The implementation of the Structural Change is expected to have material implications on the Company's financial position and its results, in the short, medium and long term. The Company estimates that the direct financial implications of the structural change can be divided into several main categories: (1) compensation for employees with respect to the implications of the structural change on their rights, (2) monetary and financial implications of the sale of the gas-operated power stations and construction of new CCGTs, sale of the System Management, part of the Planning, Development and Technology Division (system planning) and the activity of the Statistics Department, and (3) residual costs related to implementation of the structural change.

For details regarding the actions taken by the Company to implement the Collective Agreement, including the continuation of implementation of the early retirement plan, and the promotion of the actions to implement the organizational changes required by the Company following the Structural Change, see Note 12f below.

NOTE 1:- GENERAL (continued)

f. Assets Arrangement

1. Provisions of the Electricity Sector Law

Section 62 of the Electricity Sector Law prescribes various provisions regarding certain rights and assets that were held by the Company upon expiration of the concessions granted to the Company by virtue of the Electricity Concession Ordinance (March 4, 1996), notwithstanding that stated in section 46 of Part A of the Addendum to the Electricity Concession Ordinance (hereinafter: "Section 46 of the Concession").

In accordance with Section 46 of the Concession, at the end of the concession period, the plant (as defined in the concession) with all its fixtures and equipment and materials should have been transferred to State ownership (at the time the High Commissioner), gratis, provided that the State paid appropriate compensation for fuel materials, mechanisms, meters and instruments, whether they be in a warehouse or being transported to the Company or ordered by it and that belong to it and having been paid for by it.

There were disagreements in the past between the Company and the State regarding the interpretation of Section 62 of the Electricity Sector Law, which pertains to the Company's assets, and it also became apparent that there were material difficulties in its implementation. In light of the difficulties and the disputes as aforesaid, an alternative arrangement was formulated between the State and Tel Aviv Yafo Municipality and the Company, and it culminated in agreements that were signed in January 2018.

The agreements were approved by the Company's Audit Committee and Board of Directors on May 10, 2018 as a transaction of the Company with its controlling shareholder, for the sake of caution only.

In August 2018, all the contingent terms which were included in the agreements were complied with, after receiving the Ministers' approval for the Assets Agreement.

NOTE 1:- GENERAL (continued)

f. Assets Arrangement (continued)

2. Contractual engagement regarding the Assets Arrangement

On January 3, 2018, the Company, the State, the Israel Land Authority (hereinafter: "ILA") and the Tel Aviv Municipality (hereinafter: the "Municipality") entered into two agreements with respect to the outline of the Assets Arrangement, one of which is an agreement between the Company, the State and the Israel Land Authority (hereinafter: the "Arrangement Agreement"), and the other is an agreement between the Company, the Israel Land Authority and the Municipality (hereinafter: the "Tel Aviv Assets Agreement" and together with the Arrangement Agreement: the "Agreements"):

a) As part of the said agreements, a number of assets in the municipal area of Tel Aviv-Jaffa, which are owned by the Municipality and leased to the Company, will be marketed in a joint tender by the Municipality and the Company (hereinafter: the "Sold Assets"). The Company will be entitled to part of the proceeds from the marketing of the Sold Assets according to the agreed outline for the Assets Arrangement between the Company and the Municipality.

b) The Company's rights in a number of assets (hereinafter: the "Transferred Assets") will be handed over by the Company to the State and registered in its name.

c) Upon the completion of transfer of 10 specific assets, on the date determined in the arrangement, subject to the provision of legal powers of attorney for the transfer of all the Transferred Assets, the Company will be permitted to repay the perpetual debentures issued by the Company to the State in return for their nominal value of approximately NIS 15.5 million (the perpetual debentures were recorded in the Company's books on the date of the agreement's entry into force in the amount of approximately NIS 2.5 billion see section 3c1 below). After the transfer of the ten aforesaid assets and accordingly, the Company repaid the perpetual debentures at their nominal value on January 17, 2019.

d) The Company's debt to the State by virtue of the loan originally provided to the Company and extended by the Industrial Development Bank of Israel Ltd. (the balance of which as of the date of entry into force of the agreement is approximately NIS 2,011 million including interest payable) and which was assigned to the State from the aforementioned bank, will have payments rescheduled and be replaced by a NIS CPI-linked loan bearing an interest rate that will be adjusted to market rates.

e) The Israel Land Authority will pay the Company a total of up to NIS 780 million for the costs of clearing and construction of some of the assets and to perform certain preservation tasks at Reading, out of which approximately NIS 600 million will be used for the purpose of financing the move to an alternative site to be constructed at Gan Sorek in accordance with the terms of the arrangement.

f) The Company's rights in the remaining assets, as defined in the agreed outline of the Assets Arrangement, including real estate assets, movable property, equipment and facilities, money, rights, securities, benefits, intellectual property and other intangible assets of any kind (hereinafter: the "Balance of the Assets"), will remain in the hands of the Company in accordance with the rights it had prior to signing the agreement.

g) Insofar as part of the Balance of the Assets will be vacated and returned to the Israel Land Authority and will be marketed by the Israel Land Authority under the terms set in the agreement with the State and the Israel Land Authority, the Company will be entitled to receive part of the proceeds with respect to the marketing of these assets in accordance with the agreement between the Company and the State and the Israel Land Authority. See section a above.

h) Additionally, the agreement also includes arrangement of additional issues between the Company and the State, the Israel Land Authority and the Municipality, including transfer of public areas to the Municipality in various sites within the Tel Aviv city limits which include part of the Reading site, payment planning issues, and various financial calculation issues and other matters.

NOTE 1:- GENERAL (continued)

f. Assets Arrangement (continued)

3. The results of the Assets Arrangement that are included in the Financial Statements

a) General

Within its financial statements, the Company treated the description of the assets arrangements and their components under the perception that this is a comprehensive transaction which should be regarded as a single transaction which was carried out with the State in its capacity as the sovereign and not as the controlling shareholder of the Company.

b) Effects included in the years 2020--2022

The Company continued the implementation of the Assets Arrangements Outline in accordance with the timetables set in the agreements and with the adjustments required under the circumstances, which were carried out with consent and pursuant to the terms of the arrangement:

(a) During 2020, a building permit was obtained for the Gan Sorek site project. By the date of the Statement of Financial Position, the Company made investments on the building of the Gan Sorek site in an amount of approximately NIS 500 million.

(b) Pursuant to the aforesaid under which the Company is entitled to receive an amount of NIS 600 million for financing the transfer to the Gan Sorek site, as of the Statement of Financial Position date, the Company recorded investment grants from ILA in the amount of approximately NIS 419 million (including linkage differences to the construction input index in the amount of approximately NIS 19 million) in accordance with its entitlement to receipts in the amount of NIS 400 million according to the actual execution of the construction on the site. As of the Statement of Financial Position date, not all of the assets that entitle the Company to an additional receipt of NIS 200 million have been delivered, and accordingly the receipts have not been recognized.

(c) From the beginning of the implementation of the Assets Arrangement and until the year ended on December 31, 2022, the Company received sums from the ILA in a total amount of approximately NIS 443 million (not including VAT and Building Input Index linkage differences).

(d) As of the date of the Financial Statements, the assets entitling the Company to proceeds from their marketing have not yet been delivered, and therefore no profit was recorded in these Financial Statements with regards to the conditional proceeds.
Additionally, at this preliminary stage, the Company cannot reliably estimate the future proceeds after the assets' delivery.

As of the approval date of the Financial Statements, the Company continues to implement the Assets Arrangement in accordance with the schedules set in the agreements, including adjustments required according to circumstances, which were performed with consent and in accordance with the terms of the arrangement, and as such, as of the approval date of the Financial Statements, the Company has transferred all assets it was required to transfer to the relevant entities, in accordance with the arrangement outline.

NOTE 1:- GENERAL (continued)

g. Environmental Protection Laws

The Company's activities are subject to different environmental protection laws and regulations on different issues, e.g., emission of pollutants into the air, soil and water pollution, noise abatement, non-ionizing radiation, storage and use of hazardous materials and fuels, asbestos and more. The Company believes that as on the date of signing the financial statements, the Company is in material compliance with the directives of the laws on environmental protection. The Company holds the environmental licenses required for its activity and acts to obtain any missing licenses. Non–compliance with the environmental provisions of the law and the conditions of the licenses granted to the Company by virtue of these provisions may impose a criminal and administrative exposure on the Company and its officeholders, including fines and sanctions and shut down injunctions for installations, and exposure to expenses of cleaning and rehabilitating environmental damage.

1. Directives of the Minister of Energy – reduction of the use of coal and conversion of coal units to natural gas

Reduction of the use of coal:
Following the previous policy of the Minister of Energy regarding reduction of the use of coal, on January 3, 2018, the Minister’s decision, adopted in cooperation with the Minister of Environmental Protection, under which the Company will immediately reduce the use of coal for electricity generation at a rate of 30%, compared to 2015 as the base year, was published on the website of the Ministry of Environmental Protection (hereinafter: the “Ministry”).

Pursuant to the publication, the instruction immediately entered into force and will also apply after operation of the scrubbers to reduce emissions at the coal-fired power stations, which will significantly reduce the air pollution.

In 2022, electricity generation with coal reduced by a rate of approximately 43% compared to 2015

In accordance with the reform in the electricity sector, in November 2021, the authority and responsibility for the system management was transferred from the Company to the Noga Company, which is responsible, inter alia, for the unit loading order and the scope of coal use.

Conversion of units to gas:
On November 24, 2019, a decision by the Minister of Energy (hereinafter: the “Minister”) from November 20, 2019 was published on the Ministry of Energy’s website, according to which, in accordance with his authority pursuant to section 21a and 57a of the Electricity Sector Law - 1996 (hereinafter: the “Law”), and after consulting with the Electricity Authority, and in accordance with the recommendation of the Electricity Authority, the Minister decided to implement policy guidelines for gradual conversion by 2025, and no later than 2026, of generation units 5-6 in the "Orot Rabin" power station, and generation units 1-4 in the “Rutenberg” power station (hereinafter: the "Converted Generation Units”) for use of natural gas, for the purpose of stopping the regular use of coal as specified below:

a) The first conversion to use of natural gas will be performed by June 15, 2022, according to a decision to be made by the Electricity Authority.
b) Following the completion of this conversion, and before the conversion of the other units, the Electricity Authority will perform an evaluation of the conversion’s results by June 1, 2023, including, among other things, an examination of the actual costs, all for the purpose of allowing conclusions to be drawn concerning the continuation of the conversion process in the other Converted Generation Units. The results of this examination will be submitted to the Minister of Energy for his review and decision concerning the continuation of the conversion process’ implementation, including adjustments to the policy principles, as required.

NOTE 1:- GENERAL (continued)

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

1. <u>Directives of the Minister of Energy – reduction of the use of coal and conversion of coal units to natural gas (continued)</u>

<u>Conversion of units to gas (continued)</u>

c) Conversion will be performed according to the following conditions:

1) The conversion process will be implemented on the condition that the costs of the performance of conversion and the operation of the converted stations will not be expected to exceed the operation and maintenance costs required for coal, including the cost of gas for the operation of the converted units.
2) Authorized Government entities must determine that the implementation of the policy's principles will not damage the guaranteed available capacity in the natural gas transmission system according to needs, increased demand, and existing agreements.
3) No extension will be available regarding the engineering lifespan of the generation units according to the decision of the Electricity Authority as specified in section 60a(b)(7) of the Law, with regards to the effective date of these principles.

In light of that stated in Government Resolution 171, in light of the principles of policy of the Minister of Energy under which the coal era must end in 2025, and in light of discussions with the Minister of Energy regarding this matter, in November 2022, the Company's Board of Directors instructed the Company's management to act to promote the project of conversion to gas for all the 6 coal-fired generation units and to simultaneously act to continue the process of rate recognition of the project's expenses.
For details regarding Government Resolution no. 171, see Note 1c3 above.
For details regarding the rate recognition for the conversion project, see Note 3v.

2. <u>The future of units 1-4 at the Orot Rabin Power Station</u>

On August 2, 2018, Government Resolution no. 4080, passed on July 29, 2018, was published (hereinafter: the "Government Resolution"), regarding discontinuation of operation of generation units 1-4 at the "Orot Rabin" power station, so that the current operation will cease no later than June 1, 2022. The terms required for discontinuation of the operation of the units (provided they are cumulatively complied with by the stated date) as detailed in the Government Resolution:

a) There will be redundancy in the supply of natural gas to the sector in Israel, by connecting three natural gas reserves, each of which will be connected to the national transmission system of natural gas by a separate infrastructure.

b) Start of operation of the first combined cycle gas turbine with a capacity of approximately 600 megawatts, to be constructed by a subsidiary of the Electric Company no later than June 1, 2022, subject to that stated in Government Resolution 3859. For additional details regarding the postponement of operation of the first CCGT see section e above.

In addition, the actions required to realize the resolution were detailed in the Government Resolution, as well as the decision to instruct the Minister of Energy to examine, within the framework of his powers, the required manner and scope of preservation of the operating capacity of the electricity generation units 1-4, including alternative solutions, taking into account the needs of the sector in times of emergency and the cost of the solution, and to examine reduction of the use of generation units 1-4 until the end of their current operation.

On February 8, 2021, the Minister of Energy's decision was published on the Ministry of Energy's website, according to which, pursuant to his authority under Sections 21a or 57a of the Electricity Sector Law – 1996, and following consultation with the Electricity Authority, he determined policy principles with regards to the scope and manner of preservation of the generation units, as follows:

In light of the need to maintain reliability, availability, and continuity of electricity supply in times of emergency during the next few years, the Company will maintain the generation units in accordance with the preservation outline as specified in the Electricity Authority's position as part of the consultation, as of the date of compliance with the conditions as specified in Section a of Resolution 4080, and until December 31, 2025 (the "Preservation Period").

NOTE 1:- GENERAL (continued)

g. Environmental Protection Laws (continued)

2. The future of units 1-4 at the Orot Rabin Power Station (continued)

During the Preservation Period, the Ministry of Energy will continue to follow up on the sector's preparedness for emergencies, and the performance of alternatives to guarantee availability and reliability of electricity supply in various scenarios, among other things, under circumstances of no electricity supply as a result of a shortage in backup fuels. Inasmuch as the implementation of the alternatives is completed prior to the end of the Preservation Period, the need for further preservation of the units until the end of the Preservation Period will be examined.

The activation of the generation units not as part of the preservation outline will only be performed in accordance with the instructions of the highest dedicated energy authority.

The Company will report to the Electricity Authority about the performance of the preserved stations, and the manner of its compliance with the preservation outline, once every six months, throughout the Preservation Period. In the event that the performance of the preserved stations is not as expected according to the preservation outline, the Authority will report this to the Minister of Energy for the purpose of examining the manner of preservation and the continuation thereof.

Close to the completion of the Preservation Period, the need to stipulate new policy principles regarding this matter will be examined.

On November 4, 2021, in accordance with Noga's position, in order to guarantee the reliability of electricity supply to consumers, the Company contacted the Ministry of Environmental Protection, requesting to update the date of the commencement of the preservation of Units 1-4, so that two Units would commence preservation following the activation of Unit 70 (the first CCGT established, in accordance with the contents of section 9 above) and two additional Units will commence preservation following the activation of Unit 80 (the second CCGT established, in accordance with the contents of section 9 above). On November 16, 2021, the Company received a response from the Ministry of Environmental Protection, according to which the operation of the Units after 2022 is in violation of the terms of the emission permit, and therefore the Company must act with all measures to close the Units on this date. Following this, and in light of the Ministry's position according to which an orderly process is required for changing the emission permit, and in view of the Ministry clarifications regarding the schedule for this amendment, on June 2, 2022, the Ministries of Energy and Environment, the Noga Company and the Company, agreed that the units will be operated during an electricity emergency situation, in accordance with written instruction from the Noga Company to the Company, pursuant to a procedure agreed upon between the parties. The Ministry clarified that operating the units in accordance with the instruction from the Noga Company and under the procedure will not constitute a violation of the emission permit. The Company is operating in accordance with Noga's instructions given by virtue of an emergency procedure and is in touch with the Ministry of Environmental Protection regarding the operation as aforesaid according to need.

3. Emission permits for the coal units

Pursuant to the provisions of the Clean Air Law, emission permits were received from the Ministry of Environmental Protection for the sites of its power stations, and inter alia, for the sites of its coal-fired power stations. In accordance with the emission permits granted to the coal-fired units, units 5-6 at the Orot Rabin site and units 1-4 at Rutenberg are successfully operating with emission reduction facilities while meeting the emission values set in the emission permit.

On May 15, 2022, the Company notified the Ministry of Environmental Protection that unit 3 at Rutenberg is meeting the emission values set in the emission permit granted to it, and that the emission reduction project has ended at all the site's generation units.

In an amendment to the emission permits of the Orot Rabin site and the Rutenberg site, the Ministry demands that by March 31, 2019, the Company will submit a plan for the seasonal operation of the generation units, which will take place after the Leviathan reserve is connected to an independent pipeline, and until all the units are converted to natural gas, so that the units will operate with a total production that will not exceed 13 terawatts annually; and a plan to convert the coal-fired units (other than units 1-4 in Orot Rabin) so that from the time that the additional gas pipeline is connected and from the time three gas reserves are available, the coal-fired units will be converted to natural gas.

NOTE 1:- GENERAL (continued)

g. Environmental Protection Laws (continued)

3. Emission permits for the coal units (continued)

On March 31, 2020, the Company submitted a document to the Ministry of Environmental Protection regarding the ability to decrease generation using coal. According to this document, in accordance with a systematic examination of the option to activate the generation units seasonally (commencing after the connection of the Leviathan reserve by an independent entry pipe and until the conversion of all units to natural gas), according to the Company, it is impossible to meet the Unit activation goal of an annual amount not exceeding 13 TW, and this issue can be reviewed following the activation of both CCGT units at the Orot Rabin site (for further details regarding the CCGT units at the Orot Rabin site, see Section e above). In addition, a plan for the conversion of the coal fired units (other than Units 1-4 at Orot Rabin) has been submitted, including an initial schedule for the performance of the project.

On March 14, 2022, the Company applied to the Ministry of Environmental protection with regard to the coal basket and sulfur content of the coal set in the emission permit of the Orot Rabin site. According to the Company's letter, in view of the fighting taking place between Russia and Ukraine, there are implications for the availability of coal in the international market in general and the availability of low-sulfur coal in particular, which may affect compliance with the Orot Rabin site emissions permit requirements in this regard. Following this, the Company submitted an application to update the emission permit, so that the coal’s sulfur content will not exceed 0.8% of weight at any time. The Ministry reply was received on July 17, 2022, within which the Company was requested to deliver additional data; the Company delivered the required data on September 4, 2022. The Company is in contact with the Ministry regarding this issue.

For information regarding the rate recognition for the emission reduction project see Note 3k below.

4. Reading

Underground fuel pipelines –

There are inactive land fuel pipelines in the area of the Reading power station, exiting and entering the station. As part of several samplings carried out in October 2020 as well as in January and February 2021, asbestos fibers were found on some of these pipelines.

The Company is nearing the end of the works for the removal of fuel pipeline segments in the area of Sde Dov (a segment comprising hundreds of meters).

As concerns the continuation of the eastward route of the pipelines (a route comprising several kilometers, in the direction of the Bnei Brak Train Station), following discussions conducted by the Company with the Ministry of Environmental Protection with regards to the manner of treatment required for these pipelines, the Company updated the relevant local authorities, while clarifying that no excavation approvals should be given along and around the route without prior coordination, and has placed signs along the route in coordination with the local authorities.

On March 31, 2022, the Company delivered the results of updated mapping of some of these pipelines to the Ministry of Environmental Protection. On July 31, 2022, the Company submitted for the Ministry’s approval a basic plan for handling the pipelines, and the Ministry’s response to the Company’s plan was received on November 17, 2022. Following this, the Company is working to execute required actions and is in direct contact with the Ministry regarding this issue.

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

NOTE 1:- GENERAL (continued)

h. The Economic Competition Law, 1988:

On March 6, 2017, the determination of the acting Director General of the Competition Authority (respectively: the "Director" and the "Acting Director") was received, according to which the Company adversely exploited its monopoly status with regard to client portfolio management services ("CPM"), in contravention of the provisions of sections 29a(a), 29a(b)(2), 29a(b)(3), and 29a(b)(4) of the Economic Competition Law, and financial sanctions were imposed amounting to NIS 13 million on the Company, NIS 110,000 on a serving officer and NIS 165,000 on a former officer (the "Determination").

On April 26, 2018, an appeal was submitted to the Competition Tribunal on behalf of the Company and a serving officer regarding the determination. On May 30, 2018, an appeal was also submitted to the Competition Tribunal with regards to the Determination on behalf of a former officer. On January 24, 2021, the Company received a ruling issued on January 19, 2021, according to which the appeals are dismissed (the **"Ruling"**).
On May 20, 2021, an appeal against the ruling was filed with the Supreme Court in Jerusalem (in its capacity as a court of civil appeals) on behalf of the Company and a serving officeholder (the "Appeal"). A hearing of the appeal (as well as an appeal submitted by a former officer) was held on September 15, 2022. Within the hearing, the Court suggested that the appellants (the Company, a serving officer and a former officer) withdraw the submission of the appeals, and the Court will not award costs against them. Following this, on September 22, 2022, a notice and an application was delivered to the Court on behalf of the appellants, regarding acceptance of the Court's suggestion to withdraw the appeals without an order for costs. On the same day, the Supreme Court, presiding as a Court of Civil Appeals, rendered its ruling, within which the appeals were struck off without order for costs, while returning the guarantee to the appellants. Therefore, the legal proceeding in connection with the determination has been completed. The decision of the acting Director General of March 6, 2017 remained unchanged, as did the ruling.

NOTE 1:- GENERAL (continued)

i. Global Events

1. The Impacts of COVID-19

Over the last three years, the world has been dealing with a global event with significant macro-economic implications, originating from the outbreak of the COVID-19 virus and its spread.

The Company is acting according to the general limitations applicable to the public in this matter, including the Public Health Order (Novel Coronavirus) (Home Isolation and Various Provisions) (Temporary Order), 2020.

As of the approval date of the Financial Statements, this legislation has had no material impact on the Company's activity and financial results.

For further details regarding the postponement of the expected activation date of CCGT 70 at the Orot Rabin site, inter alia, due to the COVID-19 effects, see Note 1e9 above.

At the beginning of March of 2022, the green mark was cancelled. The Company has returned to operating in a full format and estimates that it will be able to continue regular operations in the future as well.
The trend of recovery has been increasing, and it seems that the effect of the COVID-19 virus in Israel and even in many places in the world is waning. However, there is still a degree of uncertainty regarding the risks involved in the spread of the virus, given the risk of discovering additional variants of the COVID-19 virus and the fear of the return of restrictions as a result.

2. The Russia Ukraine War

At the end of February 2022, a war broke out between Russia and Ukraine. The said fighting has material implications for the Company's coal purchase and delivery date, as well as the coal specification, in a manner that may affect the Company's ability to meet the emission permit requirements regarding the required coal basket and sulfur content in the coal. For further details regarding the Company's application to the Ministry of Environmental Protection regarding compliance with the emission permits of the Orot Rabin site, see section g above.

In light of the sharp rises in global coal prices in 2021-2022, inter alia due to the conflict between Russia and Ukraine, and as a result of the impact of the coal costs on electricity prices, on December 26, 2022, the Electricity Authority published a decision regarding the 2023 Annual Update of the electricity rate for the Company's consumers. The updated rates set in this decision entered into effect as of January 1, 2023. As part of the update, the recognition of the coal costs will be spread over the years 2023-2025 (see Note 3g).

As this is an event that is not under the Company's control, and factors such as continuing or stopping the fighting may affect the Company's assessments, the Company continues to continuously monitor changes in markets in Israel and worldwide and continuously examines the implications for its business results.
As of the date of approval of the financial statements, the Company cannot estimate all the implications of this event, including its future effects on its future financial position and results of operations.

j. Events after the Statement of Financial Position Date

After the Statement of Financial Position date, on March 13, 2023, a crane collapsed at the coal dock at the "Rutenberg" power station. As a result of the collapse, the ability to unload coal at the coal dock was damaged.
The Company is examining the significance of the event and is examining alternatives and possible courses of action. As of the date of approval of the Financial Statements, it is not possible to estimate the impact of the event on the Company's financial position and the results of its operations.

NOTE 1:- GENERAL (continued)

k. 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	–	Company 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 Subsidiary Companies.
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. 1. Declaration of Compliance with International Financial Reporting Standards:

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter: “IFRS Standards”) and their interpretations which were published by the International Accounting Standards Board (IASB). The main points of the accounting policies detailed below, except that stated in section d below, were consistently implemented with respect to all the reporting periods presented in these Consolidated Financial Statements.

2. Implementation of the Securities Regulations:

The Financial Statements are prepared in accordance with the Securities Regulations (Annual Financial Statements), 2010 (hereinafter: the “Financial Statements Regulations”).

3. Operating cycle period

The Group’s regular operating cycle period is 12 months.

4. The Consolidated Financial Statements were approved for publication by the Group’s Board of Directors on March 16, 2023.

b. Basis of Measurement

The Statements were prepared on the basis of historical cost except for the following assets and liabilities:

- Financial instruments, derivatives and other instruments which are measured at fair value through profit and loss.
- Assets and liabilities with respect to employee benefits.
- Inventory measured as the lower of cost or net realization value.
- Investments in associate companies
- Provisions.
- Deferred tax assets and liabilities.
- Debit and credit balances of regulatory deferral accounts.
- Non-current assets and disposal groups held for sale.

For additional information regarding the manner of measurement of these assets and liabilities see below.

c. Functional Currency and Foreign Currency

1. Functional Currency

The Financial Statements of the Group are prepared in New Israeli Shekel which is the currency of the primary economic environment in which it operates ("the functional currency").

2. Translation of Transactions in Currencies other than the Functional Currency

In preparing the Financial Statements of the Group, transactions in currencies other than the parent Company’s functional currency ("foreign currency") are recorded at the rates of exchange prevailing at the dates of the transactions. At each Statement of Financial Position date, monetary items denominated in a foreign currency are translated at the rates published by the Bank of Israel and were valid at that date. Non-monetary assets and liabilities carried at fair value that are denominated in a foreign currency are translated at rates prevailing at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost are translated at exchange rates in effect on the transaction date.

3. Method of Recording Exchange Rate Differences

Exchange rate differences stemming from translation into the functional currency are recognized in the item of financing expenses, in operations in the period in which these arise, except for the cases detailed below:

- Exchange differences of derivatives used in cash flow hedging, with respect to the effective hedging part (regarding the accounting policy of the Group on hedging transactions, see section q2 below).
- Exchange differences which relate to assets under construction for future use in production are included in costs of those assets, when they are regarded as an adjustment to interest costs on foreign currency borrowings (regarding the accounting policy of the Group on capitalization of borrowing costs, see section l below).

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

c. Functional Currency and Foreign Currency (continued)

3. Method of Recording Exchange Rate Differences (continued)

- Exchange differences with respect to regulatory deferral liabilities regarding a settlement agreement with the Egyptian Gas Companies are charged to the Profit and Loss to the movement in regulatory deferral accounts balances line item, parallel to exchange rate differences with respect to the settlement agreement's receivables. See Notes 10 and 15r below.

d. Initial Application of New Standards, Standard Amendments and Interpretations

1. **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.

2. **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 (expenses of depreciation 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)

e. New Standards, Amendments of Standards and Interpretations not yet Adopted:

1. **Amendment to IAS 1 - Presentation of Financial Statements: Classification of Liabilities as Current or Non-current**

The amendment replaces certain classification requirements of liabilities as current or non-current. Thus, for example, under the amendment, a liability will be classified as current when the entity has a right to defer the payment for a period of at least 12 months after the reporting period, which is of "substance", and which exists as at the end of the reporting period, and this in lieu of the requirement of a right that is "unconditional". Pursuant to the amendment, a right exists as at the end of the reporting period only if an entity meets the conditions for deferment of payment as on that date.

The subsequent amendment, as published in October 2022, stated that financial covenants that an entity is required to meet after the reporting date will not affect the classification of a liability as current or non-current. In addition, the subsequent amendment added disclosure requirements for liabilities that are subject to examination of financial covenants within 12 months after the reporting date, such as disclosure regarding the nature of the financial covenants, the date on which they are required to be met, as well as facts and circumstances indicating that an entity will have difficulty meeting the criteria.

Additionally, the amendment clarifies that the right to convert the liability will affect the classification of the instrument in general as current or non-current, unless the conversion component is equity.

The amendment will be implemented in the reporting periods beginning on January 1, 2024, with a possibility of early application. The amendment will be implemented retrospectively, including amendment of comparative figures.

The Company is examining the implications of the amendment on the Financial Statements with no intention of early implementation.

2. **Amendment to IAS 12 – Income Taxes**

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 offsetable 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 item on the initial implementation date.

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

This Amendment is not expected to have a material consequential impact on the Financial Statements.

3. **Amendment to IAS 1 – Presentation of Financial Statements: Disclosure of Accounting Policy**

In accordance with the Amendment, companies are required to provide disclosure of their material accounting policy in lieu of the requirement to present their significant accounting policy. In accordance with the amendment, information about the accounting policy is material if, when taken into account together with other information provided in the financial statements, it can be reasonably expected that it will affect the decisions reached by the users of the financial statements that are based on those statements.

The Amendment to IAS 1 even clarifies that information regarding the accounting policy may be material, if without it, the users of the financial statements will be denied the possibility to understand other material information in the financial statements. In addition, the amendment clarifies that that it is not necessary to disclose information about accounting policy that is not material.

The amendment will enter into effect in the reporting period beginning on January 1, 2023, early application is possible.

The Company is examining the implications of the amendment on the financial statements without intention of early implementation.

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

f. Consolidated Financial Statements

The Consolidated Financial Statements of the Company incorporate the financial statements of the Company and the subsidiaries (the National Coal Supply Corporation, hereinafter: the “Coal Company”, and the generation subsidiary, Netiv HaOr Ltd).
Financial statements of the subsidiaries are prepared in accordance with the accounting policies of the Company. In the consolidated financial statements, all intercompany balances and transactions are fully eliminated on consolidation.

g. Non-Inclusion of Separate Financial Statements in the Periodic Financial Statements

The Company did not include separate financial information according to Regulation 9(c) of the Securities Regulations, since it does not contain any material information required by the reasonable investor to comprehend the financial position, operating results and cash flow of the Company, which may affect economic decisions related to the Company, that are not included already in the Consolidated Financial Statements of the Company. The criteria implemented by the Company to determine the negligibility of the additional information were: the quantity aspect and the quality aspect.

The Company fully owns the Coal Company and the generation subsidiary under the name “Netiv HaOr – Orot Rabin Ltd.”.

The Coal Company purchases the coal for the power stations of the Company and acts in practice as the extension of the Company for purchasing coal for its power stations. Except for a very minor quantity, the Coal Company sells all of the coal to the Company.

The objectives of the generation subsidiary are engineering planning and planning actions with respect to the two generation units operated at the Orot Rabin site (hereinafter: the “CCGTs”), the construction, operation and maintenance of the two CCGTs, the generation of electricity using the two CCGTs and the sale of the generated electricity.

At this stage of the establishment of the generation subsidiary, as aforesaid in Note 1e above, in light of the extensive disclosure requirements applying to the Company pursuant to the provisions of the Government Companies Authority, there is no additional information, both quantitatively and qualitatively, required for the reasonable investor to understand the Company’s financial position, results of operations and cash flow, which might affect economic decision-making with respect to the Company’s reports, not already included as part of the Company’s Consolidated Financial Statements. The Company is the full owner of the generation subsidiary and all fixed assets under construction of the subsidiary are included in the Company’s Consolidated Financial Statements.

h. Cash and Cash Equivalents and Short Term Investments

Cash and cash equivalents include cash balances for immediate use. Deposits for immediate withdrawal and fixed term deposits with no usage limitation, and whose maturity dates at the deposit date, do not exceed three months.
Deposits which are restricted as to use and whose maturity date on the investment date exceeds three months and do not exceed one year are classified under the short-term investments item.

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

i. Investments in Associates

1) Associate companies are entities in which the Company has significant influence only, without control. The significant influence is the power to participate in decision making regarding the financial and operational policies of the associate companies, but does not constitute control of these policies.

There is a contradictable presumption according to which holdings at a rate of 20% to 50% of held companies constitutes significant influence. The assessment of the existence of significant influence takes into account potential voting rights which are immediately convertible or exercisable to shares in the held company.

Long-term rights which essentially comprise part of a net investment, such as preferred shares and long-term loans the disposal of which is not planned and unlikely to take place in the foreseeable future, are first treated in accordance with the instructions of IFRS 9, after which the equity method is applied in accordance with the instructions of IAS 28.

Upon any decrease in the holding rate of a company treated in accordance with the equity method while preserving material impact, the Company reduces a relative part of its investment and recognizes the sale in the profit or loss, as part of the “Company’s share of the income (loss) of associated companies” line item.

The financial statements of associate companies are prepared according to the accounting policies of the Group. The results, assets and liabilities of the associate companies, are included in these Financial Statements using the equity method, the investment in the associate companies is included in the statement of consolidated financial position at cost adjusted to the changes which took place after the purchase of the share of the Company in the profit/loss of the associate companies and in its comprehensive profit/loss.

2) The fair value of the Company's holdings in an associate company, which was purchased for the right of use, as of its date of incorporation is recognized as deferred income within other liabilities, and recognized as income over a period of service provision under the agreement, by the straight line method.

For details see Note 11b1 below.

j. Inventory in Warehouses

Inventory in warehouses (spare parts inventory kept in Company warehouses) is evaluated at cost determined in accordance with the weighted average method.

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

k. Fixed Assets

1. The Group presents its fixed asset items in accordance with the cost model. In the cost model, fixed asset items are presented in the Statement of Financial Position at cost, net of accumulated depreciation and net of a provision for impairment. The cost of the fixed assets includes asset acquisition costs (less receipts from development works orders), costs that can be attributed directly to bringing the asset to the location and condition required to operate it as intended by the management. The cost of fixed assets also includes direct salary and related expenses, materials, contractors and other indispensable costs which may be attributed directly to fixed assets construction activity. Cost of qualified fixed assets also includes capitalization of credit costs used to build the fixed assets that should be capitalized, as indicated in section l below.
Spare parts, auxiliary equipment, and backup equipment are classified as fixed assets, when they comply with the definition of fixed assets under IAS 16, otherwise they are classified as warehouse inventory.
See section n below on impairment testing of tangible assets.

2. All components of the depreciable fixed assets are depreciated. The depreciation is calculated systematically using the straight line method over the expected useful life of the component from the date on which the asset is ready for its intended use, while considering the expected residual value at the end of the useful life.
Assets leased under lease agreements that are covered by IFRS 16 are depreciated over their expected useful life on the same basis as owned assets, or over the leasing period if the leasing period is shorter than the useful life of the asset.

- The useful lives and depreciation rates used in the calculation of depreciation are as follows:

	Useful life (years)
Power stations (*)	30 - 50 (mainly 30 years)
Emission reduction installations	10
Combined cycle	30
Jet gas turbines	15
Transmission system	35
Transformation system	20-45 (mainly 45 years)
Distribution system	30-35 (mainly 35 years)
Meters and smart metering	15
Inventories (including office equipment) and telecommunications	10
Computers and auxiliary equipment	3-5
Motor vehicles	3-7
Mobile mechanical equipment	2-10
Buildings	30
Ships	20

The residual values, depreciation method and useful life of the asset are reviewed by the Management of the Group every fiscal year. Changes are handled as a change of estimate in a prospective manner.

For details of the depreciation rates and the life of right-to-use assets, see section u below.

Gains or losses incurred by sale or withdrawal from service of a fixed asset is determined in accordance with the difference between the proceeds from its sale and its carrying amount at the date of sale or withdrawal from service, and is recognized in the Statement of Operations.

(*) For details of change of estimate on October 1, 2022, of the life of coal-powered Units at the CCGT that were constructed from 2002 see section ae below.

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

k. Fixed Assets (continued)

3. Subsequent Costs

The replacement cost of a material part of a fixed asset item, which can be assessed reliably, is recognized as an increase of the cost in the books on the materialization date, if it is expected that the future economic benefits attributed to the item will go to the Group, and amortized according to the straight line method throughout the useful lifespan of the principal cost item.

Current maintenance costs are charged to the Statement of Operations and Comprehensive Income when incurred.

4. Liability with respect to disassembly, preservation and removal costs of an item and restoration of the site on which the item was placed

The cost of an item of fixed assets includes, inter alia, costs of disassembly and removal of the item, and restoration of the site on which it was placed, for which the entity incurs a liability when the item is purchased or as a result of using the item for a certain period, other than producing inventory during that period.

After the first recognition date:

a) Changes in the aforementioned liability up to the end of the item's depreciation period, will be added to or deducted from the asset during the current period and depreciated throughout the lifespan of the asset, if the asset is fully depreciated then the changes are charged directly to profit and loss.

b) Changes in the aforementioned liability due to the passage of time (cost of interest) are recognized in the Statement of Operations and Comprehensive Income as financing expenses, when incurred, or capitalized to the asset's cost (as long as the fixed asset item is under construction).

l. Credit Costs which are directly Attributable to Purchase, Construction or Production of a Qualifying Asset

Costs with respect to specific and general credit which are directly attributable to purchase, construction or production of an asset requiring a substantial period of time to prepare it for its designated function or sale (hereinafter: “Qualifying Asset”), are capitalized as part of the asset’s cost, during the period starting from the date on which all the following terms are fulfilled for the first time: (a) expenditures with respect to the asset are incurred for the Company; (b) credit costs are incurred for the Group; and (c) the Group executes activities which are required for preparing the asset for its designated use.

Non-specific credit costs are capitalized in the same manner to the same investment in qualifying assets or that part thereof, which is not financed by specific credit, using a weighted average rate of cost for those sources of credit that their cost has not been specifically capitalized. Exchange rate differentials arising from credit in foreign currency are capitalized if they are considered as adjustment to the interest costs.

The capitalization of the credit costs as stated ends when, materially, all the activities required for preparing the asset for its designated use are completed.

The Group suspends capitalization of credit costs during prolonged periods in which it suspends the active development of a qualifying asset.

The credit costs which are directly attributable to purchase, construction or production of a qualifying asset are the same credit costs that would have been prevented if the expenditure with respect to the qualifying asset would not have been executed.

Cash flow with respect to interest capitalized to assets

In the statement of cash flow, the Group chose to classify cash flow with respect to interest payments that are capitalized to qualifying assets in financing activities in the interest paid line.

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

m. Intangible Assets

1. Intangible assets

The intangible assets of the Group are primarily costs including capitalization of independent software development, with a defined useful life. These assets are amortized using the straight-line basis over their estimated useful life, subject to evaluation of impairment of value.
The useful lives and depreciation rates used in the calculation of amortization of these intangible assets are as follows:

	Useful life (years)	Amortization rates (%)
Software	5-15	6.67-20

Intangible assets purchased separately are presented at cost less amortization and accumulated impairment losses. The estimation of useful life and amortization methods are reviewed at the end of each annual reporting period. In case of changes in estimates, the effect is handled as a change in estimate presented in a prospective manner.

2. Intangible assets created internally - research costs

Costs with respect to research activities are charged to profit or loss on the date of their creation.

n. Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Group examines the book value of its fixed assets and intangible assets, except for inventory, in accordance with IAS36, to detect any signs that indicate the impairment of these assets. When such indications exist, the recoverable amount of the asset is estimated for the purpose of determining the loss created by the impairment, if any.

Assets which cannot be individually examined are grouped together into the smallest group of assets which generates cash flow from continuous use, which are mainly independent of other assets and other asset groups (hereinafter: "cash-generating unit").

A recoverable amount is the higher of the fair value of the asset less costs to sell and its value in use. When assessing the value in use, estimated future cash flows are discounted to their present value by using a discount rate before tax that reflects the current market estimates regarding the time value of the money and the specific risks of the asset for which no estimated future cash flows were adjusted.

When the recoverable amount of the asset (or of a cash-generating unit) is estimated as lower than its book value, the book value of the asset (or the cash-generating unit) is decreased to its recoverable amount. Loss from impairment is immediately recognized as an expense in the Statement of Operations and Comprehensive Income. When an impairment loss recognized in previous periods is cancelled, the book value of the asset (or of a cash-generating unit) is increased again to the updated estimated recoverable amount, but not over what would have been the asset's (or the cash-generating unit's) book value, if no impairment loss was recognized for it in previous periods. Writing off a recognized loss from impairment is recognized immediately in the Statement of Operations and Comprehensive Income.

o. Non-current Assets and Disposal Groups Held for Sale

Non-current assets (or disposal groups composed of assets and liabilities) are classified as assets held for sale, if it is highly expected that their returns will be primarily through a sale transaction and not though prolonged use.

Immediately prior to their classification as held for sale, the assets (or components of a disposal group) are measured according to the Group’s accounting policy. Subsequently, the assets (or components of the disposal group) are measured according to the lower of the book value and fair value, less sale costs.
Impairment losses recognized on the initial classification of assets held for sale, as well as profits or losses caused as a result of the remeasurement, are charged to Profit and Loss.

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

p. Inventory - Fuel

Fuels inventory is an inventory of materials consumed in the electricity generation process.

Inventory costs include all of the purchase costs, direct labor costs, fixed and variable overhead expenses and also other costs incurred to bring the inventory to its current location and condition. The cost of inventory is measured in accordance with the weighted average method. The inventory is stated at the lower of cost and net realizable value. The impairment of the fuels inventory that is held for use in the electricity generation process is carried out only in the event that the cost of use of this inventory plus the rest of the generation, transmission and distribution costs will exceed the price of electricity for the consumer.

When inventories are purchased under borrowing terms whereby the arrangement involves a financing element, the inventories are stated at cost reflecting the purchase cost at usual borrowing terms. The difference between the actual purchase price and the purchase cost at usual borrowing terms is recognized as interest expense over the period of the financing.

Inventory - Fuel – Non-Current Assets

The policy of the Group, of maintaining fuels inventory is also for backup and availability needs of the electricity system in case of mishap in the supply of gas, and for times of emergency. Inventory that the Group anticipates will be used during a period exceeding a year is presented within the section of Inventory fuels - Non-Current Assets. For details of diesel fuel for times of emergency see Note 8b below.

q. Financial Instruments

1. Non-derivative financial assets

The Group initially recognizes customers and debt instruments that were issued on the date of their creation. The rest of the financial assets are initially recognized on the date that the Group becomes a party to the contractual terms of the instrument.

A financial asset is initially measured at fair value plus transaction costs that can be directly attributable to the acquisition or issue of the financial asset. A customer that does not include a significant financing component is initially measured according to its transaction price. Receivables arising from contract assets are initially measured at the carrying amount of the contract assets at the time of the reclassification from a contractual asset to receivables.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows deriving from the financial asset expire or when the Group transfers the rights to receive the cash flows arising from the financial asset in a transaction in which all the risks and benefits of ownership of the financial asset were substantially transferred. If the Group has substantially retained all the risks and benefits deriving from the ownership of the financial asset, the Group continues to recognize the financial asset.

Classification of financial assets into groups and the accounting treatment of each group

On the date of the initial recognition, financial assets are classified into one of the following measurement categories: amortized cost; fair value through other comprehensive income; or fair value through profit and loss.

Financial assets are not reclassified in subsequent periods unless and only when the Group changes its business model for the management of financial debt assets. In such case the affected financial debt assets are reclassified at the beginning of the reporting period following the change in the business model.

Financial assets included in the fair value through profit and loss category include mainly swap transactions and forward transactions.

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

q. Financial Instruments (continued)

1. Non-derivative financial assets (continued)

A financial asset is measured at amortized cost if it meets the two following cumulative conditions and is not intended for measurement at fair value through profit and loss:

- It is held within a business model aimed at holding assets in order to collect the contractual cash flows;
- The contractual terms of the financial asset provide entitlement at defined dates to the cash flows that are only principal and interest payments with respect to the principal amount that has not yet been repaid. The Company has balances of other receivables and deposits held as part of a business model whose objective is the collection of contractual cash flows. The contractual cash flows with respect to these financial assets include only principal and interest payments reflecting consideration for the time value of the money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Evaluation of the business model for debt assets

The Group estimates the purpose of the business model in which the financial asset is held at the portfolio level, as this best reflects the manner in which the business is managed and the information is provided to Management. In determining the business model of the Group, considerations were taken into account that include:

- The stated policy and objectives for the portfolio and the actual implementation of the policy, including whether Management strategy focuses on receiving contractual interest, maintaining a certain interest profile, adjusting the life of the financial assets to the life of any related liabilities or expected cash flows, or realizing cash flows through the sale of the assets;
- The manner in which the performance of the business model and of the financial assets held in that model are evaluated and reported to key elements of the entity's Management;
- The risks that affect the performance of the business model (and the financial assets held in the same business model) and how these risks are managed;
- The manner in which the managers of the business are rewarded (for example, if the remuneration is based on the fair value of the managed assets or the contractual cash flows collected); and
- The frequency, value and timing of sales of financial assets in preceding periods, the reasons for sales and expectations regarding future sales activity.

Transfers of financial assets to third parties in transactions that are not eligible for derecognition are not considered sales for purposes of evaluating the business model, consistent with the Group’s continued recognition of those financial assets.

Financial assets held for trade or managed and whose performance is assessed on the basis of fair value, are measured at fair value through profit or loss.

Estimate of whether cash flows include principal and interest only

For the purpose of examining whether cash flows include principal and interest only, principal is the fair value of the financial asset at the time of initial recognition, interest is composed of consideration for the time value of the money, for the credit risk attributable to the principal amount outstanding during a given period of time and for other basic risks and costs of a loan, as well as profit margin.

In examining whether contractual cash flows are flows of principal and interest only, the Group examines the contractual terms of the instrument and assesses whether the financial asset includes a contractual term that may change the timing or amount of the contractual cash flows so that it does not meet the said condition. In carrying out this estimate, the Group considers the following considerations:

- Any contingent events that change the timing or amount of the cash flows;
- Conditions that may change the stated interest rate, including variable interest;
- Extension or early repayment characteristics; and
- Conditions that limit the Group’s right to cash flows from defined assets (for example, a non-recourse financial asset).

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

q. Financial Instruments (continued)

1. Non-derivative financial assets (continued)

Subsequent measurement and gains and losses

Financial assets at fair value through profit or loss

In subsequent periods, these assets are measured at fair value. Net gains and losses, including interest income or dividends, are recognized in profit and loss (except for certain derivative instruments that are designated as hedging instruments).

Financial assets at amortized cost

These assets are measured in subsequent periods at amortized cost using the effective interest method reduced by impairment losses. Interest income from deposits is accrued on a periodic basis, taking into consideration the principal for repayment and using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognized in profit and loss. Any gain or loss on derecognition is also recognized in profit and loss.

2. Derivative Financial Instruments including Hedge Accounting

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency rate changes, including foreign currency swaps and combined interest swaps and foreign currency swap transactions, and foreign exchange forward contracts. For further details on the derivative financial instruments used by the Group, see Note 26 below.

Derivative financial instruments are initially recognized at fair value on the date that a derivative contract is entered into and are subsequently measured at their fair value at each Statement of Financial Position date. As a rule, changes in fair value of derivative financial instruments are recognized in profit or loss.

Derivative financial instruments are generally presented as current assets, non-current assets, current liabilities or non-current liabilities. This is according to their fair value as determined by the valuation performed by the Group. For additional details of the Group‘s valuation techniques see section ab2b below.

Some of the electricity purchase agreements under which the Group purchases electricity from private electricity producers include mechanisms of linking price to currencies, various indices and rates, which are set by way of a rate approval by the Electricity Authority.

As the major part of the aforesaid electricity purchase agreements (including the various linkage mechanisms) are set by virtue of law and regulatory requirements, they do not constitute contractual rights and obligations, and therefore no identification and separation of embedded derivatives is required with respect to these linkage mechanisms.

Hedge accounting

The Group designates certain derivatives as hedging instruments, in order to hedge the changes in the cash flows relating to the issued debentures and loans taken and which derive from changes in foreign currency exchange rates and exchanging foreign currency fixed and variable interest to fixed NIS interest.

On the date of creation of the hedging relationship, the Group records the purpose of its risk management and strategy for the execution of the hedge. The Group also records the economic relationship between the hedged item and the hedging instrument, including whether the changes in the cash flows of the hedged item and the hedging instrument are expected to offset each other.

When a derivative instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of the changes in the fair value of the derivative is attributed to other comprehensive income, directly to a hedge reserve. The effective part of the changes in the fair value of a derivative, that is attributed in other comprehensive income, is limited to the cumulative change in the fair value of the hedged item (based on present value) from the date of creation of the hedge. With respect to the ineffective portion, the change in the fair value is attributed immediately to profit and loss.

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

q. Financial Instruments (continued)

2. Derivative Financial Instruments including Hedge Accounting (continued)

Hedge accounting (continued)

The Group designates as a hedging instrument in cash flow hedging relations only the change in fair value with respect to the immediate price element of forward contracts (the spot component). The change in the fair value attributable to the future price element of forward contracts (the forward component) is not included as part of the hedging relationship and is accounted for as the cost of the hedge, while attributing the change to the hedging cost reserve.

If the hedge no longer meets the criteria for hedge accounting, or the hedging instrument is sold, expires, canceled or exercised, the hedge accounting treatment is discontinued prospectively. When hedge accounting is discontinued, the amounts previously accumulated in the hedge reserve and in the hedge cost reserve remain in the reserve until the date on which they are included in the initial cost of the non-financial item (for trade hedges resulting in recognition of a non-financial item) or until a date on which they are reclassified to profit and loss in the period, or periods, in which the hedged expected future cash flows affect the profit and loss (for the other cash flow hedges).

If the hedged future cash flows are no longer expected to occur, the amounts previously accumulated in the hedge reserve and in the hedge cost reserve are immediately reclassified to profit and loss.

Economic hedging

Hedge accounting is not applied to derivative instruments used to economically hedge financial liabilities denominated in foreign currency. The changes in the fair value of these derivatives are attributed to profit and loss as income or financing expenses.

Hedging directly impacted by the benchmark rate reform

The Company is implementing stage 2 of the amendments to IFRS 9 regarding hedging affected by the benchmark rates, retrospectively as of January 1, 2021. Where the basis for determining the contractual cash flows of the hedged item or the hedging instrument changes as a result of implementation of the interest rate benchmark reform, and there is therefore no uncertainty regarding the cash flows of the hedged item or the hedging instrument, the hedging’s designation is amended if one or more of the following changes occurs:

- Determining an alternative benchmark interest rate as the hedged risk;
- Updating the description of the hedged item, including the description of the designated portion of the cash flows or the hedged fair value; or
- Updating the description of the hedging instrument.
- The Company only updates the description of the hedging instrument if the following conditions are met: The Company executes a change required as a result of the benchmark rate reform by changing the basis for determining the contractual cash flows of the hedging instrument or using another approach that is economically parallel to a change of the basis for determining the contractual cash flows of the original hedging instrument; and
- The original hedging instrument did not meet the derecognition criteria.

The Company updated the hedge documentation. These amendments to the formal hedge documentation do not constitute discontinuation of the hedging relationship or the designation of new hedging relationships.

For the purpose of implementing cash flow hedging accounting in hedging as aforesaid, the separate component of the capital attributed to the hedged item is based on the alternative benchmark rate on which the future hedged cash flows will be based.

3. Interest Rate Benchmark Reform

The basis for determining contractual cash flows for financial assets and financial liabilities measured at amortized cost has changed as a result of the benchmark rate reform, the Company has updated the effective interest rate of the financial asset or financial liability to reflect the change.

When changes have been made in financial assets or financial liabilities in addition to changes in the basis for determining the contractual cash flows required as a result of the benchmark rate reform, in addition to updating the effective interest rate with respect to the implementation of the reform, the Company implements the accounting policy regarding a material change in the terms of a debt instrument.

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

q. Financial Instruments (continued)

4. Non-derivative financial liabilities

Non-derivative financial liabilities include: bank overdrafts, loans and credit from bank corporations and other credit providers, liabilities with respect to leases, suppliers, and other creditors.

Initial recognition of financial liabilities

The debt instruments of the Group issued are initially recognized when they are originated. All other financial liabilities are initially recognized on the trade date in which the Group becomes a party to the instruments' contractual provisions.

Subsequent measurement of financial liabilities

Financial liabilities (except financial liabilities designated as fair value through profit and loss) are initially recognized at fair value, less all attributable transaction costs. After the initial recognition, financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are designated as fair value through profit and loss, if the group manages such liabilities and their performance is estimated based on their fair value. This is in accordance with the manner in which the Group recorded its risk management, if the designation is intended to prevent an accounting mismatch, or if the instrument is combined, including embedded derivatives.

Transaction costs directly attributed to an expected issuance of an instrument classified as a financial liability are recognized as an asset as part of the deferred expenses item in the Statement of Financial Position. Such transaction costs are deducted from the financial liability upon initial recognition, or are reduced as financial expenses in the profit and loss report when issuance is no longer expected to take place.

Derecognition of financial liabilities

Financial liabilities are derecognized when the Group's contractual obligations are discharged or cancelled or expire.

In such cases, the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized within profit as loss under the "financial income or expenses" item.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any fees paid, less any fees received, capitalized through the original effective interest rate, is different by at least ten percent of the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative test, the Group is examining, among other things, whether changes have occurred in various economic parameters involved with the replaced debt instruments. Therefore, in general, replacements of CPI-linked debt instruments with non-CPI-linked instruments are considered as replacements with substantially different terms, even if they do not meet the quantitative test performed above.

While replacing debt instruments with capital instruments, capital instruments issued during disposal and derecognition of the entire liability or a part thereof, are considered as part of the "consideration paid" for the purpose of calculating profit of loss from the derecognition of the financial liability.

The capital instruments are initially measured at their fair value, unless such value cannot be reliably measured – in such case, the issued instruments are measured according to the fair value of the derecognized liability. Any difference between the amortized cost of the financial liability and the initial measurement of the capital instruments is recognized in the profit and loss report under the financial income or expenses item.

Non-material amendment of debt instrument

In the event of an amendment of terms (or replacement) of a non-material debt instrument, the new cash flows are discounted at the original effective interest rate, while the difference between the present value of the financial liability with the new terms and the present value of the original financial liability is recognized in profit and loss.
For additional details regarding financial instruments see Note 26 below.

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

r. Impairment of financial assets

Non-derivative financial assets

Financial assets, contract assets and lease receivables
The Group recognizes provisions for expected credit losses with respect to:
- financial assets measured at amortized cost;
- contract assets (as defined in IFRS 15);
- lease receivables.

The Group elected to measure the provision for expected credit losses with respect to customers, contract assets and lease receivables in the amount equal to the contractual credit losses throughout the life of the instrument.

Regarding other debt assets, the Group measures the provision for expected credit losses in an amount equal to the expected credit losses throughout the life of the instrument, except for the following provisions, which are measured in an amount equal to the expected credit losses with respect to a failure event in a 12-month period:
- Debt instruments that are determined to have low credit risk at the reporting date; and
- Other debt instruments and deposits for which the credit risk did not increase significantly from the date of initial recognition.

When assessing whether the credit risk of a financial asset increases significantly from the date of initial recognition and the assessment of expected credit losses, the Group takes into account reasonable and ascertainable information that is relevant and achievable without excessive cost or effort. Such information includes quantitative and qualitative information, as well as an analysis, based on the Group's past experience and on the reported credit estimate, and includes forward-looking information. The Group assumes that the credit risk of a financial asset increased significantly from the date of initial recognition, where contractual payments are in arrears of more than 60 days.
The Group considers financial assets to be at failure when:
- It is unlikely that the borrower will meet all of its obligations to pay towards the Group; or
- The contractual payments with respect to the financial asset are more than 180 days in arrears.

The Group considers a debt instrument to have a low credit risk, when its credit risk rating is equivalent to the global and understandable definition of 'investment grade'.
The credit losses expected throughout the life of the instrument are expected credit losses arising from the possible failure events throughout the life of the financial instrument. Expected credit losses in a 12-month period are the portion of the expected credit losses arising from possible failure events during a period of 12 months from the reporting date. The maximum period taken into account in the assessment of the expected credit losses is the maximum contractual period during which the Group is exposed to credit risk.

Measurement of expected credit losses
Expected credit losses constitute a probability-weighted estimate of credit losses. Credit losses are measured according to the present value of the difference between the cash flows to which the Group is entitled under the contract and the cash flows that the Group expects to receive.
The expected credit losses are discounted at the effective interest rate of the financial asset.

Financial assets impaired due to credit risk
At each reporting date, the Group estimates whether financial assets measured at amortized cost have become impaired due to credit risk. A financial asset is impaired due to credit risk when one or more of the events that have a negative effect on the future cash flows estimated in respect of this financial asset occurred.

Evidence that a financial asset is credit-impaired includes the following events:
- Significant financial difficulty of the issuer or the borrower;
- Breach of contract, such as a default or past-due event;
- Reorganization of a loan or payment due to the Group under conditions that the Group would not have considered in other cases;
- The borrower is expected to enter bankruptcy or other financial restructuring; or
- The disappearance of an active market for a financial asset due to financial difficulties;

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

r. Impairment of financial assets (continued)
Non-derivative financial assets (continued)

The provision for expected credit losses is presented in the Statement of Financial Position

Provision for expected credit losses with respect to a financial asset measured at amortized cost is presented net of the gross carrying amount of the financial asset.

Write-down

The gross carrying amount of a financial asset is written down in whole or in part when there are no reasonable expectations for recovery. This is usually the case when the Group determines that the debtor has no assets or sources of income that may yield sufficient cash flows to pay the amounts subject to write-down. However, written-down financial assets may still be subject to enforcement actions in order to comply with the Group's procedures for refunding amounts. Write-downs constitute a removal event.

s. Revenue

The Group's revenues are mainly composed of the sale of electricity, provision of infrastructure services, and revenues from performance contracts.

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the consideration amount the Group expects to be entitled to in return for transfer of goods or services promised to the customer, except for amounts collected in favor of third parties.

Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

1. The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
2. The Group can identify the rights of each party in relation to the goods or services that will be transferred;
3. The Group can identify the payment terms for the goods or services that will be transferred;
4. The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
5. It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

In the event that it cannot be determined that it is expected that the economic benefits attributed to the transaction will flow to the Company, the Group recognizes revenue from the sale of electricity in accordance with the sum it is expecting to collect.

Identifying performance obligations

On the contract's inception date the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

1. Goods or services (or a bundle of goods or services) that are distinct; or
2. A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is separately identifiable, the Group examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

As part of contracts with customers for the sale of electricity, since a significant service is provided, that integrates various goods and services in a contract into one integrated product, the Group identified one performance obligation.

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

s. Revenue (continued)

Determining the transaction price

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. When determining the transaction price, the Group takes into account the effects of variable consideration and the existence of a significant financing component in the contract, revenues from construction contracts including the original sum that was included in the contract plus sums with respect to incentives, if it is highly expected that a significant cancellation of the accrued revenue sums will not occur.

Variable consideration

As part of the transaction price, the Group includes the variable consideration amount, or a part thereof, only when it is expected at a high level of certainty that a material cancellation of the accumulated income amount recognized would not occur, while the uncertainty related to the variable consideration is subsequently clarified at the end of each reporting period, the Group updates the estimate of the variable consideration amount included as part of the transaction's consideration, where necessary.

Satisfaction of performance obligations

Revenue is recognized when the Group satisfies a performance obligation by transferring to the customer control over promised goods or services. In projects executed under contract, the Group transfers control over time and therefore recognizes revenue over time since the Group's performance creates or enhances an asset that is controlled by the customer at the time it is being created or enhanced.
Revenues from sale of electricity are recognized upon consumption of electricity by the customers, in accordance with meter readings. Revenues for the quantity consumed during the period between the last meter reading and the Statement of Financial Position date are included according to estimates.

Interest revenues

Interest revenue with respect to electricity customers is recognized at the time of collecting the debt with respect to which it was accrued.

Measurement of progress towards satisfying performance obligations in development projects

The Group recognizes revenue from performance contracts over time by measuring progress towards full satisfaction of the performance obligation in a manner that reflects the Group's performance in transferring the control over the goods or services that were promised to the customer. When the outcome of a performance obligation cannot be measured reliably (for example in the early stages of a contract) but the Group expects to recover the costs incurred, revenue is recognized only up to the amount of incurred costs (zero margin) up to the date the outcome of the performance obligation can be measured reliably.
The Group applies a method based on inputs for measuring progress relative to the rate of the project's completion. The completion rate is generally measured according to the ratio between the costs created as of the date of the Statement of Financial Position with respect to the work under construction, and the total expected costs for the contract's performance, except for costs that do not represent the completion stage and this is when its results can be reliably assessed. The Group is of the opinion that using the inputs method best represents the pattern of transferring control to the customer.
When the Group uses an approach based on inputs, it does not include the effects of any inputs that do not reflect the Group performance in transferring control over the goods or services to the customer.
When the Company uses an approach based on inputs in measuring progress, a cost incurred that is not proportional to the progress towards satisfying the performance obligation, is not taken into account when measuring the stage of completion.

Contract costs

Incremental costs of obtaining a contract with a customer are recognized as an asset when the Company is likely to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred, unless the customer can be billed for those costs.

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

s. Revenue (continued)

Contract costs (continued)

Costs incurred to fulfill a contract with a customer and not in the scope of another standard are recognized as an asset when they: relate directly to a contract the Group can specifically identify; they generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and they are expected to be recovered. In any other case the costs are recognized as an expense as incurred.

Capitalized costs are amortized in the income statement on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

Every reporting period the Company examines whether the carrying amount of the asset recognized as aforesaid exceeds the consideration the entity expects to receive in exchange for the goods or services to which the asset relates, less the costs directly attributable to the provision of these goods or services that were not recognized as expenses, and if necessary an impairment loss is recognized in profit or loss.

t. Government grants:

Government grants are recognized when there is reasonable assurance that the grants will be received and that the Company will comply with the relevant conditions entitling the receipt thereof.

Government grants relating to assets:

Grants received from the Government of Israel for the construction of a building (fixed assets) are presented in the Statement of Financial Position, net of the grant, and recognition thereof in the Statement of Profit or Loss over the lifecycle of the asset by the charging of reduced depreciation.

Non-monetary government grants:

Non-monetary grants received from the Government of Israel are recorded in the financial statements in a nominal amount.

u. Leasing

1. Determining whether an arrangement contains a lease

On the inception date of the lease, the Group assesses whether the arrangement is a lease or contains a lease, while examining whether the arrangement conveys the right to control the use of the identified asset for a period of time in exchange for consideration. When assessing whether an arrangement conveys the right to control the use of an identified asset, the Group examines whether it has the following two rights over the lease term:

a) the right to obtain substantially all the financial benefits from the use of the identified asset; and
b) The right to direct the use of the identified asset.

For lease contracts which include components other than lease components, such as services or maintenance, related to a lease component, the Group has elected to treat the contract as a single lease component without separating the components.

2. Leased assets and lease liabilities

Agreements granting the Group right to direct the use of a leased asset over a period of time in exchange for consideration are accounted for as leases. Upon initial recognition, the Group recognizes a liability in the amount of the present value of the future lease payments (these payments do not include certain variable lease payments), and simultaneously the Group recognizes the right-of-use asset in the amount of the lease liability, adjusted for prepaid or accrued lease payments, plus direct costs incurred in the lease.

Since the interest rate implicit in the leases of the Group is not readily determined, the Group uses the incremental borrowing rate of the lessee.

Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model and is depreciated over the lease term or the useful life of the asset, whichever is earlier.

The Group elected to apply the practical relief, according to which short-term leases of up to one year and/or in which the base asset has low value, are accounted for such that the lease payments are attributed to profit and loss according to the straight line method, over the lease term, without recognition of the asset and/or liability in the Statement of Financial Position.

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

u. Leasing (continued)

3. Lease term

The lease term is determined as the period in which the lease cannot be cancelled, together with periods covered by an option to extend or cancel the lease if it is reasonably certain that the lessee will or will not exercise the option, respectively.

4. Variable lease payments

Variable lease payments which are dependent on an index or a rate, are initially measured by using the current index or rate on the date of the lease inception, and they are included in the measurement of the lease liability. When there is a change in the cash flows of future lease payments resulting from a change in the index or rate, the balance of the liability is updated against the right-of-use asset.

5. Reassessment of liability in respect of a lease

Upon the occurrence of a significant event or significant change of circumstances under the Group’s control, which has affected the decision of whether it is reasonably certain that the Group exercises an option which was not previously included in the determination of the lease term, or fails to exercise an option that was previously included in the determination of the lease term, the Group reassesses the liability in respect of a lease in accordance with the up-to-date lease payments while using up-to-date capitalized interest. The change in the book value is recognized against the right-of-use asset or recognized in profit and loss if the book value of the right-to-use asset was fully depreciated.

6. Depreciation of the right-of-use asset

Subsequent to the inception date of the lease, the right-of-use asset is measured using the cost method, net of accumulated depreciation and net of accumulated impairment losses and adjusted in respect of reassessment of the lease liability. Depreciation is computed on a straight line basis over the useful life or the contractual lease term, whichever is earlier, as follows:

- Bulk ships – 2.25-7.5 years.
- Emergency diesel tanks – 14-17 years.
- Diesel tanks - 3 years.
- Vehicles - 3 years.
- Mobile mechanical equipment – 2 years.
- Performance center building – 7 years.
- Server farms 14 years.

7. Assets leased by the Group

Leases in which the Group leases assets are classified as operating or finance leases. The classification of a lease as a finance or operating lease depends on the essence of the transaction, is carried out on the date of the lease agreement and is reviewed only if there is an amendment to the terms of the lease. Changes in estimates such as the financial life or residual value of the asset, or changes in circumstances, do not result in reclassification of the lease.

a) Finance leases

Leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to the ownership of the leased asset. On the date of initial recognition, the assets held under a finance lease are shown as receivables in an amount equal to the net investment in the lease. Lease payments are discounted using the discount rate inherent in the lease.

Initial direct costs are included in the initial measurement of the receivables and reduce the recognized income over the lease term on the effective date. The lease payments included in the measurement of the net investment in the lease include fixed payments due, net of any payable lease incentives. Variable lease payments which are dependent on the index or a rate, any residual value of guarantees provided to the lessor. The exercise price of purchase options if it is reasonably certain that the lessee will exercise this option as well as the payment of penalties for canceling the lease.

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

u. Leasing (continued)

7. Assets leased by the Group (continued)

a) Finance leases (continued)

In subsequent periods, the Group recognizes financing income over the lease term. In addition, the Group allocates the lease payments against the balance of the receivables in respect of the finance lease and against the financing income in the period.
The Group applies the requirements for de-recognition and impairment in accordance with IFRS 9 in respect of the balance of the receivables in a lease. In addition, the Group reviews the estimates of residual values which are not guaranteed. If there is a decline in the estimate of the value of the unsecured residual value, the Group updates the allocation of income over the lease period and immediately recognizes a decrease in respect of the accrued amounts.

b) Operating leases

Leases that do not transfer substantially all the risks and rewards of ownership of the underlying asset are classified as operating leases.
The Group recognizes lease payments from operating leases as income on a straight line basis over the lease term.
Initial direct costs incurred in obtaining operating leases are added to the carrying amount of the underlying asset and are recognized as an expense over the lease term on the same basis as the income from the lease.

v. Provisions

Provisions are recognized when the Company has a legal obligation or constructive obligation as a result of a past event, where the utilization of economic resources is probable in order to liquidate the obligation and they can be reliably estimated.

The amount recognized as a provision reflects the best estimate of the management of the consideration required to settle the present obligation as of the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation. Where the provision is measured by using the cash flow estimated to calculate the obligation, the book value of the provision is the present value of the anticipated cash flow. Changes with respect to the time value are charged to the statement of profit or loss.

When all or part of the present amount to settle an obligation is expected to be recovered from a third party, the Group recognizes an asset with respect to the recovery, to the extent of the provision that was recognized, only if it is virtually certain that the indemnification will be received and it can be reliably estimated.

Provisions with respect to legal actions are recognized when the Group has a legal obligation at present or an implied obligation as a result of an event that has occurred in the past, where it is more likely than not that the Group will require its financial resources to discharge the obligation and which can be reliably estimated. When the effect of the value of time is material, the provision is measured in accordance with its present value with respect to claims whose discharge, as required, will be carried out within the framework of the electricity rate, the recognition and measurement with respect to them is in accordance with the rules applying to regulatory deferral accounts - see section ab below. Regarding provisions with respect to legal claims and other financial claims – see Note 19 below and Note 35b below.

- Site rehabilitation - in accordance with the Group's declared policy and in accordance with the requirements of the law, a provision for rehabilitation of a site is recognized on the date on which the Company's liability is created, and to its ability to determine a reliable estimate thereto.
- Structural change – provision for structural change is recognized when the Group approves a formal and detailed plan for structural change, and the structural change has begun in practice or when the employees have been notified of it. The provision includes the direct expenses deriving from the structural change, which are necessarily involved with the structural change, and which are not attributed to the Group's continuing operations.

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

w. Income Taxes

General

Income taxes include current and deferred taxes. Current and deferred taxes are charged to Statement of Profit and Loss or charged directly to equity or other comprehensive income if they derive from items which are directly recognized in equity or other comprehensive income. (See Note 21 below).

1. **Current Taxes**

The current tax is the expected tax amount payable (or receivable) on the taxable income for the year, calculated according to the tax rates applicable pursuant to the laws enacted or enacted in practice as of the date of the report.

2. **Deferred Taxes**

The Group creates deferred taxes for temporary differences between the value for tax purposes of assets and liabilities and their value in the financial statements. Balances of deferred taxes (asset or liability) are computed according to tax rates and tax laws enacted or substantially enacted by the Statement of Financial Position date. Deferred tax liabilities are usually recognized for taxable temporary differences between the value for tax purposes of assets and liabilities and their value in the Financial Statements. Deferred tax assets are recognized for all temporary differences that may be deducted up to the amount of anticipated taxable income, against which the deductible temporary difference may be utilized.

In the calculation of the deferred taxes, the deferred taxes with respect to temporary differences due to earnings in held companies are not taken into account since the dividends are not taxable.

Assets and liabilities for deferred taxes are presented on an offset basis, when the Company has a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to taxes on income levied by the same tax authority and the Group intends to settle its current tax assets and the liabilities on a net basis.

Deferred tax assets or liabilities regarding the recognition of balances of regulatory deferral accounts are presented with the regulatory deferral accounts and movement in such balances.

3. **Uncertain tax positions**

Provisions for uncertain tax positions, including additional tax and interest expenses, are recognized when it is more likely than not that the Group will require its economic resources to settle the obligation.

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

x. Benefits to Employees

1. Post-Employment Benefits

Post-employment benefits of the Group include: pension and grants. These Group benefits are partly defined contribution plans and partly defined benefits plans.
Expenses for the liability of the Group to deposit funds in a defined contribution plan (cumulative pension fund see Note 12e below) are charged to profit or loss, or capitalized to the cost of assets, at the time that the labor services, in respect of which the Group is obligated to make the deposit, are supplied. The difference between the deposit amount payable and the total deposits paid is presented in the Statement of Financial Position in the payables item.

Expenses for a Defined Benefit Plan (the Group's pension fund see Note 12d) are charged to profit or loss, or capitalized to the cost of the asset according to the projected unit credit method, while utilizing actuarial valuations carried out at the end of every reporting period. The current value of the liability of the Group with respect to a plan for a benefit defined for the date of the Financial Statements is determined by capitalization of the expected future cash flow with respect to the plan. According to International Accounting Standard 19 (IAS 19), the rate used for capitalization of liabilities with respect to post-employment benefits will be determined by using the market yields at the end of the reporting period for the high quality corporate debentures whose currency is NIS and whose repayment date is similar to the Group's liability terms.
Interest costs with respect to defined benefit liabilities, interest income with respect to the plan's assets, and interest with respect to the impact of the ceiling of the assets attributed to profit and loss, are stated under the salary expenses items or capitalized to fixed asset on establishment.
The Group recognizes profit or loss from disposal of a Defined Benefit Plan upon the disposal. Profits or losses as aforesaid are a difference between the disposed part of the present value of the defined benefit liability on the date of disposal, and the disposal price, including transferred plan assets.

According to the Amendment of International Accounting Standard IAS 19 "Employee Benefits", employee deposits relating to the employee's service will be treated as a decrease of the service cost. The amendment enables a practical way, in a case in which the sum of deposits is not dependent on the number of years of service, to decrease the cost of the current service in a period during which the related service was provided.

According to the accounting policies of the Group, the plan assets are measured at fair value. Interest income on the plan assets and the funds in trust are set on the basis of the rate of capitalization of the liability for the beginning of the year and are recorded to the Statement of Operations or capitalized to the cost of assets. The difference between the interest income for the plan assets and funds in trust and the comprehensive yield of the plan assets and funds in trust is recorded to remeasurements of the liability (the asset), net, with respect to a defined benefit (hereinafter "remeasurements") in other comprehensive income and will not be reclassified to profit or loss at a later date.

When the total deposits paid exceed the deposit required with respect to the service that was provided up to the date of the statements of financial position, and this surplus will lead to a decrease in future deposits, or a monetary repayment, the Group recognizes the asset.

Actuarial gains and losses derive primarily from the difference between the actuarial assumptions, that are long-term assumptions, and the behavior of those variables during the reporting year (such as the expected rate of increase in salaries, the capitalization interest rate, the rates of early retirement and mortality and from the difference between the actual return on the funded amounts during the reporting year, and the expected return as of the beginning of the year) and from the changes in the actuarial assumptions themselves. Actuarial gains and losses are recorded to other comprehensive income on the date of their creation, or capitalized to the asset cost. Actuarial gains and losses that were recorded to remeasurements in other comprehensive income will not be reclassified to income or loss at a later date.

Past service cost is recognized immediately in the Statement of Operations during the period in which the plan was changed.

The liability of the Group for a defined benefit plan, recognized in the Statement of Financial Position, represents the present value of the defined benefit obligation less fair value of the assets of the plan. A net asset, created by this calculation, is limited to the amount of the future economic benefits available in the form of refunds from the plan or in the form of a reduction in future deposits in the plan ("cap amount").
Pension liability is assigned to service periods of the employees according to the rights accumulation rate in the pension plan.

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

x. Benefits to Employees (continued)

2. Short Term Employee Benefits

Short term benefits to employees are benefits expected to be utilized or paid within a period that does not exceed 12 months after the end of the period when service entitling to the benefit was rendered.

Short term benefits to employees include the Group's liabilities for short term absence, holiday, payments of grants and salaries. These benefits are recorded to the Statement of Operations or capitalized to the cost of the assets on the date on which the relating service is provided. The benefits are measured on a non-capitalized basis which the Group is forecasted to pay. The classification of employee benefits, for the purpose of measurement, as short-term benefits, or long-term in other benefits, is determined in accordance with the Group's forecast of full payment of the benefits.

3. Other Long Term Benefits to Employees in the Other Liabilities section

Other long term benefits to employees are benefits that are not anticipated to be paid off in full before 12 months after the end of the period when the service entitling to the benefit was rendered and do not constitute benefits after termination of employment or benefits with respect to dismissal.

Other employee benefits of the Company include liabilities for a 20-year grant.

The change in these benefits (including actuarial gains and losses) is recorded to the statement of profit or loss or capitalized to the cost of the assets, applying actuarial estimates calculated on every Statement of Financial Position date, in accordance with the projected unit credit method.

The present value of the Group's liability for the grant is determined by capitalizing anticipated future cash flow for the plan at market yields of high quality Corporate Debentures (see section 1 above).

Actuarial gains and losses are charged to the Statement of Profit and Loss upon their creation. Past service cost is recognized immediately in the Statement of Profit and Loss in the period in which the plan was changed.

4. Benefits for Dismissal

Benefits for dismissal are benefits due to be paid as a result of the Group's decision to dismiss employees prior to the usual retirement age or as a result of the employee's decision to agree to voluntary retirement in return for these benefits.

The liability of the Group for an early retirement plan is charged to operations, where the Group is liable under a formal severance plan, that includes, at least, the location, position and estimated number of dismissed employees, the benefits to which the dismissed employees are entitled and the plan implementation date. Also the period of time for completing the implementation will be such that will not reasonably allow material changes in the plan.

5. Funds in Trust

Funds held in trust are recorded in their fair value in accordance with IFRS 13.

6. Benefits within a Special Collective Agreement – reform, organizational restructuring and the Special Collective Agreement (early retirement, tenure quota, one time grant to IPP and SMC employees, and additional matters) (the agreements are as follows):

a) The benefits that will be granted to the retiring employees (1,803 employees from the reform agreement and 200 from the additional early retirement agreement) as part of the agreement are post-employment benefits and therefore the entire agreements were treated as a change in the terms of the plan condition pursuant to the provisions of IAS 19.

b) Retirement grants, severance pay and bringing forward the pension for retirees in section a above were attributed according to the relative seniority as of the date of entry into effect of the agreement to the cost of past service, while accrual of the balance of the benefits is spread by the "forecasted eligibility unit" method over the remaining period until the retirement date.

c) The addition of a reform pension to retirees under special retirement was fully charged to the cost of past service since it is not conditional on the provision of future service.

d) The reform pension addition to retirees (not part of the 1,803 reform retirees) during and after the reform period was spread as from the date of entry into force of the agreement in accordance with the portion method according to the relative portion in accrual of each milestone entitling to this increment.

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

x. Benefits to Employees (continued)

6. Benefits within a Special Collective Agreement – reform, organizational restructuring and the Special Collective Agreement (early retirement, tenure quota, one time grant to IPP and SMC employees, and additional matters) (the agreements are as follows): (continued)

e) Retirement grants, severance pay and bringing forward the pension for permanent employees who will be loaned for 5 years of employment in companies that will purchase the generation units to be sold were spread from the date of entry into force of the agreement, with the straight-line method up to the end of 5 years from the date of sale of the power stations in accordance with the agreements.

f) One time grant for IPP and Noga employees has been made in installments as of the effective date of the agreement, according to the straight line method, with regards to IPP employees until the conclusion of 5 years following the sale date of the stations, in accordance with the agreements, and with regards to Noga employees who have not yet been transferred, until the expected transfer date.

g) The obligation with respect to the pension plan of Company employees who were transferred to Noga was settled in the transfer date of the employees to Noga. The cost of the settlement was measured as the difference between the payment made to Noga and the liability in the Company's accounts as of the transfer date and was attributed to profit and loss.

y. Allocation of the purchase price of an operating liability in the amendment to the Tamar Agreement

The purchase of the amount of the operating liability at a price lower than the TOP price in accordance with the amendment to the agreement is treated as a material right, and accordingly the Company allocates part of the payment for the amount of the TOP to payment for the operating liability and recognizes the gas procurement expenses accordingly, see Note 35.

z. Earnings per Share

The Group does not provide disclosure of earnings per share in its financial statements, since its ordinary shares are not listed for trading or in the process of being listed for trading on public markets.

aa. Segmental Reporting

Operating segments are reported according to the same base that serves internal reporting needs, which are presented to the chief operating decision maker of the Company. The Chief Operating Decision Maker, who is responsible for allocating resources to the operation sectors of the Group and assessing their performances, has been identified as the Group's CEO (see Note 36 below).

ab. Classification of Interest Paid in the Cash Flow Statement

The Group classifies cash flow with respect to interest paid, including with respect to interest capitalized for the cost of the fixed assets, as cash flow from financing operations. Cash flow with respect to taxes on income are in general classified as cash flow that served current operations, except for those that can be easily identified with cash flow that were used for investment or financing activities.

ac. Regulatory Deferral Accounts

On January 2014, International Financial Reporting Standard number 14 (hereinafter: "IFRS 14") was published. IFRS 14 was published as an intermediate Standard to be implemented as of 2016, and its purpose to permit, as a possible alternative, continued implementation of the previous accepted accounting principles and the accounting policy for recognition, measurement, impairment, and removal of regulatory deferral accounts in the financial statements of regulated companies during the initial transition to implementation of the IFRS standards.

The Standard enables a company which conducts operations that are subject to rate regulation, to implement the practices existing on the subject of recognition of regulatory deferral accounts, in the reports prepared according to the IFRS standards, in the same way as the Company had implemented in its Financial Statements pursuant to the previous accepted accounting principles.

Pursuant to the financial reporting principles of the Group, the Group implements the practice that was used in its financial statements in accordance with the previous accepted accounting principles which is based on the Standards of the American Financial Accounting Standards Board (FASB) specified in Chapter RE6, which deal with the implications of

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

ac. Regulatory Deferral Accounts (continued)

certain types of regulation on the accounting policy (hereinafter: the "Standard"). The goal of the Standard's publication is to determine and define how to implement accepted accounting principles in companies under regulation, and how to reflect the decisions of the regulatory body in the financial statements of those companies. When certain terms are met, the Standard enables an accounting treatment different from the accepted practice regarding the timing of charging the expenses and income to profit and loss, in order to reflect and create an adequate matching between the expenses and the income which will be created for the Company according to the dates of their recognition in the electricity rate.

The Standard applies when all the three conditions detailed below are fulfilled:

1. Rate regulation – rates with respect to services or products under regulation are determined by a regulator who is an independent third party, or by a committee which received mandate, or subject to their approval, pursuant to the law or a contract which determines rates for debiting the consumers.
2. Specific coverage of costs – the regulated rates are constructed so as to cover the specific costs (including required return on equity) in connection with the supply of the regulated service or product.
3. Competition and potential collection from customers – in light of the demand for a regulated product or service and the level of direct and indirect competition, it is likely that the rates determined so as to cover the costs can be charged to the customers and collected from them.

These terms can also be implemented on separate parts of activities such as electricity generation or its transmission, or to a certain sector of customers.

If a conclusion is reached that the Group no longer meets the aforesaid terms for implementing the Standard, then the regulatory assets/liabilities have to be removed, based on provisions defined in that Standard.

As of the date of approval of the Financial Statements, the Group is complying with the aforesaid conditions.

A regulator's decisions regarding the rate may provide a reasonable base of certainty for the existence of a regulatory asset.

The Group recognizes a regulatory asset at the sum of the costs incurred, or part of them, which otherwise would have been charged to profit and loss, if it meets the two following terms:

1. It is expected (with a probability exceeding 70%) that future income will be at least in the amount of the expenses incurred, i.e. the expenses incurred will be taken into account when determining the rate.
2. Based on existing evidence, the future income will be determined in order to cover past costs that were incurred and not in order to cover similar expected future costs. If the income is given through an automatic rate adjustment, this criterion requires that the regulator's intent is clearly coverage of past expenses.

Regulatory decisions may cause the provision of a regulatory liability in a regulated company. These liabilities are usually against the Group's customers.

The terms for recording regulatory liabilities by the Group (if the refund is expected with a probability exceeding 70%):

1. The regulator's requirement of refunds to customers through the rate, according to certain criteria; or
2. The regulator's determination of current rates which are designed to return costs which are expected to be collected in future, but of these costs will not be incurred, future rates will be reduced at similar rates; or
3. The regulator's requirement that the profit or reduction of costs will be refunded to customers in future periods.

Additionally, the regulatory assets which were defined in previous accounting principles are named, as of the date of transition to IFRS, as “regulatory deferral accounts”.

The total regulatory deferral accounts in debit and the total regulatory deferral accounts in credit are presented as separate items in the Statement of Financial Position and are separated as a distinct category. The change in regulatory deferral accounts, including tax effect, as of the transition date and onward is presented in the financial statements in a separate section in the Statement of Profit and Loss. (See Note 15 below).

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

ad. Principal Factors of Uncertainty in Estimates and Accounting Considerations in Applying Accounting Policies

1. General

In application of the accounting policies of the Group described in sections a-ac above, the Management of the Group is required, in certain cases, to exercise extensive accounting judgment with regard to assessments and assumptions concerning the book value of assets and liabilities that are not necessarily available from other sources. The assessments and related assumptions are based on past experience and other factors that are deemed relevant. It is clarified that the results in practice may be different from these assessments.
The assessments and the assumptions on which they are based are continuously examined by the management. Changes of the accounting assessments are only recognized for the period in which an assessment change was executed if the change only affects that period or recognized for that period and future periods if the change affects the present period and the future periods.

2. Use of estimates and judgment

Information concerning assumptions assumed by the Group regarding the future and other major factors of uncertainty regarding assessments, with the existence of a significant risk that their result will be material adjustment of values in books of assets and liabilities during the next financial year, is as follows and is included in the following Notes:

a) Income Recognition

1) Variable consideration
The income recognized does not include variable consideration amounts that the Company cannot determine because it expects with high certainty that it will be able to collect them. At the end of each reporting period, the Company updates its estimate of whether these amounts are still subject to restriction, and this estimate includes taking into account all the relevant facts and reasons. An increase in the amount that the Company expects to be able to charge for electricity services previously provided will be recognized in income during the period in which the change occurred, for further details see Note 6 below.

2) Accounts receivable
The Group estimates, under statistical models, the revenue from electricity sales during the report period with respect to the relative part of the revenue included in invoices issued after the date of the Statement of Financial Position, which include charges with respect to the report period. The statistical models are based on electricity consumption in invoices billed after the Statement of Financial Position date and estimate the part relating to the Financial Statement period in accordance with weather and electricity demand data, estimate of accounts receivable in the Group's books as on December 31, 2022 amounts to approximately NIS 1,682 million (approximately NIS 1,588 million as on December 31, 2021) (see Note 6 below).

b) Fair value of financial instruments
The Management of the Group exercises judgment in selecting appropriate valuation techniques for financial instruments that do not have a quoted market price in an active market. The estimation techniques used by the Management of the Group are like those applied by market participants. The book value of the financial instruments that are estimated through valuation techniques as of December 31, 2022, amounts to a liability of approximately NIS 1,649 million (as of December 31, 2021, approximately NIS 2,881 million). See Note 26 below.

c) Provision for legal proceedings and other monetary demands
Legal claims, including class actions, are pending against the Group. See Note 35 below.
The Management of the Group relies on the opinion of legal and professional advisors in order to examine the legal relevancy of these claims, as well as to determine the probability that they will be realized to its detriment. After the advisors of the Group formulate their legal position and the prospects of the Group regarding the claim, whether the Group will have to bear the consequences or whether it can reject it, the Management of the Group assesses the sum that should be recorded in the Financial Statements, if any. An interpretation to an existing legal situation that is different from that of the legal advisors of the Group, a different comprehension by the Management of the Group regarding contractual engagements and changes that originate from relevant case law, or addition of new facts, can affect the value of the total provision with respect to the legal proceedings pending against the Group and thus materially affect the financial position and results of the operation of the Group.

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

ad. Principal Factors of Uncertainty Estimates and Accounting Considerations in Applying an Accounting Policy (continued)

2. Use of estimates and judgement (continued)

d) Employee benefits

The present value of the Group's liability for payment to pension plan and bonuses and to severance pay to its employees is based on a large number of data that are determined on the basis of an actuarial evaluation, while using a large number of assumptions, including the capitalization rate and the rate of increase of the real salary with respect to general salary agreements (also see Note 12o below). The Group assesses the capitalization rate once a quarter. The capitalization rate is taken from the interest curve, based on market data with respect to high-quality CPI-linked corporate debentures, as determined by the quoting company Mirvach Hogen Ltd.

Other key assumptions are determined on the basis of the conditions of the market and the experience accumulated by the Company. For additional details regarding the assumptions used by the Group see Note 12 below.

Changes in the actuarial evaluations may significantly affect the book value of the liabilities of the Group for payment of pension payments and bonuses and severance pay.

Following the implementation of the structural change process and the efficiency plan, estimates were added including with regard to retirements and employee transfer, employee identity, and timing of the retirement dates which may significantly affect the book value of the Group's liabilities for pension payments and other post-employment benefits, see section x below.

e) Assessment of life span of fixed assets and intangible assets

As stated in section k2 above, the management of the Group reviews the useful life span assessment of fixed assets and intangible asset items every reporting year.

For details of assessment of the lifespan of the fixed assets items, see section k2 above and section ae below.

Changes in life span will cause changes in the book value of the fixed assets and the intangible assets.

f) Regulatory Deferral Accounts (IFRS 14)

1) Estimate of likelihood of covering the regulatory assets and liabilities

As aforesaid in section ac above, the Group applies IFRS 14 to regulatory deferral accounts, the Standard requires a regulated body to reassess the likelihood of covering the regulatory assets and liabilities at every date of publication of financial statements.

The assumptions and estimates require significant consideration that includes a reasonableness examination regarding the recognition threshold for the balances of regulatory deferral accounts (which exceeds a threshold of approximately 70%), the assumptions regarding decisions in force, decision proposals for a hearing as well as future decisions of the Authority and other authorized parties in order to estimate the future coverage of incurred costs and investments. (For details regarding regulatory accounts balances based on valid decisions of the Electricity Authority and accounts based on the Group's estimates, see Note 15 below).

2) Full coverage of costs of the reform within the framework of the rate

The Group recognizes a regulatory asset with respect to full coverage of the costs of the reform relating to the collective agreement of May 2018 within the framework of the rate, based, inter alia, on the Government resolution and the policy principles published by the Minister of Energy (see Note 1e above) and the decision of the Electricity Authority on an Annual Update for 2023 (see Note 3o and 15j below). Regarding the format for covering the costs and the manner of their spread over the coming years, the Electricity Authority has determined a methodology for reimbursement of the reform costs through the rate, and it is implemented in every annual rate update until termination of reimbursement of the reform costs.

g) Tangible and intangible asset impairment

Each reporting period, the Group assesses whether there are any indications requiring an examination of the need of a provision for the impairment of its assets under IAS 36. Changes in assumptions and assessments are able to affect the forecasts of the results of the operation of the Group, and the need of provision for asset impairment. For details regarding examination of impairment of the Group's assets as on the date of the Financial Statements, see Note 13g below.

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

ad. Principal Factors of Uncertainty Estimates and Accounting Considerations in Applying an Accounting Policy (continued)

2. Use of estimates and judgement (continued)

h) Uncertain tax positions

The level of uncertainty with regards to the acceptance of the Group's tax positions, and the risk that delaying recognition of expenses will cause additional tax expenses and interest. This is based on an analysis by a number of entities, including tax law interpretations and the Group's past experience.

i) Estimation of forecasted credit losses

As part of the examination of financial assets' impairment, the Group estimates whether the credit risk attributed to a financial asset increased significantly since the initial recognition, and makes use of forecasts for the purpose of measuring forecasted credit losses which caused an increase in the provision for financial assets' impairment.

j) Determining the lease period

In order to determine the lease period, the Group takes into account the period during which the lease cannot be cancelled, including extension options that it is reasonably certain that they will be exercised, see Note 22 below.

k) Discount rate for the lease liability

The Group discounts the lease payments while using its supplemental interest rate. See Note 22 below.

ae. Change in Assessment

Change in assessment of combined cycle generation units (hereinafter "CCGT")

After the Statement of Financial Position date, on January 9, 2023, the Electricity Authority published a decision regarding a new rates base for the generation segment for the years 2022-2027, within which the Authority determined that the life of the CCGT generation units established as of 2002 will be extended from 25 to 30 years. In light of the decision that the useful life of these units cannot be extended beyond their rate coverage period, the Company simultaneously examined the economic/engineering life of these units, and this contrary to the previous assessment of useful life which was 25 years.
In accordance with the Company's examination, together with the experience gained by the Company in the use of these CCGTs, the comparison to benchmarks of international companies that operate similar units and the opinion of the Company's engineers, according to which the economic/engineering life of these units is at least 30 years. Following this, as of October 1, 2022, the Company changed the useful life of the CCGT generation units to 30 years. Accordingly, the assessment of the useful life of the CCGT generation units changed from 25 years to 30 years.

End of the assessment of useful life	
Previous	Updated
2028-2037	2033-2042

The impact of these changes in the current period and in consecutive periods on the depreciation expenses and movement in regulatory deferral accounts (before tax impact) is as follows:

	2022	**2023**	**2024**	**2025**	**2026**	**2027 onwards**
	In NIS millions					
(*) Increase (decrease) in depreciation expenses	(47)	(184)	(184)	(184)	(184)	783

(*) The major part of the depreciation expenses is offset in the statement of profit and loss in movement in regulatory deferral accounts.

NOTE 3:- THE ELECTRICITY RATE AND REGULATION

a. The Manner of Determining the Rate

The revenues of the Corporation are based on the electricity rate that the Company charges consumers, in accordance with the Electricity Sector Law (see Note 1b above). The electricity rates and their manners of update are determined by the Electricity Authority. Under the Electricity Sector Law, the electricity rates are determined in accordance with the following rules (in this Note hereinafter: the "Authority:"):

- The rates shall be determined based on the principle of cost, considering, inter alia, the type and standard of services. Each price shall reflect the cost of the particular service, without any price decreasing at the expense of increasing another. If a subsidy is determined in the State Budget for the purpose of decreasing a service price, the subsidy amount will be decreased from the cost of that service.
- In implementation of the principle of cost for determining the rates, the Authority will recognize the costs arising from all of the following:
    1. The policy principles determined by the Minister as stated in section 57(A) of the Electricity Sector Law.
    2. The Minister's directives regarding operation of the Electricity Sector at time of emergency delivered under section 58(B) of the Electricity Sector Law.
    3. The Minister's directives regarding operation of the Gas Sector at time of emergency determined under section 91(B) of the Natural Gas Sector Law, 2002.
    4. The Minister's directives pertaining to a response for needs stemming from an emergency situation, that are required for execution in times of emergency, that were provided in writing to an essential service provider license holder in a time of emergency, under any law or under the terms of its license. The Minister will publish directives as aforesaid on the Ministry's website, as soon as possible, except for directives that should not be published for reasons of national security or the State's foreign relations.
- With respect to the cost, an adequate rate of return on capital shall be taken into account, considering the rights and duties of an essential service supplier license holder. The law does not define what an adequate rate of return on capital is.

In accordance with these principles, the electricity charge rate is supposed to cover all of the costs required by the Company for fulfilling its duties as an essential service supplier, subject to cost control. These costs consist, inter alia, of costs of fuels, costs of operations and maintenance and costs of capital (depreciation, financing and return on capital). It is noted that some of the components of the electricity rates are set on the basis of normative cost by various methods, for example on the basis of the costs of electricity companies abroad and service suppliers in Israel, while comparing them both to the costs components as were recorded in the Company's books and to the forecasted costs.

The electricity rates for the various consumers are determined according to the type of consumption and the supply voltage. The major rate types are: a uniform rate or a TOU rate (a rate that changes in accordance with the seasons and hours of the day and night).

A "rate base" is determined every few years by the Authority, reflecting the methodology for determining and updating the rates. When determining a "rate base", the Authority determines the manner of its update. The Authority has set two separate "rate bases": the generation rate base and the rate base for the network segments

b. Rate Update Mechanism

In accordance with the Electricity Sector Law, the electricity charge rates are to be updated according to an update formula to be prescribed by the Authority. The electricity rate is derived from the rate basis which is updated during the criterion period through an annual update and an ongoing update.

1. Annual Update – Every year, the Authority is supposed to implement an annual update of different components of the costs recognized in the rate of the Company, according to changes in different components of the input basket of the Company, and subject to the methodology determined in the rate base. The components the Authority is required to update are: capital costs of recognized assets in generation and in the grid, rates of return on foreign capital and equity, composition of the financing basket, fuels mix and costs, electricity purchases, incentives, consumption distribution, etc.
2. Current rate update -updates of fuel prices and various price indices. The current update is executed twice a month. The current price update does not necessarily cause the actual update of the rates.

Since the consumer rate, as stated, is not updated as a result of every change in the input basket, the mechanism "Compensation with respect to delay in update" accumulates the gap between the recognized input basket and the income which is calculated according to the rate in effect.

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

c. Date of the electricity rate update

On June 12, 2017, the Authority reached a decision regarding the dates of the electricity rate update determined by it, as follows:

- Rates for electricity consumers will be published at the end of December of each year and will enter into effect at the beginning of January of the following year with respect to: an annual update (after a hearing), in addition payments for criteria violations will be published, as well as rates for renewable energies.
- Rates will be published at the end of June of each year and will enter into effect at the beginning of July with respect to: connections and work on account of others.

In the Authority's decision of January 11, 2018, regarding the grid rate for 2018-2022, it was decided that the rate update dates for the consumer will be according to the Authority's decision, as aforesaid, from June 12, 2017, or according to the earliest among the following events:

1. A change in the total recognized cost of all the segments of at least 5.5%.
2. A change in the total recognized cost of all the segments of at least 3.5% and provided three months have passed from the last update date.

d. Base of the Generation Segment Rate

After the Statement of Financial Position date, on January 9, 2023, the Electricity Authority published a decision regarding a new rate base for the generation segment for the years 2022-2027. The decision was made after a public hearing procedure to which the Company submitted its comments.

The generation rate base will commence from February 1, 2022 and will apply until the end of 2027. At this stage the Authority determines the first part of the rate base for the generation segment which includes reference to recognition of the operating component, cost of capital, recognized assets, working capital, availability of the generation units, and accounting with respect to differences between forecasted values and values in practice. The second part, which will include the methodology of the fuels cost recognition, the service level and additional chapters, will be updated and published in a separate decision. The second part of the rate base, when published, will apply from the same date as the first part. As of the date of approval of the Financial Statements, the second part has not yet been published.

The rates deriving from this decision were expressed in the Authority's decision regarding an annual update for 2023.

The material changes included in the decision compared to the previous rate base are:

- A change in the method of recognizing costs of capital from the equal principal method to the Spitzer method in a manner that decreases the income return cash flow in the first years (which will be returned in the coming years). The Authority noted in the decision that it has examined the changes in the Company's income cash flow due to the changes in the return method and due to the extension of the life of the units, and has found that even after these changes, given responsible financial conduct, there is nothing preventing the Company from withstanding this change and executing the required investments imposed on it.
- Reducing the rate of return for the recognized capital in the generation segment, similar to the recognized rate in the grid segments, because in the opinion of the Authority, the Company is not exposed to competition risks or demand risks.
- The leverage rate determined will be at a ratio of 1:3 (25% equity and 75% foreign capital), similar to the leverage rate in the grid segments.
- Operating costs were determined separately for all the generation units for the first time. In accordance with the decision, determination as aforesaid prepares the rate infrastructure for the Company's gradual transfer to participation in the competitive market.
- Normative availability values were set for all the generation units, which the units have to meet. The Company's compliance with the normative availability values has a direct impact on its income from operation and capital services, in a format of award/fine for deviating from the availability values, in accordance with the decision.
- The mechanism of calculating the Company's compensation with respect to a delay in updating was updated in light of the manner of the Company's accounting with the Noga in accordance with actual collection from the Company's consumers.

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

e. Base of the Network Segments Rate

On January 8, 2018, a decision regarding a rate base for the transmission, distribution, and supply segments (hereinafter: the "Network Segments") for 2018-2022 entered into effect.
According to the decision, as of 2018, the rate recognition of the new investments in the transmission and distribution segments is based in part on a normative rate and in part in accordance with the cost control.
Regarding the operating costs - the Authority set a normative rate. In addition, a supplement was set for the normative operation cost meant to finance the costs of the reform.
The normative financial leverage for the decision period will be at a ratio of 1:3 (25% equity and 75% foreign capital). The rate of return on equity was determined according to a risk-free rate of return plus a fixed margin of 6.8%. Additionally, financing costs with respect to holding a safety cushion for the network segments were also recognized for the Company.
On May 3, 2020, the Authority decision concerning normative pricing of activities which had not yet been priced as part of the grid's Rate Base was published. As part of this decision, all activities of the distribution segment and some of the activities of the transmission segment have been priced.

In addition, on June 17, 2020, the Company received the Authority's decision concerning a normative price update with regards to transformer addition activities in open and closed sub-stations. Following this decision, under-recognition is not expected with regards to this activity in 2020-2022.

A hearing published by the Authority regarding determination of a normative cost for the construction of 400 kW lines and supplementing a uniform annual cost for change and improvement projects in transformation was received on August 3, 2022. The Company delivered its comments on August 24, 2022. A final decision by the Authority on this matter has not yet been received.

As of the date of approval of the Financial Statements, a new rate base for the grid segment for the coming years has not yet been published, and therefore the existing rate base will apply at this stage.

f. 2022 Annual Update

On January 31, 2022, the Authority published a decision regarding the 2022 annual update for the electricity rate. In accordance with the decision, the total rate with weighing the fixed rate components for a domestic consumer increased by approximately 5.7%. The updated rates set in this decision entered into effect on February 1, 2022.

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 payment of excise tax for coal is expected to lead to a reduction in the rate for the domestic consumer of approximately 2.42%. The updated 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. 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 rate for the representative domestic consumer will increase by approximately 8.6% in relation to the rate of May 1, 2022, 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 rate update under this decision entered into effect on August 1, 2022.

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

g. <u>2023 Annual Update</u>

On December 26, 2022, the Electricity Authority published a decision regarding the 2023 Annual Update for the electricity rate for the consumers of the Electric Company. The updated rates set in this decision entered into effect as of January 1, 2023. In accordance with the decision, the rate for a representative domestic consumer increased by approximately 8.2%.

Following are the main points of the decision:

- In order to moderate the quantity of coal required and as a result the rate increase, as much as possible, the Electricity Authority worked with the System Manager to reduce the use of coal forecasted for 2023 by changing the instructions for operating the coal-powered units, even beyond the minimum operation executed until now. Additionally, the Electricity Authority decided within this decision to spread the debt created due to the sharp increase in coal cost in 2022 over 3 years, under the assumption that it will be possible to end the use of coal for most of the year within 3 years, during 2023-2025. The Electricity Authority noted that the distribution of the debt has a cash flow effect, however, the Company's revenues are not expected to be affected.
- The impact of the change in methodology within the generation rate base, which includes the change of the method of recognizing assets and extending the life of the generation units, affected the costs attributable to 2022 in a direction opposite to the debt arising from the use of coal. The gaps created in the generation segment in 2022, amounting to approximately NIS 1 billion, were also spread over 3 years.
- The spread of the 2022 fuel debt offset by the effect of the change in methodology of the generation rate base in 2022 is approximately NIS 2.8 billion over the years 2023-2025.
- The Authority recognized a gas incentive for the Company with respect to lowering the gas purchase costs in accordance with the Tamar agreement amendment, which entered into effect as of July 1, 2021 (for details see Note 35a below), in the amounts of NIS 40, 54 and 75 million with respect to the years 2021, 2022, and 2023, respectively.
- Due to significant delays in the activation dates of large projects, such as the commercial activation of CCGT 70 at the Orot Rabin site, converting unit 1 at the Rutenberg site to gas, and commencing preservation of units at the Orot Rabin site, the Authority did not recognize the costs of the assets with respect to projects that were not activated as of the date of the decision. Insofar as the units will commence operating during 2023, the costs with respect to these projects will be recognized in the consecutive annual update for 2024. The decision does not refer to recognition of operating costs of CCGTs at Orot Rabin. Additionally, costs for asbestos removal were recognized in the amount of NIS 58 million.
- The Authority recognized with respect to the year 2021 an advance of 90% of the additional reform costs, in the amount of NIS 35 million.
- Recognition of exogenous costs for the Company - emergency preparedness costs were recognized - emergency inventory of equipment items and spare parts for substations and switching stations of approximately NIS 20 million and costs of the “Spreading Wings” project spent until the end of 2021 of NIS 2.2 million.
- As of the date of the decision, the process of sale of the Eshkol power station has not yet been completed and a price for purchasing the station has not yet been set, and therefore at this stage it is not known what the rate implications resulting from the sale of the site are.
- As part of system costs for 2023, pension costs were recognized, which were attributed to the gap created due to the departure of the system manager from the Company and the transfer of employees due to the difference between the liabilities calculated in the Company’s books and the liabilities in the Company’s books at the time of the transfer in the amount of NIS 107 million

The total net impact in the fourth quarter of 2022, following the aforesaid decision, is approximately NIS 144 million with respect to which the Company recorded in these Financial Statements an increase in net regulatory deferral accounts, under the subjects of the decision.

In addition, in light of the entry into effect of the Customs Tariff Order and the Fuel Excise Order which was signed on January 23, 2023, after the Statement of Financial Position date, on January 26, 2023, the Electricity Authority published a decision under which the reduction of the purchase tax and excise tax rates applying to coal from NIS 105.4 per ton to NIS 1 per ton will be extended, so that the reduction will stay in effect until the end of 2023. In light of this, the recognized cost for the Electric Company for 2023 will be reduced such that the rate for a representative domestic consumer will decrease by 1.5% in comparison to the rate set in the decision of December 26, 2022, regarding the 2023 rate annual update. The decision entered into effect as of February 1, 2023.

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

g. 2023 Annual Update (continued)

In addition, on March 2, 2023, the Electricity Authority published a decision proposal for a hearing regarding the ongoing update of the electricity rate for the Company's consumers, according to which the rate for the representative domestic consumer will decrease by approximately 2.1% compared to the rate from February 1, 2023. In accordance with the dates for updating the electricity rates, as detailed in section c above, this decision proposal for a hearing is published about two months after the date of the Annual Update and is based on the trend of change in prices and indices which is currently higher than 3.5% for the Electric Company. A decision further to the proposed decision for a hearing will be made as long as this trend continues and the change in the amount of the recognized cost continues to be higher than 3.5%.
To the extent that an Authority decision is made on the matter, the decision will apply as of April 1, 2023. The Company is examining the implications and has submitted its comments on the matter.

h. Manner of calculating the income recognized in the rate

Fuels costs:

- Until the date for determining a new methodology and for formulating a methodology for the manner of determining the recognized costs at the basis of the new generation rate, the fuels basket will be calculated in accordance with the quantities of fuel that are consumed in practice.
- The fuels basket recognized in the rate for a certain year is calculated twice – firstly, the fuels basket is calculated on the date of the annual update for the current year on the basis of forecasts, and secondly, on the following annual update date it is recalculated retroactively in accordance with quantities that materialized in practice.
- The fuels prices that are recognized in the rate are calculated at a monthly level according to the Authority's methodology which is detailed in the generation rate base which applies until February 1, 2022.
- A new methodology has not yet been set for the calculation of the fuels basket within the rate base for the generation segment for 2022-2027, and when set, it will be applied retroactively as of February 1, 2022.

Operating and maintenance costs

The sum recognized in the rate is determined on the basis of the reporting in the Company books, with the execution of adjustments.

- In the generation segment - according to the new rate base for 2022-2027, the recognized operating costs were set based on the Company’s costs for 2016-2018, while separating by generation units. In addition, the Authority separated between fixed and variable costs, while the fixed costs include fixed costs per kilowatt, site costs and administrative and general costs, whereas variable costs include variable costs per kWh (hours in which the units generate energy that is fed into the electricity grid regardless of the unit’s load) and renovation costs per equivalent hour. Furthermore, the Authority set a mechanism for reduction of site costs and administrative and general costs following the sale of power stations as part of the reform, under which, after the sale of the station, administrative and general costs attributed to it decreased by 5.2%, and an additional decrease of 25.8% will apply with the reform’s completion, the rest of the costs will be diverted to the grid’s segments. All the operating costs, including wages, are linked to the CPI.
- In the transmission and distribution segments – in accordance with the rate base for the network sector for 2018-2022, which is still in effect since an updated rate base has not yet been determined, a normative cost (“appropriate cost”) was determined based on a comparison between similar companies around the world providing similar services (benchmark). In addition, a supplement was set with respect to the appropriate cost, which will remain fixed until the completion of the reform, and which is intended to finance the costs of the reform.

Capital costs:

The capital costs recognized in the rate are determined on the basis of the recognized active assets.

The capital cost components are:

- Depreciation
- Return on equity
- Return on foreign capital

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

h. Manner of calculating the income recognized in the rate (continued)

Availability of units:

In the 2022-2027 rate base for the generation segment, the Authority sets a mechanism for availability payments for the CCGT and open gas turbine units, that operate with gas as the main fuel, that takes into account the gap between the actual availability rates of each unit compared to the availability recognized by the Authority. At this stage, unavailability rates have not been set for the coal-powered units that will be converted to gas, because the Rutenberg unit 1, which serves as a "pilot", has not yet been activated. After the unit's activation, it will be possible to learn about the availability of the converted units and their operating regimes as well as to monitor the performance for at least a year after the conversion of the first unit is completed. Therefore, the Authority will examine the application of unavailability indices to these units at a later stage.

At this stage, the availability payments mechanism is only set for CCGTs and open gas turbines operating with gas as the main fuel. In accordance with the decision, non-compliance with the recognized cost will lead to a fine of 100% of the gap between the payments according to the recognized cost and the actual availability. In contrast, if the Company's performance is better than the recognized availability, the Company will receive an award at a rate lower than the fine (approximately 20% of the gap between payment according to actual availability rates and the recognized availability rate).

i. Manner of determining the recognized assets in the rate

- In the transmission and distribution segment - the base rate for the network segments for 2018-2022.

- All the costs of the active assets up to December 31, 2017 are recognized for the Company by the rate base of the grid's segments. New investments that will end from 2018 onwards will be recognized in the rate according to normative pricing or cost control. In the generation segment, according to the new rate base applying as of February 1, 2022, the cost will be reduced according to the Spitzer table method (PMT method) at the level of the generation unit, including linkage to the CPI. Additionally, the Authority extended the life of the generation unit: the life of a CCGT type generation unit was extended from 25 to 30 years. The life of the coal-powered units will be 50 years instead of 30 years, and the life of the emission reduction facilities will be according to the later between the life of the generation unit and the recognized life set for these facilities in the decision of June 2020.

  Regarding the recognition of investments for the existing generation units, according to the decision, the investments will be only be recognized if at least one of the following conditions is met: increasing output, improving availability, environmental benefits, regulatory provisions and extending economic life. The Company will be required to present an economic feasibility test of the investment and the cost that will be recognized will be determined after cost control and will not exceed the cost taken for the purpose of examining the feasibility. For the purpose of calculating interest costs during construction, normative construction dates will be taken into account.

- Emission reduction project – the costs of the project have been normatively recognized. For details concerning recognition according to the Authority's decision in this topic, see section k below.

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

j. Return on equity and return on foreign capital:

The return on equity and the interest on foreign capital were determined normatively. Within this framework, a normative financial leverage was determined, and it will apply on all the segments as of February 1, 2022, so that 1/4 of the assets are financed by equity and 3/4 by foreign capital.
The normative leverage in 2021 and until January 31, 2022 is:

- In the generation segment, 1/3 of the assets are financed by equity and 2/3 by foreign capital.
- In the grid's segments, 1/4 of the assets are financed by equity and 3/4 by foreign capital.
- Return on equity:
  The rate of the weighted GWACC return for 2022, beginning on February 1, 2022:
  Generation segment - 3.59% (2021 -5.54%)
  Grid segments - 3.59% (2021 – 3.92%)
- Interest on foreign capital:
  The Authority determined that foreign capital rate will apply to all the segments. The components of the financing basket will be as follows:
  - A financing basket for non-tradeable raising in Israel at a rate of 1/3.
  - A financing basket for tradeable raising in Israel at a rate of 1/3.
  - A financing basket for raising foreign currency abroad at a rate of 1/3.

  For the year 2022, the average interest rate was 2.78% (2021 - 3.11%).

k. Project to Reduce Emissions at the Coal-Powered Power Stations

1. For details of the completion of the project to reduce emissions at the coal-powered power stations, see Note 1g above.
2. On June 4, 2020, the Authority published a decision concerning recognition of the cost of the emission reduction installations in the Company's coal-fired units.

   The Authority's decision as aforesaid regulates the rate recognition of the construction costs (investments and interest during construction) in an amount of approximately NIS 8.3 billion, regular operating costs in an amount of approximately NIS 86 million per year (for all facilities and without linkage) and the facilities' recognized life, which according to the decision, will be 25 years of the operation date of each facility. This decision reflects under-recognition of investments and interest during the construction (including future investments and interest for completion of the project), compared to the Company's assessment in previous Financial Statements, of approximately NIS 560 million. As aforesaid, pursuant to the Authority's decision regarding a new rate base for 2022-2027, the life of the emission reduction facilities was extended as described in section i above.

   On March 25, 2021, the Authority's response to the comments submitted by the Company with respect to the aforesaid Authority's decision regarding this issue were received. As aforesaid, this response stated that there is no justification for the decision's amendment, and in addition that the Authority has exhausted the procedure with the Company with respect to this decision. On May 6, 2021, the Company's Board of Directors approved the submission of an appeal to the High Court of Justice ("HCJ") against the Electricity Authority's decision regarding this issue. On June 8, 2021, an appeal was filed with the HCJ regarding the non-recognition of the costs of the emission reduction project in an amount of over NIS 500 million. After several postponements, the Electricity Authority's preliminary response was submitted on November 24, 2022. A discussion of this appeal is scheduled for April 23, 2023.

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

l. Providing services at the Hagit East site

On April 6, 2022, the Electricity Authority published a decision pertaining to the approval of activity for providing services at the Hagit East site. Pursuant to the decision, the Company will provide the site purchaser with various services, such as diesel oil storage and transportation, water supply, wastewater disposal etc. Following the Company's application to approve the provision of related services at the site, a permit for providing the services was received on May 1, 2022, signed by the Minister of Energy and the Minister of Finance.

m. The principles of the sectorial clearing house – the Noga Company

Following the Government Resolution of June 3, 2018 regarding the reform of the electricity sector and structural changes in the Company, in which it was decided to sell the system management activity to Noga, on October 26, 2021, the Authority published a decision, as well as Criterion 223, regarding the payment mechanism between Noga and the Company. The decision includes, inter alia, the setting of rates, the manner of accounting between the Company and Noga, the payment dates in accordance with the Criteria, and the risk sharing between Noga and the Company.
In addition, on October 31, 2021, the Electricity Authority published a decision regarding the dates of issue of payment invoices which regulates the manner and dates of issuing the invoices and their payment by the Noga Company.
On May 16, 2022, the Electricity Authority published a decision about arranging collateral in favor of the Noga Company. In accordance with the aforesaid decision, the Company is not required to place collateral in favor of Noga, except in a situation where there will be an exception by the Company in payment beyond the number of days, as determined by the criteria.

For further details about the payments between the Company and Noga, see Note 34a.

n. Project for the examination of the preservation of coal-fired units 1-4 at the Orot Rabin site

On November 17, 2020, the Authority's decision was published concerning an examination of the preservation of coal-fired units 1-4 at the Orot Rabin site, and in addition, on February 18, 2021, the Authority's letter to the Minister of Energy regarding this matter was published. According to the decision, if it is decided to preserve the units according to an outline formed by the Company, the costs reported by the Company to the Authority will be taken into account with regards to rate recognition, subject to cost controls.

Following the aforesaid letter, on February 8, 2021, the Minister of Energy's decision was published concerning "Policy principles – Examination of the Scope and Manner of preservation of Electricity Generation Units 1-4 at the Orot Rabin Power Station".

In the Authority's decision regarding the generation rate base for 2022-2027, operating costs were determined for the coal-powered units entering preservation on the basis of an assessment delivered by the Company except for part of the salary, contractor and water pump costs.

For additional details regarding the preservation of coal-fired units 1-4 at the Orot Rabin site, see Note 1g below.

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

o. Reform in the electricity sector

1. Policy recommendation

The letter of the Chairman of the Electricity Authority to the Minister of Energy of May 17, 2018 presents the position of the Authority regarding Structural Change in the electricity sector and the Company. Within this letter as aforesaid, the advantages and benefits for the sector deriving from the implementation of the proposed reform outline are presented: separation of the management unit from the Company, promotion of competition in the generation and supply segments, expansion of the Company's areas of activity and more. It also noted that the total benefits from implementing the proposed reform outline are significantly higher than the total costs for its implementation, and that the Company is expected to recoup the entire cost of the reform over a period of 8-9 years. After this period, the financing of the reform will be completed and the efficiency of the Company will be transferred in full to the electricity consumers by reducing the electricity rate. During the stated period, the electricity rate may vary according to changes that will occur in the fuel components, capital, renewable energy costs, etc. The only component that will remain fixed in the rate throughout the reform period will be the salary component for employees.

2. Attribution of the costs of reform in the electricity sector

Within the framework of the Authority's decision regarding the 2023 Annual Update, the Authority updated the revenues used by the Company to finance the reform, which are included in the recognized cost as follows:

- The amounts of the operating income that will be used by the Company to finance the reform are approximately NIS 353 million, and approximately NIS 462 million for the years 2021 and 2022 respectively.
- The amounts from the construction costs that will be used by the Company to finance the reform are approximately NIS 232 million and approximately NIS 276 million, for the years 2021 and 2022 respectively.

During this period, it was determined that wage cost components will remain fixed in the rate and that no change will occur. Upon completion of the accrual of debt with respect to the reform, estimated at approximately NIS 6.5 billion with a capitalized value for 2017, the wage cost level of the Company will fall, in accordance with the efficiency prescribed in the framework of the reform.

Additional costs required to implement the reform that are not with respect to wages, estimated at approximately NIS 700 million at present value will be recognized separately by the Authority based on cost control. Costs in the amount of approximately NIS 35 million for 2021, which constitute an advance of 90% of the costs that were reported by the Company (approximately NIS 45 million were recognized for the Company in the 2022 annual update with respect to costs for 2020).

3. Authority's decisions

For details regarding the Authority’s decision of May 15, 2018, regarding the sale of generation stations by the Company within the framework of the reform – see Note 1e above.

The aforesaid decision indicates that the Company's consideration for the assets it will sell to the system management company as part of the reform will be equal to the rate value of the properties, as recognized by the Authority. The decision further states that all of the aforesaid is subject to cost control by the Authority.

On May 28, 2018, an update was received for the aforesaid decision. According to the updated decision. The consideration for the Company with respect to the sale of the sites will be at the fair value of the asset and in any case will not be less than the sale value as aforesaid, plus the land value, as will be determine by the Authority.

Furthermore, the Authority also states that this decision does not represent a position regarding the use that the Authority will determine for the additional consideration exceeding the rate value that will be received from the sale of the sites, if any, including by way of using the consideration with respect to the land for covering the reform costs.

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

p. The new licenses for the Electric Company in the transmission and distribution segments

In his letter of July 15, 2018, the Minister of Energy noted that he accepted the position of the professional echelon of the Authority, under which the validity of the distribution and transmission licenses granted to the Company should be set for 20 years in view of the nature of the Company's operations and the long-term investments required of it. This without derogating from the provisions of any law and subject to the completion of the required legislative amendments. The decision of the Authority regarding the granting of a distribution license to the Company was received on November 17, 2022, following Government Resolution no. 3859 on “Reform in the Electricity Sector and Structural Change in the Electric Company” of June 3, 2018, and following Amendment 16 of the Electricity Sector Law, in which it was determined that the Company will maintain its activity in the distribution segment as the holder of an essential service provider license for a period of 20 years. The license will be in effect for 20 years and will enter into effect after the approval of the incoming Minister of Energy. The license details the various Company roles and fields of responsibility in the distribution segment. After the Statement of Financial Position date, on January 16, 2023, the license was approved by the Minister of Energy.
As of the date of approval of the Financial Statements, the Company has not yet been granted a new license in the transmission segment.

q. Competition in the supply segment

On January 24, 2022, the Electricity Authority published a decision under which the quota set for private suppliers will be increased by 1000 megawatts cumulatively, in two stages, so that as of April 24, 2022, the quota will be increased by 500 megawatts and as of July 24, 2022, the quota will be increased by an additional 500 megawatts. 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 megawatts to a volume of 540 megawatts insofar as the System Manager will approve the transfer for all the submitted attribution requests. On September 7, 2022, the Electricity Authority published a decision regarding a distribution market model which regulates the operation of the generation facilities connected to or integrated into the distribution grid, and particularly the possibility of the sale of electricity by bilateral transactions to private suppliers without generation facilities as of January 1, 2024. It was further determined that all the aforesaid quotas for suppliers will be removed as part of opening the supply market to competition.

During 2022, and as part of opening the supply segment to competition, the Electricity Authority published 6 decisions under which supply licenses are granted to corporations without generation facilities, so that in aggregate 37 supply licenses were granted to corporations without generation facilities.

r. The Electric Company’s gas price for loading and setting a marginal price

On March 2, 2022, the Electricity Authority’s directive was received. It entered into effect on March 1, 2022, and determined that the system manager will calculate the Electric Company’s marginal gas cost for loading and setting a marginal price pursuant to the cost of gas in the valid gas agreement with the Tamar reserve, which includes the maximal reduction rate set in the agreement.

s. Remote disconnection of turbines project – the Ministry of Defense

For details regarding the Company’s collection for a project for the remote disconnection of wind turbines with the Ministry of Defense, see Note 34b2g below.

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

t. Principles for the deployment of smart meters among domestic consumers

On October 26, 2021, the Electricity Authority published a resolution concerning principles for the deployment of smart meters among low voltage consumers, including domestic consumers. The Authority decided not to recognize a cost greater than NIS 1,120 per installed meter – average comprehensive cost for each meter for a life duration of 15 years (approximately EUR 300). This resolution is in effect with respect to the deployment of up to 450,000 meters and until the end of 2023, while an option will be given for the deployment of an additional 150,000 meters, subject to the Authority's instructions. A decision regarding the continuation of the deployment of the smart meters will be made within two years following the date of this decision, in view of the completion of the deployment of 450,000 meters.
On February 27, 2022, the Authority published a decision regarding rules for installing smart meters. The Authority sets the rate for installing a meter at a consumer's request so that it will be NIS 223. In addition, in the case of installing a smart meter in a consumer place, all existing meters, including meters installed on the generation and storage facilities at the consumer place, will be replaced with smart meters, including payment for replacing each of the meters. The consumer services rate is expected to contain the excess costs of the plan for deploying smart meters in the sector, in comparison to basic meters, in preparation for setting a new grid rate base. Additionally, the Company will present the Authority with a quarterly report in accordance with the criteria, and after receiving the reports, the Authority will examine the need for updating the rate for installing a smart meter.

u. Project for the establishment of CCGTs 70 and 80 at Orot Rabin

According to the Authority's decision regarding the rate base for the generation segment for 2022-2027, recognition of the construction cost of the two CCGT at the Orot Rabin site (Government Resolution 3859 was reached on June 3, 2018, for their construction, dealing with the reform in the Electricity Sector and a structural change in the Electric Company) will be carried out after cost control that will be performed by the Authority.

For additional details regarding postponement of activation dates, see Note 1e9 above.

v. Project of conversion of coal-fired units to gas

According to the Minister of Energy's instruction of September 2019, the Company is required to convert the coal-fired units at Orot Rabin and Rutenberg, while the conversion of the Rutenberg Unit 1 is considered a pilot and conversion of the other units will be carried out after that.
The Company applied several times to the Electricity Authority and the Ministry of Energy for an approval in principle of the project's costs and the shortening of the schedules.
On December 25, 2022, a letter was received from the Deputy Director General of the Economic Financial Division at the Electricity Authority, which included clarification on the rate recognition in the project of conversion to gas. Pursuant to the letter, the Authority will act according to the Minister's policy principles on "Cessation of the use of coal in the generation segment in the electricity sector during routine times until 2026". When the rate recognition in the project of conversion to gas, as in any project, will be executed in accordance with cost control. As part of the cost control, the Authority will examine, inter alia, the compliance with the construction dates and the cost gaps in relation to the original project cost as presented by the Company, in accordance with the implementation of the milestones as determined in the Minister's policy principles and while relating to the calculation at the base of the policy decision. It was noted that this clarification was provided in light of many postponements in the activation of Unit 1 at Rutenberg and a significant increase in the Company's estimates for this project. The Company is conducting ongoing discussions with the Electricity Authority for advancing a complete rate recognition for the project. For further details regarding the project, see Note 1g1.

w. Incentives for the development of the distribution network

On October 10, 2021, the Authority published a decision regarding an incentive mechanism with respect to the connection of consumers and generators to the distribution network. This decision does not include an incentive mechanism to improve electricity supply reliability. The incentive will be calculated as of January 1, 2022 and will be reviewed every year as part of the annual update. On August 3, 2022, the Company received the Authority's decision regarding incentives for improving the electricity supply reliability according to a fine/award mechanism which began in 2022 and will operate in accordance to compliance with targets of non-supply minutes, according to regions.

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

x. Amendment to the agreement for gas supply 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. In view of the aforesaid, this amendment will apply retroactively from July 1, 2021.

y. Renewable energy storage facilities

On August 1, 2022, the Electricity Authority granted the Company approval to promote the construction of storage facilities at a volume not exceeding the volume set in the decision proposal for a hearing, as published on March 6, 2022. After the Statement of Financial Position date, on January 25, 2023, the Electricity Authority published a decision which details the principles and volume by which the Company will be allowed to construct storage facilities by 2030, within the area of substations only and subject to receiving a storage license. The decision determines that the Company's market share will not exceed 15% of the total storage volume promoted by the private sector, in the previous year, and that in general, the storage deployment will be carried out in accordance with a plan that will be approved by the Noga Company and under its instructions, supervision and control. The storage volume allotted to the Company will be calculated by the Authority every first quarter of each calendar year, as of 2024 and until 2030, and will remain unchanged until the end of each calendar year. However, the Authority determines an initial quota advance for construction of storage facilities, at a capacity of 150 megawatts in AC terms so that the Company will not be given additional capacity until the accumulated storage capacity promoted by the private sector exceeds 1,000 megawatts, in AC terms. Furthermore, annual reporting was determined, both by the Company and by the System Manager, which includes data for monitoring and control purposes after implementation of the decision's principles.

z. Regulating the operation of the Eshkol site generation units

After the Statement of Financial Position date, on March 9, 2023, the Electricity Authority published 3 decisions related to the Eshkol site.
The first decision is the regulation of operation of the Eshkol site generation units – the decision includes 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, and the possibility of constructing an additional generation unit. The two additional decisions pertain to the additional generation unit that will be constructed at the site in the future. In these decisions, the Authority requests to instruct the System Manager to commit to a connection of one single CCGT type unit with a capacity of up to 850 megawatts in accordance with a summary and approval by the System Manager.

aa. Consumers criteria

On November 8, 2022, the Electricity Authority published a decision regarding updates, amendments and supplements to the Consumers Criteria – Collection Policy - November 2022. In this decision, the Electricity Authority is updating the criteria regarding the existing policy of debt collection with respect to domestic consumer electricity consumption. The policy update follows the High Court of Justice ruling 19/4988. The updated criteria set in this ruling include, inter alia, addressing financial and medical situations as circumstances for exemption from the use of collection tools, the obligation to conduct a hearing before the use of collection tools, updating the timetables and notices to debtors.

Following this ruling, on November 8, 2022, the Electricity Authority published a decision for a hearing regarding the scope and manner of restricting the consumption of consumers who will be found to be exempt from electricity disconnection as a result of the criteria amendment. The decision proposal proposes to set a monthly consumption restriction for the consumer of 400 kWh that will be paid through a prepaid meter (PPM). Failure on behalf of the consumer to provide access to install a PPM will be considered refusal, and until the installation of the meter becomes possible, the exemption from using collection tools will be suspended.

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

ab. Update of demand hours clusters

On August 28, 2022, the Electricity Authority published a decision regarding the update of demand hours clusters. Demand hours clusters were determined as part of the base of the rate for the generation segment of 2010, and consumption rates for consumers have been determined on their basis to this day. Since 2010, the electricity sector has undergone technological changes, changes in the fuel mix and the sectorial capacity, and a need arose to amend the demand hours clusters. Unlike the clusters of demand hours that existed until now, the decision establishes two clusters of demand hours in each season, an increase in the number of months in the summer season and shifting the peak hours from afternoon to evening hours. The new demand hours clusters entered into effect within the 2023 Annual Update. In light of this decision and for the purpose of maintaining a stable business environment in the generation segment, on December 25, 2022, a decision was published concurrently, determining amendments to net meter regulation, to rate regulation for dual-use facilities with low voltage photovoltaic technology, and for generation facilities in competitive proceedings for roofs and dual-use that chose the accounting method of payment for feeding to the grid.

ac. Incentives for burying existing high voltage lines in built-up areas

On November 7, 2022, the Electricity Authority published a decision in which it sets incentives for the Company to bury existing high-voltage grids in built-up areas. In accordance with the decision, the Company will receive a positive incentive if it will dismantle, during 2023-2027, more overhead high-voltage grids than the minimal goals of length of lines to be buried as set for these years. Similarly, if it will dismantle every year a length of overhead high-voltage grids that is less than the abovementioned goals, it will pay a fine. If the Company buries every year at least 70 km in excess of the minimal quantities required in each of the years, it will receive a supplement of 20% of the calculated reward.
The maximum incentive will be NIS 60 million and will be received as of the 2024 annual update, for the previous year. The incentive will be in effect until 2027.
After the Statement of Financial Position date, on January 25, 2023, the Authority adopted a decision regarding incentives for burying high-voltage lines in built-up areas. The current decision constitutes an amendment to the previous decision mentioned above. In the current decision, the Authority extends the deadline for submitting the relevant data for distributers that are not dominant distributers, until June 30, 2023. The Authority will examine the data received and, on the basis thereof, will determine if, and if so, the manner of applying the incentives mechanism to them.

ad. Development plan for the delivery system

After the Statement of Financial Position date, on January 16, 2023, the Authority published a hearing regarding a development plan for the delivery segment for 2023-2030. In the hearing, the Authority details its position regarding the development plan submitted by the system management license holder for approval by the Minister of Energy. The plan, which includes approximately 400 different projects and has a financial scope of approximately NIS 21 billion (approximately NIS 17 billon for new projects and approximately NIS 4 billion for projects which have already began in the previous development plan (2018-2022) and have not yet been completed), is expected to address not only the growing demand, electricity supply and system survivability, but will also allow a massive intake of renewable energy generation facilities into the electricity grid. Upon the plan’s completion and upgrading of the infrastructure, the grid is expected to allow intake of approximately 30% renewable energy and thus meet the Government’s goals of using renewable energy by 2030. The plan includes reference to the contents, costs, a mechanism for changes in the plan, update mechanisms, monitoring and control and required reports. The Company is studying the significance of the hearing.

NOTE 4:- CASH AND CASH EQUIVALENTS

The composition:

	As of December 31	
	2022	2021
	NIS in millions	
Cash and balances in banks	797	286
Short-term deposits*	2,857	2,168
Total cash and cash equivalents	**3,654**	**2,454**

* Interest rates as on December 31, 2022:
NIS deposits with an average interest rate ranging between 3.05%-3.61%.
Dollar deposits with an average interest rate ranging between 3.7%-4.6%.
Euro deposits – approximately 1.89%.

NOTE 5:- SHORT TERM INVESTMENTS

	As of December 31	
	2022	2021
	NIS in millions	
Short term investments *	364	332
Investments in exchange traded funds	95	-
Total short-term investments	**459**	**332**

* Dollar and Euro deposits for a period exceeding three months.
Below are interest rates as on December 31, 2022, according to currency:
Dollar deposits approximately 6.72%.
Euro deposits approximately 3.85% and 0.03%.

NOTE 6: TRADE RECEIVABLES FOR SALES OF ELECTRICITY

a. Composition

	As of December 31	
	2022	2021
	NIS in millions	
Open debts	4,627	4,050
Provision for doubtful debts	(541)	(467)
Unrecognized income (1)	(1,066)	(881)
	3,020	2,702
Income receivable (2)	1,682	1,588
Total customer receivables with respect to electricity sales	**4,702**	**4,290**

(1) The above mentioned relates to income from the East Jerusalem Electricity Company (hereinafter: "EJEC") as detailed in section c below. Regarding the examination of the recognition policy of the income see Note 2s above.

(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.

According to the accounting policy, interest income with respect to arrears from electricity customers is recorded when the debt for which they were accrued is collected.

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 below.
Following the Supreme Court's ruling, on November 8, 2022, the Electricity Authority published a decision regarding updates, amendments and supplements to the consumerism criteria, as well as a decision proposal for a hearing regarding the extent and manner of restricting consumption by consumers who will be exempt from electricity disconnection, following the amendment of the criteria. For details see Note 3aa above.

During the year, the Company has identified a trend of an increase in the balance of indebtedness of the Company's customers, arising from two cumulative effects, the COVID-19 epidemic and the decision of the Supreme Court detailed above which restricted the Company's ability to perform disconnections of debtor domestic customers in accordance with the criteria detailed in the ruling. Because of this, the Company has taken several enforcement actions during 2022 to increase collection of the Company's debts, such as enforcing collection, interest forgiveness campaign and assistance to disadvantaged populations. In addition, the Company included, within the provision for doubtful debts, a provision which in its estimate reflects the expected credit losses with respect to these debts.

b. 1. **Aging of all customer receivables, including revenues not recognized, before provision for doubtful debts on the report date**:

	As of December 31	
	2022	2021
	NIS in millions	
Not outstanding and outstanding up to one month	3,620	3,432
From 2 months to 3 months	520	419
From 3 months to 6 months	372	280
From 6 months to one year	438	267
From one year to two years	399	458
Over two years	960	782
Total	6,309	**5,638**

NOTE 6: TRADE RECEIVABLES FOR SALES OF ELECTRICITY

b. 2. Aging of all customer receivables which were provided for doubtful debts, except for the debts of the East Jerusalem Electricity Company and the Palestinian Authority (see section c below):

	As of December 31 2022 (in NIS millions)			As of December 31 2021 (in NIS millions)		
	Balance before provision for doubtful debts	Provision for doubtful debts	Balance after doubtful debts	Balance before provision for doubtful debts	Provision for doubtful debts	Balance after doubtful debts
Not outstanding and outstanding up to one month	3,276	5	3,271	3,167	5	3,162
From 2 months to 3 months	415	20	395	324	18	306
From 3 months to 6 months	245	31	214	191	23	168
From 6 months to one year	195	52	143	153	34	119
From one year to two years	178	100	78	157	73	84
Over two years	281	229	52	249	210	39
Total	**4,590**	**437**	**4,153**	**4,241**	**363**	**3,878**

NOTE 6: TRADE RECEIVABLES FOR SALES OF ELECTRICITY (continued)

c. 1. 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 December 31	
	2022	2021
	NIS in millions	
Open invoices	1,483	1,189
Receivables	236	208
Total debt	1,719	1,397
<u>Less</u>:		
Provision for doubtful debts as of January 1	(104)	(104)
Income not recognized as of January 1	(881)	(781)
Income recognized for previous periods	120	120
Income not recognized this year, net	(305)	(220)
Total debt with respect to sale of electricity	**549**	**412**

2. The payments of the Palestinian Authority and the East Jerusalem Electricity Company are executed both through transferring direct payments and through transfers that the Company receives from the Ministry of Finance, out of the sums held by the Ministry of Finance that are payable to the Palestinian Authority.

a) 1) On September 13, 2016, an agreement of principles was signed, to resolve the Palestinian electricity debts and to regulate the Palestinian electricity sector (hereinafter: the "Agreement of Principles").
The agreement of principles was signed by the Minister of Finance, Coordinator of Government Activities in the Territories, and the Minister of Civil Affairs in the Palestinian Authority. As part of the agreement of principles, it was agreed to formulate an outline to transfer the responsibility over the Palestinian electricity sector, in terms of commerce and operation, to a Palestinian body which will be established for this purpose, as well as Israeli and Palestinian task forces for the formulation of a commercial agreement and operational agreements concerning the transfer of responsibility to manage the Palestinian electricity sector, as aforesaid.
In addition, as part of the agreement of principles, a mechanism was determined for the repayment of the East Jerusalem Electricity Company and the Palestinian Authority's debt to the Company with regards to electricity consumption, as of September 12, 2016 (the "Past Debt"), while approximately NIS 561.5 million will be deducted from the debt sum, which reflects a certain decrease in the arrears interest rates and return of sums collected as certain components within the rate, and excessive collection. Pursuant to the agreement of principles, the debt balance as of the date of the agreement in the amount of approximately NIS 1,468 million (including with respect to interest accrued to that same date and which has not yet been recognized) will be repaid as follows:

- NIS 572 million will be paid by the Palestinians within 5 days from the date on which they will receive from the Israeli Ministry of Finance tax funds which were defined in the agreement of principles. On September 30, 2016, the Company received an amount of approximately NIS 590 million as part of the implementation of the agreement of principles.
- The balance will be paid in 48 equal installments (it is possible that some sums will be paid even earlier than the expected spread of payments, according to the terms set in the agreement of principles), commencing after completion of the commercial and operating process, as defined in the agreement of principles.

2) On May 1, 2018, the Company initialed a draft electricity supply agreement (PPA – Power Purchase Agreement) with the Palestinian Electricity Transmission Limited (hereinafter: the "PETL Company"), which is the Palestinian entity established to take responsibility of the management of the Palestinian electricity sector.
The initialing of the draft agreement does not bind the parties and reflects only the commercial consents reached by the parties as of that stage. The parties must complete negotiations regarding an operating agreement that will constitute an appendix to the commercial agreement that will be signed.

NOTE 6: TRADE RECEIVABLES FOR SALES OF ELECTRICITY (continued)

c. <u>The Palestinian Authority and the East Jerusalem Electricity Company</u> (continued)

2. a) 2) (continued)

The agreement that will be formulated, including its appendices, will enter into binding effect if and insofar as it will be approved by all the entities required to approve it by all laws.

Within the draft agreement, which will be in effect for 15 years, the Company is expected to sell to the PETL Company electricity and related services through 4 high voltage substations and through high and low voltage connection points, for the purpose of its distribution and supply by the PETL Company or anyone on its behalf, to the consumers in the areas of the Palestinian Authority.

Furthermore, upon signing the agreement that will be formulated, payment of the past debt of the East Jerusalem Electricity Company and the Palestinian Authority will commence, in 48 equal installments, with respect to their electricity consumption in the period before September 12, 2016, as was determined in the agreement of principles between the Government of Israel and the Palestinian Authority, of September 13, 2016.

To secure all the payments due to the Company by virtue of the agreement, including with respect to the past debt as aforesaid, a guarantee by the Palestinian Authority will be provided for the Company, in addition to the other existing collection mechanisms available to the Company.

As of the date of approval of the Financial Statements, the parties' negotiations on the final terms of the agreement have not yet been finalized. However, other agreements were signed, as specified in Sections 5 and 6 below, formulating some of the material issues which were meant to be formulated as part of the PPA agreement.

3) On July 10, 2017, an interim agreement was signed between the Company and PETL, concerning power purchase and ancillary services for the connection of the Jenin substation (one of 4 substations according to the PPA agreement) to the Company's electricity grid (hereinafter: the "Jenin Agreement").

4) On January 20, 2020, and on January 22, 2020, the Company received payments in a total amount of approximately NIS 740 million, transferred by EJEC, on account of its debts accumulated following September 12, 2016, and having reached maturity. Accordingly the Company recognized these sums, which were not recognized in the past, as income during the first quarter of 2020.

5) On July 8, 2020, an agreement was signed between the Company and EJEC (hereinafter: the "EJEC Agreement"), intended to settle EJEC's debt to the Company, including EJEC's debts with respect to unpaid electricity bills issued until September 2016 (hereinafter: the "Past Debt," which is in fact the debt included in the agreement of principles specified in Section a1 above), as well as an additional debt regarding unpaid electricity bills with respect to electricity consumption until June 30, 2020 (hereinafter: the "Additional Debt"), and for the purpose of concluding all legal procedures between them (for additional details, see Note b below).

Below are the main points of the EJEC Agreement:

In accordance with the EJEC Agreement, the balance of the Past Debt, which amounts to approximately NIS 1,181 million (including interest accumulated as of the date of the signing of the agreement of principles as described in section a1 above, and not yet recognized as income) and the balance of the Additional Debt, including bills issued until July 5, 2020, standing at an amount of approximately NIS 311 million, not including interest accumulated but not yet recorded, shall be repaid as follows:

Certain interest amounts billed and/or accumulated with respect to the Past Debt shall be reduced from the Past Debt in an amount of approximately NIS 291 million, pursuant to the agreements in the agreement of principles, and the balance of the Past Debt shall be paid in 48 installments, to which the agreed interest amounts will be added. Such payments shall be made as of the first day of the calendar month following the signing of the Agreement.

a. An amount of approximately NIS 177 million, paid by EJEC in December 2019 pursuant to the ruling in the Company's lawsuit against EJEC, shall be reduced from the Additional Debt. In addition, amounts have also been reduced from EJEC's debt with respect to social rates for the period following September 13, 2016, as recognized by the Electricity Authority, and with respect to interest paid by EJEC following September 12, 2016.

NOTE 6: TRADE RECEIVABLES FOR SALES OF ELECTRICITY (continued)

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

2. a) 5) (continued)

b. Pursuant to the EJEC Agreement, the appeals with respect to the ruling in the Company's lawsuit against EJEC shall be dismissed, EJEC's suit against the Company shall be withdrawn (by granting the Compromise Agreement the force of a ruling, and EJEC's petition to the High Court shall be dismissed, and EJEC shall waive all claims against the Company.

c. In the event that EJEC does not comply with its undertakings in the EJEC Agreement, such reductions from the debts as aforesaid shall be canceled, and the full balance of the debt shall become immediately payable.

On July 16, 2020, the EJEC Agreement was granted the force of a ruling. In addition, on July 13, 2020, the appeals were dismissed in accordance with the agreement, and on July 19, 2020, the request to close the Bailiffs file and to cancel the foreclosures imposed to EJEC's funds as part of the Company's suit was approved. On July 23, 2020, the High Court of Justice approved the motion to dismiss the EJEC's petition to the Supreme Court.

As of August 2020 and until the date of approval of the Financial Statements, the payments whose date of payment has arrived were paid, with interest, according to the EJEC agreement as detailed above.

Additionally, as of August 2022, an additional monthly payment of approximately NIS 12 million, plus interest, was supposed to be added to the monthly payments balance, for the payment of an additional total debt amount of approximately NIS 303 million. As of the approval date of the Financial Statements, EJEC has not made payments with respect to this debt.

On August 18, 2022, EJEC sent the Company a letter requesting to postpone the date of transfer of the NIS 303 million by a year, until the end of July 2023. On September 1, 2022, the Company replied rejecting this request and informed EJEC that failure to make the payments constitutes a violation of the agreement and contempt of the Court that gave effect to the agreement in a judgment.

On September 21, 2022, EJEC sent a letter to the Company, unilaterally notifying that from this date onwards it intends to make payments of up to 75% of the total current debts. In response, on October 30, 2022, the Company sent a reply to EJEC under which it rejects outright its unilateral notice as having no validity and no legal basis and that it must pay the current debt immediately and in full. At the same time, the Company wrote to the relevant State authorities in the country, requesting to increase the amount of the transfers from the Ministry of Finance and apply them to the EJEC debts of the Palestinian Authority. As of the date of approval of the Financial Statements, the setoff sums are only applied to the Gaza debts and partially to the debts of the Palestinian Authority's distribution companies, and it is requested that they be applied to the EJEC debts in the territories of the Palestinian Authority as well. Additionally, the Company applied to the Chairman of the Electricity Authority requesting intervention with all the relevant State authorities and to take any measure that will ensure the settlement of the debts and prevent the debt's growth.

6) On September 3, 2020, an additional interim agreement was signed between the Company and PETL, concerning the connection of three sub-stations (Nablus, Ramallah, and Tarqumiyah) to the Company's transmission network for the purpose of selling electricity to PETL as well as additional services, in which the operational/technical, safety-related, legal and commercial aspects are formulated, as arising from the connection of the sub-stations (the "Mini-PPA Agreement").
As part of the Mini PPA, the Company is expected to sell electricity and additional services to PETL through three high voltage stations, in accordance with the rates and payment terms as determined by the Electricity Authority, and all of the purpose of the distribution and supply thereof by PETL or any person on its behalf, to consumers in the Palestinian Authority's territory.

Pursuant to the Mini-PPA Agreement, PETL has undertaken to make full and timely payments in consideration of the electricity consumed from the foregoing sub-stations. For the purpose of guaranteeing all payments payable to the Company under the Agreement, it was agreed to provide securities, including the use of a monetary deposit in an amount of NIS 36 million in the Company's possession, added with interest, from which debts with respect to ongoing consumption and additional debts under the agreement could be deducted. In addition, the Company shall be provided with a guarantee from the Palestinian Authority with respect to all of PETL's undertakings under the Agreement (the "Palestinian Authority's Guarantee"), and all in addition to all other remedies available to the

NOTE 6: TRADE RECEIVABLES FOR SALES OF ELECTRICITY (continued)

c. <u>The Palestinian Authority and the East Jerusalem Electricity Company (continued)</u>

2. a) 6) (continued)

Company pursuant to the Agreement. According to the Agreement, PETL may unilaterally cancel the agreement, at any time, by providing the Company with an early written notice of 30 days in advance.

Simultaneously, the Company signed an Agreement with EJEC, formulating operational issues required as a result of the signing of the Mini-PPA Agreement, and concerning the manner of electricity supply to EJEC for the purpose of its sale to its customers.

During September 2020, the Company completed the connection of the three aforesaid sub-stations in accordance with the Mini-PPA Agreement, and they were electrified and delivered to PETL.

On January 27, 2021, the Company received the Palestinian Authority's guarantee to which it is entitled under this Agreement.

b) During 2014-2020, a number of legal proceedings were conducted between EJEC and the Company. These proceedings ended following the signing of the EJEC agreement. See section a5b above.

c) The EJEC pays its current debts to the Company only partially and inconsistently and irregularly. Accordingly, in light of the scope of the current debt accumulated by EJEC, on November 3, 2021, the Company began executing rounds of supply disconnections at connection points where debts have accrued, in accordance with the criteria of the Electricity Authority, which are continuing up to the date of approval of the Financial Statements. For details regarding income which was not recognized this year with respect to these debts, see 1c above.

NOTE 7:- OTHER CURRENT ASSETS

Composition:

	As of December 31	
	2022	**2021**
	NIS in millions	
Receivables		
Current maturities of long-term receivables	218	193
Forward contracts and swap transactions	185	31
Institutions	4	16
Prepaid expenses	201	155
Income receivable	64	56
Receivables from the Assets Arrangement	29	89
Other receivables	185	125
	886	**665**

For information with respect to receivables constituting related parties and interested parties see Note 34 below.

NOTE 8:- INVENTORY – FUELS

a. **Composition:**

	As of December 31	
	2022	**2021**
	NIS in millions	
Fuel oil	186	238
Diesel oil	746	758
Emergency diesel oil (see section b below)	786	786
Natural gas	1	105
Coal	1,630	977
Coal in transit	475	247
Methanol	1	2
Total	**3,825**	**3,113**
Presented in Current Assets	2,412	1,489
Presented in Non-Current Assets (also see section b below)	1,413	1,624
Total	**3,825**	**3,113**

b. **Emergency diesel oil**

Following the decision of the Ministerial Committee for Security Affairs of June 5, 2016, to increase the emergency diesel oil inventory of the electricity sector, and, in accordance with the instructions of the Ministry of Energy, the Company purchased diesel oil, in a number of installments, according to the specifications required by the turbine manufacturers, this inventory is to be maintained by the Company for a period of not less than 15 years.
Regarding the rate recognition, on November 14, 2016, the Electricity Authority published a decision regulating the acquisition, maintenance, leasing, updating and refreshment of this inventory. The rate recognized inventory cost according to the recognized rate of return for the assets recognized in the system management rates. According to the decision, the costs with respect to the emergency inventory will be recognized in the rate as system costs. Furthermore, the decision determines that when there is a sale out of the sectorial emergency stock, the difference of the purchase prices compared to the difference of the selling price will be accounted for, so that a profit or loss will not be created for the Company from the sale of this inventory.

NOTE 9:- DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

In accordance with the structural change outline described in Note 1e above, some of the generation units at the Hagit site were classified in 2021 as a disposal group held for sale.
For details of the signing of the agreement to sell part of the Hagit site, and details regarding the sale of the full system management activity to Noga, see Note 1e9 above.

a. Composition:

	As on December 31, 2022	As on December 31, 2021
	(in NIS millions)	
		Hagit
Assets		
Inventory - fuel	-	41
Fixed assets	-	119
Total assets	-	160
Total assets of disposal groups classified as held for sale	**-**	**160**
Total assets and liabilities, net, of disposal groups classified as held for sale	**-**	**160**

The assets of the Hagit site were presented according to the lower of their book value and their rate value (for additional details see Note 3o).

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, that relate to disposal groups which are classified as held for sale.

NOTE 10:- LONG-TERM RECEIVABLES

Composition:

	As of December 31	
	2022	2021
	NIS in millions	
Receivables for the compromise settlement (for details see Note 35b7 below)	858	821
Natural Gas Lines – for gas transmission project (see Note 34b1 below)	156	193
Currency swap transactions	455	245
Deposits to secure swap transactions	564	999
Receivables from the Assets Arrangement (see Note 1f above)	110	110
Other receivables *	186	119
Total long-term receivables	2,329	2,487
Less – current maturities (see Note 7 above)	218	193
	2,111	**2,294**

* Also includes loans to employees. The majority of loans to employees were at a variable and annual interest rate of approximately 2.90%.

NOTE 11:- INVESTMENT IN HELD COMPANIES

a. Held Companies:

1. Information Regarding the Subsidiaries of the Company:

Company Name	Company Operation	Primary Place of Company's Operation	Holding rate of capital rights as of December 31	
			2022	2021
National Coal Supply Corporation Ltd.	The company purchases coal for the coal power stations of the Company	Israel	100%	100%
Netiv HaOr – Orot Rabin Ltd.	The company is responsible for engineering planning and planning activities, construction, operation, maintenance, electricity generation and sale of electricity with respect to two CCGTs on site of the Orot Rabin power station.	Israel	100%	100%

2. The National Coal Supply Corporation Ltd.

The National Coal Supply Corporation Ltd. (hereinafter: the “Coal Company”) is a company that was established under a decision by the Committee of Ministers for Economic Affairs and is subject to the Government Companies Law, 1975, and the provisions under it, and primarily deals with the sale of coal it imports from abroad to the Company. Most of the Coal Company’s sales are to the Company.

a) On July 15, 2004, the Company signed a renewed agreement with the National Coal Supply Corporation for the purchase and supply of coal for the Company's power stations that consume coal – Orot Rabin in Hadera and Rutenberg in Ashkelon. The agreement is in force from December 31, 2003 and will remain in force for as long as the Company shall have generation licenses for the aforesaid power stations.
The Company reserves the right to cancel the agreement with one year's advance notice. The consideration that is paid is calculated based on cost in addition to an agreed upon profit and is subject to the coal price approved for the Company by the Electricity Authority.

b) On January 16, 2013, and effective as from September 2012, the agreement between the Company and the Coal Company, for the provision of various services to the Company in its activity in the procurement and import of LNG cargoes, was signed. As part of the agreement, the Coal Company provides the Company with ship agency services and various coordination and consulting services in the field of shipping, and also enters into agreements with suppliers and service providers in the field of shipping, in exchange for approximately 6% of the amount of certain agreements. The services are provided to the Company as of September 2012. The total revenues of the Coal Company from the implementation of the agreement as of the years ended on December 31, 2022 and 2021, amounted to approximately NIS 1 million each year. The agreement terminated on December 28, 2022.

c) On April 27, 2017, an agreement was signed between the Coal Company and the Company concerning an amendment to the 2004 agreement, which includes all the actions required until the safe mooring of the ships, including through the purchase of tugboats for the coal unloading ports at “Orot Rabin” and “Rutenberg”, and chartering them to the body that operates the port, under the responsibility of the Coal Company. The charter of the tugboats is included in the financial statements as a finance lease.

d) In the years 2022 and 2021, the Coal Company’s sales to the Company amounted to approximately NIS 6,982 million, and approximately NIS 3,333 million, respectively.

e) On September 21, 2022, a loan agreement was signed by the Company and the Coal Company, under which on October 2, 2022, the Company lent the Coal Company a sum of NIS 510 million for a period of 6 months at an annual interest rate of prime minus 0.75%. The loan principal and interest will be repaid in one payment on the date of repayment; an early repayment is possible under certain conditions.

f) Dividends from the Coal Company – in 2021 and 2020, dividends in the amount of NIS 6.4 million and NIS 5 million, respectively, were declared by the Coal Company. Dividend with respect to 2021 and 2022 has not yet been paid as of the date of the Financial Statements.

f) Regarding the contractual engagements of the Coal Company, see Note 35a6 below.

NOTE 11:- INVESTMENT IN HELD COMPANIES (continued)

a. Held Companies: (continued)

3. Netiv HaOr – Orot Rabin Ltd.

Netiv HaOr – Orot Rabin Ltd. (hereinafter: "Netiv HaOr") is a government company established pursuant to a government resolution and is subject to the Government Companies Law – 1975, and the provisions thereunder.

Regarding the establishment and activity of Netiv HaOr, and the regulation of its rates, see Note 1e1 and Note 3w above. For details of signing the agreements between the Company and the Netiv HaOr Company, and the Company's application to the State entities and the Electricity Authority with a request to close the Netiv HaOr Company and assimilate its activity in the Company – see Note 1e9 above.

4. Details of Held Companies

Investee Company Name	Residence	Status	Holding rate of Issued Share Capital*	
			December 31	
			2022	2021
			%	%
Energy Resources Development PAMA Ltd.	Israel	Inactive	49.99	49.99
Migrashei Hakablanim Ltd. (a)	Israel	Inactive	100	100
Jordan Properties Ltd. (b)	Israel	Inactive	99.99	99.99

* The Migrashei Hakablanim Ltd. Company has preferred shares and deferred shares, and the Jordan Properties Ltd. Company has ordinary shares and Ordinary A shares.

a) In June 2017, the Migrashei Hakablanim Ltd. signed a land lease agreement with the Tel Aviv Municipality. The lease fees were paid by the Company 49 years in advance, in a total amount of NIS 36 million plus purchase tax, interest and linkage and VAT.

b) Lands used by the Company or leased to third parties are registered to the name of Jordan Properties Company Ltd. in the lands register. Jordan Properties Ltd. has two wholly-owned inactive affiliated subsidiaries - Ma'abarot Hayarden Ltd. and the Palestine Construction Company Ltd. (hereinafter the "**Granddaughter Companies**"). In August 2021, resolutions were passed at the General Meetings of the Granddaughter Companies regarding their dissolution. The dissolution of the granddaughters is subject to regulatory procedures and approvals that have not yet been completed as of the date of the report, including Government approval which has not yet been granted.

5. The Advanced Studies Fund of the Employees of the Israel Electric Corporation Ltd. ("Advanced Studies Fund")

The Company holds 50% of the Management shares (without the right to share the profits) of the Advanced Studies Fund of Company employees. The Management Shares give the Company a right to participate and to vote in the fund's general meetings, rights to appoint 5 internal directors, and to approve the appointment of the external directors at the general meeting.
The Company deposits funds in the Advanced Studies Fund with respect to entitled employees, according to employment agreements.
The amounts deposited during the periods are as follows:

	NIS in millions
For the year ended on December 31, 2022	58
For the year ended on December 31, 2021	63

The Advanced Studies Fund does not invest in the securities of the Company

NOTE 11:- INVESTMENT IN HELD COMPANIES (continued)

b. Investments in Associate Companies

1. Investment in the IBC Company

a) In accordance with resolutions adopted by the Government of Israel regarding the entry of the Company into activity in the field of communications through the establishment of a communications company (hereinafter: the “Communications Company”), a procedure was conducted by a selection committee (composed of State and Company representatives) for the selection of a private investor who will be the controlling shareholder of the Communications Company (hereinafter: the “Selection Procedure”) by a selection committee comprised of representatives of the State and representatives of the Company.

At the end of the selection procedure, on July 14, 2013, the Communications Company was incorporated under the name IBC Israel Broadband Company (2013) Ltd. (hereinafter: “IBC”). The controlling shareholder of IBC, which at the time held 60% of its total shares and voting rights at a shareholders’ meeting of IBC, is a consortium of several companies. The Company held 40% of the share capital and voting rights at a shareholders’ meeting of IBC.

IBC provides fixed line telecommunications services for communication operators and large business customers approved by the Minister of Communications, through a communication infrastructure of optical fibers that was laid out, inter alia, on Company infrastructures.

b) On July 25, 2013, an agreement was signed between the Company and IBC for the provision of right of use and services. Within the agreement, the Company granted IBC an exclusive right to use the infrastructures of the Company and a future right to order, upon request, wavelength allocations of the IBC Company in the optical network backbone of the Company.

On August 27, 2013, the Minister of Communications granted the IBC Company with a license to provide telecommunications services.

c) On the Transaction date, the Company recognized in its books an investment in the amount of NIS 100 million. This sum reflected the fair value of 40% of the share capital of IBC as of the Transaction Date.

d) The Company examined the transaction between the Company and the Consortium with regard to the transfer of the right of use of the Company infrastructures, and reached a conclusion that the arrangement constitutes a service agreement as it is defined in International Financial Reporting Standard 15 (hereinafter: “IFRS 15”). Therefore, the Company has recognized the value of the shares as deferred income within other liabilities, which will be recognized over the service provision period according to the agreement, by the straight-line method.

e) On March 12, 2019, a partnership established by Cellcom Israel Ltd. (hereinafter: “Cellcom”) and Israel Infrastructure Fund III Limited Partnership. (hereinafter: “IIF”) and held by them in equal parts (hereinafter: the “Partnership”), IBC, the existing shareholders of IBC (including the Company) and significant suppliers of IBC, reached an agreement regarding the final documents in connection with execution of the investment transaction of the Partnership at IBC, and signed the following agreements:

1) An investment agreement between IBC, the Partnership, the existing shareholders (including the Company) and significant suppliers of IBC, which arranges for the injection of an amount of approximately NIS 103.5 million by the Partnership to IBC, which is subject to the mechanism for adjusting the consideration in relation to the net working capital of IBC (hereinafter: the “Consideration Amount”), so that on the effective date of the transaction, the Partnership will hold 70% of the share capital of IBC and the Company will hold 30% of the share capital of IBC, and they will be the sole shareholders of IBC. The consideration amount will be used primarily to settle the debts of IBC towards the existing shareholders, except for the Company, the main part of which will be postponed in accordance with the conditions set out in the agreement (hereinafter: the “Purchase Agreement”).
2) A shareholders' agreement between the Company and the Partnership (hereinafter: the “Shareholders Agreement”).
3) An agreement for granting an irrevocable right to use certain infrastructures of IBC between IBC and Cellcom (hereinafter: the “IRU Agreement”).
4) An amendment to the agreement for granting the right of use and services between the Company and IBC (hereinafter: the “Amendment to the Services Agreement”), which enables the deployment of a fiber optic fixed communications network over the Company's electricity grid.

NOTE 11:- INVESTMENT IN HELD COMPANIES (continued)

b. <u>Investments in Associate Companies (continued)</u>

1. <u>Investment in the IBC Company (continued)</u>

On July 31, 2019, the IBC investment transaction was completed by the partners, and all prerequisite conditions were complied with, including all regulatory approvals for agreements signed as part of the transaction. As a result of the transaction's completion, the Company recorded a loss from a decrease in the holding rate, as part of the Company's part of the losses of associate companies, in a non-material amount.
As part of the transaction's completion, the parties agreed that the Company will be entitled to a return of IBC's debt balance to the Company, which according to the agreement were converted to an owners' loan. The Company did not recognize an income in its books (except for a non-material amount) with respect to this balance and as of the date of the Financial Statements, the conditions for recognizing an income in respect to this have not yet matured.

f) On September 15, 2020 an investment agreement was signed between Cellcom Israel Ltd. ("Cellcom") and Israel Infrastructure Fund III Limited partnership ("IIF") through IBC (Unlimited) Holdings, Limited partnership – a partnership established by them, holding 70% of IBC's shares ("IBC Partnership"), and Hot Telecommunication Systems Ltd. and/or its associated companies ("Hot"). Under this investment agreement, Hot will become an equal partner in the IBC partnership, and indirectly hold 23.3% of IBC's share capital, by making an investment which shall be substantially equivalent to the investment made by Cellcom and IIF.

In addition to the investment agreement, IBC signed the following agreements with Hot and Cellcom ("IRU and Service Agreements"):

- An IRU agreement, under which Hot undertakes to purchase an Indefeasible Right of Use of IBC's optical fiber network.
- A service agreement, under which IBC undertakes to purchase certain services from Hot, and may purchase additional services.
- An amendment agreement of the service and IRU agreements between Cellcom and IBC.

On January 20, 2021, the Competition Commissioner's approval was given with respect to the merger between Hot, the IBC Partnership, and IBC. On February 8, 2021, the Minister of Communications' approval was given with respect to the investment transaction, completing the regulatory approvals required for the transaction. The approval includes certain amendments to IBC's license, including the obligation to reach 1.7 million households within 5 years, and the obligation to provide a "shelf proposal" for any communication operator interested in purchasing IBC's services. On February 11, 2021, the investment transaction was completed (including all investment, service, and IRU agreements).

Following the Investment Transaction, the Company's holdings in IBC, the Partnerships' holdings in IBC, and the shareholders' agreement between them, will remain unchanged.

g) To the best of the Company's estimate, the IBC Company and its operation have no material impact on the business results of the Company.

NOTE 11:- INVESTMENT IN HELD COMPANIES (continued)

b. Investments in Associate Companies (continued)

2. Investment in Cyber Gym Control Company Ltd.

On May 2, 2013, the Company entered a commercial and corporate relationship with Cyber Gym Control Company Ltd. (hereinafter: "Cyber Gym"), which gave the Company a contractual right to receive 50% of Cyber Gym's net revenues and an option to receive 50% of its issued share capital, while all (100%) of Cyber Gym's shares are held by third parties. Additionally, under the terms of the aforesaid engagement, the Company has additional rights in Cyber Gym. The investment in Cyber Gym was carried out through loans totaling approximately NIS 7 million.

On June 6, 2019 the addition of an investor to Cyber Gym company was arranged therein. Following this, when the options granted to the Company will be exercised, the Company will hold up to approximately 44% of the issued and paid-up share capital of Cyber Gym (subject to possible additional dilutions).

The profit from dilution in the rate of holdings recorded as a result thereof in the second quarter of 2019 amounted to approximately NIS 4 million.

The Government resolved, in its meeting of October 18, 2020, to approve the Company's exercising of the option to receive shares in CyberGym, pursuant to Section 11(a)(9) of the Government Companies Law, 1975, as such option has been granted to it pursuant to a cooperation agreement (as amended from time to time) with CyberGym and its founders, and in addition, inasmuch as CyberGym's shareholders decide to establish a company to be incorporated in one of the OECD member countries, and to hold CyberGym Israel's full issued and outstanding share capital or all its businesses and assets (hereinafter: the "Stock Exchange CyberGym") to approve the company's conversion of its CyberGym share holdings, or the option to receive CyberGym shares, into Stock Exchange CyberGym shares. All the aforesaid, as subject to certain terms, including:

a) The Company shall not be required to transfer payment in cash or any other consideration for the purpose of exercising the option to receive CyberGym shares or for the purpose of receiving Stock Exchange CyberGym shares, except payment which shall not exceed the par value of such CyberGym shares (NIS 10,000).
b) Upon the date of the receipt of the Cyber Gym shares or Stock Exchange CyberGym shares (to be referred to severally and collectively: the "Owned CyberGym"), and at any time thereafter, the Owned CyberGym shall not constitute a government subsidiary, as such term is defined by law, and the Company shall hold no more than half of the voting powers in the Owned CyberGym's general assemblies, shall have no right to appoint more than half of its directors, and shall hold no more than half of its issued share capital.
c) The Government's approval is limited to the Owned CyberGym's activity fields and the purposes as specified in the Resolution and shall be in effect so long as the Owned CyberGym acts for such purposes or engages in these activity fields only.
d) The exposure amount, as such term is defined in the Resolution, of the Company to the Owned CyberGym, shall not exceed NIS 25 million. The Company is allowed an additional exposure to the Owned CyberGym beyond the amount of NIS 25 million, up to an additional amount of NIS 10 million only, and subject to the approval of the Minister of Energy and the Minister of Finance, and following consultation with the Electricity Authority. Such approval shall be provided, if any, following consultation with the Government Companies Authority.
e) An advance approval for the Company to purchase additional shares in the Owned CyberGym is subject to a board of directors' resolution with regards to such, and on the condition that some of the terms provided in such resolution also apply with regards to the purchase and holding of the additional shares and the rights attached to them, and subject to the obtainment of an approval from the Government Companies Authority's administration with regards to any additional share purchases.

The Government's Resolution prescribed that the Resolution shall come into effect only if the Company is provided with an approval from the Minister of Energy and the Minister of Finance to engage in other activities, pursuant to Section 6(d) of the Electricity Sector Law, 1996, with regards to CyberGym's activity, including with respect to the receipt of shares as aforesaid. The decision of the Electricity Authority, which provided advice to the Minister of Energy under Section 6(d) of the Electricity Sector Law, has already been provided on June 24, 2019, and on December 17, 2020, the Company received the aforesaid Ministers' approval.
In addition, the Competition Authority accepted the Company and Cyber Gym's position regarding an exemption from the requirement to submit a merger notice under the circumstances of the matter, in accordance with its notice to the Company and Cyber Gym of December 27, 2020.

NOTE 11:- INVESTMENT IN HELD COMPANIES (continued)

b. Investments in Associate Companies (continued)

2. Investment in Cyber Gym Control Company Ltd. (continued)

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 above.
During October 2022, the Company and CyberGym Control Ltd. signed an agreement under which the Company will receive from CyberGym expert services for the cyber worlds, standby teams and training services for a period of 5 years in the scope of approximately NIS 50 million.

On September 29, 2022, the Company approved the appointment of 2 directors who, as of the report date, and in accordance with the articles of association of Cyber Gym, constitute 50% of the members of Cyber Gym's Board of Directors. The shareholders agreement, which replaces the cooperation agreement of 2013 as described above, was signed between by the parties.

Cyber Gym is currently in a fundraising round, according to a company value of USD 75 million. The fundraising is limited to a total amount of USD 23 million and for a maximum period of one year beginning on January 25, 2023. The first part of the fundraising round was completed after the Statement of Financial Position date, 4 investors joined it with a total amount of USD 6.5 million plus an option for a year for an additional raising of up to approximately USD 3 million. After completion of the first part of the fundraising, the Company holds 38.36% of Cyber Gym's issued and paid-up capital. The profit from dilution from the first part of the fundraising round is approximately NIS 10 million that will be included in the financial statements for the first quarter of 2023. Insofar as Cyber Gym will raise the full amount of the fundraising round, as aforesaid, the Company will hold approximately 34% of Cyber Gym's issued and paid-up capital., subject to further possible dilutions.

3. Changes in Investment in Associate Companies in the Statement of Financial Position

	As on December 31	
	2022	**2021**
	(NIS in millions)	
Investment as on January 1	4	13
Investments carried out during the year	9	-
Company's share in losses for the year	-	(9)
Total investment balance as on December 31	**13**	**4**

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS

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

	As of December 31	
	2022	2021
	NIS in millions	
Fair value of plan assets (see section j2 below)	38,274	42,703
Present value of pension obligations (see section i1 below)	(28,353)	(35,770)
	9,921	**6,933**
Present value of pension obligations with respect to special agreements on early retirement (see section i3 below)	(105)	(146)
Excess of pension plan assets over pension obligations	**9,816**	**6,787**

b. Funds in Trust

	As of December 31	
	2022	2021
	NIS in millions	
Fair value of funds in trust (see section k2 below)	**1,184**	**1,493**

c. Liabilities with respect to other post-employment benefits

	As of December 31	
	2022	2021
	NIS in millions	
Present value of obligation with respect to other post-employment benefits (see section i2 below)	**5,374**	**6,874**

Composed of:

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 special collective agreement (see section i2a):

	As of December 31	
	2022	2021
	NIS in millions	
Discounted electricity	1,013	1,302
V.A.T. and grossed up tax with respect to discounted electricity	436	519
Retirement benefits	792	936
Welfare Fund for pensioners insured in the budgetary pension	64	79
Holiday gifts including grossed up tax	394	485
	2,699	**3,321**
2. Present value of liability with respect to other post-employment benefits as of the collective agreement with respect to the reform and the special collective agreement (see section i2b below)	2,675	3,553
Total	**5,374**	**6,874**

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

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

1. a) 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 j1 below).

On March 5, 2012, the "Change of Method of Updating the Budgetary Pension, 2012 Law" was published in the Official Gazette. This law changed the mechanism of updating the pension of the Insured under the Budgetary Pension Arrangement to linkage to the Consumer Price Index.

Following is a summary of the budgetary pension arrangement under the by-laws of the central provident fund for pension:

The entitlement for pension is created with the existence of one of the following conditions:

1) At the mandatory retirement date (for a woman - from the retirement age date) which is determined under the Retirement Age Law.

2) Early retirement after a minimum of 30 years of work in the Company, provided that the employee has reached the age of 55 for men and age 50 for women (provided that the Company desires his retirement and with the approval of the employees' union).

3) Dismissal retirement - an employee aged 40 years or over who has been working in the Company at least 10 years and is dismissed.

4) Retirement due to disability.

5) Special early retirement - if and insofar as will be carried out according to a specific arrangement that was prepared and approved by the authorized authorities according to law, and according to rules that will be approved.

The survivors of an employee/a pensioner are entitled to a pension in accordance with the pension rates that are set out in the pension code.

b) Rates of pension:

1) Upon reaching retirement age (mandatory), dismissal, early retirement– the pension rate shall not fall below 25% and shall not exceed 70% of the determining salary of the employee for the calculation of pension and its amount will be calculated based on the number of years of employment in the Company, in accordance with the principles set out below:

a. After first 10 years of work– 25% of the employee's determining salary for pension.

b. For every additional year of employment, up to 30 years of work– an additional 2% for every full year of work in excess of the first 10 years of work (up to a maximum of 65%).

c. For every additional year of work in excess of 30 years and up to 35 years of work -– an additional 1% for every work year or a part thereof in excess of the first 30 years of work (up to a maximum of 70%).

2) In the event of the retirement of a permanent employee due to disability, the pension rates are determined in accordance with the Pension Regulations.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

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

1. (continued)

c) The actuarial liability with respect to employees and pensioners/ survivors who are insured under the Budgetary Pension Arrangement includes, in addition to the pension that is payable after the termination of employment, the following entitling components:

1) “Excess employment grant” (over 35 years of work). The eligibility is conditional upon retirement after the age of 60 for men or 55 for women. For fractional years, the relative share of the grant will be paid. The grant is also paid for survivors (and heirs in the lack of survivors) in the event of death of an employee, upon the fulfillment of the entitling criteria.

2) “Up to 35 years grant” that is paid upon retirement and to survivors in the event of the death of an employee. This grant will not be paid to employees with a seniority of less than 10 years and in respect of years for which another compensation is payable. The grant is also paid to survivors (and heirs in the lack of survivors) in the event of death of an employee, upon the fulfillment of the entitling criteria.

3) Grant upon retirement due to disability (an employee who is eligible for this grant will not receive in addition the “up to 35 years grant).

4) Grant for the non-utilization of sick days. The grant is also paid to survivors (and heirs in the lack of survivors) in the event of death of an employee, upon the fulfillment of the entitling criteria.

5) Reduced electricity price benefit for pensioners/ pensioner survivors (including grossing up for tax and VAT).

6) Holiday gifts for pensioners/ survivors (including grossing up for tax).

d) The Company has a (perpetual) liability under a collective agreement to bear the costs of welfare activities in an amount that is equal to 0.49% of the salary of every employee and of the pension and grants to which every pensioner/survivor is entitled (this liability is not calculated with respect to the components that are not regular salary or those that are not affected by an hourly price: convalescence, electricity, gift, house duty by roster and Arava).

e) Starting January 2012, as part of the change of the updating mechanism of the pension of those insured by the budgetary pension arrangement to linkage to the CPI, a welfare fund was established for pensioners who are entitled to budgetary pension, similarly to the fund that was established under the Civil Service.

f) The Company insures its employees and pensioners with collective life insurance. A third of the premium is paid by the employee and the rest by the Company.

g) The Company retirees/survivors have a basket of benefits and additional rights that are not included in the actuarial liability due to their being non-material.

2. The estimated liability for pensions and grants after termination of employment is based on actuarial calculations by an external actuary. The liability is calculated in accordance with rights and assumptions of the Company most of which were determined in consultation with the Company actuary, and in his opinion they are reasonable. The discount rates used for calculating the actuarial liability fit the market yields for high quality index-linked corporate debentures as of the date of the Financial Statements, See Note 2x1 above.

NOTE 12:- 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 an 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 its liabilities to pay 100% severance pay, and Section 14 of the Severance Pay Law - 1963 applies with regards to them.

	For the year ended December 31		
	2022	2021	2020
	NIS in millions		
Sum recognized in wage cost and fixed assets	171	162	142

Additionally, these employees are entitled to receive certain grants from the Company after termination of employment, which are treated as liabilities with respect to other benefits after termination of employment.

As stated, the actuarial liability with respect to Generation C Employees mainly includes:

1) "Up to 35 years grant" that is paid upon retirement and to survivors (and to heirs in the lack of survivors) in the event of the death of an employee. This grant will not be paid to an employee that has worked for less than 10 years, and for years for which another grant is paid.

2) Grant for the non-utilization of sick days.

3) Reduced electricity price benefit for pensioners/ survivors (including grossing up for tax and VAT), for employees who began their employment up to November 4, 2018, inclusive.

4) Holiday gifts for pensioners/ survivors (including grossing up for tax).

5) Grant to employees completing 20 years of work in the Company.

6) Retirement grant in other types of retirement (such as disability, dismissal).

In addition to the aforesaid, the Company has an obligation (perpetual) by force of labor agreement to bear costs of welfare actions in an amount equaling 0.49% of the normal salary and hourly components of each Generation C employee and the grants to which each pensioner/ survivor is entitled.

Furthermore, the Company insures its employees and pensioners with collective life insurance. A third of the premium is paid by the employee and the rest by the Company.

The Company retirees have a basket of benefits and additional rights that are not included in the actuarial liability due to their being non-material.

Additionally, as of December 31, 2022, employees and executives are employed by the Company through personal contracts. Within this employment, these employees are entitled from the date of transfer to the personal contract to a cumulative pension arrangement in a defined deposit plan in accordance with the terms stipulated in the personal contract.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents

1. Special Collective Agreement, Reform (organizational and structural change) and the Special Collective Agreement (early retirement, permanence quota, one time grant to EPE and Noga employees, and additional matters)

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

On November 4, 2018, the special collective agreement signed on May 17, 2018 (hereinafter: the "Collective Agreement"), between the Company and the New National Labor Federation and the national employee committee of the Electric Company's employees (hereinafter jointly: "Employee Representatives"), concerning reform and structural and organizational change in the Company, came into force. This collective agreement anchors the agreements reached in the area of labor relations following the reform in the electricity sector in general and in the Electric Company in particular, including the implications of the organizational change and the efficiency plan in the Company, on the employees, and the updating of labor relations in the Company. This agreement has been approved by the competent authorities. This collective agreement also includes, inter alia, a right to a "reform" pension supplement for permanent employees as they are defined in the collective agreement, that will retire from the Company.

The following are the main points of the Collective Agreement:

1) As part of the reform agreement, the Company is undergoing a material process of organizational change and an efficiency plan, during which a special early retirement campaign is held which includes the retirement of 1,803 permanent employees of the Company by the end of 2025 (early retirement is intended mainly for employees aged 55-64 on retirement, and for employees of generation C who comply with the condition of seniority of over 25 years). According to the agreement, the average age of retirees in this early retirement plan throughout the agreement period will be 59.5 years. The retirement terms will include payment of a retirement grant at the rate of up to 120% of the determining salary for severance pay, as defined in the agreement, for each full year of work and proportionally for parts of a year, the grant is reduced from the age of 62-64 at the rate of 1.805% for each month beyond the age of 62. Those who retire early in the framework of the campaign will also be entitled to a pension from the retirement date and to a pension supplement as stated in section 2 below.

The distribution of the early retirements, within the framework of special early retirement, across the plan term is as follows:

In 2018, 459 permanent employees retired in early retirement.

In 2019, 347 permanent employees retired in early retirement.

In 2020, 204 permanent employees retired in early retirement.

In 2021, 219 permanent employees retired in early retirement.

In 2022, 228 permanent employees retired in early retirement.

In 2023, 190 early retirements are expected.

In 2024, 96 early retirements are expected.

In 2025, 60 early retirements are expected.

2) Addition of a reform pension for retirees by special early retirement - an employee who retires under the special retirement plan is entitled to an additional monthly pension (and in some cases a single payment) of NIS 1,250 gross, linked to the CPI, multiplied by a coefficient determined in accordance with the provisions of the Collective Agreement. The supplement will be paid according to the mechanism set in the Collective Agreement. This supplement is paid by the Company in cases where the retiree has not yet reached the minimum age enabling the purchase of a policy in accordance with the provisions of the agreement (age 60).

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

1. Special Collective Agreement, Reform (organizational and structural change) and the Special Collective Agreement (early retirement, permanence quota, one time grant to EPE and Noga employees, and additional matters) (continued)

a) The following are the main points of the collective agreement: (continued)

3) This Reform Agreement details the terms under which employees will transfer in two phases to a Government company for system management (approximately 220 employees) (hereinafter: the “Noga Company”). On November 30, 2020, a special collective amendment agreement (3) was signed with respect to the reform agreement concerning the division of the transfer of employees to the Noga Company (hereinafter: “Amendment Agreement (3)”). The conditions for the receipt of a pension supplement by the Noga Company employees were updated in the agreement, so that they would be entitled to receive the full reform supplement, in an amount of NIS 1,700 (without the milestone condition of signing a new salary structure agreement, in an amount of NIS 100), and in addition the collective agreement which will apply in the Noga Company was updated, Annex 2 of the collective agreement.
In accordance with the collective agreement, two settlement agreements were completed in November 2021 between the Company and the Noga Company, for the two phases of employee transfers. The Company arranged and transferred to the Noga Company the actuarial liability with respect to the employees insured with budgetary pensions in accordance with the liability calculated by the fund, and made an accounting and paid for the remaining post-employment liabilities of the transferred employees with respect to the term of their employment with the Electric Corporation.

4) The collective agreement formulates the production subsidiary’s workforce, and the terms of termination of the employees who will be transferred on loan for 5 years to companies that will purchase the generation units that will be sold (approximately 265 employees) (hereinafter: “EPE”). The retirement terms for the permanent employees on loan completing 5 years of work in companies purchasing the generation units and are in the retirement / bridging pension track are essentially similar to the terms of the retirees in special retirement as described in the agreement in section 1 above, except for the amount of a reform pension supplement to be paid to them from the date of their retirement. Permanent employees with shorter seniority and younger age, as well as temporary employees, will be entitled, upon the termination of their employment, to receive grants and severance pay as specified in the agreement (without entitlement for a pension or a bridging pension).
In December 2019, upon the sale of the Alon Tavor site, 35 employees were loaned to the buyer of the station.
In December 2020, upon the sale of the Ramat Hovav site, 60 additional employees were loaned to the purchasing company. In June 2022, upon the sale of the East Hagit site, 42 additional employees were loaned.
As part of Amendment Agreement (3), inter alia, the formula for the bridging pension was amended. This pension will be paid to shift workers in the sold stations insured with new cumulative pension funds, who will be entitled to a bridging pension increase upon the conclusion of the loan period, at a rate of 16.5%.

5) The reform pension supplement for retirees during the reform period- an employee who retired from the Company commencing from June 2018 for any reason other than death, disability or retirement by the special retirement plan during the reform period, will be entitled, from the date of reaching mandatory retirement age, to an additional monthly pension for the rest of his life and to his surviving relatives (spouse only). The pension amount will be determined according to a number of parameters, including: the employee's retirement date, a basic amount table according to the retirement date, and the Company's compliance with the prescribed milestones. This amount will be multiplied by the coefficient determined in accordance with the provisions of the Collective Agreement.

On March 27, 2019, the formulation of the organizational change plans were completed in accordance with the two steps of the milestones table, as signed in the Collective Agreement regarding the Reform. The completion of both parts of this milestone, allows all entitled employees to an addition of a reform pension allowance in a basic amount of NIS 230. In December 2019 the sale and transfer of possession of the Alon Tavor power station site was completed. The completion of this milestone allows the entitled employees a basic amount of a reform pension allowance in a basic amount of NIS 150.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

1. Special Collective Agreement, Reform (organizational and structural change) and the Special Collective Agreement (early retirement, permanence quota, one time grant to EPE and Noga employees, and additional matters) (continued)

a) The following are the main points of the collective agreement: (continued)

5) (continued)
In December 2020, the sale and transfer of possession of the Ramat Hovav power station site was completed, entitling the employees to receive an additional amount of NIS 150.
In December 2020, the PTDD Employees, as well as additional employees, were transferred to the Noga Company as part of the sale of the system management operation. This transfer constituted a semi-milestone with respect to system management expenses, entitling the employees to an additional basic amount of NIS 160.
In November 2021, the transfer of employees of the system management unit to the Noga Company, as part of the sale of the system management operation, was completed. This transfer constituted completion of realization of an additional half milestone regarding the beginning of system management by the Noga Company in accordance with a license by virtue of the Electricity Sector Law, and credited the employees with a basic sum of an additional NIS 160.

The transfer of an additional unit from the Hagit site to a private producer ended in June 2022. The completion of this sale credited the employees with an additional base amount of NIS 90.

The total reform pension as of December 31, 2022, in accordance with the milestones completed so far, consists of a basis of NIS 1,090. The consideration will total NIS 1,700 once all the milestones are realized. The basic amount of the supplement will be updated according to the rate of increase of the CPI, will be multiplied by the coefficient determined in accordance with the provisions of the Collective Agreement, and will be paid according to a mechanism that was determined in the Collective Agreement.

6) The reform pension supplement for retirees after June 2026 - an employee who will retire from the Company after June 2026 for any reason other than death, disability or retirement in the special retirement plan during the reform period, will be entitled, from the date on which he reaches mandatory retirement age, to an additional monthly pension for the rest of his life and to his surviving relatives (spouse only). The pension amount will be determined in accordance with the Company's compliance with the prescribed milestones. This sum (up to NIS 1,700 if all the milestones are fulfilled) will be linked to the CPI and will be multiplied by the coefficient determined in accordance with the provisions of the Collective Agreement, and will be paid according to a mechanism that was determined in the Collective Agreement.

In addition, provisions were determined in the Collective Agreement regarding the scope of the entitlement of employees who will retire by a disability retirement or in the event of death, to the reform pension supplement or a one-time payment, and the payment mechanism of the supplement.

7) On May 30, 2021, an agreement was signed with the Harel Company as the company that insures and manages the funds of the reform pension supplement for all the eligible employees. As described in sections (2), (5), (6) above. This agreement arranges the manner of conduct and the services required from the "Harel" Company including the manner of calculating the coefficients, the management fees it will collect from the insured, the manner of adding employees, the process of making deposits to the insurance policy, the manner of payments from the policy, the scope of liability, the duty of confidentiality, and more. On January 1, 2022, the insuring company began its activity of managing the funds and pension payments to eligible employees. During the financial statements period, the Company transferred an amount of approximately NIS 572 million to the insuring company, thus discharging the liability with respect to the eligible employees who retired up to the deposit date and are over 60 years old.

8) Increasing the ceiling for advanced study pay B for employees with professional ranking - as of May 1, 2018, the current maximum amount of the advanced study pay B increased by NIS 100. The increase was made in the salary of the month of November 2018, retroactively from May 2018. The cost of the increase was financed by postponing the last 2 phases of the wage agreement for the years 2013-2017. The updated ceiling will be updated according to the same updating mechanism, update rates and update dates for the ceiling of the professional advanced study B pay rate.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

1. Special Collective Agreement, Reform (organizational and structural change) and the Special Collective Agreement (early retirement, permanence quota, one time grant to EPE and Noga employees, and additional matters) (continued)

a) The following are the main points of the collective agreement: (continued)

10) Administrative supplement - as of May 1, 2018, from the end of the year from the date of the employee's entitlement to the administrative advanced study pay, an employee with an administrative ranking is entitled to a payment of administrative supplement of an additional NIS 200 gross per month. The amount of the supplement is updated in accordance with the update mechanism, update rates and update dates of the Company's advanced study pay rate.

11) An agreed upon framework and provisions for updating labor relations and changing the organizational culture of the Company, the principles of the organization's structural change and efficiency, and principles for changing the salary structure for new employees that will join the Company and changing the current incentive method.

12) The maximum employment period of an employee who was hired by the Company from November 5, 2018 is up to 4 years from the date of commencement of employment (instead of up to 5 years of employment at the Company).
The Company will be entitled to make a decision regarding termination of employment of a temporary employee during the period of temporary employment at its discretion and subject to any law, without requiring the consent of the employees' committee.
An employee as aforesaid, receiving tenure at the end of his employment period as a temporary employee, will not be entitled to electricity benefit at the Company employee rate.

13) Transition to personal contracts - the Company may employ up to 160 managers and additional employees according to the criteria determined in the Collective Agreement, on a personal contract and not in accordance with the collective agreements applicable to Company employees. As of December 31, 2022, the Company continues implementation of the Agreement’s instructions concerning the employment of senior managers (from the level of Vice Division Manager and up) to employment through personal contracts.

14) On November 30, 2020, a special collective agreement (completion of severance for generation C employees) was signed. At the beginning of 2021, the Company carried out a one-time deposit for Generation C employees to supplement the severance pay with respect to the supplement period, as of the date of their employment with the Company and until December 2020. These deposits constituted the conclusion of the Company’s liability to pay full severance pay in accordance with Section 14 of the Severance Pay Law. In addition, as of January 2021, the Company has been making regular deposits to provident funds and pension funds with respect to the full liability for these employees’ severance pay. For details regarding the amount of the one-time payment made, and the profit generated by this disposal, see also Section i2a below.

15) On January 21, 2020, an agreement amendment (2) to the reform agreement was signed, which was approved by the Supervisor of Wages, and includes the updates required to implement the reform supplement mechanisms as agreed (clarifying the sum of the supplement entitlement for loaned employees who will retire by mandatory retirement over the next five years; updating the conversion formula set out in the agreement to align it with the material agreements reached; completing instructions for calculating the pension supplement to be paid by the Company to employees until engagement of the insurer; completing instructions regarding how to calculate the supplement for employees retiring on disability benefits and technical repairs).

16) The amended agreement (3) addressed retirement under the special retirement plan in the collective agreement of a generation C employee, who is insured with a new cumulative pension, and who was insured during part of their term of employment with the Company with an old cumulative pension. This agreement provides that the bridging pension to which they will be entitled will be calculated by a combination of the two formulas, according to the various pension funds (old and new).

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

1. Special Collective Agreement, Reform (organizational and structural change) and the Special Collective Agreement (early retirement, permanence quota, one time grant to EPE and Noga employees, and additional matters) (continued)

b) Special Collective Agreement (early retirement, permanence quota, one time grant to EPE and Noga employees, and additional matters)

On November 30, 2020, a special collective agreement was signed between the Company and the employees' representatives with regards to early retirement, permanence quota, a one-time grant to EPE and Noga employees, and additional matters (hereinafter: "Collective Agreement on Early Retirements and Various Matters"). This agreement was approved by the Commissioner of Wages in the Ministry of Finance. The agreement increases the voluntary early retirements quota by 200 additional permanent employees beyond the retirement quotas within the collective agreement signed in 2018, for years 2021-2023. The terms and conditions of retirement are identical to the terms of the collective agreement. Retirement will be performed gradually, and in addition the permanent position quota given in 2021-2025 – will increase by 115 additional permanent positions. As part of this agreement, 85 permanent position allotments were reduced. Retirements will be made while providing responses to the needs of the work plan.

The forecast of the retirement plan is as follows:

In 2021, 100 employees retired.

In 2022, 65 employees retired.

In 2023, 35 retirements are expected

In 2022, 293 employees have retired pursuant to the two Early Retirement Agreements discussed above.

In addition, the agreement from November 30, 2020 provides that every employee transferred from the Electric Corporation to the Noga Company will receive a one-time grant in a gross amount of NIS 50,000, as part of their last salary with respect to the term of their employment with the Electric Corporation, and employees loaned to the EPE will receive this grant in their last salary with respect to the loan term, or their last salary as a loaned employee, whichever is sooner (except employees who were fired and lost their right to receive severance pay, as well as employees who have resigned).

In addition, it was agreed to increase the salary base for the performance of cumulative pension and provident fund provisions for South Lebanon Army employees and employees with disabilities, whose employment with the Company was extended. The increase of the provisions will be performed following the termination of their term of employment (of 4 or 5 years, as relevant) if their temporary employment is extended.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

1. Special Collective Agreement, Reform (organizational and structural change) and the Special Collective Agreement (early retirement, permanence quota, one time grant to EPE and Noga employees, and additional matters) (continued)

c) Following is the composition of costs of the reform and special collective agreement according to benefits given with respect to the Collective Agreements:

	For the year ended December 31					
	2022			2021		
	NIS millions					
	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
Early retirement plan including pension supplement	(67)	3	(64)	222	48	270
Pension supplement for mandatory retirees during and after the reform period	(54)	-	(54)	305	-	305
Current salary costs	18	-	18	20	-	20
Retirement plan for employees loaned to purchasers of the generation units to be sold	21	-	21	43	-	43
Costs with respect to disposal of the SM employees liability (**)	-	-	-	-	-	52
Total	**(82)**	**3**	**(79)**	**590**	**48**	**690**
Total attributed to Statement of Profit and Loss	*** 200**	**12**	**212**	*** 279**	**17**	**348**
Total attributed to fixed assets	***(47)**	**1**	**(46)**	*** 170**	**14**	**184**
Total attributed to other comprehensive income	***(235)**	**(10)**	**(245)**	*** 141**	**17**	**158**

* For details regarding a regulatory asset with respect to the reform costs attributed to profit and loss - see Note 15j below.

** For details regarding a regulatory asset with respect to the disposal of the PTDD employees liability attributed to profit and loss - see Note 15p below.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

1. Special Collective Agreement, Reform (organizational and structural change) and the Special Collective Agreement (early retirement, permanence quota, one time grant to EPE and Noga 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 year ended December 31					
	2022			2021		
	NIS millions					
	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
Obligation for pension						
Current service cost and interest	78	9	87	81	11	92
Losses (profit) from remeasurement	(65)	1	(64)	64	19	83
Costs with respect to disposal of the SM employees' liability	-	-	-	-	-	52
Other post-employment benefits resulting from the collective agreement with respect to the reform and the special collective agreement						
Past service cost - change in the plan's terms following implementation of a reform collective agreement and a special collective agreement	2	-	2	-	1	1
Current service cost and interest	221	7	228	323	14	337
Losses (profit) from remeasurement	(336)	(14)	(350)	102	3	105
Current Salary Costs	18	-	18	20	-	20
Total	**(82)**	**3**	**(79)**	**590**	**48**	**690**
Total attributed to Statement of Profit and Loss	**200**	**12**	**212**	**279**	**17**	**348**
Total attributed to fixed assets	**(47)**	**1**	**(46)**	**170**	**14**	**184**
Total attributed to other comprehensive income	**(235)**	**(10)**	**(245)**	**141**	**17**	**158**

(For details regarding the accounting policy pertaining to the manner of implementation of the agreement - see Note 2x6)

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

2) Assessment of expected wage increase

The actuarial liability due to the active employees is calculated on the basis of the wage components for pension that are included in the last salary as of the date of the Statement of Financial Position. The increase of wages with respect to general wage agreements with respect to the period of 2013-2017 in accordance with the collective agreement signed on December 11, 2016, an average wage increment of 7.25%, some of which will be given as an accumulating NIS increment of NIS 357.73 per month for every employee plus 3.625% in nominal terms, and from 2018 onwards, an assessment of an increase in salary at the rate of the actual increase of the index less 0.3% per year (erosion of 0.3% in real terms). This assessment was determined considering past experience.

3) Termination of the labor code

The labor relations in the Company are primarily based on collective labor agreements and collective labor arrangements including the labor code and the procedures by virtue thereof. These agreements and arrangements constitute the main normative source in all matters pertaining to acceptance into the Company, termination of employment, working conditions and labor relations. The validity of the labor code, whose legal status is of a bilateral collective arrangement, expired on December 31, 2015. As long as a new labor agreement has not been formulated nor a notice given as to cancellation of the code according to the provisions of the law, the parties are continuing to act in accordance with its provisions and in accordance with the provisions with respect to updating the labor relations, that were determined in the Collective Agreement of May 17, 2018, as described in section 1a above.

4) Agreement regarding remote work

On February 22, 2022, an agreement was signed between the Company and the employees' union regarding remote work, which entered into effect on May 1, 2022 for 6 months. After that, the validity of the agreement will be extended every year for another year, as long as it is not decided to terminate it. 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) Special collective agreement (retirement as pensioner of Generation C employees)

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 of approximately NIS 38 million was recorded in the Financial Statements, which was charged to profit and loss and fixed assets.

6) Special collective agreement pertaining to employment extension of temporary employees

On August 3, 2022, a collective agreement was signed regarding a continuing temporary employee. The agreement entered into effect on August 15, 2022, after the Commissioner of Wages' approval to the agreement was received. The agreement allows the Company to extend the employment of employees who have been hired for temporary work without a time limit, and at the same time, the Management is 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 agreement determines the terms of employment of these temporary employees after the basic period of temporary employment (4-5 years) as well as their rights during and after the period of employment. As a result of implementation of the agreement, a past service cost of approximately NIS 6 million was recorded in the Financial Statements, charged to profit and loss and fixed assets.

7) A Framework agreement in the public sector

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

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

f. Collective Agreements and Consents (continued)

7) A Framework agreement in the public sector (continued)

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

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

g. Major changes in actuarial assumptions:

1. 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 in the second quarter of 2022.

   This implementation increased the actuarial liability as on June 30, 2022 by approximately NIS 119 million and is included in losses from remeasurements.

2. An update was made to the working assumptions that were used to calculate the forecasted electricity rate, which constitutes part of the liabilities for discounted electricity benefit estimation. The main impact of this update is in the fourth quarter, which increased the Company's liabilities by approximately NIS 58 million.

h. The total liabilities' sections, with respect to post-employment employee benefits according to the calculations of the Company as of December 31, 2022, and December 31, 2021, amount to a total of NIS 33,832 million, and NIS 42,790 million, respectively.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

i. Defined Benefit Liability

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

	For the Year ended December 31		
	2022	**2021**	**2020**
		NIS in millions	
Present value of the obligation for pensions as of the beginning of the year	35,770	33,681	33,633
Cost of interest	1,195	992	901
Current service cost	221	255	290
Cost with respect to PTDD and SMU employees liability disposal	-	49	48
Past service cost – changes in the plan's terms following implementation of collective agreements	2	4	213
Employee deposits	18	20	20
Payments with respect to PTDD and SMU employees liability disposal	-	(158)	(188)
Benefits paid	(1,158)	(1,069)	(997)
	36,048	**33,774**	**33,920**
Losses (gains) with respect to remeasurement:			
Actuarial losses (gains) deriving from changes in financial assumptions	(8,768)	1,899	129
Actuarial losses (gains) deriving from changes in demographical assumptions	107	(49)	-
Impact of differences between the previous actuarial assumptions and that which occurred in practice (hereinafter: "Adjustments based on past experience")	966	146	(368)
	(7,695)	1,996	(239)
Present value of the obligation for pensions as of the end of the year	**28,353**	**35,770**	**33,681**

NOTE 12:- 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 Year ended December 31		
	2022	**2021**	**2020**
		NIS in millions	
Present value of the obligation for other post-employment benefits that are not part of the collective agreement with respect to the reform and a special collective agreement as of the beginning of the year	3,321	3,380	3,325
Cost of interest	113	96	91
Current service cost	62	57	65
Profit with respect to disposal of liability to complete severance pay	-	(6)	-
Costs with respect to disposal of PTDD and SMU employee liabilities	-	3	-
Past service cost – changes in the plan's terms following implementation of agreements	44	-	5
Payments with respect to disposal of liabilities	-	(155)	-
Benefits paid	(143)	(135)	(139)
	3,397	3,240	3,347
Losses (gains) with respect to remeasurement:			
Actuarial (gains) losses deriving from changes in financial assumptions	(627)	224	73
Actuarial losses (gains) deriving from demographical assumptions	7	(12)	-
Adjustments based on past experience	(78)	(131)	(40)
	(698)	81	33
Present value of the obligation for other post-employment benefits that are not part of the collective agreement with respect to the reform as of the end of the year and the special collective agreement	**2,699**	**3,321**	**3,380**

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

i. Defined Benefit Liability (continued)

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

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

	For the Year ended December 31		
	2022	2021	2020
		NIS in millions	
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	3,120
Past service cost – changes in the plan's terms following implementation of the reform collective agreement and the special collective agreement	2	1	121
Cost of interest	113	103	91
Current service cost	115	234	295
Payments with respect to disposal of SMU liability	-	(5)	
Benefits paid	(186)	(223)	(143)
Payments transferred to the insuring company	(572)		
	3,025	3,448	3,484
Losses (gains) with respect to remeasurement:			
Actuarial losses (gains) deriving from changes in financial assumptions	(271)	238	(36)
Actuarial losses (gains) deriving from changes in demographic assumptions	5	(21)	-
Adjustments based on past experience	(84)	(112)	(110)
	(350)	105	(146)
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 end of the year	**2,675**	**3,553**	**3,338**
Total present value of the obligation for other post-employment benefits as of the year end	**5,374**	**6,874**	**6,718**

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

	For the Year ended December 31		
	2022	2021	2020
		NIS in millions	
Present value of the obligation with respect to special agreements for early retirement as of the beginning of the year	146	190	260
Cost of interest	4	4	6
Additional provision with respect to employee retirement within Special Retirement Plan	14	19	26
Benefits paid	(56)	(81)	(85)
Actuarial losses (income) with respect to the obligation charged to the Profit and Loss	(3)	14	(17)
Present value of the obligation with respect to special agreements for early retirement as of the year end	**105**	**146**	**190**

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

j. <u>Plan's Assets</u>

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 its employees entitled by 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 Pension Fund.

During February 2022, Phoenix Holdings Ltd. completed the acquisition of Halman Aldubi Investment House Ltd. which holds 100% of the managing company's shares.

According to the Financial Statements of the Fund, the actuarial liability as of December 31, 2022, is NIS 37,891 million and the surplus of the Company in the fund on that date, is approximately NIS 383 million. According to the Financial Statements of the Company, its actuarial liability for the pension obligations as of December 31, 2022, is NIS 28,458 million

b) The difference between the actuarial liability in the financial statements of the Fund as of December 31, 2022, and the actuarial liability in the financial statements of the Company, mainly derives from a difference in calculation methodology between the bodies, which partly derives from different professional approaches, according to the rules that oblige each of the bodies: the Company calculates the actuarial liability in accordance with the accounting rules applicable to the Company (in accordance with International Financial Reporting Standards, including IAS 19 and the directives of the Securities Authority), while the Fund acts in accordance with the instructions of the Capital Market, Insurance and Savings Division Officer, where the Actuary of the Fund noted that the assumptions used to prepare the fund's Statement of Financial Position comply with the instructions of the Capital Market, Insurance and Savings Division Officer for preparing actuarial statements of financial position.

The main difference between the assumptions derives from the discount rate, used to calculate the actuarial liability, i.e. the Fund capitalizes the actuarial liability according to the discount rate of government debentures and the Company according to corporate debentures, see Note 2x1 above, as well as the assumption of the real increase in salary, with respect to salary agreements. The difference in these assumptions causes a difference as on December 31, 2022 of approximately NIS 9.4 billion.

c) Following the decision of the Board of Directors to examine the gap between the actuarial calculations of the Company and the Fund and in response to the Company's application to the Fund's management on this issue, on October 22, 2013, the Company received the Fund management's response to the issue of the gap between the actuarial calculations. Within this, the Fund's explanations of its choice of the calculating method of the actuarial obligation performed by the Fund's actuary were detailed. The Fund also noted that in the past, the calculation method of the Fund was examined by the Commissioner of the Capital Market, Insurance and Savings Division, who determined that he has no objection to the assumptions used by the actuary of the Fund. Following this, the Company applied to the Commissioner of the Capital Market, Insurance and Savings Division, requesting to accept his response and to settle the manner of handling the subject.

On December 4, 2013, the response of the Commissioner of the Capital Market, Insurance and Savings in the Ministry of Finance was received, stating, among others, that the calculation of the actuarial liability in the financial statements of the Fund was carried out according to accepted actuarial principles. Additionally, an ongoing dialogue and examinations of the differences in the actuarial assumptions between the Fund management and the Company management are maintained from time to time, so that the actuarial assumptions will be as similar as possible in accordance with all the above mentioned.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

j. Plan's Assets (continued)

1) Central Pension Fund (continued)

d) On June 1, 2015, the Companies Authority notified the Company that it is conducting an examination of all the issues connected to the calculation of the actuarial liability in the Company including the methodologies implemented by the Company and the Fund for calculating the actuarial liability, implementation of the directives of the Commissioner of the Capital Market with respect to the calculation of the actuarial liability and with respect to the funds deposited in the Fund, deposit regulations according to the terms of the Fund, etc. On October 20, 2015 and on January 3, 2016, the Companies Authority approached the Company and demanded that the management of the Company carry out an examination regarding the actuarial liability of the Company, especially with respect to the gap in the actuarial liability as it is calculated at the Company and as it is calculated by the Pension Fund, and formulate recommendations as to the optimal way it should operate in order to balance between maintaining the pension rights of its employees and maintaining its financial strength.

Following the application of the Companies Authority on July 21, 2016, the Company's Board of Directors decided to establish a committee for the actuarial issue in the Company. The committee held several work meetings, within which the Company presented the actuarial liability, the major assumptions used for calculating the liability, and various calculations it was requested to prepare.
Additionally, the Company's actuary presented the methodology for the increase in salary. The policy of the fund was presented concurrently, as well as the actuarial assumptions serving it to calculate the pension liability.
On December 24, 2018, the Company received another application from the Companies Authority, in which the Company's Board of Directors was requested to hold a discussion on the issue of the gaps in the actuarial assumptions between the Company and the Fund, and to instruct the Company's Management to take all the necessary steps to cancel the gap.
The issue that was examined by Board's ad hoc subcommittee to examine the issue has been referred to the Budget, Financial Management and Risk Management Committee of the Board of Directors.

e) On December 2, 2012, the Control of Financial Services (Provident Funds) (Rules for Management of a Central Provident Fund) Regulations – 2012 were published. At the same time, the circular "Instructions for Management of a Central Provident Fund" was published by the Commissioner of the Capital Market, Insurance and Saving. The circular enables, inter alia, to spread payments to the fund by the Company. This circular benefits the Company, mainly regarding the manner of spreading the payment with respect to debt to entitled pensioners.

The above-mentioned regulations and circular entered into effect on January 1, 2013. A parallel change to the articles of the fund was executed and approved by the Board of Directors of the Company on October 10, 2013. The approval of the Capital Market, Insurance and Savings Division of the Ministry of Finance was received on March 31, 2014.

In accordance with the aforesaid change, as of March 31, 2014, the manner of spreading the payments to the Fund with respect to the actuarial liability is detailed below:

The current growth amount - as defined in the legislative arrangement, will be deposited during the year following the financial year in two equal semiannual payments (at the end of the half and at the end of the year).

(1) With respect to active employees:

Other growth - the higher of the following sums will be deposited in the year following the financial year in two equal payments:
(a) 10% of the lacking sum due to the employees.
(b) A sum equal to 0.5% of the total actuarial liability with respect to the employees.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

j. Plan's Assets (continued)

1) Central Pension Fund (continued)

e) (2) With respect to pension receivers:
The higher of the following sums will be deposited in the year following the financial year, in two equal payments (at the end of the half and at the end of the year):
(a) Half of the lacking sum due to the pension receivers.
(b) A sum equal to 2% of the total actuarial liability with respect to pension receivers.

(3) With respect to entitling events - retirement or passing away of an entitled employee as defined in the instructions for managing a central pension fund.

At an expected retirement - the actuarial debt, if exists, will be completed a month before payment of the first pension.
At an unexpected passing away / retirement - the actuarial debt will be completed within a month from the date of demand which will be delivered a month from the first payment.

(4) Ongoing transfer:

A sum of not less than NIS 50 million will be transferred every month (linked to the known CPI of the end of the year), provided that there is an actuarial deficit in the fund (until balanced).

The fund will pay the Company the sum accumulated in the fund exceeding the maximum sum in it, not later than 30 days from the date it submitted the fund's actuarial balance for a certain fiscal year. The maximum sum, as defined in the regulations, is the accrued actuarial obligation of the member plus 25%.

(5) With respect to the special retirement plan - an increase has occurred in the accumulated actuarial liability due to employees or pension receivers as a result of change in the labor agreement, including early retirement agreement, therefore the Company will deposit the lower of the following into the employees' account or the pension receivers' account, as applicable, and not later than one year from the date of change in the labor agreement, and subject to regulation 2(f) of the regulations:

(a) The sum of the increase in the accumulated actuarial liability deriving from the stated change.
(b) The amount required to equalize the total assets in the account to the total accumulated actuarial liability.

Regarding this, regulation 2 (f) - a member of a central pension fund will deposit sums required to complete the entire actuarial liability due to retirement of an entitled employee or due to his passing away, on a date and at a rate as the Supervisor will instruct, provided that the above-mentioned date for completing the entire actuarial liability will not be later than two months from the first pension payment date.

On November 20, 2019, the Commissioner of the Capital Market, Insurance and Savings Division of the Ministry of Finance issued an amendment to the pension circular "Provisions for Managing a Central Provident Fund - Amendment". The provisions of the circular refer to changes in the event of increase of accumulated actuarial liabilities of employees due to an early retirement agreement. The circular stipulates individual conditions that, only when they are fulfilled, will the member of the fund, subject to the Commissioner's approval, be able to spread the deposits required to cover the increase in the accrued actuarial liability resulting from an agreement of early retirement of employees for whom the fund's monies are accumulated.

On March 8, 2020, the approval of the Commissioner of the Capital Market, Insurance and Savings Authority was received, for the outline of the spread of payments to the fund for the retirees within the early retirement plan in accordance with the Reform Agreement.

Under this outline, during the reform period, the Company will annually pay the full amount for the current year's retirees and 10% of the balance in addition.

For the purpose of calculating the service of the deficit, deficit arising from an early retirement agreement, for which spread for a member was approved by the Commissioner, will not be taken into account.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

j. Plan's Assets (continued)

1) Central Pension Fund (continued)

e) (5) (continued)

The approval is subject to the following:

(a) The Company will perform annually an updated actuarial calculation for the expected retirement forecast over the remaining spread period, in accordance with actual performance data and the updated forecast for the balance of the spread period as of the end of each year (hereinafter - an updated spread outline), all while maintaining the principles of the approved outline.

(b) The Company will report on the updated spread outline to the Capital Market, Insurance and Savings Authority annually, together with detailed explanations for any change in the forecast, if any.

In February 2022, an update to the Fund's articles was approved. The update included reference to the retention of rights for senior employees who have moved to a personal contract and are entitled to a budgetary pension.

f) The Company deposited in the fund, including the costs of the plan's assets, NIS 1,035 million during the year ended on December 31, 2022.

g) The Fund approved its financial statements as of December 31, 2022, on March 2, 2023.

h) The Fund presents the value of its assets at fair value according to international financial reporting standards (IFRS).

i) According to the forecast of the Company, according to the articles in effect (starting from March 31, 2014), the expected transfers to the fund in 2023 will amount to approximately NIS 412 million (excluding transfers required with respect to early retirement campaigns).

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

	For the Year ended December 31		
	2022	2021	2020
	NIS in millions		
Fair value of plan assets as of the beginning of the year	42,703	38,790	36,887
Interest income on plan assets	1,434	1,143	988
Deposits including costs of the plan assets	1,035	608	1,592
Benefits paid	(1,188)	(1,124)	(1,078)
Gains (losses) with respect to remeasurements of plan assets:			
Yield on plan assets (except for sums included in interest income)	(5,710)	3,286	401
Fair value of plan assets as of the year end	**38,274**	**42,703**	**38,790**

	For the Year ended December 31		
	2022	2021	2020
	NIS in millions		
Interest income on plan assets	1,434	1,143	988
Gains (losses) with respect to remeasurements of plan assets	(5,710)	3,286	401
Actual yield on plan assets	**(4,276)**	**4,429**	**1,389**

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

j. Plan's Assets (continued)

3) Composition of the asset portfolio of the funds of those insured by the Fund:

	For the year ended December 31			
	2022		2021	
	(in NIS million)			
	Quoted in active market	Not quoted in active market	Quoted in active market	Not quoted in active market
Negotiable government debentures	18,474	-	19,937	-
Corporate debentures	5,049	474	4,179	757
Deposits and loans	-	2,483	-	1,100
Shares	1,947	-	2,528	-
Other investments	2,681	4,694	4,692	4,188
Cash	-	2,472	-	5,322
	28,151	**10,123**	**31,336**	**11,367**

k. Funds in Trust

The trust account was opened in March 2000, after entering into a trust agreement with the Trust Company of Bank Mizrachi Hameuchad Ltd. In accordance with the agreement, funds will be deposited in the trust account for the sole purpose of using these funds only for paying pensions to employees defined as "generation A" and "generation B" in the aforesaid arrangement with the Government on June 10, 1996 (hereinafter: "96 agreement) and not for any other purpose.

After the Central Provident Fund for Pension was established in 2005 (see section j above), the funds accrued in the trust account up to that date and reflecting the actuarial liability of the Company (as of the founding date of the Central Provident Fund), related pension payments, were transferred to the fund. At that time, it transpired that it was not possible to transfer all the funds deposited in the trust account: the Company's pension liability with respect to non-budgetary salary components as well as amounts related to payment of different bonuses to employees on the termination of employee - employer relations, since these are not pensions. Therefore, according to the amendment to the income tax regulations (rules for approving and managing pension funds) - 1964, these funds cannot be transferred to the Pension Fund. As of the date of the report, sums are deposited in the trust account to cover the Company's liability to pay the following components: holiday gifts (including grossing up), disability benefit, grossing up charging of the tax benefit with respect to the "discounted electricity" component, grant for unused sick leave, grant for up to 35 years of employment, grant for employment exceeding 35 years, welfare activity fund, and grant to survivors of deceased employees. The trust funds are invested in Government and corporate debentures deposits and exchange traded funds and are presented according to their fair value.

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

k. Funds in Trust (continued)

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 Year ended December 31		
	2022	2021	2020
		NIS in millions	
Fair value of funds in trust as of the beginning of the year	1,493	1,540	1,588
Interest income from funds in trust	49	45	42
Current refunds	(118)	(180)	(90)
Gains (losses) with respect to remeasurement:			
Yield on plan assets (except for sums included interest income)	(240)	88	-
Fair value of funds in trust as of the period end	**1,184**	**1,493**	**1,540**

3) Yield of funds in trust:

	For the Year ended December 31		
	2022	2021	2020
		NIS in millions	
Interest income from funds in trust	49	45	42
Gains (losses) with respect to remeasurement of funds in trust	(240)	88	-
Actual yield on funds in trust	**(191)**	**133**	**42**

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

	For the Year ended December 31		
	2022	2021	2020
		NIS in millions	
Balance as of the beginning of the year	(2,695)	(3,844)	(4,396)
Gains from remeasurements	2,197	1,008	627
Gains (losses) from remeasurement attributed to movement in the balance of a regulatory deferral asset due to the reform	(235)	141	(75)
Balance as of the end of the year	**(733)**	**(2,695)**	**(3,844)**

m. Remeasurements which were Capitalized to Assets Cost (Fixed Assets)

	For the Year ended December 31		
	2022	2021	2020
		NIS in millions	
Decrease in fixed assets	**(596)**	**(184)**	**(126)**

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

n. Amounts Presented in Cost of Salaries in Expenses with respect to Liabilities to Pensioners, the results of the reform agreement and other agreements, and in fixed assets

	For the Year ended December 31		
	2022	**2021**	**2020**
		NIS in millions	
1) **Cost of Salaries Results of the Reform Agreement and other agreements and Expenses with respect to Liabilities to Pensioners**			
Current service cost	398	546	650
Past service cost – change in the plan's terms following implementation of collective agreements	48	5	339
Costs with respect to settlement of PDT and SMU liability	-	52	48
Profit from settlement of liability to complete severance pay	-	(6)	-
Cost of interest except for cost of interest with respect to early retirement	1,421	1,191	1,083
Interest revenues (*)	(1,483)	(1,188)	(1,030)
Costs due to early retirement and other costs	18	41	38
Total cost recognized in salaries cost and expenses with respect to liabilities to pensioners	**402**	**641**	**1,128**

	For the Year ended December 31		
	2021	**2020**	**2019**
		NIS in millions	
2) **Expenses with respect to Liabilities to Pensioners only**			
Cost of interest except for cost of interest with respect to early retirement	733	594	520
Interest revenues (*)	(896)	(680)	(580)
Costs due to early retirement and other costs	15	39	36
Total cost recognized in income from liabilities to pensioners	**(148)**	**(47)**	**(24)**

(*) For plan assets and funds in trust

NOTE 12:- POST EMPLOYMENT EMPLOYEE BENEFITS (continued)

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

	For the year ended on December 31		
	2022	**2021**	**2020**
The weighted real discount rate for the end of the year grossed in the present value of the obligation	2.78%	0.93%	1.26%
Nominal rate of return used to calculate the interest cost	3.37%	2.97%	2.69%
Anticipated annual nominal rate of return grossed in the fair value of plan assets	3.37%	2.97%	2.69%
Average liability lifetime	14.3 years	15. 8 years	16.3 years

Real update of salaries during the work period	- individual salary development model of the active employees (according to salary table + rank promotion according to work agreements + tenure promotion + individual advancement evaluation in addition to the assumption that the salary table will increase in accordance with the wage agreement signed on December 11, 2016, for 2013-2017 and will erode at a real rate of 0. 3% per year from 2018 onwards compared to the CPI).
Real update of pension amounts after employment termination	- The pensions are linked to the CPI.
Pensioners and next of kin mortality, including updated mortality data	- According to the Ministry of Finance circular 2017-3-6, and mortality study regarding employees, pensioners and survivors.

p. Analysis of sensitivity of main actuarial assumptions as of December 31, 2022 (in NIS million):

Actuarial assumptions	Change %	Increase in liability	Change %	Decrease in liability
Rate of interest for capitalization	(0.1)	432	0.1	423
Real salary increase rate with respect to general salary agreements and cost of living increment less the CPI (real increase)	0.5	705	(0.5)	670

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 13:- FIXED ASSETS

a. Composition

1) Changes in 2022

	COST					ACCUMULATED DEPRECIATION AND LOSSES FROM IMPAIRMENT				Depreciated balance
	Balance on January 1, 2022	Classification	Deduction	Net addition ([1])	Balance on December 31, 2022	Balance on January 1, 2022	Deduction	Addition	Balance on December 31, 2022	On December 31, 2022
	(NIS in millions)									
FIXED ASSETS IN USE										
Power plants (including land, buildings and machinery) (*)	73,650	862	(764)	549	74 297	56,697	(753)	2, 450	58,394	15,903
Sub-stations	15,310	414	-	109	15,833	9,977	(1)	202	10,178	5, 655
Telecommunications	2,301	3	(12)	39	2,331	1,877	(2)	77	1,952	379
Switching stations	6,774	382	-	13	7,169	4,743	-	84	4,827	2,342
400 KV voltage lines	2,369	243	-	3	2,615	1,596	-	51	1,647	968
High voltage transmission lines	7,683	527	(112)	16	8,114	4,105	(105)	176	4,176	3,938
Distribution networks	44,130	520	(101)	994	45,543	25,410	(74)	1,050	26,386	19,157
Meters	2,412	59	(91)	124	2,504	1,829	(76)	105	1,858	646
Land, office buildings	3,846	4	(2)	110	3,958	2,521	(1)	99	2,619	1,339
Office equipment and tools	1,874	5	(3)	41	1,917	1,676	(2)	38	1,712	205
Computers	443	5	(3)	62	507	333	(3)	46	376	131
Motor vehicles (*)	765	-	(59)	44	750	478	(56)	115	537	213
Mobile mechanical equipment (*)	583	-	(48)	40	575	431	(47)	41	425	150
Emergency equipment	116	6	-	1	123	73	-	2	75	48
Ships (*)	968	-	(816)	11	163	621	(685)	165	101	62
Other projects	497	21	-	9	527	184	-	18	202	325
Spare parts for power plants and substations	1,091	(166)	-	150	1,075	398	(39)	44	403	672
Total fixed assets in use	**164,812**	**2,885**	**(2,011)**	**2,315**	**168,001**	**112,949**	**(1,844)**	**4, 763**	**115,868**	**52,133**
FIXED ASSETS UNDER CONSTRUCTION										
Power plants, buildings and other installations	3,200	(595)	-	1,054	3,659	-	-	-	-	3,659
Sub-stations	837	(277)	(9)	358	909	57	-	-	57	852
High voltage lines	792	(466)	(1)	137	462	-	-	-	-	462
Switching stations	401	(313)	(1)	139	226	-	-	-	-	226
400 KV voltage lines	1,186	(185)	-	293	1,294	-	-	-	-	1,294
Payments on account of equipment	208	(197)	-	9	20	-	-	-	-	20
Other investments	83	(23)		112	172	-	-	-	-	172
Materials and payments on account of materials designated for investments in fixed assets	610	(829)	(25)	1,037	793	-	-	-	-	793
Total fixed assets under construction	**7,317**	(2,885)	**(36)**	**3,139**	**7,535**	**57**	**-**	**-**	**57**	**7,478**
Total fixed assets	**172,129**	**-**	**(2,047)**	**5,454**	**175,536**	**113,006**	**(1,844)**	**4,763**	**115,925**	**59,611**

[1] Less receipts from development works orders.

(*) For details regarding right-to-use assets presented within the fixed assets as a result of implementation of IFRS 16, see Note 22a.

NOTE 13:- FIXED ASSETS (continued)

a. Composition

2) Changes in 2021

	COST					ACCUMULATED DEPRECIATION AND LOSSES FROM IMPAIRMENT				Depreciated balance
	Balance on January 1, 2021	Classification	Deduction **	Net addition (1)(*)	Balance on December 31, 2021	Balance on January 1, 2021	Deduction **	Addition	Balance on December 31, 2021	On December 31, 2021
	(NIS in millions)									
FIXED ASSETS IN USE										
Power plants (including land, buildings and machinery) (*)	75,460	906	(3,241)	525	73,650	57,440	(3,148)	2,405	56,697	16,953
Sub-stations	15,289	64	(205)	162	15,310	9,972	(190)	195	9,977	5,333
Telecommunications	2,179	5	(16)	133	2,301	1,760	41	76	1,877	424
Switching stations	6,695	51	-	28	6,774	4,666	-	77	4,743	2,031
400 KV voltage lines	2,358	10	(2)	3	2,369	1,549	(2)	49	1,596	773
High voltage transmission lines	7,525	153	(32)	37	7,683	3,986	(29)	148	4,105	3,578
Distribution networks	42,794	403	(147)	1,080	44,130	24,516	(113)	1,007	25,410	18,720
Meters	2,271	29	(24)	136	2,412	1,748	(23)	104	1,829	583
Land, office buildings	3,770	6	(8)	78	3,864	2,436	(7)	92	2,521	1,325
Office equipment and tools	1,840	6	(12)	40	1,874	1,651	(11)	36	1,676	198
Computers	1,088	1	(701)	55	443	988	(701)	46	333	110
Motor vehicles (*)	753	-	(91)	103	765	447	(85)	116	478	287
Mobile mechanical equipment (*)	568	-	(31)	46	583	422	(30)	39	431	152
Emergency equipment	105	11	-	-	116	70	-	3	73	43
Ships (*)	966	-	-	2	968	418	-	203	621	347
Other projects	489	5	(4)	7	497	168	(2)	18	184	313
Spare parts for power plants and substations	1,154	(121)	(61)	119	1,091	441	(80)	37	398	693
Total fixed assets in use	**165 304**	**1,529**	**(4,575)**	**2,554**	**164,812**	**112 678**	**(4,380)**	**4,651**	**112,949**	**51,863**
FIXED ASSETS UNDER CONSTRUCTION										
Power plants, buildings and other installations	2,058	(470)	(2)	1,614	3,200	3	(3)	-	-	3,200
Sub-stations	594	19	-	224	837	57	-	-	57	780
High voltage lines	598	(83)	-	277	792	-	-	-	-	792
Switching stations	247	2	-	152	401	-	-	-	-	401
400 KV voltage lines	872	59	-	255	1,186	-	-	-	-	1,186
Payments on account of equipment	477	(377)	-	108	208	-	-	-	-	208
Other investments	416	(4)	(359)	30	83	354	(354)	-	-	83
Materials and payments on account of materials designated for investments in fixed assets	554	(675)	(11)	742	610	-	-	-	-	610
Total fixed assets under construction	**5,816**	**(1,529)**	**(372)**	**3,402**	**7,317**	**414**	**(357)**	**-**	**57**	**7,260**
Total fixed assets	**171,120**	**-**	**(4,947)**	**5,956**	**172,129**	**113,092**	**(4,737)**	**4,651**	**113,006**	**59,123**

1 Less receipts from development works orders.

(*) For details regarding right-to-use assets presented within the fixed assets as a result of implementation of IFRS 16, see Note 22a.

(**) Including classification to held for sale.

NOTE 13:- FIXED ASSETS (continued)

b. Investments in land (before amortization and before impairment), which are included under fixed assets include NIS 1,060 million with respect to long term land leases and NIS 477 million for land owned by the Company.

A substantial portion of the land property, in which the Company has rights, is not registered in the Israel Land Authority Registry and the status of such properties has not been settled for various technical reasons, such as the absence of parcelization in a portion of those areas, the requirements of planning authorities to assemble master plans, and disputes with the various authorities, including the tax authorities, mainly regarding assets that were purchased many years ago and changes in registration, which prevent obtaining authorizations for registration in the Israel Land Authority Registry. Due to the great complexity of the matter, it is not possible to estimate the period of time which will be required to conclude registering the land, but, in the Company's opinion, this cost of registering the land, as aforesaid, is not anticipated to be substantial.
The Company paid the capitalized lease fees at the beginning of the lease period with respect to the majority of the land leased from the Israel Land Administration.

c. As of the date of the expiration of the Concession period (March 5, 1996), the Company had written down the vast majority of the cost of acquiring land as to which the Company's right to receive appropriate compensation at the expiration of the Concession (i.e. within the Assets Arrangement) was unclear.
In January 2018, the Company, the State, the Israel Land Authority and the Tel Aviv Municipality entered into two agreements with respect to the outline of the Assets Arrangement (for further details regarding the Assets Arrangement and its results, see Note 1f above).

d. See Note 20g for liens related to fixed assets.

e. Also, see Note 35a7 for fixed asset investment commitments.

f. The Company's Financial Statements include assets, primarily networks and lines located within Judea and Samaria (including the Palestinian Authority territories) ("the territories".) In the opinion of the Company's Management, the utilization of these assets for the purpose of electricity supply will continue and they will remain in the possession of the Company.

In the event that the possession of the balance of the assets, as a whole or partially, located in the territories, is taken from the Company, the Company cannot estimate if it will be indemnified in a full or partial amount, if any, for these assets.

At the end of each reporting year, the Company reviews the useful life of the fixed assets it uses. For details regarding the change in assessment of CCGTs life see Note 2ae.

g. **Assets impairment test according to IAS 36**

As a result of the increase in the market premium and the marginal interest rate on the debt (hereinafter- the “Discount Rate”), and following publication of the Electricity Authority’s decision on January 9, 2023, regarding a new rate base for the generation segment for 2022-2027 as aforesaid in Note 3d above, the Company carried out an assets impairment test according to IAS 36 through an independent external value appraiser. The test was carried out for all the Company’s assets which constitute one cash-generating unit, as the Company is obliged to act by virtue of the law as an essential service provider in all its operating sectors, and it estimates that there is no active market for any of the various sectors.

The assets impairment test was carried out in accordance with forecasts of future cash flows that are expected to accrue for the Company on the basis of the rate decisions and the Authority’s policy, including the rate decisions regarding the implications of the reform on the Company’s revenues, as well as on the basis of assumptions that represent, inter alia, the economic conditions which, in the opinion of the Company's management, will prevail during the useful life of the units’ assets.

NOTE 13:- FIXED ASSETS (continued)

g. Assets impairment test according to IAS 36 (continued)

Below are the main assumptions that served as a basis for the work:

- The present rate structure in the generation segment, as determined in January 2023, set the level of costs recognized for the Company in the generation segment for the years 2023-2027. These rates will be in effect as long as the Authority's plenum does not decide otherwise.
- The Company assumes that a new rate base for the generation segment will enter into effect on as of January 1, 2028, and within its framework full cost coverage will be provided for the investment and operating costs of the Company in the generation segment, plus an adequate return on capital (hereinafter: the "full coverage assumption").
- The Company assumes that in accordance with the Authority's decision regarding the rate base for the generation segment and according to which the determined weighted rate of return and its components: the financial leverage, the rate of foreign capital and the rate of equity will be examined when determining the rate base for the grid segments and will be updated if necessary, the Company estimates that it will be updated as of January 1, 2024, including the manner in which the parameter for calculating the risk margin will reflect current market prices at the time of the examination.
- Fuel expenses that the Company will bear through all the forecast periods will be fully covered within the framework of the electricity rate.
- For the purpose of the impairment examination in the grid segments, the forecast period was set until the end of 2023, the cash flows in the forecast period are based on the grid rate set on January 8, 2018, for the years 2018-2022, and updated Authority decisions.
- The Company assumes that a new rate base for the grid's segments will enter into effect as of January 1, 2024. The Company's assumption is that within the framework of the new rate base, the Company will receive full cost coverage for its investment and operating costs, plus an adequate return on capital. In cases where surpluses or shortages were found until the end of 2023 due to the normative way of recognizing investments in the grid's segments in accordance with a rate in effect, they were taken into account within the framework of the cash flows and as part of the residual value for the end of the forecast period.
- The Company assumes that its other investments which are required in accordance with environmental regulatory requirements and other investments that have not yet been recognized in the transmission segment and the generation segment, particularly in CCGTs at Orot Rabin, will be fully recognized by the Authority plus interest at the time of construction.
- The Company's investments in conversions of coal-fired stations to gas will be fully covered in the rate, the Company estimates that gaps resulting from prolongation of the projects and increased costs that occurred derived from events beyond the Company's control, and therefore it is entitled to full recognition upon activation of the conversions.
- The Company assumes that it will collect all the revenues included in the forecast with respect to supply of electricity to the Palestinian Authority and the EJEC. Collection difficulties, if any, will be reflected only in the timing and not in the collection amounts.
- The real weighted average cost of capital (WACC) determined was 4% after tax. This value reflects the Company's time value of money, price of capital and price of the debt for the average life of the assets.

NOTE 13:- FIXED ASSETS (continued)

g. Assets impairment test according to IAS 36 (continued)

- The following are sensitivity analyzes of the results of the examination of the impairment of the discount rate, the leverage rate, and the market premium:

	Change in Discount Rate				
	0.50%	0.25%	0.00%	(0.25%)	(0.5%)
Excess of value in use over book value	406	754	1,107	1,464	1,824
Change in value in use	(701)	(353)	-	357	717

	Leverage Rate				
	47%	52%	57%	62%	67%
Excess of value in use over book value	1,249	1,249	1,107	1,107	1,107
Change in value in use	142	142	-	-	-

	Market Premium				
	7.3%	7.05%	6.8%	6.55%	6.3%
Excess of value in use over book value	965	1,107	1,107	1,249	1,392
Change in value in use	(142)	-	-	142	285

According to the results of the examination in accordance with the assumptions above, it appears that the sum of the value in use of the Company's assets that were examined is not lower than their value in the Financial Statements as of December 31, 2022.

As part of the evaluation of the value in use, the consideration remaining with the Company from the sale of the Eshkol site was not taken into account beyond the rate value, and collection of EJEC's past debts were not recognized as income in the Financial Statements, sums that would have increased the recoverable amount.

NOTE 14:- INTANGIBLE ASSETS, NET

The composition:

	Balance as of January 1, 2022	Additions in 2022	Deductions in 2022	Balance as of December 31, 2022
	NIS in millions			
Cost of software	2,988	(*) 220	(24)	3,184
Accumulated amortization of software	(1,800)	(239)	8	(2,031)
Intangible assets, net	**1,188**	**(19)**	**(16)**	**1,153**

	Balance as of January 1, 2021	Additions in 2021	Deductions in 2021	Balance as of December 31, 2021
	NIS in millions			
Cost of software	5,028	(*) 242	(2,282)	2,988
Accumulated amortization of software	(3,811)	(232)	2,243	(1,800)
Intangible assets, net	**1,217**	**10**	**(39)**	**1,188**

At the end of each reporting year, the Company reviews the useful lifespan of the intangible assets it uses.
(*) Including an increment from self-development of NIS 93 million (2021: NIS 89 million)

NOTE 15:- REGULATORY ASSETS/LIABILITIES

a. As of January 1, 2014 (date of transfer to international standardization), the Company applies IFRS 14, and its significance is the continued implementation of the existing practice in the subject of recognition of regulatory deferral accounts. The Company recognizes regulatory deferral accounts in its financial statements, and they are similar in essence to the regulatory assets and liabilities that existed in the Company's books prior to the implementation of IFRS 14. The regulated rates are designed to cover the Company's costs using a combination of cost control and normative costs and efficiency coefficients determined from time to time within the rate bases for the generation and grid segments and Authority decisions on specific issues. In addition, the regulated rates are designed to cover in the same way the Company's investments in fixed assets through the recognition of depreciation in accordance with the life span determined by the Authority and providing a return on equity and foreign capital in accordance with rates of return and leverage which are also determined in accordance with market conditions by the Authority.

b. **Details of the amounts and transactions in regulatory deferral accounts for the year ended on December 31, 2022:**

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

(*) For details of the classification carried out with respect to the regulatory accounts see section q below

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

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

NOTE 15:- REGULATORY ASSETS/LIABILITIES (continued)

c. **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 (see section e below)	142	-	(142)	-	1-3
With respect to income balancing (see Section t below)	186	166	(127)	225	1-2
With respect to non-consecutive update of the fuels component in the rate (see section i below)	-	1,230	166	1,396	1-2
With respect to social rate (see section f below)	336	275	(340)	271	1-2
With respect to load management arrangements (see section h below)	30	49	(57)	22	1-2
With respect to deemed interest (see section l below)	134	-	(26)	108	15-25
With respect to recognition of investments that were reduced in the past (see section m below)	126	-	(12)	114	1-14
With respect to gap between update date of fixed payment component (see section n below)	90	7	(40)	57	5
With respect to recognition of pension costs (see section p below)	581	66	(272)	375	2-3
With respect to linkage differentials (see section o below)	264	725	(76)	913	10-35
With respect to reform costs (see section j below)	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 held for sale (see section k below)	625	-	(47)	578	1-12
With respect to the GIS agreement (see section u below)	233	-	(233)	-	0
With respect to a gap between actual rate update dates and the theoretical update (see section e below)	-	468	99	567	1-3
With respect to non-consecutive update of the fuels component in the rate (see section i below)	71	(71)	-	-	1-2
With respect to electricity purchases from private electricity producers and photo-voltaic installations (see section g below)	520	31	(449)	102	1-2
With respect to sale of sites (see section s below)	2,433	54	(1,285)	1,202	1
With respect to the compromise agreement with the Egyptian Gas Companies (see section r of the agreement)	977	5	(163)	819	7
With respect to depreciation differences (see section q below)	182	91	-	273	1-45
Total	**5,041**	**578**	**(2,078)**	**3,541**	
Deferred taxes with respect to part of the regulatory deferral accounts (see Note 21 below)	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**

NOTE 15:- REGULATORY ASSETS/LIABILITIES (continued)

d. Regulatory deferral accounts are measured on a non-capitalized basis. In some of the cases, the non-capitalized balance accumulates interest until the collection date in accordance with the interest rate defined by the Electricity Authority. For further details see Note 3j.

e. Regulatory Deferral Account with Respect to a Gap between Rate Updating Dates (without fuel)

The electricity rate is not updated in a continuous manner; therefore, a gap was created between the income collected according to the actual rate and the income that is due to the Company according to the theoretical rate. The gap accumulates during the whole calendar year and is added to the recognized cost of the Company on the date of the annual update in the following year. The Company creates a regulatory deferral account in its Financial Statements with respect to this gap. The change in the regulatory account for 2022 is calculated as the difference between the total theoretical cost recognized and the actual recognized cost less the theoretical collection.
The theoretical recognized cost for the year 2022 is calculated in accordance with the decision of the Authority with regard to the 2023 annual update.

f. Regulatory Deferral Account with Respect to Social Rate

On March 27, 2007, the Electricity Sector Law (Amendment No. 6, Reduced Rates), 2007 was made public. According to the Law, a consumer who has reached legal retirement age and is entitled to income support from the State, will pay a reduced rate of 50% of the home consumption rate for the first 400 kWh consumed on a monthly basis for home consumption only.

In addition, a number of additional groups of the population received this entitlement during 2007-2012:
1) Disabled holocaust survivors.
2) Disabled who receive old age pensions for the disabled.
3) Six additional groups are eligible to reduced electricity prices.

The law authorizes the Minister, upon consulting the Minister of Welfare and upon consent of the Minister of Finance, to determine other needy populations which will be entitled to reduced payments, at the determined proportion of the household rate, the quantity of electricity that will entitle it to a reduced payment, as well as discount rates and various quantities for groups of the population, so that the total reduction from the payment for electricity consumption will not exceed an amount equaling 1.5% of the total payments paid by all consumers for electricity consumption. According to the decision of the Electricity Authority, this cost will be charged to all electricity consumers except the Palestinian Authority consumers.

g. Regulatory Deferral Account with respect to Electricity Purchases from Private Producers and Photovoltaic Facilities:

On the annual update date every year, the Electricity Authority updates the recognized cost with respect to purchase of electricity from private electricity producers and photo-voltaic installations. Advances are paid to the Company within the rate in force for electricity purchases from private electricity producers and photovoltaic facilities. With respect to the differences that are created between the advances, as stated, and the actual costs, a regulatory account with a debit or credit balance is created, as relevant.

h. Regulatory Deferral Account with Respect to Load Management Arrangements:

With respect to the gap in the timing of the recognition of costs borne by the Company with respect to the load management arrangements within the rate relating to the date of expenses thereof, the Company records in its books a regulatory deferral account.

i. Regulatory Deferral Account with Respect to Non-Update of the Fuel Component in the Rate, Net

The update of the fuel component in the electricity rate is executed retroactively on the date of the annual update, every year, according to the actual quantity of fuel consumed, forecasted fuel consumption during the current year, and updates of relevant information. With respect to the gaps created between the actual rate and the theoretical rate that according to the estimate of the Company will be retroactively recognized, the Company records in its books a regulatory deferral account with a debit or credit balance that is refunded to the Company or the consumers, respectively. Within the framework of the rate base for the generation segment which was published in January 2023, the Electricity Authority determined the first part of the rate base for the generation segment, and the second part, which will include additional issues, inter alia the methodology for the recognized fuels cost, will be published for a separate hearing. In light of the Authority's intention to publish a new methodology for the recognized fuels cost, which will apply retroactively from February 1, 2022, the Company recorded the regulatory deferral account with respect to non-update of the fuels component in the rate in accordance with the minimal cost that will be recognized, the

NOTE 15:- REGULATORY ASSETS/LIABILITIES (continued)

i. Regulatory Deferral Account with Respect to Non-Update of the Fuel Component in the Rate, Net (continued)

Company estimates that it is with a level of certainty exceeding 70%. For details of spreading the Company's debt for the coal over three years, see Note 3g above.

j. Regulatory Deferral Account with Respect to the Reform Costs (Structural Change)

Following the aforesaid in the Note regarding the Structural Change (see Notes 1e and 3o above), regarding coverage of the reform costs in the electricity rate, and the Note regarding post-employment employee benefits (see Note 12f above), the Company recognizes in a regulatory deferral account the expenses and the other comprehensive income (loss) components related to implementation of the structural change. In light of this, as of 2018, the Company recognized a regulatory deferral account, which reflects the costs of the Structural Change that were attributed to the Statement of Profit and Loss and the Statement of Other Comprehensive Income less the sums collected to finance the reform costs in accordance with the decisions of the Electricity Authority.

k. Regulatory Deferral Account with Respect to Consumer Participation in Financing Sites Held for Sale

Receipts with respect to consumer participation in the financing of generation sites were previously stated in the Company's books as offsetting from fixed assets. As of the classification date of the Alon Tavor and Ramat Hovav sites as disposal groups classified as held for sale, such receipts were classified to a regulatory account in credit, in light of the fact that the return to consumers will continue according to the same plan determined on the date of the collection of participation.

l. Regulatory Deferral Account with Respect to Deemed Interest:

In light of the provisions of IFRS 14, a regulatory deferral account balance should be recognized with respect to a component of deemed interest which includes amounts recognized for financing construction and which provide the entity with return on equity as well as the foreign capital. Therefore, the difference between the sum of the credit costs that must be capitalized with respect to the qualifying assets pursuant to the provisions of IAS 23, and the sum of the deemed interest that is recognized for the Company within the framework of the rate will be recognized as a regulatory deferral account balance. In light of the new rate base for the generation segment for the years 2022-2027, in which the method of recognition of the Company's capital costs was changed (see Note 3d above), the Company consolidated all the gaps between the balance of fixed assets in the Company's books plus or less regulatory deferral accounts with respect to them and the balance of assets recognized in the rate into a regulatory deferral account with respect to depreciation differences and rate recognition (see section q below).

m. Regulatory Deferral Account with Respect to Recognition of Investments that were Impaired in the Past:

The Company recognizes the sums that were reduced in the past pursuant to the accounting policies which applied to it prior to the implementation of international accounting principles and are then recognized in the rate in accordance with the lifetime of the assets. In accordance with the Authority's decision regarding the 2015 annual update, the Company has cancelled part of the impairment it executed in the past and created in its books the debit balance of this regulatory deferral account which is reduced in accordance with the remaining lifespan determined by the Authority for these investments. In light of the new rate base for the generation segment for the years 2022-2027, in which the method of recognition of the Company's capital costs was changed (see Note 3d above), the Company consolidated all the gaps between the balance of fixed assets in the Company's books plus or less regulatory deferral accounts with respect to them and the balance of assets recognized in the rate into a regulatory deferral account with respect to depreciation differences and rate recognition (see section q below).

n. Regulatory Deferral Account with Respect to a gap between the updating dates of the fixed payment in the electricity rates:

In accordance with the Authority's decision, the electricity rate will include a compensation component due to non-consecutive updating of the fixed payment. In view of this, the Company recognized a regulatory deferral account which reflects the gap between the rate in effect and the theoretical rate for the period.

NOTE 15:- REGULATORY ASSETS/LIABILITIES (continued)

o. Regulatory deferral accounts with respect to linkage differentials:

Starting from January 1, 2014, as part of the adoption of IFRS, the Company's financial statements were no longer adjusted to the CPI. As a result, a lack of matching was created between the Company's nominal expenses and the recognized revenues according to a real rate.

In December 2015, the Authority reached a decision in this matter, which enabled the Company as of January 1, 2016, to partially bridge this mismatch, by recording regulatory deferral accounts with respect to linkage differentials on the foreign capital that financed the reduced cost of the fixed assets and the other assets recognized in the rate and financed by foreign capital. In view of this, the Company recognizes in its books a regulatory deferral account in debit in accordance with the linkage differentials as stated (up to the limit of the relevant financing expenses) less the depreciation accrued with respect to them.

p. Regulatory deferral account with respect to recognition of pension costs

On February 5, 2018, the Authority published a decision regarding rate recognition of the retirement costs of the Electric Corporation’s employees. According to this decision, the Authority will recognize an amount of NIS 1,220 million with respect to the retirement costs of generation A and B employees of the Electric Corporation, accrued between 1996-2016. Following the aforesaid decision, the Company created a regulatory account in debit. Additionally, in 2020 and 2021, the Company attributed to this regulatory deferral account the costs of discharging the actuarial liability as a result of the transfer of PDT and SMU employees to the Noga Company, which were recognized as part of the 2023 Annual Update. For further details see Note 3g.

q. Regulatory deferral account with respect to depreciation differences and rate recognition with respect to the fixed assets:

In view of the differences between the depreciation rates of the fixed assets in the Company's books and the depreciation rates recognized in the rate, timing differences are created. Additionally, in light of the new rate base for the generation segment for the years 2022-2027, in which the method of recognition of the Company’s capital costs was changed (see Note 3d above), additional gaps were created between the method of depreciation of the assets in the Company’s books plus or less regulatory deferral accounts with respect to them and the method of depreciation recognized in the rate. Due to this, the Company consolidated all the gaps between the balance of fixed assets in the Company's books, including the regulatory accounts with respect to them as aforesaid, and the balance of assets recognized in the rate into a regulatory deferral account with respect to depreciation differences and rate recognition and updated it in accordance with the new recognition method that was retroactively set in the new rate base as form February 1, 2022.

r. Regulatory deferral account with respect to the Compromise Agreement with the Egyptian Gas Companies

The Authority’s decision of December 12, 2019 regarding the Compromise Agreement between the Electric Company and the Egyptian Gas Companies stipulates that the amount received by the Company as part of the compromise agreement will be fully returned to the electricity consumers through the rate, in accordance with the payment dates included in the compromise. In addition, the decision stipulated that the Company will have the right to recognize legal expenses with regards to the proceeding conducted by the Company in an amount of approximately NIS 49 million.

In light of this, the Company recognized on that date a credit balance in a regulatory deferral account. For additional details, see Note 35b7 below. The interest rate used to calculate the regulatory liability is in accordance with the effective interest rate used to measure the debtors with respect to the compromise agreements.

s. Regulatory deferral account with respect to sale of sites

The Company recognizes a regulatory liability with respect to the profit component from the sale of power stations sold as part of the reform which, in accordance with the Authority's decision as stated in Note 1e, will be returned to consumers.

As of the date of the Financial Statements, all the sums due to the consumers with respect to the sale of the stations were returned.

t. Regulatory deferral account with respect to income balancing

In the second quarter of 2020, the Company first recognized a regulatory deferral account in debit, due to the existing differences between the prices at which the Company sold electricity primarily to pumped storage facilities (when it was in its capacity of the System Manager) and the regulated rates. As of the date of the SMU exit to the Noga Company on November 1, 2021, these gaps will be attributed directly to the Noga Company and the Company is therefore expected to collect the regulatory deferral account until the end of 2023.

NOTE 15:- REGULATORY ASSETS/LIABILITIES (continued)

u. GIS agreement:

On June 24, 2020, the District Court’s judgment became final, and within its framework a settlement agreement was approved between the Company and the defendant companies that provided the Company with the GIS arrays, stipulating that the Company will be paid an amount of approximately NIS 465 million. As a result, the Company recognized revenue in the second quarter of 2020 in the amount of approximately NIS 450 million. The Company's receipts with respect to this settlement agreement are reimbursed in full to the electricity consumers and therefore the Company has at the same time recorded a regulatory deferral account with a credit balance in the same amount. As of December 31, 2021, the amount was refunded in full to the electricity consumers.

v. The total net balance of regulatory deferral accounts (before deferred tax effect) as of December 31, 2022, is a debit balance of approximately NIS 8,130 million. This balance includes net debit balances of regulatory deferral accounts in the amount of approximately NIS 5,491 million which are based on decisions of the Electricity Authority (debit balances of regulatory accounts of approximately NIS 8,917 million offset by credit balances of approximately NIS 3,426 million) and a net debit balance of regulatory deferral accounts in the amount of approximately NIS 172 million which are based on Company estimates. The debit balances which are based on the estimates of the Company are part of a regulatory deferral account with respect to a gap between the actual rate update dates and the theoretical rate. For details regarding a regulatory deferral account with a debit balance of approximately NIS 2,467 million with respect to the fuels costs, see section I above

The total net balance of regulatory deferral accounts (before deferred tax effect) as of December 31, 2021, is a debit balance of approximately NIS 5,040 million. This balance includes net debit balances of regulatory deferral accounts in the amount of approximately NIS 4,822 million which are based on decisions of the Electricity Authority (debit balances of regulatory accounts of approximately NIS 8,483 million offset by credit balances of approximately NIS 3,661 million) and a net debit balance of regulatory deferral accounts in the amount of approximately NIS 218 million which are based on Company estimates. The debit balances which are based on the estimates of the Company are part of a regulatory deferral account with respect to a gap between the actual rate update dates and the theoretical rate and a regulatory deferral account with respect to the cost of discharging the transfer of PDT and system management unit employees to the Noga Company.

NOTE 16:- CREDIT FROM BANKS AND OTHER CREDIT PROVIDERS

Composition:

	As of December 31	
	2022	2021
	NIS in millions	
Short term and other loans*	598	2,796
Current maturities of loans and debentures **	3,995	2,355
Current maturity of a liability to the State of Israel**	11	11
Current maturities for forward and swap transactions	629	24
Current maturities of leases	127	239
Total	**5,360**	**5,425**

As on December 31, 2022:

* The interest rates for NIS unlinked short-term loan – Prime-0.75%.
The interest rates for USD short-term loan – LIBOR plus 1.6%.
For details of linkage bases see Note 26g.

** With respect to interest rates for current maturities, see Note 20a.

NOTE 17:- OTHER CURRENT LIABILITIES

Composition:

	As of December 31	
	2022	2021
	NIS in millions	
Interest and accrued expenses	771	658
Institutions	239	234
Employees	219	265
Other payables	136	81
	1,365	**1,238**

NOTE 18:- CUSTOMER ADVANCES, NET OF WORK IN PROGRESS

Represents receipts from customers, net of work in progress with respect to attachments to buildings and works for others and business development projects (see also Note 2s above).

a. Composition:

	Connections to buildings		Business development and work paid for by others		Total	
	As of December 31		As of December 31		As of December 31	
	2022	2021	2022	2021	2022	2021
	NIS in millions		NIS in millions		NIS in millions	
Receipts from customers	1,072	923	210	431	1,282	1,354
Less: expenses with respect to work in progress	(252)	(236)	(191)	(331)	(443)	(567)
Profit accrued with respect to business development work	-	-	(5)	(47)	(5)	(47)
	820	**687**	**14**	**53**	**834**	**740**

NOTE 19:- PROVISIONS

Composition:

	Legal claims and financial demands	Provision for vacation pay	Municipal tax	Provision for dismantling and removal of asbestos	Others	Total
	NIS in millions					
Balance as of January 1, 2022	201	363	17	93	12	686
Provisions created during the year	60	217	4	-	-	281
Provisions realized during the year	(14)	(245)	(13)	(68)	(2)	(342)
Provisions canceled during the year	(31)	-	-	-	-	(31)
Current maturity for long-term provision (see Note 20i)	-	-	-	90	-	90
Balance as of December 31, 2022	**216**	**335**	**8**	**115**	**10**	**684**

	Legal claims and financial demands	Provision for vacation pay	Municipal tax	Provision for dismantling and removal of asbestos	Others	Total
	NIS in millions					
Balance as of January 1, 2021	187	343	16	105	14	665
Provisions created during the year	88	230	4	-	1	323
Provisions realized during the year	(16)	(210)	(3)	(61)	(4)	(294)
Provisions canceled during the year	(58)	-	-	(12)	1	(69)
Current maturity for long-term provision (see Note 20i)	-	-	-	61	-	61
Balance as of December 31, 2021	**201**	**363**	**17**	**93**	**12**	**686**

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS

a. Composition of the long-term debentures and liabilities and hedging transactions

	December 31, 2022							December 31, 2021
Linkage Basis:	**Unlinked NIS**	**Linked to the CPI**		**Denominated in U.S. Dollars**		**Denominated in Japanese Yen**	**Total**	**Total**
	NIS in millions							NIS in millions
Effective interest rates (%)	**2-3**	**0-2**	**3-5**	**4-6**	**7-9**	**3-4**		
(1) Debentures:								
Debentures traded on the Israel Stock Exchange	1,224	13,246	2,834	-	-	-	17,304	10,884
Non-tradeable debentures in Israel	-	-	1,530	-	-	-	1,530	2,786
Debentures issued abroad	-	-	-	9,677	4,364	1,467	15,508	12,340
	1,224	13,246	4,364	9,677	4,364	1,467	34,342	26,010
Premium/discount/deferred charges	14	109	226	(47)	(15)	(6)	281	684
	1,238	13,355	4,590	9,630	4,349	1,461	34,623	26,694
Current maturities:								
Debentures	678	-	732	2,287	-	-	3,697	2,039
Premium/discount/deferred expenses	6	98	45	(11)	(2)	(1)	135	167
Total current maturities	684	98	777	2,276	(2)	(1)	3,832	2,206
Total debentures	554	13,257	3,813	7,354	4,351	1,462	30,791	24,488

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

a. Composition of the long-term debentures and liabilities and hedging transactions (continued)

	December 31, 2022						December 31, 2021
Linkage Basis:	**Unlinked NIS**	**Linked to the CPI**	**Denominated in U.S. Dollars**	**Denominated in Euro**	**Denominated in Japanese Yen**	**Total**	**Total**
	NIS in millions						NIS in millions
Effective interest rates (%)	**4-5**		**6-8**	**3-5**			
(2) Liabilities to banks:							
Loans from banks	1,500	-	287	291	-	2,078	2,206
Less: Deferred charges with respect to transaction costs	-	-	(4)	(25)	-	(29)	(35)
	1,500	-	283	266	-	2,049	2,171
Current maturities:							
Loans from banks	-	-	97	71	-	168	155
Deferred charges	-	-	(2)	(3)	-	(5)	(6)
Total current maturities	-	-	95	68	-	163	149
Liabilities to banks	1,500	-	188	198	-	1,886	2,022
Hedging transactions:							
Swap transactions	(250)	14,884	(11,992)	(118)	(760)	1,764	2,864
Forward transactions and options	2,956	-	(2,194)	(170)	(707)	(115)	17
Total hedging transactions	2,706	14,884	(14,186)	(288)	(1,467)	1,649	2,881
Current maturities of swap transactions	-	625	-	-	-	625	-
Current maturities of forward transactions	4	-	-	-	-	4	24
Total current maturities	4	625	-	-	-	629	24
Total hedging transactions, net	2,702	14,259	(14,186)	(288)	(1,467)	1,020	2,857
Transfer of hedge transactions at debit balances	119	521	-	-	-	640	276
Long term hedging transactions	2,821	14,780	(14,186)	(288)	(1,467)	1,660	3,133
Total liabilities to banking corporations (including hedge transactions)						3,546	5,155

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

a. **Composition of the long-term debentures and liabilities and hedging transactions (continued)**

Linkage Basis:	Unlinked NIS	Linked to the CPI	Denominated in U.S. Dollars	Denominated in Euro	Denominated in Japanese Yen	Total	Total
	December 31, 2022						December 31, 2021
	NIS in millions						NIS in millions
Effective interest rates (%)		**1.3**					
(3) Liabilities to the State of Israel							
Loan from the State of Israel (see Note 34 b 2c below)	-	1,935	-	-	-	1,935	1,858
Less deferred expenses	-	(48)	-	-	-	(48)	(54)
	-	1,887	-	-	-	1,887	1,804
Current Maturities:							
Loan from the State of Israel	-	20	-	-	-	20	19
Deferred expenses	-	(9)	-	-	-	(9)	(8)
Total current maturities	-	11	-	-	-	11	11
Total loan from the State of Israel	-	1,876	-	-	-	1,876	1,793

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

b. Composition of the long-term debentures

1. Negotiable series registered in Israel:

a) Negotiable debenture Series 26 and 30 were issued in the years 2015-2020 and listed for trade on the TASE, are not linked to the CPI, are due for redemption in 2023 until 2024.

b) Negotiable debenture Series 27, 29, 31, 32 and 33 were issued in the years 2015-2022 and listed for trade on the TASE, are linked to the CPI, are due for redemption in 2023 until 2036.

2. Non-negotiable series registered in Israel:

Debentures Series listed for trade on the TASE at the institutional continuous floor are: “2022 Linked Electric”, “2029 Linked Electric”, "2024 USD Electric", “2028 USD Electric”, and “2032 USD Electric”. These series are due for redemption in 2023 to 2032.

3. Non-negotiable series registered abroad:

The Company has non-negotiable debenture series issued in USD and Japanese Yen. These series will be redeemed in 2023 to 2032 and in 2096.

c. Raisings and Substantial Payments:

1. Material raisings during the reporting 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, and using this balance within the aforesaid plan will be subject to the required approvals, including the approval of the Government of Israel.

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.

c) On August 30, 2022, the Company raised a total of approximately NIS 2,056 million through expansion of negotiable debentures of Series 31 and 33 pursuant to a Shelf Prospectus of May 28, 2021 as detailed:

- Series 31 (index-linked) – in the amount of approximately NIS 730 million par value for a consideration of approximately NIS 844 million, prior to issuance expenses (a price of 115.5 Agorot to NIS 1 par value), at a nominal interest rate of 2.39% (effective yield to maturity – 1.50%). The Debentures principal shall be repaid in 3 unequal annual payments: 25% on September 20, 2029, 25% on September 20, 2030, and 50% on September 20, 2031.

- Series 33 (index-linked) – in the amount of approximately NIS 1,270 million par value for a consideration of approximately NIS 1,212 million, prior to issuance expenses (a price of 95.5 Agorot to NIS 1 par value), at a nominal interest rate of 1.25% (effective yield to maturity – 2.08%). The Debentures principal shall be repaid in one payment on May 30, 2036.

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

c. Raisings and Substantial Payments: (continued)

1. Material raisings during the reporting period (continued)

   d) On October 2, 2022, a short-term loan was received from Bank Hapoalim in the amount of NIS 510 million. The loan is unlinked with variable interest, will be repaid in one payment on April 1, 2023. For details of partial early repayment see section c3b below. The loan was taken for financing the operations of the National Coal Supply Company Ltd in view of the increase in coal prices during the period of the Financial Statements.

   e) On November 28, 2022, the Company raised a total of approximately NIS 2,387 million through expansion of negotiable debentures from Series 31 and 33 pursuant to a shelf prospectus of May 28, 2021 as detailed:

   - Series 31 (index-linked) – in the amount of approximately NIS 1,188 million par value for a consideration of approximately NIS 1,327 million, prior to issuance expenses (a price of 111.7 Agorot per NIS 1 par value), at a nominal interest of 2.39% (effective yield to maturity – 1.92%). The debenture principal will be repaid in 3 unequal annual payments: 25% on September 20, 2029, 25% on September 20, 2030, and 50% on September 20, 2031.

   - Series 33 (index-linked) - in the amount of approximately NIS 1,102 million par value for a consideration of approximately NIS 1,060 million, prior to issuance expenses (a price of 96.2 Agorot per NIS 1 par value), at a nominal interest rate of 1.25% (effective yield to maturity of 2.10%). The debenture principal will be repaid in one payment on May 30, 2036.

2. Material repayments during the reporting 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. 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.

   c. On October 12, 2022, negotiable debentures from Series 26 were partially repaid in an amount of approximately NIS 678 million par value issued by the Company at the Tel Aviv Stock Exchange pursuant to a shelf prospectus of November 27, 2015.

   d. During the Financial Statements period, the Company repaid short-term on-call loans in a total amount of NIS 2,200 million, net.

3. Material repayments after the statement of financial position date

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

   b) On February 26, 2023, the Company carried out an early partial repayment of NIS 180 million of the loan taken from Bank Hapoalim as stated in section c1d above.

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

d. Terms of the Company's financing agreements that 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 on the occurrence of the following main events:

1) As is customary in financing contracts, events such as a material violation of the Company's liabilities to the financers, the granting of a liquidation order (or the granting of an order with similar characteristics pursuant to the Insolvency and Economic Rehabilitation Law, 2018, stay of proceedings, issuing an attachment order in a considerable amount as to Company assets, expropriation of a material asset, provide the lenders with the right to demand immediate repayment. Therefore, according to the majority of the bills of charge entered into by the Company, when such events occur, a lender, in whose favor the Company recorded a floating or a fixed charge on its assets, is entitled to realize this charge, subject to certain conditions, if and insofar as these apply to the exercise of the charge.

2) In all of the loan agreements, the failure to pay principal or interest on time (or after a period of deferral of repayment as defined in the contract) constitutes a breach that provides the lender with the right to demand immediate repayment. In all of the financing contracts denominated in foreign currency, the Company is obligated to pay the principal and interest in the denominated currency. The Company's inability to purchase foreign currency at the required time and in the required amount may constitute a breach that provides the lender the right to demand immediate repayment.

3) In some of the financing contracts, it is determined that the cessation of management of most or all of the Company's business, or a notice of intent to cease such activity, gives the lender the right to demand immediate repayment.

4) In some financing contracts it was determined that the existence of the right to demand immediate repayment of the debt, granted to one lender (namely, even when this lender does not demand immediate repayment), grants the right to another lender, with whom the contract was not breached, to demand immediate repayment (cross default). The volume of financing contracts of the Company, that include a cross default condition, amounts to approximately NIS 15,912 million, as of December 31, 2022. In addition, it was determined in some of the financing contracts that if the Company is in breach of its liabilities toward a certain lender and that lender demands immediate repayment as a result of that breach, this will grant the right to another lender, with whom the contract was not breached, to demand immediate repayment (cross acceleration). These financing contracts of the Company that include a cross acceleration condition amount as of December 31, 2022 to approximately NIS 21,018 million. It is clarified that, notwithstanding that some of the financing contracts that include a cross default condition also include a cross acceleration condition, in any case the sections of cross default also include, by implication, cross acceleration sections, and therefore as part of the volume of financing contracts of the Company that include cross acceleration sections, only the financing contracts that include cross acceleration sections were taken into account, and not those with cross default sections.

5) In some of the financing contracts, it is determined that nonpayment pursuant to a ruling against the Company (sometimes only when it is a ruling exceeding a certain sum) provides the lender with the right to demand immediate repayment.

6) In part of the financing contracts, there is a prohibition against the transfer of assets that are the subject of the specific financing. In other financing contracts, the Company has the right to transfer assets subject to conditions/restrictions included therein, including obtaining the lender's consent. Certain contracts allow the transfer of assets to subsidiaries of the Company, on condition that these assets constitute less than 5% of the Company's assets. Certain financing contracts prescribe that the Company is entitled to transfer assets when the following accumulated conditions are fulfilled:
   a) The transfer is made at market value (according to the determination of an appraiser or the Company),
   b) At least 75% of the proceeds were received in cash or cash equivalents,
   c) The Company shall invest the proceeds in active assets.

   In some of the aforesaid financing contracts, there is a provision under which the Company has to invest within 180 days the proceeds from the transfer of assets in fixed assets for purposes of electricity generation, transmission or distribution, or alternatively to offer the debenture holders to buy the debentures from them under certain conditions set in the agreements.

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

d. Terms of the Company's financing agreements that might result in immediate repayment (continued)

7) In some of the financing contracts, the Company was provided the right to transfer its liabilities that are the subject of the contract, conditional upon the receipt of the lender's consent. It should be pointed out that pursuant to Israeli law, it is not possible to assign a charge without the creditor's consent. An action by the Company contrary to these provisions constitutes a breach that provides the lender with the right to demand immediate repayment.

8) In some financing contracts, the Company is obliged to make presentations of various matters, such as the accuracy of its financial statements, its right to use its assets and its ownership of them, the existence of the required licenses and their timely renewal, etc. In some of these contracts it is stipulated that in a case where it will be determined that the Company's representations were materially misleading (or incomplete), the lender has the right to demand immediate repayment.

9) In some of the financing contracts, the existence of a Material Adverse Change (hereinafter: "MAC") in the business or financial condition of the Company, that poses a risk to the Company's ability to fulfill its obligations to the lenders, entitles the lender to demand immediate repayment of the debt. Some of the financing contracts include a MAC provision that allegedly leaves the lender with discretion as to the question of the existence of a material adverse change. Other financing contracts include a MAC provision whose activation is subject to a test of reasonableness as to the existence of a material adverse change in the Company’s position. The volume of the financing contracts that include a MAC stipulation amounts as of December 31, 2022, to approximately NIS 33,387 million.

10) In some financing contracts, in the case of non-disclosure of material details that are likely to cause an adverse change in the business of the Company or its repayment ability, or failure to provide current updates regarding events (including a change in legislation and decisions by the Government, and including structural changes in general) that affect or are likely to adversely affect the Company's operations and/or financial strength, the lender is granted the right to demand immediate repayment.

11) In some of the financing contracts, the lenders have the right to change the conditions of the contract or to demand immediate repayment, due to a decline in the State's holding percentage in the Company to below 51%, or a change in the control of the Company.

12) In the financing contracts insured by the companies that insure credit risks, cancelling the insurance constitutes cause for immediate repayment as well as cancellation of the insured purchase contract.

13) In the framework agreement for issuing debentures in an amount of USD 2 billion from April 2008, the Company undertook that once another company will be engaged in all or most of the electricity transmission operations, the Company will transfer the debt to that other company ("the Transmission Company"). In such circumstances, holders of the debentures have an option to demand immediate pay-off of the debt, when the following accumulated conditions are fulfilled:
    a) The State of Israel is rated at an Investment Grade.
    b) The Company is rated at a lower than an Investment Grade rating;
    c) The Company does not act as best as it can to achieve an Investment Grade rating.

    Moreover, holders of the debentures have to option to demand immediate repayment of the debt in the following events:
    (1) The Company will not complete its determining obligations (in debentures) for the purpose of transferring the debt to the Transmission Company.
    (2) The State will cease to be a controlling shareholder in the Company prior to transferring the debt to the Transmission Company.
    (3) The Company will cease to act legally in transmission operations or after the transferring of the debt to the Transmission Company, the main activity of the Transmission Company will not be in the field of electricity transmission.
    (4) An event or circumstances that may have a material negative effect on the Company.

14) Negative charge – In some of the foreign financing contracts the lenders have the right to demand immediate repayment in the event that the Company grants a senior charge to other lenders which will affect their ability to realize the charge they received.

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

d. Terms of the Company's financing agreements that might result in immediate repayment (continued)

15) According to some of the general terms of the debentures and commercial papers issued by the Company, holders of the debentures or commercial papers are entitled to demand immediate repayment of the principal and interest of the debentures, inter alia in a case in which rating of the debentures or the commercial papers will cease for a period exceeding 60 consecutive days, due to circumstances under the Company's control (except as a result of replacing the rating company).

16) According to some of the terms of the debentures and commercial papers issued by the Company, holders of the debentures or commercial papers have the right to demand immediate repayment in the event of the delisting of the security from trade on the stock exchange.

17) Some of the financing contracts grant the lenders an immediate repayment right in the event that licenses of the Company required to manage its business are cancelled, or in the event that the Company fails to comply with the terms of these licenses.

18) Some of the financing contracts grant the lenders an immediate repayment right in the event of a breach of the directives of the law applied to the Company (including environmental protection laws), which have a material adverse effect on the Company.

19) In some of the financing contracts, the lenders have the right to immediate repayment, when a merger was executed that results in a surviving company that is not the Company, without receiving advance approval from those lenders. However, those lenders will not have cause to demand immediate repayment of the debt as stated above, as long as some conditions are fulfilled, inter alia the Company’s confirmation to those lenders that there is no reasonable doubt that due to the merger, the absorbing company will not be able to fulfill its obligations towards those lenders.

20) According to the loan agreement with foreign banks entered into by the Company in the month of November 2012, the lenders will have the right to demand immediate repayment of the loan in case legal proceedings (including arbitration proceedings or administrative proceedings) or an official inquiry have been initiated against the Company, and it is expected that they will adversely and materially affect the Company, in the event that their outcome will be negative as concerns the Company (except for a pending legal proceeding that has been detailed in the Financial Statements of the Company or in its Immediate Reports).

21) In some of the financing contracts, the lenders have the right to demand immediate repayment of the loan, in the event that one or more of the loan documents has ceased to be legal or valid, or in the event that one of the transaction documents is the object of legal proceedings (including arbitration proceedings).

22) In some of the financing contracts, the lenders have the right to demand immediate repayment of the loan in the event that proceedings (including legal proceedings) have been initiated, regarding the:
    a) Liquidation or reorganization of the Company, delay in any payment by the Company or compromise or settlement with a creditor of the Company not under sections 350 and/or 351 of the Companies Law.
    b) Issuance of an order to initiate proceedings under the Insolvency and Economic Rehabilitation Law, 2018, in the framework of which a stay of proceedings was requested or if an application was submitted by the Company for an order to initiate proceedings as aforesaid.
    c) Appointment of a receiver for material assets of the Company or appointment of a receiver or liquidator for the Company or any of its material assets, or realization of a mortgage or lien with regard to such an asset.

23) Under the terms of some of the debentures issued by the Company abroad within the GMTN plan, the debenture holders will be entitled to redeem the debentures, inter alia, in the event that the two following cumulative conditions are fulfilled:
    a) The debentures are rated both by S&P and Moody’s two rating levels below the Company’s international long-term corporate credit rating and the senior debt of the Company for 3 continuous months;
    b) The rating level determined by S&P is lower than the BB+ rating and the rating level determined by Moody’s is lower than the rating Baa3.

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

d. Terms of the Company's financing agreements that might result in immediate repayment (continued)

24) According to some of the Company's debt raising documents, the holders will have the right to demand immediate repayment of the debt in the following cases:

a) The Company did not publish financial statements within 30 days from the last date on which it is required to publish them under any law, or within 30 days from the end of the extension date given to the Company by an authorized authority to publish the aforesaid financial statements, whichever is later;

b) The Company ceased to be a reporting corporation, as per the meaning of this term in the Securities Law.

Furthermore, under the terms of the said debentures, if consideration in cash will be received within the sale of assets at a value exceeding USD 100 million (hereinafter in this section: the "Consideration for the Sale of the Assets"), the Company will, within 365 days, use an amount equal to or exceeding the cash received as part of the Consideration for the Sale of the Assets: (1) to finance capital investments or investments in long-term assets of the Company; and/or (2) to redeem or repay secured liabilities or other debt secured by floating charges of the Company. If the Company will not act according to the aforesaid and the cash amounts that were not used for the aforesaid objectives will be, in aggregate, in excess of USD 100 million, the Company will have to offer the holders of the said debenture or holders of debentures of similar conditions to purchase the maximum amount of the debentures or similar debentures that may be purchased in an amount equal to the amount not invested in the objectives set out in sub-sections (1) and (2) above, at a cash price equal to 100% of the principal of the debt plus interest accrued thereon and not paid.

At the time of reporting and approval of the financial statements, the Company is of the opinion that none of the lenders with whom the Company entered agreements have a reason to demand immediate repayment of the Company's debt to them, including the subject of fulfilling the MAC provisions.

e. State Guarantee

The State provided a guarantee to a financial institution for a loan raised by the Company with a balance of approximately NIS 131 million as on December 31, 2022.

f. Credit Rating

On November 17, 2021, international rating company Moody's announced that it raised the Company's international credit rating to 'Baa1' with a stable outlook.

On March 17, 2022, the local rating company Midroog published a rating follow-up report in which it announced that the Company's local credit rating of 'Aa1.il', with a stable outlook, will remain unchanged.

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

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

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

g. Securities and Liens

To ensure full repayment of the payments with respect to part of the above mentioned debentures and loans (principal, interest and linkage differentials) and to ensure compliance with the remainder of the stated debenture and loan terms, the Company has pledged all its property (including property under construction) that can be pledged according to law and all its rights to this property of any type and nature whatsoever, existing at present and as will be in future by a floating charge - of equal rank with all the other floating charges that were created by the Company, relative (pari passu) to the amounts of obligation as will be secured, from time to time, by each of these liens. The extent of the liabilities of the Company secured by floating charges on December 31, 2022, and December 31, 2021, is approximately NIS 38,692million and approximately NIS 32,050 million, respectively.
To ensure the obligations of the Company towards various lenders, the Company has created fixed charges in favor of the lenders over the following assets:

- Six selective catalytic reduction (SCR) systems purchased by the Company from the BNG company to be installed at the “Orot Rabin” power station and at the Rutenberg power station.
- Two steam additions purchased by the Company from the Doosan company for gas turbines at Eshkol and Hagit sites.

In preparation for the expected sale of the Eshkol site (see Note 1e above) and in order to meet the terms of the lien given to the lenders as aforesaid, the Company worked with HSBC Bank (agent of the banks consortium) and with the credit insurers and obtained their agreement to remove the permanent lien from the steam addition at the Eshkol site without cost for the Company. On September 28, 2022, the lien’s details were updated at the Registrar of Companies. Therefore, the repayment dates of the loan from HSBC Bank, whose balance as on December 31, 2022 is approximately NIS 274 million, remained in accordance with the original amortization schedule.

The extent of the liabilities of the Company secured by fixed charges on December 31, 2022, and December 31, 2021, is approximately NIS 447 million and NIS 517 million, respectively.

The Electricity Authority is authorized to determine as part of the license that:

- “A license or any part thereof cannot be transferred, charged or attached, directly or indirectly, except with the approval of the Authority”.
- “Certain assets belonging to the license owner, required in the opinion of the Authority for executing the activity according to the instructions of the license, cannot be transferred, charged or attached, directly or indirectly, without the approval of the Authority.”

Until Amendment 13 of the Electricity Sector Law, this authority was vested with the Minister of Energy.
According to that stated, the Minister of Energy’s/Authority’s approval for the pledges detailed in this Note, which were created after the Electricity Sector Law entered into force, was received.

h. Fair Value of Negotiable Debentures

For details of the fair value of the debentures traded in the Tel Aviv Stock Exchange, see Note 26j below.

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

i. Other Long-term Liabilities

	As of December 31	
	2022	2021
	NIS in millions	
Provision for site evacuation and restoration (1)	418	397
Employee bonus	12	14
Suppliers lien	2	93
Profit not yet realized with respect to Communications Company	67	71
Other liabilities	15	17
Total	**514**	**592**

(1) Transaction in provision for site evacuation and restoration

	As of December 31	
	2022	2021
	NIS in millions	
Balance for the beginning of the year	397	425
Provisions created – including interest (*)	116	61
Current liabilities (see Note 19)	(90)	(61)
Realized provisions	(5)	(28)
Total for the end of the year	**418**	**397**

(*) During 2022 and 2021, the Company recorded provisions of approximately NIS 68 million and approximately NIS 29 million, respectively, for removal and dismantling installations, primarily at the Reading site. Additionally, the Company recorded provisions of approximately NIS 48 million and approximately NIS 32 million, respectively, for the removal of asbestos from the Company's generation sites.

NOTE 20:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

j. Transaction in Liabilities Deriving from Financing Activity

	For the year ended December 31, 2022 (in NIS million)				
	Debentures	Loans from banking corporations	Hedge transactions from banking corporations	Liabilities to the State of Israel	Liabilities with respect to lease
Balance as of January 1, 2022	26,694	2,171	2,881	1,804	781
Changes due to cash flows from financing activity					
Debenture issue/receiving loans	7,929	-	-	-	-
Repayments	(2,065)	(188)	-	(20)	(264)
Payment from settlement of derivatives	-	-	49	-	-
Total net cash from financing activity	**5,864**	**(188)**	**49**	**(20)**	**(264)**
Recognition / derecognition for right-to-use assets	-	-	-	-	48
The impact of changes in the exchange rates of foreign currency and the CPI	2,216	61	-	97	22
Reduction of premium/discount/ deferred expenses	(151)	5	-	6	-
Impact of change in fair value	-	-	(1,281)	-	-
Balance as of December 31, 2022	**34,263**	**2,049**	**1,649**	**1,887**	**587**

	For the year ended December 31, 2021 (in NIS million)				
	Debentures	Loans from banking corporations	Hedge transactions from banking corporations	Liabilities to the State of Israel	Liabilities with respect to lease
Balance as of January 1, 2021	28,511	880	2,674	1,773	957
Changes due to cash flows from financing activity					
Debenture issue/receiving loans	1,200	1,500	-	-	-
Repayments	(2,504)	(162)	-	(19)	(275)
Payment from settlement of derivatives	-	-	(1,412)	-	-
Total net cash from financing activity	**(1,304)**	**1,338**	**(1,412)**	**(19)**	**(275)**
Recognition for right-to-use assets	-	-	-	-	124
The impact of changes in the exchange rates of foreign currency and the CPI	(334)	(57)	-	44	(25)
Reduction of premium/discount/ deferred expenses	(179)	10	-	6	-
Impact of change in fair value	-	-	1,619	-	-
Balance as of December 31, 2021	**26,694**	**2,171**	**2,881**	**1,804**	**781**

NOTE 21:- INCOME TAXES

a. <u>Benefits under the Law for the Encouragement of Industry</u>

The Company is an "Industrial Company" as defined by the Law for the Encouragement of Industry (Taxes), 1969 and, accordingly, is entitled to certain tax benefits, the most significant of which is depreciation at increased rates and filing consolidated tax returns with subsidiaries that meet the consolidation definitions set forth in the Law above (hereinafter the “Group”).

b. <u>Tax loss carry-forward to future years</u>

The tax losses available for carry-forward to future years of the Group amount to NIS 1,800 million and NIS 1,739 million as of December, 31, 2022, and 2021, respectively, while the losses available for carry-forward to December 31, 2021 of the Company are in accordance with the tax report submitted to the Tax Authority.

The Group recorded deferred tax assets with regard to all the accumulated losses as of December 31, 2022, and as of December 31, 2021, based on Management's estimation that there is a high level of certainty that the loss carry-forward will be utilized (including realization against future liabilities for deferred tax). For details, see section i1 below.

c. <u>Tax rates</u>

The tax rate relevant for the Group for the years 2020-2022 is 23%. The current taxes and the deferred taxes for the reported periods are calculated in accordance with this tax rate.

d. <u>Tax assessments</u>

The Company received final tax assessments up to and including the 2017 tax year. For details of the betterment tax assessments received with respect to the sale of the “Alon Tavor”, “Ramat Hovav” and “East Hagit” sites and the appeals filed by the Company against them, see Note 35b6c3.

NOTE 21:- INCOME TAXES (continued)

e. Theoretical tax reconciliation:

Below is a reconciliation between the statutory tax on adjusted income before income taxes (computed as a result of the application of statutory tax rates) and the income taxes included in the Statement of Operations:

	For the Year ended December 31		
	2022	2021	2020
		(NIS in millions)	
Income (loss) before income taxes	(1,013)	(1,286)	5,061
Statutory tax rate	23%	23%	23%
Computed tax per statutory rate	(233)	(296)	1,164
Assessment agreements and other impacts with respect to previous years	7	7	12
Expenses disallowed net (including depreciation)	-	26	13
Exempt income with respect to the Assets Arrangement	-	(3)	-
Total tax expenses (income) as presented in Statement of Profit or Loss	**(226)**	**(266)**	**1,189**

f. Income tax expenses (income) that were recognized in the Statement of Operations

	For the Year ended December 31		
	2022	2021	2020
		(NIS in millions)	
Change in deferred tax assets and liabilities which were recognized	(239)	(266)	1,189
Current taxes (1)	13	-	-
	(226)	**(266)**	**1,189**

(1) Including current taxes at the Coal Company.

g. Taxes relating to transactions in balances of Regulatory Deferral Accounts

	Amount before tax	Tax influence	Amount less tax
For year ended December 31, 2022	**3,325**	**(764)**	**2,561**
For year ended December 31, 2021	**3,005**	**(691)**	**2,314**
For year ended December 31, 2020	**(2,809)**	**646**	**(2,163)**

h. Taxes relating to other comprehensive income (loss):

	Amount before tax	Tax influence	Amount less tax
For year ended December 31, 2022	**2,041**	**(469)**	**1,572**
For year ended December 31, 2021	**1,054**	**(242)**	**812**
For year ended December 31, 2020	**750**	**(175)**	**575**

NOTE 21:- INCOME TAXES (continued)

i. Deferred tax assets and liabilities which were recognized

1) Composition of deferred tax assets and liabilities which were recognized:

	Loss carry-forward	Accrued vacation pay	Allowance for doubtful accounts income not recognized and legal provisions	Liabilities for pensions, net	Fixed assets and intangible assets	Others	Regulatory deferral accounts (*)	Total
	(NIS in millions)							
Deferred tax asset (liability) as of December 31, 2020	**262**	**51**	**327**	**2,022**	**(9,466)**	**66**	**(750)**	**(7,488)**
Changes during 2021	194	2	15	(677)	(193)	(29)	21	(667)
Deferred tax asset (liability) as of December 31, 2021	**456**	**53**	**342**	**1,345**	**(9,659)**	**37**	**(729)**	**(8,155)**
Changes during 2022	(42)	(4)	64	(949)	99	(14)	(148)	(994)
Deferred tax asset (liability) as of December 31, 2022	**414**	**49**	**406**	**396**	**(9,560)**	**23**	**(877)**	**(9,149)**

The deferred taxes are calculated according to the tax rate expected to apply on the reversal date as detailed above.

(*) In accordance with Israeli standardization and the accepted practice in Israel for companies with rate control, on which the tax reports are based, the change in regulatory deferral accounts constitutes an "adjustment" to expenses or to the specific revenues to which the relevant change relates. Additionally, change in regulatory liability with respect to return to consumers profit from sale of sites constitutes adjustment to sale proceeds for tax purposes or, alternatively, sale expense is deductible.

The Company reflects the aforesaid treatment and accordingly recorded in the Statement of Financial Position a total of NIS 877 and 729 million as deferred tax liability as of December 31, 2022 and 2021, respectively, with respect to regulatory deferral accounts presented together with credit balances of regulatory deferral accounts (see Note 15 above).

NOTE 21:- INCOME TAXES (continued)

i. Deferred tax assets and liabilities which were recognized

2) Composition of deferred taxes balance presented in the Statement of Financial Position:

	As of December 31	
	2022	2021
	NIS in millions	
Total deferred taxes, net	9,149	8,155
Less: advances with respect to excess expenses	221	228
Less: deferred taxes with respect to regulatory accounts presented as part of regulatory deferral accounts (see Note 15 above)	877	729
Total deferred taxes, net – presented in non-current liabilities	**8,051**	**7,198**

NOTE 22:- LEASES

a. Leases in which the Group is a lessee

The Group applies International Financial Reporting Standard IFRS 16 Leases. As part of its lease agreements the Group has been leasing the following: ships, diesel tanks, vehicles, mobile mechanical equipment, distillate line, lands, performance centers, and server farms.

1. Information concerning material lease agreements

a) Ships

1) The Group leased an LNG (Liquefied Natural Gas) ship, from September 2012 and until December 2022. On December 6, 2022, the ship's departure date was brought forward to December 8, 2022, and the Hadera Gateway Company purchased the remaining LNG that was on board the ship at that date. As of the Financial Statements date, the Company removed the right-of-use asset and the liability with respect to the lease. The results of the removal in the profit and loss are not material.
For details, see Note 35a3 below.

2) The Group has ship leasing agreements with long-term ship leasing companies. According to those agreements, the Company leases ships for a fixed term set in advance and may use the ships in accordance with its needs, including the option to lease the ships to third parties. Some of the agreements include an extension option.

For details, see Note 35a6 below.

b) Diesel tanks

The Group has long-term leasing agreements for the storage of diesel fuel inventory in tanks, as well as leasing agreements for the storage of emergency diesel oil inventory in tanks, according to the instructions of Ministry of Energy.
For details, see Note 8b above.

c) Vehicles

The Group is leasing vehicles from a leasing company for a period of three years. The leased vehicles are used by the headquarters and field employees of the Group.

d) Mobile mechanical equipment

The Group is leasing mobile mechanical equipment from leasing companies for a period of three years. The equipment is used by the field workers of the Group.

e) Distillate line

The Company leases an oil distillate line to the Gezer site from Petroleum & Energy Infrastructures Ltd. The lease period commenced in January 1997 and is until May 2048 (50 years).
For additional details, see Note 34b2b below.

f) Lands

For details regarding long-term land leases, see Note 13.

g) Performance center

As of the Statement of Financial Position date, the Company also received possession (in addition to possession of the performance center in Hadera and the Valleys which was transferred in 2021) of the Ayalon performance center.
Accordingly, it recognized right-to-use assets against a liability with respect to the lease in a total amount of approximately NIS 67 million in aggregate.
After the Statement of Financial Position date, possession of the Galilee Golan performance center was transferred, and accordingly, the Company recognized a right-to-use asset against a liability with respect to the lease in an amount of approximately NIS 31 million.

NOTE 22:- LEASES (continued)

a. Leases in which the Group is a lessee (continued)

1. Information concerning material lease agreements (continued)

h) Server farm

The Company is leasing a secure designated area for hosting a server farm, which includes the ability to provide energy and cooling with survivability and stability. The lease period is for seven years with an option for an additional seven years. The Company estimates that it is highly likely that the option will be exercised. Accordingly, in 2022, the Company recognized a right-to-use asset and a liability with respect to a lease of approximately NIS 19 million. The lease fees are linked to the CPI, the nominal discount rate used to calculate the liability is approximately 5.5%.

2. Right-to-use assets

	Land	Ships	Diesel tanks	Vehicles	Distillate line	Performance Center	Server Farm	Total
			(in NIS millions)					
Balance as of December 31, 2020	**515**	**466**	**419**	**107**	**7**	**-**	**-**	**1,514**
Depreciation for right-to-use assets	(15)	(198)	(42)	(62)	(1)	(4)	-	(322)
Net addition during the year (*) (**)	3	-	13	59	-	31	-	106
Balance as of December 31, 2021	**503**	**268**	**390**	**104**	**6**	**27**	**-**	**1,298**
Depreciation for right-to-use assets	(16)	(162)	(41)	(67)	(2)	(6)	-	(294)
Net addition during the year (*) (**)	8	(43)	(4)	36	-	42	19	58
Balance as of December 31, 2022	**495**	**63**	**345**	**73**	**4**	**63**	**19**	**1,062**

* Includes deductions of leases that have ended and classification with respect to classification to disposal group held for sale

** Additions with respect to 2022 – NIS 106 million (2021 – NIS 124 million)

3. Lease liabilities

	As of December 31	
	2022	**2021**
	NIS in millions	
Current maturities of lease liabilities	127	239
Long term lease liabilities	460	542

Regarding repayment dates, see Note 26d below.

NOTE 22:- LEASES (continued)

a. Leases in which the Group is a lessee (continued)

4. Additional information with respect to leasing

	For the year ended December 31, 2022	For the year ended December 31, 2021
	NIS in millions	
a) Amounts recognized in the Profit and Loss		
Financial expenses (income) with respect to leasing	36	(21)
Amortization of right-to-use assets	253	286
b) Amounts recognized in the Cash Flow Report		
Total cash flow paid with respect to leasing	276	301

b. Leases in which the Group is a lessor - Information regarding material lease agreements

1. Port of Ashkelon tugboats

The Coal Company leases tugboats to EAPC for a period of 22 years for the purpose of its operations in unloading of the coal ships arriving at the "Rutenberg" power station in Ashkelon, as part of the agreements between the Company, the Coal Company, and EAPC.

For further details, see Note 35a6a4 below.

2. Port of Hadera tugboats

The Coal Company leases a tugboat to the Port of Hadera for the Ministry of Transport, for the purpose of its operations in unloading of the coal ships arriving at the power station.

For further details, see Note 35a6a5 below.

The Group's investments in leases as on December 31, 2022, amounts to NIS 58 million, of which NIS 56 million are included in long-term receivables and NIS 2 million are included in accounts receivable (December 31, 2021 – NIS 52 million and NIS 1 million, respectively).

NOTE 23:- SHARE CAPITAL

a. Details of the Share Capital

	As of December 31, 2022		As of December 31, 2021	
	Authorized	Issued and paid-up	Authorized	Issued and paid-up
	(Number of shares, in thousands)		(Number of shares, in thousands)	
80,167,387 Ordinary shares of NIS 0.1 par value each	80,167	80,165	80,167	80,165
40,053,252 Ordinary "B" shares of NIS 0.1 par value each	40,053	40,053	40,053	40,053
39,531 special shares of NIS 0.1 par value each	40	-	40	-
Total	120,260	120,218	120,260	120,218

b. Shareholders' Rights

1) Upon distribution of dividends:

   a. The first five percent (or a smaller rate) will be distributed to the Ordinary shareholders only, according to the value relative to the capital paid up on account of the Ordinary shares held by them.

   b. The balance will be equally distributed to Ordinary shareholders and Ordinary B shares, according to the value relative to the capital paid up on account of the Ordinary shares held by them, until the total dividend paid on the Ordinary shares reaches 10% per year (including the dividend of up to 5% that was distributed as stated in section a above).

   c. The balance remaining after the distribution detailed in sections a-b above (in this section below: the ”Balance”), will be distributed as a dividend between the Ordinary shareholders and the Ordinary B shareholders according to the value relative to the capital paid up on account of the ordinary shares and Ordinary B shares held by them, in a manner such that the rate of dividend from the balance to be paid on Ordinary B shares will be double the rate to be paid from the balance on Ordinary shares. This is until the total dividend from the balance to be paid on the Ordinary B shares will be double the rate that will be paid from the balance on the Ordinary shares, until the total dividend paid on the Ordinary shares reaches 15% per year and on the Ordinary B shares 15%. per year.

   d. Any amount remaining from the balance after the execution of the aforesaid in section c above will be distributed equally between the Ordinary shareholders and Ordinary B shareholders, according to the value relative to the capital paid up on account of the Ordinary shares and Ordinary B shares held by them.

2) Upon liquidation:

   In the event of liquidation, the active surplus will be used – as subject to the rights of any other share class issued upon that time and granting a right of participation – as follows:
   First, to return to the to ordinary shareholders the outstanding or attributed capital;
   Second, to return to the ordinary shareholders the outstanding or attributed as outstanding capital on account of the ordinary shares held by them accordingly;
   Third, to distribute the remainder – if any – between the ordinary shares and the ordinary “B” shares according to a relative value to the number of ordinary shares and ordinary “B” shares held by them accordingly.

3) On the Statement of Financial Position date, the State of Israel held 120,033,262 Ordinary shares and Ordinary "B" shares, which represent approximately 99.85% of the paid-up capital of the Company.

NOTE 24:- CAPITAL RESERVES

The composition:

	For the year ended December 31	
	2022	2021
	NIS in millions	
Capital fund with respect to transactions with controlling shareholders:		
From the sale of land to the Ports and Railway Authority	57	57
From the purchase of the Coal Company	(2)	(2)
Company's assets renewal reserve (1)	673	673
Capital redemption reserve fund	42	42
Premium on shares	23	23
Reserves from disposal of assets	29	29
Cash flows hedge fund (See Note 26i2 below)	(78)	(138)
	744	684
Remeasurement fund (see Notes 12l and 15b above)	**(562)**	**(2,074)**

(1) The assets renewal reserve represents profits in excess of amounts permitted for payment of dividends under the Concession for 1985 and 1986, designated by the Minister of Energy for the renewal of assets.

The Company has established various reserves pursuant to applicable laws or at the discretion of the Minister responsible for the Company at the time of their establishment. Such reserves, other than the reserves from realization of assets, cannot be distributed as dividends.

NOTE 25:- RETAINED EARNINGS

a. Section 33(c) of the Government Companies Law, 1975, which states, inter alia, that the decision of the Board of Directors on the appropriation of profits of a Government company, or a distribution, as defined by the Companies Law, is subject to the approval of the Companies Authority (in this Note below – the "Authority").
Notwithstanding that stated, in the event in which the Authority disagreed with the decision of the board of directors, then a Government Company of the Company's type, will act according to the decision of the Government Companies Authority, as approved by the Government. The current policy of the Government Companies Authority (which may change from time to time) on profit distribution and appropriation in government companies, as determined in the Government Companies circular on December 11, 2018, states inter alia that:
(1) In general, the government company must appropriate each year at least 50% of the current profits, before payment of a bonus from the profits to employees, for the purpose of distributing a cash dividend.
(2) Notwithstanding that stated in section 1 above, according to the law, the Authority may determine a different distribution policy for a particular government company or a group of government companies in relation to its current profits, and the Authority may make a decision regarding a specific company or group of companies as aforesaid that deviates from said policy, all in light of the specific circumstances of the company or the group of companies as aforesaid, and for reasons that will be detailed.
With respect to accrued profits, in accordance with the law, the Authority may determine a policy of appropriation of profits for a particular government company or group of government companies, or to make a specific decision regarding distribution from profits accrued in a particular company or group of companies.
(3) If the Authority has determined a policy or adopted such a decision, the matter will be brought to the attention of the company and the notification and disclosure rules specified in the circular will apply to the notice.
(4) The Authority, as a rule, will not approve a decision of the Board of Directors regarding the appropriation of profits that are not part of the distribution.
(5) The above provisions will not apply to a company whose articles of association prohibit the distribution of profits.

b. That stated in Sections (1) to (5) above does not derogate from the provisions of Section 302 of the Companies Law, under which a company is entitled to make a distribution from its profits (as per its definition in Section 302 of the Companies Law) (hereinafter: the "Profit Test") as long as there is no reasonable concern that the distribution will prevent the Company from being able to fulfill its current and expected liabilities once they mature (hereinafter: the "Solvency Test"). In other words, in order to perform a required distribution, the Company must pass both the Profit Test and the Solvency Test (hereinafter together: "the Distribution Tests"). Notwithstanding that stated above, the Court may, at the request of the Company, and after its Board of Directors has confirmed that the distribution complies with the Solvency Test, allow the Company to make a distribution that does not comply with the Profit Test, as long as it is convinced that the Solvency Test is complied with. In accordance with the Articles of Incorporation of the Company, each distribution must be approved by the Board of Directors of the Company and by a meeting of the shareholders of the Company. The Companies Law and the Articles of Incorporation of the Company prescribe that a meeting of the shareholders of the Company cannot resolve to distribute a dividend in an amount in excess of the amount that was recommended by the Board of Directors. The Company maintains, based on a legal expert opinion that it received, that a government company will not be required or allowed to make a distribution if it does not satisfy the distribution tests, (unless the approval of the Court to make a distribution even if only the Solvency Test is fulfilled has been given, as mentioned).

c. As understood by the Company, the directives of the Government Companies Law as well as the instructions of the circular of the Companies Authority on distribution and appropriation of profits in government companies do not impose a duty on the board of directors of a Government company to decide to distribute dividends, but a decision by a board of directors to distribute dividends requires the approval of the Companies Authority. Under the provisions of the Government Companies Law, in the event of a conflict between the company's board of directors and the Companies Authority, the Company will act according to the decision of the Companies Authority, as approved by the Government.

d. Under Government Companies Authority circular, dated June 2, 2013, bonus payments to employees are not allowed when no dividends were paid for the year for which the bonus is requested, except by exceptional approval by the Director of the Government Companies Authority. The bonus will be paid to the employees immediately after the dividend transfer to the State. The Company did not pay bonuses to employees in years where no dividends were paid.

e. Section 13 of Government Resolution No. 3859 regarding the reform of the electricity sector and structural change in the Electric Company, of June 3, 2018, determines that insofar as the Company's Board of Directors decides not to distribute dividends, the Government will not oblige the Company to distribute dividends under section 33(c) of the Government Companies Law until the end of 2025 or until reaching the final financial stability targets as approved by the resolution of the Company's Board of Directors of May 10, 2018, whichever is earlier. For further details on this matter, including in connection with the aforementioned Government resolution and decision of the Board of Directors, see Note 1e6c above.

NOTE 25:- RETAINED EARNINGS (continued)

f. In 2018, the Company recorded profit in the amount of NIS 4,070 million. After discussing the designation of the Company's profits for 2018, the Board of Directors of the Company decided that the Company will not distribute dividends from its profits for that year.
This is while noting that the reform’s financial strength model did not take the distribution of a dividend by the Company into account; that there is uncertainty during this period of the beginning of the reform’s implementation; that in the Company’s estimations, it will likely incur significant expenses upon the beginning of the implementation of the reform, and in addition it is required to prepare for the refinancing of an existing debt in material scopes over the coming years; and in accordance with this, and in light of the Company’s Board of Directors’ decision to continue working for the improvement of the Company’s capital to balance sheet ratio and the reduction of its financial debt.
On April 17, 2019, the Company submitted a letter to the Companies Authority concerning the approval of the Company’s Board of Directors’ decision concerning the designation of its 2018 profits, including a reasoned request, as required in “Distribution and Designation of Profits in Government Companies” circular of December 11, 2018. On July 7, 2019, the Company received the Government Companies Authority’s approval of the Board of Directors’ decision not to designate or distribute profits for 2018.

g. In 2019, the Company recorded a profit in the amount of NIS 1,816 million. As part of the discussion regarding the Company’s Financial Statements of 2019, the Company’s Board of Directors decided not to reach a decision regarding a distribution from the Company’s current profits, and to discuss this issue at a later date.
On March 26, 2020, the Company contacted the Companies Authority via letter with regards to the designation of its profits for 2019, as required in the “Distribution and Designation of Profits in Government Companies” circular of December 11, 2018, including reference to the Company’s Board of Directors’ decision not to make a resolution at this stage regarding a distribution from the Company’s current profits, and to discuss this issue at a later date, and that the Company will contact the Companies Authority again if and inasmuch as the Company’s Board of Directors adopts a resolution with regards to the distribution of a dividend by the Company.

h. On November 26, 2020, the Company’s Board of Directors approved the distribution of a dividend in an amount of NIS 200,308,208, after examining the Company’s compliance with the Profit Test and the Solvency Test (hereinafter: the “BoD Resolution”).
In accordance with the Board of Directors' Resolution, the Distribution was conditioned on the receipt of the State’s undertaking to transfer NIS 200 million to the Noga Company.

On December 29, 2020, following the receipt of the State’s undertaking as aforesaid and the approval of the Government Companies Authority, the Company’s General Assembly approved the distribution of a dividend to the Company’s Shareholders in an amount of approximately NIS 200 million.

On December 31, 2020, the Company paid the dividend approved for distribution to its shareholders.

i. As part of its discussions on the Company’s 2021 Financial Statements, the Company’s Board of Directors, after discussing the designation of the Company’s profits, decided that the Company will not distribute dividends from its profits for this year.

j. As part of its discussions on the Company’s 2022 Financial Statements, the Company’s Board of Directors, after discussing the designation of the Company’s profits, decided that the Company will not distribute dividends from its profits for this year.

This while paying attention to the following:

1) In accordance with Government Resolution 3859 on the reform of the electricity sector and structural change in the Electric Company, the Government will not oblige the Company to distribute dividends until the end of 2025 or until the final financial strength goals are achieved according to the earliest (as determined in the Company's Board of Director’s decision of May 10, 2018):
The ratio of total liabilities to the Company's balance sheet, as defined in the framework of the structural change outline, will be at most 66% until the end of 2025, and the ratio of net financial debt to adjusted EBITDA of the Company, as defined in the framework of the structural change outline, will be at most 4.6 until the end of 2025.
As of the end of 2022, these goals have not yet been achieved.
2) The Company is preparing for a significant investment plan for achieving Government investment goals: in the grid, in the construction of the CCGTs at Orot Rabin, in the conversion of the coal-fired stations to gas, in the smart metering project and more, while meeting the reform goals.
3) The Company’s strategic goals which include its financial goals as set in the 2023 work plan and which include the financial strength goals.

NOTE 26:- FINANCIAL INSTRUMENTS

a. Composition:

	For the year ended December 31	
	2022	2021
	NIS in millions	
Financial Assets (1):		
Cash and cash equivalents	3,654	2,454
Short term investments	459	332
Trade receivables	4,702	4,290
Swap and forward transactions	640	276
Deposits for securing the swap transactions	564	999
Accounts receivable	500	479
Long term receivables	1,092	1,051
	11,611	**9,881**
Financial Liabilities		
Trade and other accounts payable	5,172	4,024
Swap and forward transactions	2,289	3,157
Debentures	34,623	26,694
Liabilities to Banking corporations and others	2,649	5,060
Liabilities to the State of Israel	1,887	1,804
Lease liabilities	587	781
	47,207	**41,520**

(1) Represents the Company's total exposure to credit risk (see section e below).

b. Financial Risk Management Purposes and Policies

The operations of the Company expose it to different financial risks, e.g. market risk, credit risk and liquidity risk. The risk management plan of the Company includes actions to reduce possible negative effects of the financial risks of the Company. The Company employs derivative financial instruments to hedge certain exposures to risks. Mr. Gilad Hassid, Acting Senior Vice-President of Finance and Economics and Risk Management, is responsible for managing the financial risks according to the policies approved by the Board of Directors. The Company identifies, assesses and hedges financial risks. The Board of Directors provides written principles for the overall risk management and also the specific policies for dealing with market risks, such as exchange rate risk, commodity purchase price risk, and interest rate risk and CPI risk.

NOTE 26:- FINANCIAL INSTRUMENTS (continued)

c. Market Risks and Policy for their Management:

The Company sells its products at prices determined by an external entity – the Electricity Authority. The rate is based on the principles detailed in Note 3 above. At the same time, in determining the recognized cost for the Company, the Electricity Authority determined costs of the different components in the rate, which sometimes do not match, the actual costs of the Company. Consequently, the major part of Company activities is not exposed to market risks, except to the major risks detailed below:

The Company's policies for managing market risks:

a) The Company will execute hedging transactions in foreign currency in order to reduce currency exposure, aiming to match the expenses structure, as far as possible, to the revenue structure recognized in the electricity rate.

b) The Company will execute hedging transactions on part of the foreign currency payments flow that are linked to foreign currency while considering the payment dates of the principal and interest payments.

c) The Company will hedge the exposure due to payments to suppliers in foreign currency, as far as possible.

d) The Company will examine the need for hedging commodity purchase prices.

e) The Company will examine the need to fixate variable interest, quarterly or upon material developments in the market.

f) The Company will execute a volume of hedging transactions which will limit the erosion of equity, at a rate of up to 5% of the equity in case of the NIS weakening against foreign currencies at a rate of 10% and/or with respect to a change in the variable interest.

g) The Company is implementing hedge accounting on some of the hedge transactions in accordance with international standards under the provisions of IFRS 9, in order to prevent fluctuations, within the restrictions of the standard, in the profit and loss account for the period.

The main principles of the accounting policies and adopted methods, including recognition conditions, measuring basis and the basis used to recognize income and expenses related to each group of financial assets and financial liabilities are detailed in Note 2 above.

1) Currency risks

The Company is exposed to currency risk mainly with respect to its financial liabilities and accounts payable, including payments to fuels suppliers. For details of the cover for the exposure to currency risk due to leases and accounts receivable with respect to a compromise arrangement with the Egyptian Gas Companies, in the electricity rate, see section g below.

b) Analysis of sensitivity to changes in currency exchange rates

Changes in the exchange rates of the following currencies against the NIS affect the measurement of financial instruments which are denominated in foreign currency and would have increased (decreased) the profit and loss in the amounts presented below: (after tax). This analysis was performed under the assumption that all other variants, especially the interest rates, remained fixed. The 2021 analysis was performed under the same base.

		December 31, 2022		**December 31, 2021**	
Currencies	**A change at a rate of**	**Increase**	**Decrease**	**Increase**	**Decrease**
		In NIS millions			
USD	1%	2	(2)	1	(1)
Euro	1%	1	(1)	3	(3)

NOTE 26:- FINANCIAL INSTRUMENTS (continued)

c. Market Risk (continued)

2) Consumer Price Index Risks

Most of the capital costs and part of the operating costs recognized in the electricity rate are linked to the Consumer Price Index (the "Index"). The Company has expenses linked to the Index, deriving mainly from the Company's financial liabilities denominated in Index-linked NIS.

In addition, the Company has nominal financial liabilities denominated in NIS that are not linked to the Index, for which the Company is examining the economic feasibility of performing protection against the change in the Index. The Company's exposure to changes in the CPI with respect to the foreign capital component is covered as of 2016 by recording a regulatory deferral account with respect to CPI linkage differentials. For additional details see Note 15o above.

3) Commodity purchase price risk

The Company has expenses with respect to purchase agreements in NIS and other currencies. In addition, some of the expenses are linked to prices of various raw materials which also constitute exposure for the Company. On the other hand, some of the Company's revenues for covering these expenses in the electricity rate are linked to the wholesale price index of industrial outputs for domestic destinations.
The Company is examining the correlation between the change in the input prices recognized in the rate compared to the change in the commodity purchase prices and will execute a hedge transaction if necessary. As of the date of the Financial Statements, transactions as aforesaid have not been carried out.

4) Interest Risks

a) Market risk with respect to interest rates
The Company is exposed to differences in the market interest rate, with respect to the financial liabilities that bear variable interest.

Changing interest rates risks are not material to the cash flows of the Company.

Additionally, an increase in the interest rates prevailing in the market may significantly raise the price of the debt raisings the Company will be required to take. Following are details of the type of interest of the interest bearing financial instruments which are not derivatives or lease liabilities:

	For the year ended December 31	
	2022	**2021**
	NIS in millions	
Instruments (non-derivative) at variable interest		
Financial assets	837	1,211
Financial liabilities	2,646	4,967
	1,809	**3,756**
Instruments (non-derivative) at fixed interest		
Financial assets	4,874	3,615
Financial liabilities	36,511	28,498
	31,637	**24,883**

NOTE 26:- FINANCIAL INSTRUMENTS (continued)
c. Market Risk (continued)

4) Interest Risks (continued)

b) Fair value sensitivity analysis to changes in interest rates:

The Company's debentures and loans bearing fixed interest are measured at depreciated cost with the effective interest method and therefore the change in the interest rates as of the end of the reported period is not expected to have any impact on the Profit and Loss.
Following, the sensitivity analysis of the Company's swap transactions which are measured at fair value through Profit and Loss (before tax):

December 31, 2022	**Other comprehensive (income) loss**	**(Profit) loss**	**Book value**	**(Profit) loss**	**Other comprehensive (income) loss**
Change in interest %	**Increase of 100 base points**			**Decrease of 100 base points**	
			In NIS millions		
Swap transactions					
NIS	(320)	300	59	(322)	342
Linked NIS	-	(392)	14,892	513	-
USD	307	73	(12,275)	(77)	(327)
Euro	3	-	(123)	-	(2)
Yen	5	2	(789)	(3)	(5)
Total	**(5)**	**(17)**	**1,746**	**111**	**8**

December 31, 2021	**Other comprehensive (income) loss**	**(Profit) loss**	**Book value**	**(Profit) loss**	**Other comprehensive (income) loss**
Change in interest %	**Increase of 100 base points**			**Decrease of 100 base points**	
			In NIS millions		
Swap transactions					
NIS	(297)	291	(344)	(308)	314
Linked NIS	-	(469)	14,666	492	-
USD	246	105	(10,439)	(112)	(259)
Euro	4	-	(205)	(1)	(3)
Yen	-	10	(814)	(10)	-
Total	**(47)**	**(63)**	**2,864**	**61**	**52**

c) Cash flow sensitivity analysis for instruments at variable interest:

A change of 1% (100 base points) in the interest rates would have increased (decreased) the profit and loss in the amounts presented below (after tax). This analysis assumed the other variables, particularly the foreign currency exchange rates, remained fixed. The analysis for 2021 was done under the same base.

	December 31, 2022		**December 31, 2021**	
	Increase	**Decrease**	**Increase**	**Decrease**
Net Financial instruments at variable interest	(14)	14	(29)	29

NOTE 26:- FINANCIAL INSTRUMENTS (continued)

d. Liquidity Risk

Liquidity risk is a risk that reflects a situation in which the Company will not have enough available cash resources to meet current business requirements, including its financial commitments and maintaining cash reserves. The Company manages its liquidity risks by ensuring, as far as possible, an adequate liquidity level that covers its obligations on time in both normal conditions and extreme situations without incurring significant loss or affecting its image.

The Company may be exposed to liquidity risks as a result of various factors which are not necessarily under its control, and among other things, as a result of disruptions to the supply of natural gas, which may cause the Company to run the generation system using alternative and more expensive fuels. A significant increase in fuel prices, a sharp increase of the currency exchange rate, a significant economic crisis which may cause an increase in the customers' balance and/or an increase in deposits to the budgetary pension fund. The Company believes that this concerns timing gaps, both with regards to the high costs of fuels and with regards to impacts caused by an economic crisis which will eventually be covered by the rate. However, the time gap between the date on which such expenses are incurred by the Company, to the date on which the rate is updated, may harm its cash flow.

In addition, a decrease in the State's credit rating may impact the Company's rating, and accordingly also impact its fundraising costs.

The Company measures its liquidity risk, inter alia, through the liquidity ratio, which measures the Company's ability to meet its liabilities without additional debt raisings. In general, the Company's liquidity position is better when the liquidity ratio is higher. The Company is meeting the liquidity index it has set for itself. The Company manages the liquidity risk by raising funds of various term lengths in the Israeli and/or in foreign capital markets, in accordance with its needs, performed a sufficient time prior to the required date according to the Company's forecasts, and in addition by creating and maintaining credit facilities in banks in Israel and abroad, and all while maintaining cash reserves (safety cushion) in accordance with the decision of the Board of Directors.

The following are tables that include the Company's financial liabilities including all the derivatives according to contractual repayment dates. The liabilities to suppliers and other payables are expected to be repaid according to their book value during the first year. The tables include non-capitalized cash flows with respect to the principal and the interest.

1) Liquidity Risk as of December 31, 2022

	Book value	First year	Second year	Third year	Fourth year	Fifth year	Sixth onwards	Total
		(In NIS millions)						
Derivative Financial Instruments, net								
Cash flow hedge transactions (net)								
US Dollars	(8,846)	(936)	(4,437)	(188)	(188)	(892)	(3,707)	(10,348)
Euro	(123)	(39)	(37)	(36)	(17)	-	-	(129)
Yen	(83)	(3)	(2)	(3)	(2)	(2)	(73)	(85)
Unlinked NIS	9,298	958	4,736	179	159	783	3,475	10,290
Total cash flow hedge transactions	**246**	**(20)**	**260**	**(48)**	**(48)**	**(111)**	**(305)**	**(272)**
Swap transactions (net):								
US Dollars	(3,146)	(1,918)	(422)	(52)	(53)	(52)	(1,284)	(3,781)
Euro	5	-	-	-	-	-	-	-
Yen	(677)	(706)	-	-	-	-	-	(706)
Linked NIS	14,884	4,341	5,468	134	112	773	4,548	15,376
Unlinked NIS	(9,548)	(1,218)	(4,736)	(179)	(159)	(783)	(3,475)	(10,550)
Total swap transactions:	**1,518**	**499**	**310**	**(97)**	**(100)**	**(62)**	**(211)**	**339**
Forward transactions and options (net):								
US Dollars	(2,194)	(2,233)	-	-	-	-	-	(2,233)
Euro	(170)	(172)	-	-	-	-	-	(172)
Yen	(707)	(707)	-	-	-	-	-	(707)
Unlinked NIS	2,956	2,999	-	-	-	-	-	2,999
Total forward transactions	**(115)**	**(113)**	**-**	**-**	**-**	**-**	**-**	**(113)**
Total derivatives	**1,649**	**366**	**570**	**(145)**	**(148)**	**(173)**	**(516)**	**(46)**

NOTE 26:- FINANCIAL INSTRUMENTS (continued)

d. Liquidity Risk (continued)

1) Liquidity Risk as of December 31, 2022 (continued)

	Book value	First year	Second year	Third year	Fourth year	Fifth year	Sixth onwards	Total
					NIS millions			
Financial Liabilities								
Short term loans in USD	88	88	-	-	-	-	-	88
Short term loans in unlinked NIS	510	520	-	-	-	-	-	520
Debentures								
Debentures in US Dollars	13,979	2,966	4,999	380	820	1,402	8,795	19,362
Debentures in Yen	1,461	56	56	56	56	56	1,619	1,899
Debentures in linked NIS	17,945	1,226	636	2,207	2,124	2,300	12,060	20,553
Unlinked NIS debentures	1,238	724	554	-	-	-	-	1,278
Total	**34,623**	**4,972**	**6,245**	**2,643**	3,000	**3,758**	**22,474**	**43,092**
Liabilities to banking corporations:								
Loans in Euro	266	82	79	76	52	21	9	319
Loans in US Dollars	283	115	109	76	23	-	-	323
Loans in unlinked NIS	1,500	62	61	1,562	-	-	-	1,685
Total	**2,049**	**259**	**249**	**1,714**	**75**	**21**	**9**	**2,327**
Loans from the State of Israel in linked NIS	**1,887**	**45**	**45**	**44**	**84**	**424**	**1,429**	**2,071**
Lease liabilities								
Diesel tank lease liabilities	361	47	37	36	36	36	219	411
Distillate line lease liability	6	2	2	2	-	-	-	6
Gasification ship lease liabilities	-	-	-	-	-	-	-	-
Car lease liabilities	77	51	15	15	-	-	-	81
Performance centers lease liability	58	12	12	12	11	9	7	63
Server farm lease liability	20	2	2	2	2	2	18	28
Ship lease liabilities through the Coal Company	65	28	27	14	-	-	-	69
	587	**142**	**95**	**81**	**49**	**47**	**244**	**658**
Other long-term liabilities	**2**	**2**	**-**	**-**	**-**	**-**	**-**	**2**
Total Financial Liabilities	**39,746**	**6,028**	**6,634**	**4,482**	**3,208**	**4,250**	**24,156**	**48,758**

NOTE 26:- FINANCIAL INSTRUMENTS (continued)

d. Liquidity Risk (continued)

2) Liquidity Risk as of December 31, 2021

	Book value	First year	Second year	Third year	Fourth year	Fifth year	Sixth onwards	Total
		(In NIS millions)						
Derivative Financial Instruments, net								
Cash flow hedge transactions (net)								
US Dollars	(7,021)	(319)	(769)	(3,863)	(108)	(108)	(2,189)	(7,356)
Euro	(151)	(34)	(33)	(33)	(32)	(16)	-	(148)
Unlinked NIS	8,462	342	910	4,688	131	111	2,316	8,498
Total cash flow hedge transactions	**1,290**	**(11)**	**108**	**792**	**(9)**	**(13)**	**127**	**994**
Swap transactions (net):								
US Dollars	(2,068)	(219)	(1,695)	(373)	(46)	(46)	(1,181)	(3,560)
Euro	(45)	(54)	-	-	-	-	-	(54)
Yen	(770)	(96)	(716)	-	-	-	-	(812)
Linked NIS	13,419	937	4,117	5,187	120	99	3,354	13,814
Unlinked NIS	(8,962)	(598)	(1,170)	(4,688)	(131)	(111)	(2,316)	(9,014)
Total swap transactions:	**1,574**	**(30)**	**536**	**126**	**(57)**	**(58)**	**(143)**	**374**
Forward transactions (net):								
US Dollars	(2,232)	(2,235)	-	-	-	-	-	(2,235)
Euro	(144)	(143)	-	-	-	-	-	(143)
Yen	(717)	(716)	-	-	-	-	-	(716)
Unlinked NIS	3,110	3,111	-	-	-	-	-	3,111
Total forward transactions	**17**	**17**	**-**	**-**	**-**	**-**	**-**	**17**
Total derivatives	**2,881**	**(24)**	**644**	**918**	**(66)**	**(71)**	**(16)**	**1,385**

NOTE 26:- FINANCIAL INSTRUMENTS (continued)

d. Liquidity Risk (continued)

2) Liquidity Risk as of December 31, 2021 (continued)

	Book value	First year	Second year	Third year	Fourth year	Fifth year	Sixth onwards	Total
					NIS millions			
Financial Liabilities								
Short term loans in USD	376	378	-	-	-	-	-	378
Short term loans in unlinked NIS	2,420	2,422	-	-	-	-	-	2,422
Debentures								
Debentures in US Dollars	10,799	611	2,563	4,360	278	667	7,136	15,615
Debentures in Yen	1,479	57	57	57	57	57	1,696	1,981
Debentures in linked NIS	12,470	1,811	1,065	505	1,995	1,917	6,655	13,948
Unlinked NIS debentures	1,946	757	724	553	-	-	-	2,034
Total	**26,694**	**3,236**	**4,409**	**5,475**	**2,330**	**2,641**	**15,487**	**33,578**
Liabilities to banking corporations:								
Loans in Euro	311	70	70	69	68	47	28	352
Loans in US Dollars	360	95	94	92	68	37	-	386
Loans in unlinked NIS	1,500	15	15	15	1,515	-	-	1,560
Total	**2,171**	**180**	**179**	**176**	**1,651**	**84**	**28**	**2,298**
Loans from the State of Israel in linked NIS	**1,804**	**43**	**43**	**43**	**42**	**79**	**1,760**	**2,010**
Lease liabilities								
Diesel tank lease liabilities	412	49	49	39	39	37	257	470
Gasification ship lease liabilities	102	104	-	-	-	-	-	104
Car lease liabilities	107	61	23	23	-	-	-	107
Performance centers lease liability	28	5	5	5	5	4	5	29
Ship lease liabilities through the Coal Company	132	38	38	38	26	6	-	146
	781	**257**	**115**	**105**	**70**	**47**	**262**	**856**
Other long-term liabilities	**93**	**-**	**93**	**-**	**-**	**-**	**-**	**93**
Total Financial Liabilities	**34,339**	**6,516**	**4,839**	**5,799**	**4,093**	**2,851**	**17,537**	**41,635**

NOTE 26:- FINANCIAL INSTRUMENTS (continued)

e. Credit Risk Management

Credit risk is a risk of financial loss incurred by the Company if a customer or the other party in an equity instrument will not fulfill its contractual obligations. The risk derives mainly from debts of customers and others and deposits and derivatives transactions.

The Company's cash and deposits are deposited with banking institutions. The policy of the Company is to deposit funds according to the financial strength of the banks (credit rating or minimal financial ratios). In addition, the Company invests a sum of up to NIS 100 million from the safety cushion funds in exchange traded funds on the Tel-Bond indices.

Hedge transactions in financial instruments are entered into with big and stable banking institutions, with high financial stability that have low credit risk.

The Company does not hold or sell financial instruments for trading purposes.

Customers Credit Risk	-	As detailed in Note 6, the exposure to credit risks from customers is limited given the large number of the Company's customers and the fact that the Company supplies an essential ongoing service. Regarding debts of the Palestinian Authority and the East Jerusalem Electricity Company see Note 6c.
Provisions for doubtful accounts	-	Are adequate according to estimates of the management, based on, inter alia, debt age, collection proceedings taken, etc.
Compromise agreement with the Egyptian Gas Companies	-	For details of the compromise agreement, including the collateral received to secure the financial asset – see Note 35b7.

f. Guarantees Provided in Israel and Abroad

As part of its normal activity, the Company opened bank guarantees/ conditional letters of credit payable for various beneficiaries. The balance of the guarantees and indemnifications as on December 31, 2022 are:

1) Local guarantees in Israel

a) A guarantee in the approximate amount of NIS 27 million is provided to Gas Lines Ltd., to guarantee payment for natural gas delivery according to the agreement.
b) Other bank guarantees amounting to approximately NIS 44 million, provided during normal business operations to different authorities, e.g. courts, customs, Israel Land Authority and local municipalities.

Total local guarantees amount to approximately NIS 71 million.

2) Guarantees to Parties Abroad

a) Total balance of guarantees in the form of letters of credit opened in banks, payable to Company suppliers, under contracts to import equipment and services from abroad amounts to approximately NIS 3 million.
b) Total balance of guarantees to parties abroad in the form of conditional bank guarantees and letters of amounts to approximately NIS 31 million.

Total letters of credit and guarantees to entities abroad amount to approximately NIS 34 million.

NOTE 26:- FINANCIAL INSTRUMENTS (Continued)

g. Linkage Basis Report

	As of December 31, 2022 (in NIS million)						
	Linkage to USD	Linkage to Euro	Linkage to Japanese Yen	Linkage to CPI*	Un-linked	Non-financial and others	Total
Assets							
Cash and cash equivalents	1,055	88	-	-	2,511	-	3,654
Short-term investments	176	188	-	-	95	-	459
Trade receivables for sale of electricity	-	-	-	-	4,702	-	4,702
Accounts receivable	213	-	-	131	341	201	886
Inventory- fuels	-	-	-	-	-	2,412	2,412
Inventory – stores	-	-	-	-	-	166	166
Long-term inventory fuels	-	-	-	-	-	1,413	1,413
Long-term receivables	1,430	-	-	183	498	-	2,111
Investment in associate companies	-	-	-	-	-	13	13
Assets with respect to post-employment benefits	-	-	-	-	-	11,000	11,000
Fixed assets, net	-	-	-	-	-	59,611	59,611
Intangible assets, net	-	-	-	-	-	1,153	1,153
Debit balances of regulatory deferral accounts, net of tax	-	-	-	-	-	11,384	11,384
Total	**2,874**	**276**	**-**	**314**	**8,147**	**87,353**	**98,964**

* Including adjustments to fair value of hedging transactions (including due to credit risk)

NOTE 26:- FINANCIAL INSTRUMENTS (Continued)

g. Linkage Basis Report (continued)

	As of December 31, 2022 (in NIS million)						
	Linkage to USD	Linkage to Euro	Linkage to Japanese Yen	Linkage to CPI*	Un-linked	Non-financial and others	Total
Liabilities							
Credit from banks and other credit providers	2,482	68	(1)	1,608	1,203	-	5,360
Trade payables	1,522	186	-	-	2,099	-	3,807
Accounts payable and accruals	131	1	14	184	1,035	-	1,365
Provisions	-	-	-	-	-	684	684
Advances from work orders less works in progress	-	-	-	-	-	834	834
Debentures, liabilities to banks and others	11,894	198	1,462	17,070	2,055	512	33,191
Long-term lease liabilities	40	-	-	420	-	-	460
Long-term currency exchange transactions	(14,292)	(288)	(1,472)	14,899	2,813	-	1,660
Long-term liability to the State of Israel	-	-	-	1,876	-	-	1,876
Liabilities with respect to post-employment benefits	-	-	-	-	-	5,374	5,374
Deferred taxes, net	-	-	-	-	-	8,051	8,051
Shareholders' Equity	-	-	-	-	-	32,171	32,171
Credit balances of regulatory deferral accounts, net of tax	-	-	-	-	-	4,131	4,131
Total	**1,777**	**165**	**3**	**36,057**	**9,205**	**51,757**	**98,964**
Total, Net	**1,097**	**111**	**(3)**	**(35,743)**	**(1,058)**	**35,596**	**-**
Exposures covered by the electricity rate **	(793)	-	-	793	-	-	-
Total exposure, net	**304**	**111**	**(3)**	**(34,950)**	**(1,058)**	**35,596**	**-**

* Including adjustments to fair value of hedging transactions (including due to credit risk)
Regarding the exposure to the CPI following the transition to IFRS see Note 15o above.

** Following the implementation as of January 1, 2019 of IFRS 16 – Leases, the Company recognized a liability for the leasing of the ships of the Coal Company, whose balance as of December 31, 2022 is approximately NIS 65 million. Simultaneously, the Company recognized a financial asset with respect to the Dollar receipts to be received as part of the compromise agreement with the Egyptian Gas Companies in an amount of approximately NIS 858 million, to be returned in full to the consumers within the electricity rate. For details, see Note 15r above.

NOTE 26:- FINANCIAL INSTRUMENTS (Continued)

g. Linkage Basis Report (continued)

	As of December 31, 2021 (in NIS million)						
	Linkage to USD	**Linkage to Euro**	**Linkage to Japanese Yen**	**Linkage to CPI***	**Un-linked**	**Non-financial and others**	**Total**
Assets							
Cash and cash equivalents	313	102	-	-	2,039	-	2,454
Short-term investments	156	176	-	-	-	-	332
Trade receivables for sale of electricity	-	-	-	-	4,290	-	4,290
Accounts receivable	187	-	-	80	243	155	665
Inventory- fuels	-	-	-	-	-	1,489	1,489
Inventory – stores	-	-	-	-	-	128	128
Assets of disposal groups held for sale	-	-	-	-	-	160	160
Long-term inventory fuels	-	-	-	-	-	1,624	1,624
Long-term receivables	1,880	-	-	-	414	-	2,294
Investment in associate companies	-	-	-	-	-	4	4
Assets with respect to post-employment benefits	-	-	-	-	-	8,280	8,280
Fixed assets, net	-	-	-	-	-	59,123	59,123
Intangible assets, net	-	-	-	-	-	1,188	1,188
Debit balances of regulatory deferral accounts, net of tax	-	-	-	-	-	8,581	8,581
Total	**2,536**	**278**	**-**	**80**	**6,986**	**80,732**	**90,612**

* Including adjustments to fair value of hedging transactions (including due to credit risk)

NOTE 26:- FINANCIAL INSTRUMENTS (Continued)

g. Linkage Basis Report (continued)

	As of December 31, 2021 (in NIS million)						
	Linkage to USD	Linkage to Euro	Linkage to Japanese Yen	Linkage to CPI*	Un-linked	Non-financial and others	Total
Liabilities							
Credit from banks and other credit providers	587	62	(1)	1,629	3,148	-	5,425
Trade payables	682	248	-	-	1,856	-	2,786
Accounts payable and accruals	96	-	15	167	960	-	1,238
Provisions	-	-	-	-	-	686	686
Advances from work orders less works in progress	-	-	-	-	-	740	740
Debentures, liabilities to banks and others	11,104	308	1,480	10,953	2,758	499	27,102
Long-term lease liabilities	100	-	-	436	6	-	542
Long-term currency exchange transactions	(11,394)	(340)	(1,492)	13,773	2,586	-	3,133
Long-term liability to the State of Israel	-	-	-	1,793	-	-	1,793
Liabilities with respect to post-employment benefits	-	-	-	-	-	6,874	6,874
Deferred taxes, net	-	-	-	-	-	7,198	7,198
Shareholders' Equity	-	-	-	-	-	28,825	28,825
Credit balances of regulatory deferral accounts, net of tax	-	-	-	-	-	4,270	4,270
Total	**1,175**	**278**	**2**	**28,751**	**11,314**	**49,092**	**90,612**
Total, Net	**1,361**	**-**	**(2)**	**(28,671)**	**(4,328)**	**31,640**	**-**
Exposures covered by the electricity rate **	(587)	-	-	587	-	-	-
Total exposure, net	**774**	**-**	**(2)**	**(28,084)**	**(4,328)**	**31,640**	**-**

* Including adjustments to fair value of hedging transactions (including due to credit risk)
Regarding the exposure to the CPI following the transition to IFRS see Note 15o above.

** Following the implementation as of January 1, 2019 of IFRS 16 – Leases, the Company recognized Dollar liabilities for leasing the LNG gasification ship, and for the leasing of the ships of the Coal Company, whose balance as of December 31, 2021 is approximately NIS 102 million, and approximately NIS 132 million, respectively. The Dollar payments with respect to these liabilities are recognized by the Electricity Authority, and therefore the Company has rate coverage for the exposure caused by them. Simultaneously, the Company recognized a financial asset with respect to the Dollar receipts to be received as part of the compromise agreement with the Egyptian Gas Companies in an amount of approximately NIS 821 million, to be returned in full to the consumers within the electricity rate. For details, see Note 15r above.

NOTE 26:- FINANCIAL INSTRUMENTS (Continued)

h. The following are details of open commitments for carrying out swap transactions in foreign currency and forward transactions:

	As of December 31, 2022			
Type of transaction	Currency receivable	Currency payable	Principal amount receivable	Principal amount payable
	(in NIS millions)			
Cash flow hedge swap transactions	USD	NIS	8,622	8,778
Cash flow hedge swap transactions	Euro	NIS	118	134
Other swap transactions	Euro	NIS	-	-
Other swap transactions	USD	Linked NIS	3,370	3,746
Other swap transactions	Yen	Linked NIS	693	836
Other swap transactions	NIS	Linked NIS	9,222	9,915
Forward transactions	USD	NIS	1,925	1,850
Forward transactions	Euro	NIS	172	164
Forward transactions	Yen	NIS	707	678

	As of December 31, 2021			
Type of transaction	Currency receivable	Currency payable	Principal amount receivable	Principal amount payable
	(in NIS millions)			
Cash flow hedge swap transactions	USD	NIS	6,064	7,150
Cash flow hedge swap transactions	Euro	NIS	142	172
Other swap transactions	Euro	NIS	54	65
Other swap transactions	USD	Linked NIS	3,025	3,615
Other swap transactions	Yen	Linked NIS	770	931
Other swap transactions	NIS	Linked NIS	7,888	8,112
Forward transactions	USD	NIS	2,235	2,231
Forward transactions	Euro	NIS	143	145
Forward transactions	Yen	NIS	716	735

For details of the fair value balance with respect to swap transactions see section k below.
For details of the impacts on the Profit and Loss with respect to the financial instruments in this section, see Note 33 below.
These transactions are intended to cover exposures in the statement of financial position.
The Company does not hold financial instruments for sale or profit producing purposes.

NOTE 26:- FINANCIAL INSTRUMENTS (Continued)

i. Cash flow hedging

The Company finances its development plan and refinances its debt, inter alia, by executing issuances and other debt raising in foreign currency. This financing exposes the Company to risk with respect to foreign currency. In order to hedge the foreign currency risk of this activity, the Company executed transactions to hedge foreign currency swap (for the term until repayment of the debt on dates and in amounts conforming to the expected payment schedules) in order to hedge the exchange rate risk deriving from those same future transactions, that are intended to hedge cash flows.

1. Details of the foreign currency swap contracts intended to hedge cash flows existing on the reporting date:

As of December 31, 2022

		Dollar purchase		NIS sale		Fair value of hedge transaction (liabilities)
Swap transaction	Expiry date	Dollar millions	Interest rate	NIS millions	Interest rate	NIS millions
300754	June 21, 2023	150	6.88%	589.5	6.25%	(66)
300757	November 12, 2024	150	5.00%	597	3.95%	(77)
300759	November 12, 2024	100	5.00%	398	3.94%	(51)
300768	November 12, 2024	150	5.00%	583.4	4.18%	(65)
300770	November 12, 2024	100	5.00%	391.3	4.10%	(45)
300772	November 12, 2024	150	5.00%	578.4	4.06%	(59)
300774	November 12, 2024	100	5.00%	385.6	4.05%	(40)
300783	November 12, 2024	100	5.00%	377.5	3.60%	(29)
300796	November 12, 2024	200	5.00%	705.6	3.40%	(4)
300807	August 14, 2028	150	4.25%	543.75	3.10%	(18)
300816	November 12, 2024	100	5.00%	369.00	3.35%	(18)
300832	August 14, 2028	100	4.25%	334.00	3.27%	13
300849	August 14, 2028	100	4.25%	326.20	3.25%	22
300851	August 14, 2028	100	4.25%	327.20	3.28%	20
300853	December 15, 2027	100	7.75%	322.60	6.53%	30
300855	December 15, 2027	100	7.75%	321.10	6.65%	29
300858	February 22, 2032	100	3.75%	330.00	2.88%	14
300864	February 22, 2032	100	3.75%	327.00	2.65%	24
300866	February 22, 2032	50	3.75%	162.00	2.65%	13
300868	February 22, 2032	100	3.75%	324.00	2.65%	26
300870	February 22, 2032	100	3.75%	324.00	2.64%	27
300872	February 22, 2032	50	3.75%	161.00	2.60%	15

As of December 31, 2022

		Euro purchase		NIS sale		Fair value of hedge transaction (liabilities)
Swap transaction	Expiry date	Euro millions	Euribor interest rate plus margin of	NIS millions	Interest rate	NIS millions
300803	June 15, 2026	17	1.80%	74	3.30%	(7)
300805	June 15, 2026	14	2.50%	60	4.00%	(6)

As of December 31, 2022

		Yen purchase		NIS sale		Fair value of hedge transaction (liabilities)
Swap transaction	Expiry date	Yen millions	Interest rate	NIS millions	Interest rate	NIS millions
300874	March 21, 2030	2,500	3.60%	60	6.70%	5

NOTE 26:- FINANCIAL INSTRUMENTS (Continued)

i. Cash flow hedging (Continued)

1. Details of the foreign currency swap contracts intended to hedge cash flows existing on the reporting date: (continued)

As of December 31, 2021

		Dollar purchase		NIS sale		Fair value of hedge transaction (liabilities)
Swap transaction	Expiry date	Dollar millions	Interest rate	NIS millions	Interest rate	NIS millions
300754	June 21, 2023	150	6.88%	590	6.25%	(137)
300757	November 12, 2024	150	5.00%	597	3.95%	(146)
300759	November 12, 2024	100	5.00%	398	3.94%	(98)
300768	November 12, 2024	150	5.00%	583.4	4.18%	(135)
300770	November 12, 2024	100	5.00%	391.3	4.10%	(91)
300772	November 12, 2024	150	5.00%	578.4	4.06%	(129)
300774	November 12, 2024	100	5.00%	385.6	4.05%	(86)
300783	November 12, 2024	100	5.00%	377.5	3.60%	(73)
300796	November 12, 2024	200	5.00%	705.6	3.40%	(86)
300807	August 14, 2028	150	4.25%	543.75	3.10%	(93)
300816	November 12, 2024	100	5.00%	369.00	3.35%	(60)
300832	August 14, 2028	100	4.25%	334.00	3.27%	(30)
300849	August 14, 2028	100	4.25%	326.20	3.25%	(23)
300851	August 14, 2028	100	4.25%	327.20	3.28%	(25)
300853	December 15, 2027	100	7.75%	322.60	6.53%	(20)
300855	December 15, 2027	100	7.75%	321.10	6.65%	(20)

As of December 31, 2021

		Euro purchase		NIS sale		Fair value of hedge transaction (liabilities)
Swap transaction	Expiry date	Euro millions	Euribor interest rate plus margin of	NIS millions	Interest rate	NIS millions
300803	June 15, 2026	27	1.80%	116	3.30%	(21)
300805	June 15, 2026	22	2.50%	94	4.00%	(17)

These hedge transactions are treated in the Financial Statements as cash flow hedge transactions. These transactions fully hedge the exposure with respect to foreign currency risks with respect to the principal and interest of the debentures.

2. Transaction in capital reserves with respect to derivative financial instruments used to hedge cash flows (before tax effect)

NIS millions	2022 Hedge reserve	2022 Hedge cost reserve	2021 Hedge reserve	2021 Hedge cost reserve
Balance as of January 1	19	(198)	109	(192)
Change in fair value	(524)	(119)	140	6
Change in fair value transferred to profit and loss	721	-	(230)	-
Balance as of December 31	**216**	**(317)**	**19**	**(198)**

Regarding the accounting policy of the Company with respect to the cash flow hedging, see Note 2q above.
For details of the expected flows with respect to cash flow hedge transactions see section d above.

NOTE 26:- FINANCIAL INSTRUMENTS (Continued)

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

The book value of certain financial assets and financial liabilities including cash and cash equivalents, customers, short-term and long-term receivables, short-term investments, deposits, short-term loans and credit (including the commercial papers), payables, matches or is close to their fair value.

	Book Value		Fair Value	
	December 31		December 31	
	2022	2021	2022	2021
	in NIS millions			
Financial liabilities – Level 1				
Long-term debentures (including current maturities and interest payable)				
Negotiable debentures in Israel at fixed interest (1)	17,738	11,645	17,344	13,365
Financial liabilities – Level 2				
Long term debentures and loans (including current maturities and payable interest)				
Long term loans at fixed interest (4)	1,894	1,809	1,867	2,144
Long term loans at variable interest (5)	2,056	2,173	2,086	2,208
Fixed interest non-marketable debentures in Israel (2)	1,622	2,940	1,671	3,200
Fixed interest non-marketable debentures abroad (3)	15,580	12,384	15,766	14,591

(1) The negotiable debentures (NIS) issued by the Company are revalued according to prices quoted on the TASE.

(2) The non-negotiable debentures (NIS) issued by the Company are revalued according to individual quotes calculated by the Mirvach Hogen Company Ltd.

(3) Foreign currency debentures

(a) The debentures which have an individual quote in the "Bloomberg" system are revalued according to this quote.

(b) The long-term debentures which do not have individual quotes in the "Bloomberg" system, are revalued as detailed:
Debentures in U.S. Dollars are revalued by summing up the longest debenture for which an individual quote exists, together with the difference between the risk-free interest rate, according to the yield on the US Treasury Bond that corresponds to the duration of the relevant debenture, and the risk-free interest according to the yield on the US Treasury Bond according to the duration of the debenture for which an individual quote exists. This calculation reflects the theoretical debenture price.
Debentures in Japanese Yen are revalued by summing up the converted yield from a yield in U.S. Dollars of the longest debenture for which an individual quote exists, using the YAX function in the "Bloomberg" system with the addition of the difference between the yield of a Japanese Government debenture which corresponds to the duration of the relevant debenture and the yield of a Japanese Government debenture which corresponds to the duration of the converted debenture. This calculation reflects the theoretical debenture price.

(4) The fair value of the fixed interest index linked NIS loans is revalued through discounted cash flows expected with respect to the loans, with the yield that is appropriate to the average duration of the loan which is calculated by linear interpolation of the yields of the Company’s negotiable index linked debentures.

(5) The fair value of the variable interest loans is equal to the unpaid principal balance and accrued interest as of the Statement of Financial Position day (which corresponds to their book value without deferred expenses).

NOTE 26:- FINANCIAL INSTRUMENTS (Continued)

k. Fair value hierarchy of instruments measured at fair value:

The financial instruments of the Company, measured at fair value through the Statement of Operations and Comprehensive Income according to levels are detailed as follows:

Financial instruments measured at fair value are classified according to the lowest level at which significant use is made to measure the fair value of the whole instrument.

Level 1: Quoted prices (unadjusted) in active markets for financial assets and liabilities.
Level 2: Data which are not quoted prices included in level 1, expected directly (namely prices) or indirectly (data derived from prices), regarding financial assets and liabilities.
Level 3: Data of financial assets and liabilities which are not based on expected market data.

Hedging transactions included in level 2 are calculated at fair value, based on expected interest curves.

	Level 2	
	Year ended December 31	
	2022	2021
	NIS in millions	
Financial Assets		
Swap transactions designated for cash flow hedging	244	-
Other Swap and Forward transactions	396	276
Financial Liabilities		
Swap transactions designated for cash flow hedging	491	1,290
Other Swap and forward transactions	1,798	1,867
Total liabilities with respect to hedge transactions, net	**1,649**	**2,881**

NOTE 27:- REVENUES

a. The composition:

	For the Year ended December 31		
	2022	**2021**	**2020**
		NIS in millions	
Residential	10,878	9,547	9,986
Public-Commercial	6,397	5,646	5,701
Agricultural	411	384	369
Industrial	1,469	2,287	2,630
Water pumping	633	775	773
East Jerusalem Electricity Company and Palestinian Authority (also see Note 6)	2,345	2,034	2,736
Infrastructure services (*)	701	1,250	1,309
Revenues from the sale of electricity(**)	**22,834**	**21,923**	**23,504**
Other income (***)	271	227	274
	23,105	**22,150**	**23,778**

(*) Infrastructure services are mainly electricity transmission and distribution services that are provided to private electricity producers, and income from system costs. These revenues are not included in the supply segment.

(**) Rate updates

- On January 1, 2021, the average household consumer tariff decreased by approximately 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 household consumer tariff decreased by approximately 2.4% compared to the tariff published on February 1, 2022.
- On August 1, 2022, the household consumer tariff increased by approximately 8.6% compared to the tariff published on May 1, 2022.
- On January 1, 2023, the household consumer tariff increased by approximately 8.2% compared to the tariff published on August 1, 2022.
- After the Statement of Financial Position date, on February 1, 2023, the household consumer tariff decreased by approximately 1.5% compared to the tariff published on January 1, 2023.

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

(***) Are mainly included in the generation, supply, distribution segments, and activity that is not within the framework of the electricity chain.

b. The scope of sales deriving from private producers and Noga:

	For the Year ended December 31		
	2022	**2021**	**2020**
		(kWh in millions)	
Total electricity sales of the Company (*)	**48,681**	**51,537**	**51,991**
Scope of electricity purchases by the Company from private producers (**)	**13,972**	**18,432**	**12,875**
Their measure of the total electricity sales of the Company (in %)	29%	36%	25%

(*) Without infrastructure services

(**) From November 1, 2021 through Noga, see Note 1e9 and Note 3m above.

NOTE 28:- COST OF OPERATING THE ELECTRICITY SYSTEM

Following is the composition of the cost of operating the electricity system after separation of wage and depreciation components:

The composition:

	For the Year ended December 31		
	2022	2021	2020
		NIS in millions	
Fuels	9,224	5,492	5,804
Electricity purchases	5,933	6,872	5,269
Operation of the generation system	698	673	635
Operation of the transmission and distribution system and other*	455	389	491
	16,310	**13,426**	**12,199**
Wages	1,693	1,832	2,029
Depreciation and amortization	4,425	4,315	4,253
	22,428	**19,573**	**18,481**

NOTE 29:- OTHER EXPENSES (REVENUES), NET

The composition:

	For the Year ended December 31		
	2022	2021	2020
		NIS in millions	
Sale of stations (1)	(1,376)	-	(2,441)
Income from the GIS compromise agreement	-	-	(450)
Income from gas sales	(23)	-	-
Change in value of other investments	2	13	10
Impairment of assets held for sale	-	16	113
Net income from the Asset Arrangement	-	(12)	-
Others	(8)	(2)	(48)
	(1,405)	**15**	**(2,816)**

(1) On June 1, 2022, possession of the “East Hagit” site was transferred to the buyers. The aforementioned generated a profit for the Company in an amount of approximately NIS 1,376 million.

On December 3, 2020, the ownership of the Ramat Hovav site was transferred to the buyer. The aforementioned generated a profit for the Company in an amount of approximately NIS 2,441 million.
For details of the designation of the profit and, accordingly, the creation of a regulatory liability, see Notes 1e9 and 15s above.

NOTE 30:- SALES AND MARKETING EXPENSES

The composition:

	For the Year ended December 31		
	2022	**2021**	**2020**
	NIS in millions		
Wages	389	464	492
Consumer services	255	216	218
Depreciation	175	173	176
	819	**853**	**886**

NOTE 31:- ADMINISTRATIVE AND GENERAL EXPENSES

The composition:

	For the Year ended December 31		
	2022	**2021**	**2020**
	NIS in millions		
Wages	447	461	531
Provision for doubtful and lost debts	114	2	168
Depreciation and amortization	161	160	140
Others	134	159	132
	856	**782**	**971**

NOTE 32:- WAGE COSTS

The composition:

	For the Year ended December 31		
	2022	**2021**	**2020**
	NIS in millions		
Wage costs without remeasurements	4,732	4,852	5,011
Wages of employees lent to the sold power stations	(55)	(41)	(17)
Wage costs without remeasurements and without borrowed employees wage	4,677	4,811	4,994
Remeasurements capitalized into fixed assets	(596)	(184)	(126)
Total wage costs	4,081	4,627	4,868
Less:			
Wages charged to fixed assets	1,482	1,816	1,747
Wages charged to other items that are not consequential	70	54	69
Total wage costs included in Statement of Operations items, net	**2,529**	**2,757**	**3,052**

NOTE 33:- FINANCIAL EXPENSES, NET:

	For the Year ended December 31		
	2022	2021	2020
	NIS in millions		
a. Interest expenses:			
Interest expenses due to debentures	1,176	1,108	1,208
Interest expenses due to liabilities to banks	83	40	58
Interest expenses due to lease liabilities	12	27	36
Interest expenses due to liabilities to the State of Israel	30	30	33
Interest income due to hedge transactions	(216)	(100)	(91)
Other interest expenses	10	6	49
Other interest income	(242)	(112)	(76)
Total interest expenses	**853**	**999**	**1,217**
b. Other (income) expenses			
Changes in the fair value of the hedge transactions	(1,281)	1,619	229
Sums transferred to other comprehensive income due to cash flow hedging	78	(96)	198
Expenses (income) from differences in exchange rate differentials	1,442	(618)	(900)
Expenses from differentials of linkage to the CPI	755	306	(80)
Total other expenses (income)	**994**	**1,211**	**(553)**
c. Less - credit costs capitalized as part of fixed assets cost*	491	298	153
Total financing expenses	**1,356**	**1,912**	**511**
* the capitalization rate which served the calculation of non-specific credit costs	**6.75%**	**4.80%**	**3.75%**

NOTE 34:- RELATED AND INTERESTED PARTIES

The related and interested parties of the Company are as defined in the Securities Law - 1968, and in International Accounting Standard 24 (IAS 24). The State of Israel is the sole interested party in the Company, therefore, the State of Israel and companies and other entities controlled by it (including Government companies, local authorities and Government ministries and other corporations in which the Government has a certain percentage of ownership), constitute related and interested parties of the Company (the data below do not include transactions with companies that are owned by local councils).

a. 1. Total Balances of Related and Interested Parties, Quoted from the Consolidated Statement of Financial Position

	December 31,	
	2022	2021
	NIS in millions	
Trade receivables for sales of electricity and others	70	63
Natural Gas Lines Ltd., see section b 1 below (including current maturities)	156	193
Accounts receivable and debit balances, including long-term	174	222
Liabilities to suppliers and service provides (including debt to Natural Gas Lines Company Ltd. and balance with the Noga Company according to the manner of the Company’s accounting with the Noga Company)	401	448
Payables and credit balances	290	220
Liabilities to the State of Israel (including current maturities), see section b2c below	1,887	1,804
Lease liabilities, (including current maturities) see Note 22 above	300	336

The Company sent requests for balance confirmations at the end of 2022 to approximately 426 electricity customers, and approximately 246 suppliers and other customers who conform to the aforementioned criteria. The Company received 3 confirmations from customers and 33 confirmations from suppliers.

2. The total transactions with the related and interested parties, taken from the consolidated report:
The Company's revenues from those transactions carried out with related parties and interested parties, during its ordinary course of business, are: sales of electricity, electricity connections and works according to execution contracts. In the framework of its purchases, the Company primarily buys electricity from Noga, natural gas transmission, water and land leasehold services from the above related parties and interested parties. Payments to the State and its authorities as a sovereign entity, namely payments pursuant to law, such as taxes and fees, are transactions not deviating from the Company's ordinary course of business.

a) Revenues:

(1) The revenues from electricity sales for the year ended on December 31, 2022, and the year ended December 31, 2021 from related and interested parties (in accordance with invoices that were issued, and not including income receivable) were approximately NIS 1,624 million and approximately NIS 1,604 million, respectively (mainly revenues from Mekorot Ltd. of approximately NIS 431 million, and approximately NIS 466 million, respectively, and from Netivei Israel - Transport Infrastructure Company of approximately NIS 58 million and approximately NIS 94 million, respectively, and from local authorities).

(2) The revenues from providing infrastructure services to the Noga Company for the year ended on December 31, 2022, and the year ended December 31, 2021 amounted to approximately NIS 701 million and approximately NIS 99 million, respectively.

(3) Revenues recorded for the year ended on December 31, 2022 and the year ended December 31, 2021, from the Gas Lines Company in the amount of approximately NIS 7 million and an amount of approximately NIS 2 million, respectively, mainly for interest and exchange rate differences to finance the building of the natural gas pipeline.

b) Expenses:

(1) The electricity purchases and other costs from the Noga Company for the year ended on December 31, 2022, and the year ended December 31, 2021 amounted to approximately NIS 3,074 million and approximately NIS 489 million, respectively.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

a. 2. b) Expenses: (continued)

(2) Expenses for the year ended on December 31, 2022, for natural gas transmission fees to Natural Gas Lines, were about NIS 233 million and construction costs for fixed assets were about NIS 43 million. For the year ended on December 31, 2021, the expenses for natural gas transmission fees to Natural Gas Lines, were about NIS 231 million, and fixed asset construction costs in an amount of approximately NIS 57 million (see details in section b2d below).

(3) The remaining expenses for the year ended on December 31, 2022, and the year ended December 31, 2021, (primarily local authorities, leasing depreciation and financing expenses to affiliates parties, transmission of fuels and water) were about NIS 691 million, and about NIS 821 million, respectively.

b. <u>The Company enters into Several Types of Transactions with Related and Interested Parties:</u>

1. <u>Irregular Transactions (according to Section 270(4) of the Companies Law):</u>

To the best knowledge of the Company, the following are details of irregular transactions with a controlling party, or in which the controlling party has a personal interest according to section 270(4) of the Companies Law, entered by the Company, that are in effect as of the date of the Statement of Financial Position, and transactions in the two years preceding the Statement of Financial Position date.

<u>Project for the Establishment of a Natural Gas Transmission System:</u>

According to the agreement of November 10, 2004 between the Israel National Gas Lines Ltd (“INGL”), the Government of Israel and the Company, under which the Company will fund, manage and order the work required to set up part of the natural gas transportation system, the balance of the loan to INGL recorded in the Company’s books as on the statement of financial position date (including current maturities), is approximately NIS 156 million.

2. <u>Other Transactions (which are not Irregular and not Negligible):</u>

a) <u>The Eilat Ashkelon Pipeline Company Ltd. ("EAPC")</u>

On May 24, 2018, the Company and EAPC signed an amendment to the agreement that was signed in 1997, in which it was agreed to charter the two new tugboats to replace the tugboats mentioned above, through the Coal Company.

According to the agreement between the Company and the EAPC, considering the operational status and maintenance costs of the tugboats, the Coal Company purchased 2 new tugboats in August 2018. The tugboats have been received and were leased by a finance lease in early 2019.

The lease investment balance (including current maturities) included in the financial statements in long-term other receivables as on December 31, 2022 and December 31, 2021, are approximately NIS 58 million and NIS 53 million, respectively.

b) <u>Energy Infrastructures Ltd. ("EI")</u>

1) In January 1997, an agreement was signed between the Company and EI, within which EI constructed an oil distillate line ("the oil distillate line") to the Gezer site, through which oil distillates are pumped for 50 years from the beginning of the regular operation of the line, namely up to May 2048. The charter is treated in the Company's books as a finance lease. The balance of the lease as of December 31, 2022 amounts to approximately NIS 7 million, and as of December 31, 2021, amounts to approximately NIS 8 million. The amortized amount of the right-to-use asset as of December 31, 2022 is approximately NIS 5 million, and as of December 31, 2021, approximately NIS 6 million.

Estimated original cost of the transaction is approximately NIS 31 million. The effect of this transaction on the profitability of the Company is negligible.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

b. The Company enters into Several Types of Transactions with Related and Interested Parties: (continued)

2. Other Transactions (which are not Irregular and not Negligible): (continued)

b) Energy Infrastructures Ltd. ("EI") (continued)

2) Diesel fuel segments:

In accordance with a Government Resolution of June 5, 2016 with regards to the construction of fuel lines for the purpose of increasing the national supply capacity of backup fuel to dual fuel power stations with the capacity for diesel fuel-based generation, on July 12, 2020, an engagement agreement was signed with EI for the construction of diesel fuel pipe segments.

The project’s planning and performance, the lines’ maintenance, and the ownership of the lines will be under EI’s full responsibility.

In the future, the agreement is expected to be endorsed to the Noga Company.

The first payment for the construction costs will be made within 60 days following the completion of each segment, and for the duration of 20 years (linked to the fuel sector’s infrastructure rates). This project is expected to be completed during 2024. In December 2022, the construction of the first segment entitling to payment as aforesaid has not yet been completed.

The comprehensive cost of constructing the pipeline is estimated by an amount of approximately NIS 800 million.

c) Liability to the State of Israel

In the 1990's the Company received loans in the amount of NIS 1.5 billion from the Industrial Development Bank Ltd., guaranteed by the State of Israel. In October 2009, a letter of assignment was entered between the bank and the State, assigning these loans to the State. Pursuant to the assignment there was no change in the conditions of the loans. Within the Assets Arrangement, in 2018, these loans were converted to a CPI-linked NIS loan which was adjusted to the existing market conditions. The balance of the loan as on December 31, 2022 is approximately NIS 1,887 million (including before transfer to current maturities).

d) Agreement for the Transmission of Natural Gas

In June 2006, the Company and the Gas Lines Company (hereinafter: Gas Lines) signed an agreement for the transmission of natural gas according to the version published by the Natural Gas Authority, which is applicable to all gas consumers. In January 2009, the agreement of 2006 was replaced by a new agreement with a validity of 15 years from the date of connection of each site to the gas transmission system. The Company's Board of Directors approved the agreement on February 2, 2008.

The original cost of the transaction for the period of the agreement was estimated at approximately NIS 2,520 million. Within the electricity rate, the Electricity Authority grants the Company recognition for the capacity and energy costs in accordance with the gas quantities calculated by it in the fuels basket.

Following the update of the transmission rate in accordance with the decision of the Natural Gas Authority in the Ministry of Energy, the capacity cost that is paid by the Company to Natural Gas Lines starting from December 1, 2013, amounted to approximately NIS 22 million every month, or an aggregate amount of approximately NIS 264 million a year.

1. Increasing capacity and contractual engagements

   a. An update agreement was signed on December 2019 with regards to the transmission agreement, including an addition to the Company’s aggregate capacity in relation to the CCGTs to be built and operated by natural gas at the “Orot Rabin” site through the payment of connection fees in an amount of approximately NIS 77 million, which was recorded in the fixed assets item.

      The amount of the transaction with respect to the ordered additional capacity is estimated at approximately NIS 30 million per year as of the date of operation.

      The capacity payments began in June 2022.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

b. The Company enters into Several Types of Transactions with Related and Interested Parties: (continued)

2. Other Transactions (which are not Irregular and not Negligible): (continued)

d) Agreement for the Transmission of Natural Gas (continued)

1. Increasing capacity and contractual engagements (continued)

b. In August 2020, an addendum was signed with respect to the transmission agreement with the Gas Lines Company for the purpose of connecting the first unit at the Rutenberg power station, which is intended to undergo a conversion of generation units from coal to natural gas, following the Minister of Energy’s decision to phase out the use of coal and convert coal-fired units into natural gas. The payment of the connection fee with respect to the converted unit amounts to approximately NIS 65 million, which will be paid by the Company in accordance with the standard terms of the transmission agreement.

The transaction amount for the ordered additional capacity is estimated at approximately NIS 33 million per year as of the date of operation.

c. In December 2021, an addendum to the agreement with the Gas Lines Company was signed, for the connection of the second unit at the Rutenberg power station which is also intended to be converted from coal to natural gas. The payment of the connection fees for this converted unit is estimated at approximately NIS 83 million and will be recorded in the fixed assets item. The amount is expected to be updated pursuant to costs in practice.

The transaction amount for the ordered additional capacity is estimated at approximately NIS 30 million per year as of the date of operation. The increase in capacity for the CCGTs being constructed at the “Orot Rabin” was also approved on this date. The transaction amount for the ordered additional capacity amounts to approximately NIS 20 million per year.

d. In January 2023, an addendum to the transmission agreement with the Gas Lines Company was approved, regarding the connection of 4 additional units which are converted to gas, two units at the Rutenberg power station and two units at the Orot Rabin power station. The payment of the fees for connection to these converted units is estimated at NIS 146 million and will be recorded in the fixed assets item. The sum is expected to be updated pursuant to actual costs.

The transaction amount for the ordered additional capacity for all four units is estimated at approximately NIS 111 million per year. The capacity payments of each of the units will be added on the contractual date defined for each unit.

2. Reductions resulting from the sale of stations

a. As of December 2019, the aggregate capacity of the Company was decreased as a result of the sale of Alon Tavor power station. As a result, the monthly capacity payments were reduced to a cost of approximately NIS 20 million, approximately NIS 240 million per year.

b. As of December 2020, the Company’s aggregate capacity was reduced as a result of the sale of the Ramat Hovav power station. As a result, the monthly capacity payments have been reduced to a cost of approximately NIS 18 million, amounting to approximately NIS 216 million per year.

c. The effect of the 15-year transmission agreement ended for the Reading and Eshkol sites at the end of June 2021 and the beginning of July 2021, respectively. In June 2020, an extension was approved with respect to the transmission agreement of these sites by either 5 years or until the date of the sites’ sale and the signing of transmission agreements between Gas Lines and the future buyers, pursuant to the reform outline as stated in Note 1e, whichever is sooner.

d. Within the framework of the reform in the electricity sector, in June 2022, the Company sold units 3-6 at the Hagit site. As a result, the monthly capacity payments were reduced to the cost of approximately NIS 16.4 million which are approximately NIS 197 million per year.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

b. The Company enters into Several Types of Transactions with Related and Interested Parties: (continued)

2. Other Transactions (which are not Irregular and not Negligible): (continued)

e) Israel Ports Company

The Israel Ports Company – Assets and Development Ltd. (hereinafter “IPC”) is establishing a new marine terminal for container conveying in the Port of Ashdod adjacent to the premises of the Company.
A need to shift these infrastructures arose because the infrastructures of the Company are situated in the area of IPC and in other areas along the coastal strip, and infrastructures and facilities belonging to third parties are situated there.

Talks have been held between the parties as of 2014, as of the date of approval of these financial statements, they have not yet matured to signing a binding contract.

f) Agreement with the Ministry of Defense:

On October 18, 2018, the Contracts and Assets Committee of the Company's Board of Directors approved an agreement to receive construction services for fixed assets from the Ministry of Defense.
Up to the Statement of Financial Position date, the scope of investment amounted to approximately NIS 122.5 million.
Estimated cost of the transaction is approximately NIS 154 million (without capitalization of financing costs).

g) Remote disconnection of wind turbines:

As part of the government’s policy to encourage the use of renewable energies, private wind turbine electricity generation projects are advanced in the North of Israel by private entrepreneurs. The Ministry of Defense has conditioned its approval in finding a required technological solution for states of emergency.
The estimated value of the transaction is approximately NIS 250 million. A rate of 85% of the value of the transaction will be financed in accordance with the decision of the Electricity Authority’s plenum (hereinafter: the “Authority”) of December 23, 2019, as follows: one third by the electricity consumers through electricity rate recognition, two thirds through collection from the private entrepreneurs.

As of the statement of financial position date, the Company has collected from the electricity consumers and the private developers (from November 2021 – through Noga) approximately NIS 202 million, and transferred to the Ministry of Defense an amount of approximately NIS 192 million.

This agreement has no consequential impact on the Company.

h) Leasing tanks for the storage of sectorial diesel fuel

On October 31, 2021, the Company signed an agreement with “Energy Infrastructures Ltd.” Co. for the leasing of tanks to store sectorial diesel fuel. The agreement is subject to the approval of the Electricity Authority and receipt of a permit from the Fire Services. The agreement is expected to be converted in the future to the Noga Company.

The building of the tanks is expected to commence in the first half of 2023, and the duration of the building is expected to be approximately two and a half years. The leasing term is 20 years as of the date of the tanks’ handover, and the Company has the option to extend the leasing term for an additional 20 years. The monthly leasing fee is in accordance with the leasing rate applicable upon the date of the tanks’ handover pursuant to the Order for Supervision of Product and Service Prices (Infrastructure Rates in the Fuel Sector), 2014.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

b. <u>The Company enters into Several Types of Transactions with Related and Interested Parties: (continued)</u>

3. <u>Negligible Transactions according to Regulation 41(a3)(1) to the Securities Regulations (Annual and Financial Statements), 2010</u>

Negligible Transactions Procedure

The Company and its consolidated companies carry out or may carry out, as part of their normal business activities, transactions and/or obligations to carry out transactions with a controlling party, or in which the controlling party has a personal interest ("Controlling Party Transaction"), as well as transactions with interested parties, as defined in section 1 of the Securities Law – 1968, and transactions with related parties of the Company as defined under International Accounting Standard 24.

Usually, these transactions are not material to the Company or its consolidated companies, from both the quantitative and qualitative aspects and are generally carried out under similar terms to terms of transactions with third parties. Moreover, from the Company's point of view, these transactions are mostly integral to its current activity, since the Company is on the one hand a Government Company, where the controlling party is the State, and on the other hand, a supplier of an essential and central service to the Israeli economy.

a) On March 29, 2012, the Company's Board of Directors approved a procedure that determines in advance guidelines and rules for classifying controlling party transactions as minor transactions, as stated in regulation 41(a3)(1) to the Securities Regulations (Annual Financial Statements) 2010, that will serve to examine the required extent of the disclosure in the periodic and quarterly reports and in the prospectus of a controlling party transaction, as stated in regulation 22 of the Securities Regulations (Periodic and Immediate Reports) 1970 (hereinafter: the "Regulations of the Reports") and in regulation 54 of the Securities Regulations (Details of the Prospectus and Draft of the Prospectus – Structure and Shape), 1969

b) On February 28, 2013, the Company's Board of Directors approved an amendment to the quantitative test within the Procedure (described in section (a) below). In addition, the Board of Directors approved the adoption of the Procedure with respect to the disclosure that will be provided to transactions with related parties and to transactions with interested parties within the framework of the Notes to the Financial Statements.

These guidelines and rules were determined, inter alia, after considering the types and characteristics of transactions by the controlling party in the Company, transactions with interested parties and transactions with related parties of the Company, noting the scope of activity of the Company, which is one of the largest companies in the economy, the volume of the Company's assets, liabilities and revenues. These guidelines may be examined from time to time by the Company's Board of Directors, which is entitled to change them from time to time and/or add other guidelines.

According to these guidelines and rules, it was determined that a Controlling Party Transaction and/or an Interested Party Transaction and/or a Related Party Transaction will be considered as a minor transaction if it passes the following two-stage test:

a) Quantitative Test:

The scope and/or value of the transaction are less than NIS 10 million.

In multi-annual transactions (for example: an agreement for a period of several years) the transaction will be examined to decide if it is minor on an annual basis (namely, does the annual financial amount deriving from the agreement exceed the amount stated in the aforementioned rule).

Each transaction will be inspected separately, however combined or conditional transactions (which are actually part of the same agreement), will be examined on aggregate.

b) Qualitative Test:

The transaction is part of the normal business activity of the Company and is inherent to its current activity, carried out at market conditions and from its type, nature and effect on the Company it is immaterial to the Company and there are no special considerations arising from all the circumstances of the transaction, indicating the materiality of the transaction.

The Audit Committee reviews the negligible transaction procedure in the Company every year.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

c. 1) Remuneration and benefits to Key Management Personnel and Interested Parties (including Directors) employed by the Company:

	Year Ended December 31,			Payment in the Year Ended December 31,		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
	Number of Individuals			**NIS in millions**		
Total gross salary	30	33	33	23.9	31.6	25.6
Employer's costs	30	33	33	5.5	5.9	5.9
Total remuneration	**30**	**33**	**33**	**29.4**	**37.5**	**31.5**
Benefits with respect to severance	5	3	2	3.8	1.7	1.2
Post-employment benefits – pension liability balance and other benefits	20	21	23	78.6	117.4	109.5
Short-term employee benefits	25	28	31	2.2	3.1	2.6

a) Key Management Personnel in the Company include: Acting Chairman of the Board of Directors, CEO, members of Company Management, directors. See details of remuneration to Directors in section c2 below.

b) On November 18, 2021, the Board of Directors of the Company, in accordance with the recommendation of the Remunerations Committee on November 4, 2021, re-approved the updated remuneration policy for senior officers of the Company (the “Remuneration Policy”). The above approval was given after the Board of Directors discussed and considered the recommendations of the Company's Remuneration Committee, taking into consideration the criteria prescribed in the Companies Law and taking into account the considerations and principles detailed below. The compensation package was adapted to the size of the Company, the nature of its activity, the Company's desire to retain its officers, and the fact that the Company is a government company subject to the provisions of the Government Companies Law and its various regulations, and the directives of the Government Companies Authority, which restrict the Company’s ability to act independently in matters of wages and employee benefits. The Company’s objectives and considerations and principles at the base of the policy which reflect the updated Company objectives, approvals required for approval or update of the Company’s officers’ terms of employment, parameters relating to examination of the remuneration terms, the remuneration terms for the Company's officers, remuneration in connection with employment termination, and the liability insurance clause for officers, inter alia, were updated within the approved remuneration policy. The Remuneration Policy was approved at the general meeting of February 3, 2022.

c) In 2022, personal remuneration was paid to 109 senior employees employed with personal contracts and officeholders in the amount of NIS 7.1 million with respect to 2021. Considering the Company’s compensation policy as described above, in addition there is a provision in the Company's books of approximately NIS 10.5 million for personal remuneration for senior officers employed with personal contracts and officeholders for 2022 and 2021. These amounts are not included in the salary data in sections c1 and c2.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

c. 2) Remuneration and benefits to Key Management Personnel and Interested Parties (including Directors) not employed by the Company:

	Year Ended December 31,			Year Ended December 31,		
	2022	2021	2020	2022	2021	2020
	Number of Individuals			NIS in millions		
Total benefits with respect to Directors not employed by the Company*	* 10	* 9	** 8	1.0	0.9	0.8
Total benefits with respect to Key Management Personnel not employed by the Company**	-	-	-	-	-	-

* In 2022 and in 2021 two Directors served on behalf of the employees, who do not receive salary for their participation in meetings of the Board of Directors.

** The Company does not have benefits to Key Management Personnel who are not employed by the Company.

d. Regarding details of transactions with related parties of investee companies, see Note 11 above.

e. Several Indemnification Letters furnished by the Company:

1. Indemnification of Directors and Officers of the Company

a) Following the approval of the audit committee and the Board of Directors of the Company from November 1, 2012, on November 22, 2012, the general assembly of shareholders, approved the issuance of a letter of indemnity to the Directors of the Company, the CEO of the Company, the VP Finance and Economics of the Company and the Legal Consultant and Secretary of the Company (hereinafter: “the Officers"), who served in the Company on the relevant determining date that will apply to the events detailed below, even if the date of occurrence of the event to be indemnified took place prior to the date of issuing the letter of indemnity:

1) A resolution regarding private placements and raising of debts by the Company, not by way of or based on a prospectus and the responsibility arising from such resolution, with respect to private placements and debt issuances that will be carried out from the date of the approval of the letter of indemnity by the Company’s Audit Committee and Board of Directors up to June 2013, provided that the proceeds of the said debt raised will be allocated, in accordance with a written prior approval to be provided by the Director General of the Companies Authority, to the financing of fuel costs in excess of those that will be recognized as part of the rate, in accordance with the Outline published by the Electricity Authority for the gradual increase in electricity rates over a period of three (3) years (hereinafter: "the Electricity Authority’s Outline").

2) Preparation, approval, signing and publication of a prospectus by the Company, including the disclosure under the prospectus and the issuance of debentures by the Company based on the prospectus (including an agreement with the State of Israel on the provision of a guarantee and the receipt of the State of Israel’s guarantee for the issuance and including the resolution to issue securities by the Company for the purpose of covering fuel costs in excess of those which will be recognized in the rate as part of the Electricity Authority’s Outline), provided that the proceeds of the securities to be issued by the Company are allocated to the financing of fuel costs in excess of those that will be recognized on the date of publication of the prospectus as part of the rate in accordance with the Electricity Authority’s Outline for the gradual increase in electricity rates, namely, not later than June 30, 2012.

In this section, “the prospectus” means the prospectus of June 26, 2012, as amended on July 2, 2012.

The “Relevant Determining Date” means, in relation to the prospectus– the date of publication of the prospectus; in relation to a private placement of debentures – the date of the Resolution by the Board of Directors of the Company regarding the execution of the private placement.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

e. Several Indemnification Letters furnished by the Company: (continued)

1. Indemnification of Directors and Officers of the Company (continued)

The amount of indemnification the Company may have to pay for all the Officers, cumulatively, under the Indemnity Letter, and pursuant to any other undertaking and letter of indemnity issued to the Officers (within their meaning in the Companies Law) and the employees of the Company (including commitments and letters of indemnification issued by the Company to Officers and/or employees of the Company, in connection with the preparation, approval and publication of the Financial Statements of the Company as of June 30, 2009), or insofar as they will be issued by the Company in the future, including, if and insofar as the Company will provide indemnification in connection with a restructuring in the Company and/or privatization, shall not exceed an amount of NIS 10 billion or an amount constituting 25% of the Company's equity as of June 30, 2009, linked to the Israeli Consumer Price Index on July 2009.

b) On April 20, 2015, the Audit Committee and the Board of Directors of the Company, and on May 25, 2015, the general meeting of shareholders, approved granting letters of indemnification to the directors, Company CEO and officeholders of the Company, who are serving and/or have served in the Company, which will apply to the events detailed below, even if the date of occurrence of the event to be indemnified occurred before the date of granting the letter of indemnification:

1) Issuing securities and listing them within a public offering, including in all that pertains, directly or indirectly, to the proceedings of the public offering and providing information for the proceedings of the public offering, including preparation, approval with respect to the issue and submitting the Company's prospectus, signing and submitting the prospectus and disclosure within the framework of the prospectus (including, for the avoidance of doubt, Chapter A of the periodic report of the Company for 2014, as well as the report of the Board of Directors of the Company for 2014 and the Financial Statements of the Company for 2014 which will be attached to the prospectus by way of reference), including preparation, approval, submission and signing drafts of the prospectus and the disclosure within them. Regarding this context, "the prospectus" means a prospectus which the Company intends to publish (insofar as will be published) on the basis of its Financial Statements as of December 31, 2014 for the purpose of issuing debentures to the public, which will be listed on the Tel Aviv Stock Exchange Ltd.

2) Preparation, signing and publication of Financial Statements as their meaning in Regulation 9 of the Securities Regulations (Periodic and Immediate Reports) - 1970 (hereinafter: the "Report Regulations"), as well as a separate financial statement of the Company as its meaning in Regulation 9 c of the Report Regulations, Interim Financial Statements as their meaning in Regulation 40 of the Report Regulations if applies, after issue of the securities pursuant to the prospectus and listing them within the framework of the public offering and for as long as they are listed as stated.

Regarding this section, "The Prospectus" means the prospectus of May 25, 2015.
The "Relevant Determining Date" means, in relation to the prospectus– the date of publication of the prospectus; in relation to a private placement of debentures – the date of the Resolution by the Board of Directors of the Company regarding the execution of the private placement.
According to the provisions of the letter of indemnification, the cumulative indemnification sum the Company might have to pay all the officeholders, pursuant to the letter of indemnification and pursuant to any obligation and other letter of indemnification for officeholders which was given or insofar as will be given in future, will not exceed an amount constituting 25% of the Company's equity as of the date of payment (the "Maximum Indemnification Sum"), according to the Company's latest financial statements which were approved before the actual payment date, according to the lowest among them.
Additionally, it was determined in the letter of indemnification that except in the event that the Companies Authority publishes a policy document with regard to indemnification of officeholders, which would benefit the officeholders in the issues arranged in this paragraph (in which case the provisions of the stated policy with respect to this issue will apply), executing any payment pursuant to the letter of undertaking to indemnify is dependent on the approval of a committee of the Board of Directors, consisting of at least two members, when none of its members have a personal interest, direct or indirect, in the execution of the payment, and most of its members are independent or external directors, that the terms set in the letter of undertaking to indemnify for executing the payment are fulfilled. If the Company does not have a committee of the Board of Directors as detailed in this paragraph, the payment will be dependent pursuant to the letter of undertaking to indemnify on the approval of the general meeting, that the terms set in the letter of undertaking to indemnify for executing the payment are fulfilled.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

e. <u>Several Indemnification Letters furnished by the Company: (continued)</u>

1. <u>Indemnification of Directors and Officers of the Company (continued)</u>

c) On November 19, 2015, and November 26, 2015, the Remuneration Committee and the Board of Directors of the Company, and on December 21, 2015, the general meeting of shareholders, approved the granting of letters of indemnification to directors and office holders serving in the Company and/or who served in the Company, which will apply to the events detailed below, even if the date of occurrence of the event for which indemnification is possible occurred prior to the date of granting the indemnification letter:

1) Issuing securities and listing them, within a public offering including all that relates, directly or indirectly, to the proceedings of the public offering and giving information for the purpose of the public offering proceedings, including preparation, approval with respect to the issuance and submitting a shelf prospectus by the Company, signing and submitting the Prospectus, and the disclosure within the Prospectus (including the Periodic Report of the Company for 2014, the Company's quarterly report for the first quarter of 2015 and the Company's quarterly report for the second quarter of 2015, which were attached to the Prospectus by way of reference) including preparation, approval, submission and signing of drafts of the Company Prospectus and the disclosure within them.

2) Preparation, approval, submission and signing of the shelf offering reports (including their appendices) on the basis of the prospectus and including all that pertains, directly or indirectly, to the proceedings of offering to the public and delivering information for the proceedings of offering to the public, including preparation, approval with respect to the issue and submitting the shelf offering reports by the Company, signing and submitting the shelf offering reports and disclosure within the shelf offering reports (including information which will be attached to the shelf offering report by way of reference).

3) Preparation, approval, signing and publication of financial statements as their meaning in Regulation 9 of the Reports Regulations, as well as a separate financial statement of the Company as its meaning in Regulation 9c of the Reports Regulations and interim financial statements as their meaning in Regulation 40 of the Reports Regulations, as the case may be, after issuing the securities pursuant to the prospectus and listing them within the offering to the public and as long as they are listed as stated.

The indemnification sum the Company might pay for all the officers, cumulatively, pursuant to the indemnification, will not exceed NIS 2 billion (the "Maximum Indemnification Amount") and will be set in stages as follows:

(a) as of the date of execution of the Company's first raising on the basis of the shelf prospectus, and until the date on which the Company will raise, on the basis of the shelf prospectus, a sum of NIS 1.25 billion, the maximum indemnification amount will be NIS 0.5 billion. For the removal of doubt, as of the date of execution of the first raising as stated, the indemnification will apply to all the actions with respect to a prospectus or financial statement (as their definition in the letter of indemnification), including actions which were executed by the Company before the date of execution of the issue on the basis of the shelf prospectus.

(b) to the extent that the Company will raise, on the basis of the shelf prospectus, securities in an amount exceeding NIS 1.25 billion and up to a total amount of NIS 5 billion, the maximum indemnification amount will be determined as the multiplication of the total amount raised by the Company on the basis of the shelf prospectus by 0.4.

(c) to the extent that the Company will raise, on the basis of the shelf prospectus, securities in an amount of NIS 5 billion and more, the maximum indemnification amount will be NIS 2 billion.

It is clarified that despite the above mentioned, in any case the total indemnification amount which will be paid by the Company with respect to all the indemnification letters issued or that will be issued to officers will not exceed 25% of the Company's equity according to the Company's latest financial statements before the date of the actual payment of any indemnification.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

e. Several Indemnification Letters furnished by the Company: (continued)

1. Indemnification of Directors and Officers of the Company (continued)

d) On December 5, 2018, the Remuneration Committee, on December 13, 2018 the Board of Directors of the Company, and on January 24, 2019, the general meeting of shareholders, approved the granting of letters of indemnification to directors, the Company CEO and office holders serving in the Company and/or who served in the Company, which will apply to the events detailed below, even if the date of occurrence of the indemnifiable event occurred prior to the date of granting the indemnification letter:
Fulfillment of an obligation and/or execution of an action for the issue of securities, within the framework of an offering circular under the GMTN plan prepared by the Company and the issuance pursuant to which was executed in February 2018, as well as any other offering circular which the Company will issue on its basis within the Company's GMTN plan (the “Offering Circular”), including anything directly or indirectly related to the offering proceedings according to the offering circular and the provision of information for the purpose of the offering proceedings according to the offering circular, including the preparation of an offering circular by the Company and its approval , Issuance on the basis of an offering circular and its delivery to investors, disclosure within the framework of the offering circular (including, for the avoidance of doubt, the Company's periodic reports for the years 2015 and 2016, and the quarterly reports of the Company for the third quarter of 2016 and 2017, which were attached to the offering circular by way of reference).

As of the effective date, the amount of indemnification that the Company may pay to all the officers, cumulatively, according to the letter of indemnity, will not exceed NIS 2 billion (the “Maximum Indemnification Amount”), in levels that will be determined as follows:

1) If the Company will raise, on the basis of offering circulars within the GMTN plan, securities exceeding NIS 1.25 billion and up to a total sum of NIS 5 billion, then the maximum indemnification amount will be determined as a multiplication of the total amount raised by the Company on the basis of the offering circular by 0.4.
2) If the Company raises, on the basis of offering circulars within the GMTN plan, securities in the amount of NIS 5 billion or more, the maximum indemnification amount will be NIS 2 billion.

For the purpose of this section, the "Effective Date" means the date of execution of the pricing process in a bid according to the offering circular.
It is clarified that in spite of the aforesaid, in any event, the total amount of indemnity to be paid by the Company with respect to all indemnification letters issued or to be issued by it to officers will not exceed 25% of the Company's equity according to the Company's most recent financial statements, approved prior to the date of actual payment of any indemnification, and less any indemnification granted or that will be granted in subsidiary companies and associate companies according to the rate of the Company’s holding therein, and that in any event, the total amount of the indemnification to be paid by the Company with respect to a letter of indemnity and with respect to letters of indemnification granted by the Company to its officers in accordance with the resolution of the general meeting of the Company of December 21, 2015, and the letters of indemnification to be granted by it the company to its officers in connection with the shelf prospectus published by the Company in April 2018, will not exceed NIS 2 billion.

Since the indemnification letter was limited to a term of 3 years as of the effective date, it remained in effect until February 7, 2021. On October 1, 2020, the Remuneration Committee and the Company’s Board of Directors have approved, and on December 29, 2020, the General Assembly of Shareholders approved the renewal of the indemnification letter with for directors and senior officers, serving in the Company and/or who served in the Company, for an additional period of 3 years, i.e. until February 7, 2024.

e) On December 5, 2018, the Remuneration Committee, on December 13, 2018 the Board of Directors of the Company, and on January 24, 2019, the general meeting of shareholders, approved the granting of letters of indemnification to directors, the Company CEO and office holders serving in the Company and/or who served in the Company, which will apply to the events detailed below, even if the date of occurrence of the indemnifiable event occurred prior to the date of granting the indemnification letter:

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

e. <u>Several Indemnification Letters furnished by the Company: (continued)</u>

1. <u>Indemnification of Directors and Officers of the Company (continued)</u>

e) (continued)

Fulfillment of an obligation and/or execution of an action for the purpose of one of the following:

1) Securities issuance and listing for trade, within a public offering including with all that directly or indirectly relates to the public offering proceedings and provision of information for the public offering proceedings, including preparation, approval regarding the issuance, and submitting the shelf prospectus which was published by the Company in April 2018 (the “Prospectus”), signing and submitting the prospectus and disclosure within the framework of the prospectus (including, for the avoidance of doubt, the Company’s 2017 periodic report which was attached to the prospectus by way of reference), including preparation, approval, submission and signing the drafts of the Company’s prospectus and the disclosure within their framework.

2) Preparation, approval, submission, signing and publication of shelf offering reports (and their appendices) on the basis of the prospectus, including all matters relating directly or indirectly to the public offering proceedings and the provision of information for the purposes of public offering proceedings, including preparation, approval of the issuance and submission of the shelf offering reports by the Company, signing and submission of the shelf offering and disclosure reports within the framework of the shelf offering reports (including, for the avoidance of doubt, the information to be attached to the shelf offering report by way of reference).

3) Preparation, approval, signing and publication of financial statements as defined in Regulation 9 of the Reports Regulations, as well as a separate financial statement of the Company within its meaning in Regulation 9c of the Reports Regulations, interim financial statements as defined in Regulation 40 of the Reports Regulations, as the case may be, after issuance of the securities under the prospectus and listing them for trading within the framework of the public offering and as long as they are listed for trading as aforesaid.

As of the effective date, the amount of indemnification that the Company may pay to all the officers, cumulatively, according to the letter of indemnity, will not exceed NIS 2 billion (the “Maximum Indemnification Amount”), in levels that will be determined as follows:

(a) As of the date of the Company's initial raising on the basis of the shelf prospectus, and up to the date on which the Company will raise, on the basis of the shelf prospectus, a sum of NIS 1.25 billion, the maximum indemnification amount will be NIS 0.5 billion.
(b) If the Company raises, on the basis of the shelf prospectus, securities amounting to more than NIS 1.25 billion and up to a total amount of NIS 5 billion, then the maximum Indemnification amount will be determined as the multiplication of the total amount raised by the Company on the basis of the shelf prospectus by 0.4.
(c) If the Company raises, on the basis of the shelf prospectus, securities in the amount of NIS 5 billion or more, the maximum indemnification amount will be NIS 2 billion.

For the purpose of this section, the "Effective Date" means the date of the Company’s publication of the first public offering report on the basis of the shelf prospectus.

It is clarified that in spite of the aforesaid, in any event, the total amount of indemnity to be paid by the Company with respect to all indemnification letters issued or to be issued by it to officers will not exceed 25% of the Company's equity according to the Company's most recent financial statements, approved prior to the date of actual payment of any indemnification, and less any indemnification granted or that will be granted in subsidiary companies and associate companies according to the rate of the Company’s holding therein, and that in any event, the total amount of the indemnification to be paid by the Company with respect to a letter of indemnification and with respect to letters of indemnification granted by the Company to its officers in accordance with the resolution of the general meeting of the Company of December 21, 2015, and the letters of indemnification to be granted by it the Company to its officers in connection with the issuance under the GMTN plan, will not exceed NIS 2 billion.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

e. <u>Several Indemnification Letters furnished by the Company: (continued)</u>

1. <u>Indemnification of Directors and Officers of the Company (continued)</u>

f) On December 5, 2018, the Remuneration Committee, on December 13, 2018 the Board of Directors of the Company, and on January 24, 2019, the General Meeting of shareholders, approved the granting of letters of indemnification to Directors, the Company's CEO and Office Holders serving in the Company and/or who served in the Company, which will apply to the events detailed below, even if the date of occurrence of the indemnifiable event occurred prior to the date of granting the indemnification letter:

(1) Signing the document of liabilities of the Company including the adoption of the decision and the approval of the Company's liabilities document and the outline of the structural change by the Company.
(2) Supervision and control of the Company's compliance with the outline of the structural change.

(3) The material operations that were required directly for the purpose of implementing the Company's material undertakings within the outline of the structural change, including:
- Engagement in agreements for the sale of existing production sites of the Company, including real estate and fixtures required for generation and transmission of energy to the grid, including supporting infrastructures located on the site and material activities required directly to implement the said agreements.
- Engagement in agreements for the sale of assets by the Company to the System Management Company and the conversion of agreements from the Company to the System Management Company and material activities required directly in order to implement the said agreements.
- Engagement in agreements for and in connection with the establishment of a generation subsidiary by the Company and material activities that are required directly in order to implement the said agreements.

Regarding this section, “Outline of the Structural Change” means sale of the generation sites, transfer of the system administration activity, establishing the subsidiary “Netiv Ha’or – Orot Rabin Ltd.” and the organizational change in the Company, all under the Co0mpany’s document of liabilities and the Government’s resolution.

As of the effective date, the amount of the indemnification that the Company may pay to all the officers, cumulatively, according to the letter of indemnity will not exceed NIS 2 billion (the “Maximum Indemnification Amount”).
For the purposes of this section, the “Effective Date” means May 10, 2018.

It is clarified that in spite of the abovementioned, in any event, the total amount of indemnity to be paid by the Company with respect to all the letters of indemnification issued or to be issued by it to officers will not exceed 25% of the Company's equity according to the Company's latest consolidated financial statements approved prior to the date of payment In practice according to the letter of indemnity and less indemnification granted or to be granted in subsidiaries and associated companies according to the rate of the Company's holding therein.

Since the indemnification letter was limited to a term of 3 years as of the effective date, it remains in effect until May 10, 2021. On October 1, 2020, the Remuneration Committee and the Company’s Board of Directors have approved, and on December 29, 2020, the General Assembly of Shareholders approved the renewal of the indemnification letter with for directors and senior officers, serving in the Company and/or who served in the Company, for an additional period of 3 years, i.e. until May 10, 2024.

g) On December 5, 2018, the Remuneration Committee approved, on December 13, 2018, the Company's Board of Directors approved and on January 24, 2019, the general meeting of the shareholders approved the granting of a letter of indemnification to the directors, the Company's CEO and officers serving in the Company and/or that served in the Company, which will apply to the events detailed below, even if the date of occurrence of the indemnifiable event was prior to the date of granting the letter of indemnification:

(1) The Company signing the agreements relating to the Assets Arrangement including adoption of the decision and approval of the agreements relating to the Assets Arrangement.
(2) Supervision and control of compliance with the outline of the Assets Arrangement.
(3) The material operations that were required directly for the purpose of implementing the Company's material undertakings within the Assets Arrangement.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

e. Several Indemnification Letters furnished by the Company: (continued)

1. Indemnification of Directors and Officers of the Company (continued)

g) (continued)

Regarding this section, the “Assets Arrangement” means the outline of the Assets Arrangement pursuant to the agreements of January 3, 2018, regarding the Assets Arrangement between the Company, the State of Israel, the Israel Land Authority and the Municipality of Tel Aviv.
As of the effective date, the amount of the indemnification that the Company may pay to all the officers, cumulatively, according to the letter of indemnity will not exceed NIS 1 billion (the “Maximum Indemnification Amount”).
For the purposes of this section, the “Effective Date” means January 3, 2018.

It is clarified that in spite of the abovementioned, in any event, the total amount of indemnity to be paid by the Company with respect to all the letters of indemnification issued or to be issued by it to officers will not exceed 25% of the Company's equity according to the Company's latest consolidated financial statements approved prior to the date of payment In practice according to the letter of indemnity and less indemnification granted or to be granted in subsidiaries and associated companies according to the rate of the Company's holding therein.

Since the indemnification letter was limited to a term of 3 years as of the effective date, it remained in effect until January 3, 2021. On October 1, 2020, the Remuneration Committee and the Company’s Board of Directors have approved, and on December 29, 2020, the General Assembly of Shareholders approved the renewal of the indemnification letter with for directors and senior officers, serving in the Company and/or who served in the Company, for an additional period of 3 years, i.e. until January 3, 2024.

h) On June 6, 2019, the Company’s Remuneration Committee and Board of Directors, and on July 4, 2019, the General Meeting of shareholders, approved granting a letter of indemnity to Directors, to the Company CEO, and to Officers serving in the Company and/or that served in the Company from the effective date, which will apply to the events detailed below, even if the date of occurrence of the indemnifiable event was prior to the date of granting the letter of indemnity:

Actions in connection with the compromise agreement with the Egyptian Gas Companies: the decision to enter into the compromise agreement, including entering the compromise agreement, which was adopted, inter alia, taking into consideration the actions taken by the Company to collect and enforce the arbitrator's award, and implementation of the compromise agreement.

For the purposes of this section, “**action or actions**” means - including an act and/or decision and/or omission; “**Compromise Agreement**” means the compromise agreement entered into by the Company with the Egyptian Gas Companies on June 16, 2019, regarding the amounts to be paid to the Company pursuant to the arbitrator's award and the manner of collection thereof, the main details of which are as detailed in the Immediate Report of the Company dated April 2, 2019 (reference no. 2019-01-031978); and the “**arbitrator's award**” means - the arbitration award of December 2015 which was given in favor of the Company following the dispute with the Egyptian Gas Companies, in the framework of which the Company was awarded a total of USD 1.76 billion plus interest and legal expenses;

As of the effective date, the amount of the indemnification that the Company may pay to all the Officers, cumulatively, according to the letter of indemnity, will not exceed NIS 2 billion (the "**Maximum Indemnity Amount**").

For the purposes of this section, the “**effective date**” means the date of receipt of the arbitrator's award.

It is hereby clarified that in spite of the aforesaid, in any event, the total amount of indemnity to be paid by the Company with respect to all the letters of indemnity issued or that will be issued by it to Officers will not exceed 25% of the Company's equity according to the Company's most recent financial statements approved prior to the date of actual payment according to the letter of indemnity and less indemnities granted or that will be granted in subsidiaries and associated companies according to the rate of the Company's holding therein.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

e. Several Indemnification Letters furnished by the Company: (continued)

1. Indemnification of Directors and Officers of the Company (continued)

i) On November 4, 2021, and November 18, 2021, the Company's Remuneration Committee and Board of Directors, respectively, and on February 3, 2022 the General Meeting of shareholders, approved granting a letter of indemnity to the Company's CEO, to each of the directors and officers serving in the Company and/or that served in the Company, which will apply to the events detailed below, even if the date of occurrence of the indemnifiable event was prior to the date of granting the letter of indemnity:

Fulfillment of an obligation and/or execution of an action for the purpose of one of the following:

1) Issuance of Securities and listing for trade, within a public offering including with all that directly or indirectly relates to the public offering proceedings and provision of information for the public offering proceedings, including preparation, approval regarding the issuance, and submitting the shelf prospectus which was published by the Company in May 2021 (the "**Prospectus**"), signing and submitting the prospectus and disclosure within the framework of the prospectus (including, for the avoidance of doubt, the Company's 2020 periodic report which was attached to the prospectus by way of reference), including preparation, approval, submission and signing the drafts of the Company's prospectus and the disclosure within their framework.

2) Preparation, approval, submission, signing and publication of shelf offering reports (and their appendices) on the basis of the prospectus, including all matters relating directly or indirectly to the public offering proceedings and the provision of information for the purposes of public offering proceedings, including preparation, approval of the issuance and submission of the shelf offering reports by the Company, signing and submitting the shelf offering and disclosure within the framework of the shelf offering reports (including, for the avoidance of doubt, the information to be attached to the shelf offering report by way of reference).

3) Preparation, approval, signing and publication of annual and quarterly statements with all their chapters, including the Financial Statements, Description of the Company's Business Affairs, the Board of Directors' Report on the Status of the Company's Affairs, pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970.

The indemnification sum the Company might pay for all the Officers, or for Company employees who are not Officers of the Company, cumulatively, pursuant to the letter of indemnification, or with respect to letters of undertaking to indemnify for similar causes, given or insofar as will be given by the Company in future, will not exceed NIS 2 billion in stages that will be set as follows (in this section - the "**Maximum Indemnification Amount**"):

1) as of the date of execution of the Company's first raising on the basis of the shelf prospectus, and until the date on which the Company will raise, on the basis of the shelf prospectus, a sum of NIS 1.25 billion, the maximum indemnification amount will be NIS 0.5 billion.

2) to the extent that the Company will raise, on the basis of the shelf prospectus, securities in an amount exceeding NIS 1.25 billion and up to a total amount of NIS 5 billion, the maximum indemnification amount will be determined as the multiplication of the total amount raised by the Company on the basis of the shelf prospectus by 0.4.

3) to the extent that the Company will raise, on the basis of the shelf prospectus, securities in an amount of NIS 5 billion and more, the maximum indemnification amount will be NIS 2 billion.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

e. Several Indemnification Letters furnished by the Company: (continued)

1. Indemnification of Directors and Officers of the Company (continued)

i) (continued)

It is clarified that despite the above mentioned, in any event, the total indemnification amount which will be paid by the Company with respect to all the indemnification letters issued or that will be issued by it to Officers and to Company employees who are not Officers of the Company will not exceed 25% of the Company's equity (neutralizing minority rights) according to the Company's latest consolidated audited or reviewed financial statements that were approved before the date of the actual payment under the letter of indemnification and less indemnification that was given or will be given in subsidiaries and associated companies according to the Company's holding rate therein and that in any event, the total indemnification amount that will be paid by the Company with respect to: letter of indemnification and with respect to other letters of indemnification given by the Company to its Officers or to Company employees who are not Officers of the Company in accordance with the decision of the Company's General Meeting of December 21, 2015, and the letters of indemnification given by the Company to its Officers regarding issuances pursuant to the GMTN plan in accordance with the decision of the Company's General Meeting of January 24, 2019, will not exceed NIS 2 billion.

j) On November 4, 2021, and November 18, 2021, the Company's Remuneration Committee and Board of Directors, respectively, and on February 3, 2022 the General Meeting of shareholders, approved granting a letter of indemnity to Officers Mr. Yasha Hain and Mr. Yitzhak Balmas, with respect to legal expenses for the stage of appeal in the client portfolio manager proceedings, and which are not covered in full by the insurance, as detailed below:

1) **Letter of indemnification given to Mr. Yasha Hain**, with respect to legal expenses for the stage of appeal, insofar as they are not fully covered by the insurance.
The indemnification sum for Mr. Hain will not exceed: a. a sum of NIS 422,500; b. various expenses involved in conducting the proceeding against the presentation of appropriate written proof up to an amount of NIS 5,000.

2) **Letter of indemnification given to Mr. Yitzhak Balmas**, who is represented jointly with the Company in the appeal, with respect to legal expenses for the stage of appeal, insofar as they are not fully covered by the insurance.
The indemnification sum for Mr. Balmas will not exceed: a. a sum of NIS 42,000 (excluding VAT) from the attorneys' fees paid to a law firm for the joint representation provided to Mr. Balmas and the Company with respect to the indemnifiable event; b. a sum of NIS 243,000 (excluding VAT) from the total legal expenses that will be paid by the Electric Company to a law firm for the joint representation provided for Mr. Balmas and the Company with respect to the indemnifiable event; c. various expenses involved in conducting the proceeding against the presentation of appropriate written proof up to an amount of NIS 5,000.

It is clarified that this is a retrospective indemnification for an event that has already materialized.

2) Other Indemnification Letters Provided by the Company

As of the year ended December 31, 2022, the Company has provided 17 indemnification letters to various planning entities, including the National Planning and Building Board, the National Infrastructure Committee, district planning and building committees, local building and planning committees, and local authorities, and all with respect to lawsuits pursuant to section 197 of the Planning and Building Law – 1965, or financial suits or other lawsuits with respect to the performance of works, and as a condition for the approval of outline plans or the obtainment of building permits.

Furthermore, 33 indemnification letters were given to related and interested parties, inter alia, for damages, insofar as they will be caused as a result of the performance of works.

NOTE 34:- RELATED AND INTERESTED PARTIES (continued)

f. State Guarantees

For details of guarantees received from the State, see Note 20e above.

g. Central Provident Fund

For additional information see Note 12j above.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES

a. Agreements

1) Agreement on the Supply of Gas from the Tamar Field

a) In March 2012, the Company signed an agreement with the holders of the rights of the “Tamar” license (in this section hereinafter: the “Tamar Partners” or “Tamar Partnership”) 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 in this Section: the “Agreement” or the “Tamar Agreement”).

b) The price of gas in the agreement was determined by a formula that includes a base price and linkage to the U.S. CPI with the addition of 1% in each of the years 2012 to 2019 and a reduction of 1% each year commencing from 2020 and until the end of the period of the agreement.
The agreement includes a mechanism of "Take or Pay" (hereinafter: the “Take or Pay Mechanism”) within which the Company undertook to pay for a minimal amount of natural gas, even if it did not use it, at an amount of 3.5 BCM a year in the first five years and afterwards at an amount of 2.5 BCM a year, and during the option period, if actually exercised, the annual quantity will increase to 5 BCM a year (subject to adjustments of the sale of the gas of the Tamar Partnership to private electricity producers and volume of electricity production of the Company). For details of the minimal amount of natural gas the Company will be required to purchase in view of the Board of Directors’ decision to exercise the options including their amendments, see sections e and g below.

Moreover, two dates were set in the agreement, on which each side will be permitted to demand, in case it thinks the purchase price does not appropriately reflect the gas purchase price in the Israeli market for an anchor customer, the adjustment of the purchase price "Price Re-Opener" as follows: after eight years have passed from the date of commencement of supply of gas from the “Tamar” field, the parties will discuss (at the request of either of the parties) the adjustment of the purchase price at a rate of up to 25% (addition or reduction) (the “Date of the first window for updating the contractual price”), after eleven years have passed from the date of commencement of supply of gas from the “Tamar Field”, the parties will discuss (at the request of either of the parties) the adjustment of the purchase price at a rate of up to 10% (addition or reduction). In case of lack of agreement as to the rate of adjustment of the stated purchase price, the issue will be decided in an arbitration proceeding that will be held in accordance with the rules of the Israeli Institute of Arbitration if the amount in dispute is less than the amount set in the agreement, and in accordance with the rules of the London Court of International Arbitration if the amount in dispute exceeds the amount set in the agreement.

c) The agreement is in effect until the end of fifteen years from the beginning of the supply of gas (July 1, 2013) or until the complete maximum contractual quantity under the agreement is supplied, whichever is earlier. In the case that by the end of the thirteenth year from the date of signing the agreement the Company will inform the sellers that it expects it will not be able to consume the full contractual quantity during the period of the fifteen years, then the agreement will be extended until the earlier of two additional years beyond the period of fifteen years and consumption of the full contractual quantity.

The parties will be permitted to terminate the agreement under certain circumstances (liquidation, insolvency, assigning rights in favor of creditors, appointing a receiver, etc.) by written notice a hundred and twenty days in advance.

d) The agreement, whether in full or the parts relevant to that approving entity, was approved by the Electricity Authority, the General Director of the Competition Authority (formerly the General Director of the Antitrust Authority), the Companies Authority and the Socio-Economic Cabinet (the Government).

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

1) Agreement on the Supply of Gas from the Tamar Field (continued)

e) On April 19, 2012, the Company submitted an application to the Competition Authority, requesting exemption from a binding arrangement with respect to the agreement. On June 15, 2012, the Competition Authority delivered its decision to the Company, under which it exempted the agreement under section 14 of the Economic Competition Law, subject to a series of terms detailed in its decision, primarily splitting the option given to the Company to increase the contractual quantity supplied during the period of the agreement (the “Option”) (of which the last date for its exercise was postponed from April 2, 2013 to April 15, 2013) according to the following outline:

The option will be split into two stages:

(1) The first option exercise date will be not later than April 15, 2013. The date of termination of the option period will be December 31, 2019.

(2) The second option exercise date will be not later than April 15, 2015. The validity of extension of the second option will apply from January 1, 2020 until the end of the agreement.

For details regarding changes in the option dates, see section f below.

f) Pursuant to the Electricity Authority’s decision of June 14, 2012, the Company can increase the rate of change of hourly gas supply beyond that set in the agreement, as long as in terms of the system, the hourly change rate can be increased in coordination with the system manager. Additionally, pursuant to the aforesaid Electricity Authority’s decision, for the hourly gas quantities that will be supplied after exercise of the first option, beyond the basic contractual hourly quantity, the contractual option price will be paid. In the linkage equation for calculating the contractual option price, the mechanism under which the increase/decrease of 1% in the price adjustment formula will be executed was cancelled within Amendment no. 1 to the option. Additionally, the linkage to the U.S. CPI was reduced to a linkage rate of 30%. The contractual option price will only apply to the gas quantities supplied within the option and will be in effect until the end of the term of the agreement.

g) On April 11, 2013, the Audit Committee and the Board of Directors of the Company, in their separate meetings, approved the exercise of the first option and the Company informed the Tamar Partnership of its decision to exercise the first option that ended on December 31, 2019.
On April 16, 2015, the Board of Directors of the Company decided to partially exercise the second option. Following the aforesaid, on May 7, 2015, the parties signed the necessary documents pertaining to the option exercise with a reduced quantity, under which beginning from January 1, 2020, the minimum quantity to be debited (the TOP mechanism, see section i) below) will be approximately 3 BCM. The maximum amount at the Company’s disposal after the partial exercise of the second option is 87 BCM.
On September 1, 2016, the parties signed an amendment to the agreement (hereinafter: the "First Agreement Amendment").
The main points of the First Agreement Amendment are the entry into effect of the first option in January 2017 and bringing forward the effect of the second option from January 2020 to January 2019, such that the first option period will only be two years.
The amendment of the option dates in the agreement as aforesaid was approved by the Competition Authority and agreed to by the financing banks of the Tamar partners.

h) On October 4, 2020, the Company engaged in an addendum to an agreement with some of the partners of Tamar jointly holding 53% of the rights to the Tamar Reserve (Tamar Petroleum Ltd. and the limited partnerships Isramco Negev 2 – Limited Partnership, Dor Gas - Limited Partnership, and Everest Infrastructure – Limited Partnership) (hereinafter respectively: the “Addendum to the Agreement” and the “53 Group”), which entered into effect on the date of its signing and until July 1, 2021, regarding the purchase of natural gas by the Company beyond the minimal contractual amount provided in the Agreement, for a discounted price compared to the price paid by the Company pursuant to the agreement and pursuant to the Leviathan Agreement, as defined in Section 2 below. The price to be paid by the Company will be calculated according to the price calculation mechanism, as specified below.
The price calculation mechanism agreed in the Agreement Addendum provides a base price (the: “Base Price”) which is lower than the gas price in the Agreement and the Leviathan Agreement, to be paid for the initial quantity ordered by the Company according to the Agreement Addendum (the: “Initial Quantity”). If the

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

1) Agreement on the Supply of Gas from the Tamar Field (continued)

Company orders additional gas quantities beyond the Initial Quantity, then the gas price will be reduced as the quantity increases, until the price reaches the average price destination provided in the Agreement Addendum (the: "Average Price Destination"), which is lower than the Base Price.

As part of the Agreement Addendum, the other Tamar Partners were given the option to join the Agreement Addendum within 60 days of its signing. On October 8, 2020, Noble and Delek notified the 53 Group that they will not join the Agreement Addendum.

On October 4, 2020, the Company sent a notice to Noble, which serves as the operator and coordinator of the Tamar Reserve, with an update regarding the signing of the Agreement Addendum and a purchase order pursuant to the Agreement Addendum. In response, Noble notified the Company that it cannot approve gas orders pursuant to the Agreement Addendum. In accordance, the Company notified Noble that it rejects its arguments, and demanded that its orders pursuant to the Agreement Addendum would be honored. Noble continued refusing to honor the orders pursuant to the Agreement Addendum.

In light of these events, on October 6, 2020, the Company sent a query to the Competition Commissioner with regards to an unreasonable refusal to supply gas, and a gross and blatant abuse of monopoly power by Noble and a request for immediate intervention to guarantee regular operation and gas flow from the Tamar Reserve.

On October 8, 2020, the Company received a letter from the Leviathan Partners' (as such term is defined in Section 2 below) representative, claiming that the Leviathan Partners do not recognize the Agreement Addendum, since it was only signed with some of the Tamar Partners, and that therefore the Agreement Addendum is a separate agreement, which constitutes an additional breach by the Company of the Leviathan Agreement, in addition to the breach made by way of purchasing the LGN cargoes. On October 13, 2020, the Company responded to this letter and a letter of October 4, 2020, rejecting the Leviathan Partners' claims of any breach on its part (for details, see also Section 2 below).

Simultaneously, the Company received a letter from Noble, notifying, inter alia, that it considers the Agreement Addendum a breach of the provisions stipulated in the Agreement and the Leviathan Agreement. The Company responded to Noble that it rejects all its claims.

In light of the complaint sent to the Competition Commissioner, on October 25, 2020, the Company received a demand for information from the Competition Authority, to which the Company has not yet responded.

In light of the disputes between the Company and the 53 Group on the one hand, and Noble as the operator of the Tamar Reserve, and the Leviathan Partners, on the other hand, with respect to the Agreement Addendum, a negotiation was conducted, and on January 31, 2021, the Company reached a compromise with all Tamar partners (the 53 Group, Noble, and Delek) and with the Leviathan partners, and amendments were signed to the Tamar Agreement and the Leviathan Agreement.

The main points of the amendment to the Tamar Agreement are as follows:

1. The gas provided for the Company from the Tamar reserve during the fourth quarter of 2020, at a scope of approximately 0.81 BCM, will be at a lower price than the price provided in the Tamar Agreement and the Leviathan Agreement, and will be borne by all the Tamar partners.
2. Under the Tamar Agreement, in the first half of 2021, the Company will purchase an amount of 0.44 BCM, and in addition shall be permitted to purchase additional quantities to be provided in cases where the Leviathan reserve is unable to supply the order made by the Company. Such quantities will be at discounted prices compared to the prices provided in the Tamar Agreement and the Leviathan Agreement. Such quantities will not be taken into account for the purpose of calculating the minimum contractual quantity provided in the Tamar Agreement.
3. The maximum daily amount of natural gas which the Company will be permitted to order under the Tamar Agreement during the first half of 2021 will be reduced and stand at 500,000 MMBTU.
4. The Tamar partners have stated the they have reached arrangements which would allow them to market gas from the Tamar reserve separately, prior to July 1, 2021 (the opening date of the price pursuant to the Tamar Agreement).
5. Subject to compliance with the contingent terms, as specified below, and the entry of the Tamar Agreement Amendment into force, the Agreement Amendment will be cancelled and be rendered null and void.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

1) Agreement on the Supply of Gas from the Tamar Field (continued)

The main points of the amendment to the Leviathan Agreement are specified in Section 2 below.

As part of the amendments to the Tamar and Leviathan Agreements, the parties have waived their claims with regards to the arguments concerning the events occurring around the Agreement Addendum, including the Leviathan partners' claims against the Company, as specified in Section 2 below.

The Amendments to the Tamar and Leviathan Agreements were subject to compliance with contingent terms. On May 27, 2021, the Competition Tribunal approved the consents reached by the Commissioner of Competition with Noble, as part of the agreed order of January 31, 2021. Thus, all contingent conditions were fulfilled and amendments to the Tamar and Leviathan Agreements entered into effect.

i) Following that stated in the section b above, under which two dates were set in the Tamar agreement, on which each party will be allowed to demand the adjustment of the purchase price, and upon arrival of the first date for the purchase price adjustment (July 1, 2021), on January 24, 2022, the amendment to the Tamar agreement was signed between the Company and all the Tamar partners (the "Amendment to the Agreement"), including Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited, which purchased all the rights of Delek Drilling – Limited Partnership in the Tamar reserve, whose main points are as follows:

1) The price of gas for the minimum quantity of natural gas the Company is required to purchase under the Tamar agreement (the TOP mechanism) will be reduced at a rate which is several percent higher than the maximum rate set in the agreement.
2) In accordance with the original agreement, the price of gas for the minimum quantity to be charged is linked to the rate of increase in the US Consumer Price Index (US.CPI) (hereinafter: the "Index") less 1% per year. The amendment to the agreement set limits for indexation as follows: an increase rate of up to 2.25% will be taken into account in full; the rate of increase between 2.25% and 3.75% will not be taken into account in the relevant year, and may be accumulated and taken into account in subsequent years only as long as the rate of increase in the index in those tears is less than 2.25% and in any case the linkage in those years will not exceed 2.25%; an increase rate of over 3.75% will be taken into account in full (i.e.: the rate exceeding 3.75% will be fully taken into account). It will be clarified that in all those cases, less 1% as stated above.
3) In addition, the parties' entitlement for an additional date for opening a price for the minimum quantity was maintained, at rates set in the agreement (in the range of up to 10%, addition or reduction), and this date will apply on December 31, 2024 (in lieu of the second date for adjusting the purchase price set in the agreement to July 1, 2024).
4) The period of the agreement will be extended for another two and a half years and will end on December 31, 2030. During the period of extension of the agreement, the Company will not be obligated to purchase the minimum quantity, and only the commitment to the operating quantity will apply, as detailed below.
5) In addition, the Company will undertake to purchase another 16 BCM (from the contractual amount promised to the Company under the Tamar Agreement), with the amount divided over the agreement period according to the Company's expected needs, and only to the extent that this amount will be required by the Company in practice according to its operating needs (hereinafter: the "total amount of the operating liability") for the period from July 1, 2021 until the end of the Tamar Agreement period. If the Company does not consume the total amount of the operating liability by December 31, 2030, the agreement will be automatically extended until the full amount of the operating liability is consumed.
6) The Company will undertake to order a minimum daily quantity on an operating basis throughout the period of the agreement in quantities that will be specified in the detailed agreement to be signed.
7) A price is set for the operating quantity and for each additional quantity up to the maximum daily quantity but beyond the minimum annual quantity (Take or Pay), insofar as will be purchased, for an amount lower than USD 4 per MMBTU, without linkage (hereinafter: the "operating price").
8) A price opening date has been added which will relate to the operating quantity, so that on July 1, 2028, each party will be entitled to demand the adjustment of the operating price in the range of up to 10% increase or reduction, according to the mechanism set forth in the Tamar Agreement.

The entry into force of the amendment to the agreement was subject to contingent conditions (the approval of the competent bodies of the parties and regulatory approvals which were required), which were fulfilled in full on July 22, 2022. The accounting between the parties was conducted retroactively from July 1, 2021.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

1) Agreement on the Supply of Gas from the Tamar Field (continued)

Gas purchases from Tamar from July 1, 2021 and until the entry into force of the amendment to the agreement, in the 2021 financial statements and in the financial statements up to June 30, 2022, were included in accordance with the price in the agreement in effect on that date, including maximum reduction under the agreement of 25%. The amendment to the agreement is expressed in the third quarter of 2022 in fuels expenses on the one hand and in a transaction in regulatory deferral accounts on the other hand, without a material impact to the net results.

j) Volume of gas purchase from the Tamar field

In 2022, the gas purchased totaled 2.34 BCM within the framework of the Company's TOP mechanism, and a purchase of 2.49 BCM within the framework of the commitment to the operating quantity.

From the beginning of the agreement until the end of 2022, in total, the comprehensive gas quantity purchased by the Company within the agreement totaled 40.7 BCM.

As at the end of 2022 the total gas quantity at the Company's disposal from the Tamar field, and until the end of the period of the agreement, is approximately 46.3 BCM (16.5 within the TOP framework and 29.8 within the framework of the operating quantity including options).

k) TOP mechanism

The Company conducted ongoing talks with the Tamar partnerships regarding the Gas Purchase Agreement and its implementation, and on November 19, 2015, a letter was received from the Tamar Partners, pursuant to which, inter alia, they ratify that if, at the date of termination of the agreement, the Company will have a right to use unused gas with respect to which the Company paid to the Tamar Partnership according to the TOP mechanism (hereinafter: "Make-Up Aggregate"), the Company will be permitted to extend the period of the agreement until utilization of the Make-Up Aggregate, and this according to the mechanism determined in the letter. This mechanism was ratified within the First Agreement Amendment of September 1, 2016.

On June 27, 2017, the Company received the decision of the Electricity Authority, under which, inter alia, the Electricity Authority will recognize the costs deriving from the agreement, including the costs deriving from the TOP mechanism set in the agreement, subject to the following conditions:

1) The Company will act reasonably to minimize the costs of the agreement and to comply with the liability of the TOP mechanism, while utilizing all the tools at its disposal, including investing all efforts to reduce the gas price at any date enabled by the agreement, and including a secondary sale of gas subject to the provisions and approvals required by law. The price of gas in a secondary sale to other electricity producers will not exceed the cost of purchasing gas from the gas supplier.

2) Subject to the provisions of any law, the Company will not sell natural gas in a secondary sale to one who is not an electricity producer, if the system manager determined that the following day, the use of diesel oil or liquified gas is required in the general loading plan of the electricity sector, except for a situation in which the diesel oil is used in the loading plan for testing purposes only. This section shall expire at the time of the commercial activation of another gas supplier in the sector.

3) The Company will not order gas in quantities exceeding the total quantities required for the generation of electricity according to the individual loading plan less the aforementioned in section a) above. The Company will use diesel oil and liquefied gas pursuant to the instructions of the system administrator.

4) Recognition of the costs of the agreement will be subject to annual cost control to be conducted by the Electricity Authority, and taking into consideration the Company's activities to minimize the costs of the agreement and the Company's compliance with the conditions detailed above.

On May 15, 2018, the Electricity Authority published a clarification in which the Electricity Authority wishes to clarify that if generation stations are sold in accordance with the Company's undertaking under the reform, as detailed in Note 1e above and as a result, the Company will not use the full minimum gas purchase commitment in accordance with its gas agreement with the Tamar Partnership, and if it had complied with the other conditions stipulated for the recognition of TOP in accordance with the decision of the Authority of June 12, 2017, "Regulation of the Use of Fuels for the Implementation of a General Load Plan in the Electricity Sector", and provided that the Company acted in accordance with the decision, particularly in the matter of trying to minimize costs, the gas costs will be recognized for the Electric Company. In addition, the Company will not split the gas agreement for stations that will be sold and these will be sold without a gas agreement.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

2) Agreement for a short-term purchase of gas from the "Leviathan" field

a) On June 12, 2019, the Company and the partners in the Leviathan project (Delek Drillings – Limited Partnership "Delek"), Noble Energy Mediterranean Ltd. ("Noble"), and Ratio Oil Exploration (1992) – Limited Partnership, all jointly hereinafter: the "Leviathan Partners") signed an agreement for a short-term purchase of natural gas, following the declaration of the Leviathan partners as the winning supplier in a competitive proceeding held by the Company for the short-term purchase of natural gas, in which the partners of the "Tamar" project (hereinafter: the "Tamar Partners") and the Leviathan Partners participated (hereinafter: the "Agreement" or the "Leviathan Agreement"). The agreement will apply to quantities that the Company will choose not to purchase from the Tamar Partners as part of the Tamar Agreement, as amended and as will be amended, except with respect to quantities which the Company shall purchase in accordance with instructions from the System Manager that is entitled to instruct it to purchase. For additional details see section 1 above.

b) The main points of the Leviathan Agreement are as follows:

- The engagement period is from October 2019 or from the date of commencement of the gas flow from the "Leviathan Field", whichever is later, up to the earlier of June 2021 or the commencement of gas production from the "Karish" field. On December 31, 2019, gas flow was commenced from the "Leviathan" field, and in accordance with such, the gas supply term commenced pursuant to the Leviathan agreement.
- The Company has no obligation to purchase any minimum quantity of gas under the agreement.
- The Leviathan Partners are not obligated to reserve gas capacity for the Company under the agreement.
- The Company is obligated to contact the Leviathan Partners on a monthly basis for the purpose of purchasing gas quantities that it does not purchase from the Tamar Partners. The Leviathan Partners may refuse (in whole or in part) the Company's request, when they are unable to supply gas (also due to the supply of gas to a third party).
- The Company may purchase on the open market any amount of gas that the Company has ordered and the Leviathan Partners refused to supply.

c) The Leviathan Agreement includes a conditional term under which the agreement's entry into effect is subject to the approval of the Competition Authority, the Electricity Authority and the Companies Authority (insofar as such approvals will be required). Accordingly, the Company submitted a report regarding the agreement to the Competition Authority, the Electricity Authority and the Government Companies Authority. On September 8, 2019, the position of the Government Companies Authority was received, according to which the agreement does not require Government approval under the Government Companies Law or any other approval by the Government Companies Authority. Additionally, no response was received from the Electricity Authority and the Competition Authority. Beyond the aforesaid, no approval is required, and thus all the conditional terms for the agreement's entry into effect have been fulfilled in practice.

d) On April 18, 2019, part of the Tamar Partners (Isramco Negev 2 - Limited Partnership, Tamar Petroleum Ltd., Dor Gas Exploration - Limited Partnership and Everest Infrastructures - Limited Partnership) (hereinafter together: the "Petitioners") filed an Administrative Petition with the Tel Aviv District Court (hereinafter: The "Petition"), against the Leviathan Partners and the Company (hereinafter together: the "Respondents"), pursuant to which the Court was requested, inter alia, to declare that the decision of the Tender Committee of the Company according to which the Leviathan Partners were approved as the winning supplier in the said competitive proceeding is invalid and contrary to the law, and therefore should be void, and alternatively, to return the decision to the Tender Committee of the Company and instruct it to consider other options, as specified in the petition, and alternatively, to order the cancellation of the competitive proceeding.

Simultaneously with the filing of the petition, a request for an interim order was filed with the Court, to instruct the Company's Tender Committee to immediately delay the results of the competitive gas purchase proceeding by a short term agreement, and to refrain from any step intended to engage the winner of the proceeding, and all until a decision is made regarding the aforesaid petition, as well as a request to conduct an urgent discussion of the request for an interim order and the petition. On June 3, 2019 and June 4, 2019, discussions were conducted regarding the petition and the request for an interim order, and on July 7, 2019, a ruling was issued rejecting the petition.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

2) Agreement for a short-term purchase of gas from the "Leviathan" field (continued)

On August 19, 2019, the petitioners filed an appeal with respect to the ruling to the Supreme Court, in which the Supreme Court was requested to instruct the cancellation of the ruling, and to rule as requested in the petition. In accordance with the Supreme Court's decision, an arrangement was established with regards to the manner of hearing of the appeal, and in addition a date was scheduled for discussion of the appeal.

On May 21, 2020, a discussion concerning the appeal was conducted before the Supreme Court, in which the Appellants announced that they had reached agreements in principle with the Leviathan partners, according to which, among other things, the appeal will be dismissed. The Appellants requested a stay of 14 days to formulate the final agreement and submit a suitable notice to the Court. In accordance with the Parties' agreements, in the event that the Appellants and the Leviathan partners fail to formulate an agreement as aforesaid, the Court will provide a ruling concerning the appeal based on the statements of claim submitted by the Parties to the appeal. The Court granted the force of a decision to these agreements.

On August 12, 2020, the Appellants submitted a notice to the Court, according to which, in light of the passage of time since the date of the discussion and the notice concerning the agreements in principle, and the lack of a signature on a binding agreement, a decision concerning the subject of the appeal cannot be obviated. The Appellants noted that they will update the Court in the event that an agreement is signed prior to the date of the issuance of the ruling. On August 25, 2020, the Court issued a ruling, dismissing the appeal with respect to the District Court's ruling, which dismissed the administrative application regarding Leviathan's win.

e) On June 3, 2020, the Company received a letter from the Leviathan Partners, claiming that the Company's decision to purchase LNG cargoes as described in Section 3 below, constitutes a material breach of the Leviathan Agreement, according to which the Company undertook that during the term of the Leviathan Agreement, it would exclusively inquire with the Leviathan Partners for the supply of all gas quantities required for the Company's generation units, excepting such gas quantities as it shall purchase pursuant to the Tamar Agreement as amended or re-amended from time to time, as well as fuel quantities, which the Electricity System Manager may instruct it to consume.

The Company completely rejects the claims raised in the aforesaid letter.

On October 4, 2020, the Leviathan Partners responded through their representative, that they completely reject the Company's claims.

f) As aforesaid in Section 1 above, on October 8, 2020, the Company received an additional letter from the Leviathan Partners' representative, arguing that the Leviathan partners do not recognize the Agreement Addendum (as such term is defined in Section 1 above, i.e. the addendum signed with the 53 Group with respect to the Tamar Agreement), as it was only signed with part of the Tamar partners, and that therefore the Agreement Addendum is a separate agreement, which constitutes an additional breach on part of the Company with respect to the Leviathan Agreement, added to the breach made by way of purchasing LNG cargoes as described in Section e above. On October 13, 2020, the Company responded to this letter and the letter of October 4, 2020, while rejecting the claims of the Leviathan Partners of any breach on its part.

On October 15, 2020, the Company received a response from the Leviathan Partners' representative, repeating their claims. The Company rejected these claims in an additional letter of October 22, 2020.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

2) Agreement for a short-term purchase of gas from the "Leviathan" field (continued)

g) As aforesaid in Section 1 above, In light of the disputes between the Company and the 53 Group on the one hand, and Noble as the operator of the Tamar Reserve, and the Leviathan Partners, on the other hand, with respect to the Agreement Addendum, a negotiation was conducted, and on January 31, 2021, the Company reached a compromise with all Tamar partners (the 53 Group, Noble, and Delek) and with the Leviathan partners, and amendments were signed to the Tamar Agreement and the Leviathan Agreement.

The main points of the amendment to the Leviathan Agreement are as follows:

1. The Company undertook to purchase a minimum amount of 1.2 BCM of gas from the Leviathan reserve during the first half of 2021, out of which certain gas quantities will be reduced, as agreed, including quantities of gas to be ordered from the Leviathan reserve and not provided to the Company by it, as well as quantities of gas not consumed by the Company due to force majeure events and/or malfunctions in significant generation units of the Company (the "Minimum Quantity"). In the event that the accumulated gas quantity purchased by the Company from the Leviathan reserve during the first half of 2021 is lower than the Minimum Quantity, the Company shall pay the consideration with respect to the gas quantity which has not yet been consumed out of the Minimum Quantity, and the Leviathan Agreement Amendment Term will be extended by a fixed agreed term, in order to allow the Company to consume the gas quantities for which it paid. During the first half of 2021, the Company purchased the full quantity of gas under its obligations as aforesaid.
2. All gas quantities to be purchased by the Company from the Leviathan reserve in the first half of 2021 will be at discounted prices compared to the price provided in the Leviathan Agreement, and all except for a gas quantity of 0.51 BCM, which shall be purchased from the Leviathan reserve during this period, for the price provided in the Leviathan Agreement.

The main points of the amendment to the Tamar Agreement are specified in Section 1 above.

As part of the amendments to the Tamar and Leviathan Agreements, the parties have waived their claims with regards to the arguments concerning the events occurring around the Agreement Addendum, including the Leviathan partners' claims against the Company, as specified in Sections e and f above.

The Amendments to the Tamar and Leviathan Agreements were subject to compliance with contingent terms. On May 27, 2021, the Competition Tribunal approved the consents reached by the Commissioner of Competition and Noble, within an agreed order of January 31, 2021. Thus, all the contingent conditions were fulfilled and the amendments to the Tamar agreements entered into effect.

h) On July 4, 2021, the Company entered a SPOT agreement with the Leviathan partners for the purchase of natural gas from the Leviathan reserve, which is in force for a year, and in which it was agreed that the price of gas will be determined every month and the parties have no obligation as to the quantities purchased. On June 23, 2022, the SPOT agreement for the purchase of natural gas from the Leviathan reserve was extended for an additional year.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

3) L.N.G.

In accordance with the Minister's decision of February 2011, the Israel National Gas Lines Company constructed a buoy approximately 10 kilometers west of the Hadera coast, connected to the national gas transmission system. A LNG (liquid natural gas) ship, leased by the Company, connects to the buoy. This ship has the capability to gasify the liquid natural gas on board and supply it through the buoy to the national transmission system.
The Electricity Authority recognizes the costs of leasing a gasification ship and the cost of purchasing liquefied natural gas (LNG), for the Company, as well as additional direct and auxiliary costs that are expressed in agreements with suppliers, subject to controlling the costs.
In January, 2016, the Company's Board of Directors approved the extension of the engagement, for chartering the gasification ship as of October, 2017, for a period of at least two years and up to five additional years, with the possibility for the Company to end the engagement period by a 24-month advance notice.
On July 26, 2016, the plenum of the Electricity Authority approved the extension of the period of engagement to charter the gasification ship as aforesaid.
On October 18, 2017, a letter was received from the Director General of the Ministry of Energy, under which the Ministry's position is that the lease agreement of the gasification ship should be continued until the end of October, 2022.
On October 21, 2020, the Company notified to the owners of the gasification ship that the engagement for the ship's leasing will be terminated on October 25, 2022. On April 7, 2022, the Company signed an extension of the contractual engagement period for the gasification ship's leasing until December 28, 2022, and pursuant to the amendment to the agreement signed between the parties on December 6, 2022, the ship's departure was brought forward to December 8, 2022, and the Hadera Gateway Company purchased the LNG remaining on board the ship at this date.

LNG was mostly used when there is a break or malfunction in the supply of gas from the "Tamar" and/or "Leviathan" fields, or, when the quantities of gas that were available to the Company as part of the existing natural gas purchase agreements were not enough to produce electricity in order to meet the electricity demand of the Company and in accordance with the needs to the electricity System Manager.

During 2022, the Company purchased one cargo of LNG according to the instructions of the System Manager.

4) Entering a SPOT agreement for the purchase of natural gas from the Karish reserve

On March 14, 2022, the Company entered a SPOT agreement with Energean Israel Limited for the purchase of natural gas from the Karish reserve, which is in effect for a year, starting from the date of commencement of production of the Karish reserve. Under the agreement it was agreed that the price of gas would be determined every month and the parties have no obligation as to the quantities purchased. The entry into force of the agreement is subject to the completion of the required procedures and the approval of the competent bodies in the Company, which were fully completed on April 28, 2022, and thus the agreement entered into effect. On October 29, 2022, natural gas delivery began from the Karish reserve, and accordingly, the natural gas supply period began according to the agreement.

5) The Company's agreements with private producers

As of the date of the system management unit's departure from the Company on November 1, 2021, the management of the agreements with private electricity producers at extra-high voltage has been transferred to Noga's responsibility. For further details regarding the sale of the system management activity to Noga, see Note 1e9 above.

The Company enters into agreements with private electricity producers in the distribution segment only. As of the date of the financial statements, the scope of production capacity of the private electricity producers with whom the Company contracted is approximately 3,236 megawatts, most of them electricity producers with renewable energies.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

6) Contractual Engagements by the Subsidiaries

a) The Coal Company

1. The Coal Company entered into long term agreements with suppliers and international shipping companies for the purchase and transportation of coal consignments. The commitment to purchase coal is made according to the same long-term agreements with coal suppliers, where the price of the major quantity of coal is linked to international indices of the coal price plus a fixed premium. The quantity of coal purchased by the subsidiary is based on the Electric Company's consumption forecast which is updated from time to time in accordance with the Minister's instructions and other parties.
Some of the coal purchasing and marine shipping agreements are at fixed prices, in accordance with the Coal Company's policy. In coal purchasing agreements, fixed prices are determined for a maximum period of 12 months in advance while marine shipping agreements are for various periods, and as to periodic leasing agreements, even for several years in advance. As of the date of approval of the Financial Statements, shipping prices in the market are lower than the prices of shipping agreements at fixed prices entered into by the Coal Company and most of the coal purchasing agreements entered by the Coal Company are linked to international coal price indices such that the market prices of coal are similar of equal to the prices of the aforementioned coal purchasing agreements and differences between the market prices and the agreements prices. If are, are relatively small.

2. The Coal Company entered into agreements with suppliers to purchase coal for 2023 in the amount of 2,869 thousand tons.

   The Coal Company entered into agreements with shipping companies for long term leasing of ships, up to 2026, in an approximate amount of NIS 65 million (NIS 132 million last year).

3. On June 9, 2014, the Coal Company entered an agreement with a foreign company in a transaction combining a purchase of a new bulk ship that was built in a shipyard in Japan, as well as the long-term (ten year) lease of the foreign company's share by the Coal Company. The cost of the ship is USD 56 million, the Coal Company's part in the ownership and investment is 49%. The ship was delivered to the Coal Company in May, 2016.

   On August 4, 2016, the Coal Company, together with its partner in acquisition of the aforesaid bulk ship, signed a loan agreement with a bank to finance that acquisition. The Coal Company's share of the loan was approximately USD 13 million and it is being repaid in 40 equal quarterly payments in the sum of approximately USD 220 thousand and the balance on the final payment date.

   As aforesaid, the ship is jointly owned by the Coal Company (49%) and a partner (51%). Due to an expected decrease in demand by the Coal Company and the forecast that there will be demand for coal as backup fuel only after 2026.

   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. The profit from the sale and lease cancellation was included in the other income item.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

6) Agreements of the subsidiary (continued)

a) The Coal Company (continued)

4. “Port of Ashkelon” tugboats

a. On August 17, 2018, the Coal Company signed agreements for the purchase of two towing boats (hereinafter: “tugboats”) at a total cost of approximately USD 13.8 million. The construction of the new tugboats was completed, and they were delivered to the Coal Company in early May 2019.

b. On November 22, 2019, bare boat charter agreements were signed with EAPC for a period of 22 years, for its activity of unloading the coal ships that visit the “Rutenberg” power station in Ashkelon, and all as part of the agreements between the Company, the Coal Company, and EAPC.
In accordance with the agreements, EAPC will pay monthly leasehold fees for the duration of the lease term, with fixed consecutive payments linked to the exchange rate of the United States according to the capital recovery coefficient method. In addition, the Coal Company will pay EAPC amounts identical to the leasing fees, as aforesaid hereinabove, with respect to the provision of services to the Coal Company through the tugboats (piloting services, alert team, tying up, untying, entering and exiting the port). In practice the charges offset each other and no funds are transferred between the companies. The lease is classified as a “finance lease” in the Coal Company’s books.

5. “Port of Hadera” tugboats

a. On July 1, 2018 an agreement was signed between the Coal Company and the Government of Israel (the Ministry of Transport) whereby the Coal Company undertook to purchase a tugboat and lease it to the Ministry of Transport for the activities of the Hadera Port. The Coal Company will lease the tugboat that it will purchase to the Hadera Port for a period of four years in exchange for agreed lease fees. At the end of the lease period, Hadera Port will be able to extend the lease period by one additional year each time, up to a cumulative period not exceeding 16 years. At the end of the lease period and the extension period, the tugboat will return to the Coal Company. In addition, it was agreed that any consideration actually received by the Coal Company from the sale of the two old tugboats of the Hadera Port will be offset from the tugboats purchase cost. The lease is classified in the Coal Company’s books as a finance lease.

b. On July 24, 2019, the Coal Company signed an agreement for the purchase of an additional tugboat in an amount of approximately Euro 6 million, which is intended to replace one of the old tugboats in the port. The tugboat was leased to the Port of Hadera as of the date of its delivery in December 2020. The name of the new tugboat is “Hadera”.

The Ministry of Transport transferred an amount of NIS 18 million, including VAT, to the coal company on account of the tugboat’s purchase. In addition, on December 28, 2020, the Ministry of Transport transferred an amount of NIS 2 million on account of additional expenses for the construction of the tugboat, made by the coal company, and which are meant to apply to the Ministry of Transport in full, pursuant to the agreement.

The leasing fee for the lease term will be paid by the Port of Hadera in consecutive fixed monthly payments, linked to the Dollar exchange rate, in an amount of approximately USD 57 thousand per month.

In December 2021, the Ministry of Transport transferred approximately NIS 6 million, including VAT, to the Coal Company as an additional sum on account of the tugboat’s purchase. Accordingly, the monthly lease fees were reduced to approximately USD 2,000 per month.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

6) Agreements of the subsidiary (continued)

a) The Coal Company (continued)

6. Phasing out of coal use and conversion of coal-fired units to natural gas

Regarding the phasing out of coal use and conversion of coal-fired units to natural gas, see Note 1g above.
Due to the expected decline in the Coal Company's activity in coal procurement, and following the government resolution as stated in Note 1e7 above, to impose on the Minister of Energy and the Minister of Finance to submit a resolution proposal to the government to approve the Company's decision to establish a subsidiary for business development abroad, the Coal Company formulated a detailed outline combining the Company's overseas business development activity and the Coal Company's ongoing operations.
The Board of Directors of the Coal Company instructed the management of the Coal Company to apply to the Government Companies Authority regarding the amendment of the Coal Company's Articles of Association, in order to turn it into the Company's business development subsidiary no later than 2025.

b) The Netiv HaOr Company

For details regarding agreements signed between the Company and Netiv HaOr see Note 1e9 above.

7) Contractual engagements which are not reflected in the Financial Statements

As of December 31, 2022, the Company has contractual engagements which are not reflected in the Financial Statements to procure fuels, purchase and ship raw materials, purchase equipment and services, construct facilities and leasing diesel tanks and performance centers, as follows:

a) Ordering, planning, consulting and equipment from suppliers in various currencies which, at their exchange rates as of the Statement of Financial Position date amount to approximately USD 379 million, approximately EUR 194 million, and approximately Swiss Franc 9 million. These orders will be financed, among others, by existing long-term credit lines from banks and foreign suppliers.

b) Contracts regarding construction, equipment supply, and current activities with local suppliers amounting to approximately NIS 4,028 million.

c) The contractual engagements of the Company with respect to fuels purchase and transmission costs (mainly natural gas) and lease of diesel oil tanks in different currencies under their rates of exchange as of the Statement of Financial Position date in the amount of approximately USD 4,750 million and NIS 2,840 million.

d) The contractual engagements of the Company with respect to costs of leasing performance centers in the amount of approximately NIS 33 million.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities:

1) Following are details of the applications filed with the courts against the Company for their recognition as class actions. Based on the opinion of its legal advisors, the Company management foresees that it is more likely than not that the applications for their recognition as class actions will not be accepted, or if they are accepted, then the exposure caused by them will not be material, and therefore there was no provision made in the Financial Statements.

	Date of filing the claim	Court in which the claim is conducted	Defendant	Subject of the claim and status of the proceeding	Amount of the claim (NIS in millions)
a)	May 2013	Central District Court	The Company	The engagements of the Company in agreements with the Siemens Company, in the years 2001-2003, to purchase combined cycle gas turbines ("CCGT") and related services, which allegedly caused damage to the Company, which was "rolled over" to the electricity consumers within the electricity rate. After the Statement of Financial Position date, on January 1, 2023, the Court extended the stay of proceedings in the case until March 31, 2023. 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.	200
b)	February 2018	Haifa District Court	The Company and the State of Israel	The cause of the application, as alleged: discrimination against minority shareholders under the Companies Law. According to the applicants, the discrimination is expressed by the non-distribution of dividends, the prohibited distribution of benefits to the State, while prioritizing it above the Company's shareholders, management of the Company for political reasons, and more. The application is submitted on behalf of "all the Company's shareholders from the public". On May 16, 2022, a judgment was rendered, within which the application to approve was rejected. An appeal was filed against the judgment on September 8, 2022. A hearing to complete oral argument of the appeal was scheduled for May 8, 2023. The Company's legal advisors estimate that it is more likely than not that the appeal will be rejected.	-
c)	October 2019	Haifa Magistrate's Court	The Company	The Company's false allegations against consumers regarding alleged damage of their electricity meters. According to the Court's decision on October 19, 2022, the additional pretrial hearing date was postponed and rescheduled for May 8, 2023. The Company's legal advisors estimate that it is more likely than not that the application to approve will be rejected.	0.5
d)	October 2019	Central District Court	The Company	Payments to private electricity producers passed onto the electricity consumers. A hearing was held in Court on October 31, 2021, regarding an application for leave to serve third party notices against third parties. The Court's decision in the application for leave has not yet been rendered and instructions as to the continuation of the proceeding have not yet been given. Noting the proceeding's preliminary stage, and prior to the commencement of the evidentiary procedure, the Company's legal advisors estimate it is more likely than not that the application to approve will be dismissed, or will be accepted while determining that third parties must indemnify the Company for any payment it will incur.	330

	Date of filing the claim	Court in which the claim is conducted	Defendant	Subject of the claim and status of the proceeding	Amount of the claim (NIS in millions)
e)	April 2020	Tel Aviv District Court	The Company	Application for class action concerning 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 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. On August 4, 2022, the Company submitted its response to the disagreement. On September 13, 2022, the Attorney General submitted a response to the disagreement, In which she claimed that, in her opinion, there was an error in the legal reasoning of the secretary in the decision given by him, but she leaves the decision to the discretion of the Court. On October 18, 2022, the Supreme Court allowed the opponents to the settlement to submit a response to the answers to the disagreement, and it was submitted on October 27, 2022. After the Statement of Financial Position date, on March 2, 2023, the decision of the Supreme Court's registrar was given, within which it was determined that the objection submitted by the opponents to the decision of the court secretary regarding the deposit of a third party guarantee should be rejected. The opponents were given the opportunity to resubmit the application for leave to appeal until March 12, 2023 with an appropriate guarantee or with an application for the deposit of a third-party guarantee. As of the date of approval of the Financial Statements, the Company has not been served with an application for leave to appeal. Regarding the subject of this class application, on June 16, 2020, the Company received a letter from the Privacy Protection Authority pertaining to an alleged violation of the Privacy Protection Law ("Alleged Violation Letter"), 1981, and the Privacy Protection (Information Security) Regulations, 2017 (hereinafter: "the Law and the Regulations") and an instruction to correct deficiencies (following an application of June 25, 2019, within which a demand for information and documents was included for the purpose of ascertaining the circumstances of an event about the security of customers' details when connecting to the digital services on the Company's website and the Company's compliance with the provisions of the Law and the Regulations). Furthermore, The Company was requested to deliver to the Authority documents supporting its claim that the Company's security system meets the requirements of the Law. On August 13, 2020, the Company responded to the Alleged Violation Letter. On February 1, 2021, the Authority held an oral hearing for the Company. On February 9, 2023, the Company received a letter of violation from the Authority, in which it was determined that the Company violated the provisions of regulations 9, 11(d)(1), and 14(c) of the Regulations, as well as the provisions of section 17 of the Law. However, the Authority was convinced that that the Company did not violate regulation 14(a) of the Regulations. It was further determined that the Authority was convinced that the Company is meticulous about installing appropriate measures for information security needs, but that in the specific case in which the Violation Letter was concerned, the use of these measures was insufficient.	1,038

	Date of filing the claim	Court in which the claim is conducted	Defendant	Subject of the claim and status of the proceeding	Amount of the claim (NIS in millions)
f)	October 2019	Jerusalem District Court	The Company	A claim for artificial and deliberate inflation of costs of projects executed by the Company as part of its ongoing activities while passing on these costs to the electricity consumers. As well as a claim of inflating costs and negligence in the execution of the emission reduction project (the scrubbers project). After the Statement of Financial Position date, on January 2, 2023, the Electric Company submitted an additional update notice regarding the status of the petition it filed with the High Court of Justice regarding the same subject. As part of the notice, the Company updated that the Electricity Authority submitted its preliminary response to the petition on November 24, 2022, and that a court hearing scheduled for December 27, 2022 was postponed to April 23, 2023. After the Statement of Financial Position date, on January 3, 2023, the Court determined that the case will be presented to it on May 1, 2023. The Company’s legal advisors are of the opinion that at this preliminary stage of the proceeding, before the evidentiary proceeding begins, it can be assessed with all due caution that it is more likely than not that the application for approval will be rejected.	2,000
g)	April 2020	Tel-Aviv District Court	The Company	Application for a class action on behalf of all electricity consumers in 2012-2017 to refund to the members of the group the full amounts collected from them, as part of the electricity rates, intended for the development of the electricity grid, and which, according to the arguments, the Company has used for other purposes. The Court’s decision of October 26, 2022 (as part of a pretrial hearing) determined that the position of the Electricity Authority, regarding the dispute which is the subject of the application for approval, should be accepted, and insofar as possible a list of joint questions should be formulated and delivered to the Electricity Authority. On December 27, 2022, the delivery of the relevant material to the Electricity Authority was completed and accordingly, the Electricity Authority has to submit its response to the Court by March 27, 2023. At this preliminary stage, and before the position of the regulator (the Electricity Authority) regarding the dispute between the parties has been filed, and prior to the commencement of the evidentiary proceeding, according to the Company’s legal advisors it can be estimated that it is more likely than not that the application for approval will be rejected.	3,204
h)	May 2020	Central District Court	The Company	Application to approve a class action regarding a claim of violation of the instructions of the criteria as part of collection procedures unlawfully performed by the Company. A mediation proceeding is being conducted in the case. The parties have to update the Court on the progress of the mediation proceeding by April 14, 2023. At this stage, before exhausting the mediation proceeding, the Company’s legal advisors estimate that it is more likely than not that the application for approval will be rejected, except for a non-material sum.	29.6

	Date of filing the claim	**Court in which the claim is conducted**	**Defendant**	**Subject of the claim and status of the proceeding**	**Amount of the claim (NIS in millions)**
i)	April 2021	Central District Court	The Company	An application for approval of a class action claiming that the Company bills its customers for a meter reading rate despite the fact that in reality, it does not perform a meter reading in cases where a smart meter is installed, and in cases where the customers perform an independent reading of the meter. A pre-trial discussion was held on February 10, 2022, at which it was decided that the position of the Electricity Authority regarding the applicants' claims should be accepted. The position of the Electricity Authority, which was submitted 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. An additional pretrial hearing was held on December 8, 2022, in which it was decided that the applicants will submit by December 15, 2022, a notice updating if they are insisting on continuing the proceeding. On December 18, 2022, the applicants submitted a notice according to which they are insisting on continuation of the proceeding but are of the opinion that an evidentiary proceeding is not necessary and it can continue with submission of summaries by the parties before a judgment is rendered. After the Statement of Financial Position date, on January 3, 2023, the Electric Company submitted its response to the applicants' position, in which it claimed that it is right and proper to render a judgment in the case without an evidentiary proceeding and even without submitting summaries. 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.	45
j)	August 2021	Lod District Court	The Company	An application to approve a class action 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 hearing was held on April 27, 2022, after which the Company considered the Court's proposal to turn to mediation. On July 7, 2022, the parties submitted an update notice under which they have agreed to turn to mediation. On November 16, 2022, the mediator informed the parties that the mediation proceeding is ending without consensus, as he was unable to bridge the differences between them. In accordance with the Court's decision of November 28, 2022, on December 5, 2022, the Electric Company submitted its response to the applicant's application to set an evidentiary proceeding. The Company claimed that prior to setting an evidentiary hearing, the Court must rule on the Company's application for dismissing the application in limine, and that it is It is fitting to dedicate a separate discussion for this purpose. A pretrial hearing was scheduled and later postponed to May 11, 2023. The Company's legal advisors estimate that at this preliminary stage of the proceeding, prior to commencement of the evidentiary proceeding, it can be estimated with all due caution it is more likely than not that the application for approval will be rejected.	502
	A comprehensive total (without claims that do not specify the amount)				**7,349.6**

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued

b. Contingent Claims and Liabilities (continued)

(2) Following are details of claims that were submitted against the Company to the courts for their recognition as class actions. As of the date of approval of the financial statements, the Company cannot, at this preliminary stage, estimate the prospects of the applications to be accepted.

	Date of filing the claim	Court in which the claim is conducted	Defendant	Subject of the claim and status of the proceeding	Amount of the claim (NIS in millions)
a)	May 2019	District Court, Tel Aviv	The Company and senior officers	Environmental hazards of coal dust and coal ash at the Orot Rabin power station in Hadera. On December 4, 2022, the Tel Aviv District Attorney's Office (Civil Department) submitted the regulator's position to the Court. In its position, the Ministry of Environmental Protection determined that the monitoring stations close to the power stations did not record deviations from the environmental values set forth in the regulations for particles at an abnormal rate compared to other places in Israel, and that the position of the Ministry's professionals is that there is no indication of any significant deviations on the part of the Company from the conditions established on the subject of coal ash in the station's emission permit. Nonetheless, the regulator noted in its position that violations of the station's license terms did occur between the years 2013 to 2015, but it was decided not to file a statement of claim against the Company with respect to them in the end. A second pretrial hearing was held on December 19, 2022. During the hearing, the Ministry of Environmental Protection repeated the main points of its position in essence. In addition, at the request of the applicants, the Court expressed a willingness to conduct a tour of the home of one of the applicants in order to get a first-hand impression as to the existence of the alleged environmental hazard, however, the Court made it clear that the very existence of an environmental hazard does not attribute responsibility to the Company and does not necessarily indicate a violation on its part. After the Statement of Financial Position date, on January 17, 2023, the Court decided that a tour will be conducted on March 23, 2023. The Company's legal advisors estimate that, in this stage and following the failure of the mediation process, the chances of the application being approved cannot be estimated.	Hundreds of millions of NIS
b)	July 2019	District Court, Haifa	The Company and 29 additional defendants	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. On October 24, 2022, a hearing was held regarding the issues of document disclosure and deleting parts of the supplementary opinions that were attached to the applicant's response and parts of the response that refer to these opinions. Evidentiary hearings will commence after the Statement of Financial Position date, in February 2023 and will continue consecutively for several months. The Company's legal advisors estimate that, noting the preliminary stage of the proceeding, the chances of the application being approved cannot be estimated.	No amount specified

	Date of filing the claim	Court in which the claim is conducted	Defendant	Subject of the claim and status of the proceeding	Amount of the claim (NIS in millions)
c)	May 2020	District Court, Tel Aviv	The Company and Israel Railways	Application to approve a class action regarding a claim concerning the 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 existing mediation procedure and its progress. After the Statement of Financial Position date, on February 24, 2023, a hearing was held during which the parties clarified for the Court that they are still conducting negotiations in an attempt to end the disputes outside the Court. The Court instructed to submit an update notice by May 1, 2023. 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.	2.5
d)	September 2020	District Court, Nazareth	The Company	Application to approve a class action 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. The suit is based on monetary, contractual, torts, unjust enrichment, declaratory grounds, the Consumer Protection Law, and the Prohibition of Discrimination in Products, Services and Entry into Places of Entertainment and Public Places Law - 2000. The parties are continuing to conduct negotiations. An additional hearing has been scheduled for May 10, 2023. At this stage, the Company's legal advisors are unable to estimate the application's chances of approval.	No amount specified
e)	November 2022	Central District Court	The Company	An application to approve a class action against the Company about granting a declaratory injunction stating that the Company acted contrary to the provisions of the law and granting a mandatory injunction ordering the Company to amend the "Return Call" service. A preliminary hearing has been scheduled for September 11, 2023. In light of the preliminary stage of the proceeding, the Company's legal advisors are unable to estimate the application's chances of approval.	3
f)	January 2023	Haifa District Court	The Company	An application to approve a class action against the Company regarding the gaps between the rate and the manner of calculating a meter-reading and the amount of the credit with respect to not reading the meter.	2.5
	Total (without claims that do not specify amounts)				**8.0**

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued

b. Contingent Claims and Liabilities (continued)

3) a) Following are details of applications that have been filed with the Courts against the Company and have been recognized as class actions as of the date of approval of these Financial Statements:

	Date of filing the claim	Court in which the claim is conducted	Defendant	Subject of the claim and status of the proceeding	Amount of the claim (NIS in millions)
a)	July 2009	District Court, Tel Aviv Jaffa	The Company	A claim of illegal salary payments. The claimant alleges that the Company collects through electricity bills illegal amounts from electricity consumers, as part of the price of the electricity it supplies, to cover excessive, illegal and invalid salary (according to the claimant's claim) of Company employees. The management of the Company, based on its legal counsel, estimates that insofar as the District Court will oblige the Company to pay consumers with respect to the claimed salary irregularities, then it is more likely than not that the Court will determine that aforesaid payment sum, and the payment to the consumers will be executed in practice, through the electricity rates pursuant to the decision of the Electricity Authority, or in any other framework that will be determined by the Electricity Authority. On March 1, 2022, a pretrial hearing was held in the proceeding, during which an outline was arranged with regard to document disclosure requirements and a questionnaire, under which, 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. On July 20, 2022, document disclosure affidavits were exchanged between the parties. On October 25, 2022, an application was submitted on behalf of the representing claimant regarding specific document disclosure and an application for the appointment of a court-appointed expert. On January 9, 2023, the Company submitted its response to the claimant's application. After the Statement of Financial Position date, on January 10, 2023, the Court ruled that the Attorney-General must notify if it intends to join as a party to the proceeding by April 19, 20223. In accordance with the decision, insofar as the Attorney General will be of the opinion that there is no room for joining as a party to the proceeding, she must notify whether any of the State authorities have a position in connection with the issues in dispute. In light of the ruling of June 1, 2020, and in light of the amended statement of claim and the response submitted by the plaintiff, the Company's legal advisors estimate, that the likelihood is no more than 70% that the District Court will decide that the Company is required to return to the consumers the payments with regards to which the application for approval, recognized as a class action, concerning salary payments, was submitted, and that the likelihood is no more than 70% that the District Court will decide (following the approval of the additional application to approve, if approved) that the Company is required to return to the consumers the payments with regards to which the additional application for approval was submitted.	5,000
	Total				**5,000**

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued

b. Contingent Claims and Liabilities (continued)

3) b) Following are details of an application for recognition as a class action which the applicants claim was only submitted for the sake of caution, and is connected to the claim detailed in section a) above:

	Date of filing the claim	**Court in which the claim is conducted**	**Defendant**	**Subject of the claim and status of the proceeding**	**Amount of the claim (NIS in millions)**
a)	October 2013	District Court, Tel Aviv Jaffa	The Company	A claim of illegal salary payments. The applicants claim that the Company collects through electricity bills illegal payments from electricity consumers, as part of the price of the electricity it supplies, to cover excessive, illegal and invalid salary (according to the applicants' claim) of Company employees. The case currently awaits the continued hearing of the primary case as detailed in Note 35b3aa. In any event, in the opinion of the Company's legal counsel, there is no likelihood exceeding 70% that the District Court will determine (after approval of the application to approve, if approved) that the Company is required to return to consumers the payments with respect to which the application for approval was filed.	2,000-3,000

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued

b. Contingent Claims and Liabilities (continued)

4) Following are details of material legal proceedings including applications for their recognition as class actions that have been filed with the Courts against the Company, and the legal proceedings with respect to them have ended during the report period and up to the date of approval of the financial statements:

	Date of filing the claim	Court in which the claim is conducted	Defendant	Subject of the claim and status of the proceeding	Amount of the claim (NIS in millions)
a)	January 2016 / May 2017	Central District Court	The Company	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. On October 31, 2022, the District Court – Central District rendered its judgment, under which the application to approve the action as a class action was dismissed, and the applicant was ordered to pay the Electric Company’s expenses in the proceeding. The judgment became absolute on January 1, 2023.	Tens of millions of NIS
b)	May 2021	Krayot Magistrate’s Court	The Company and the Ministry of the Interior	An application to approve a class action against the Company and the Ministry of Interior alleging illegal 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, according to the applicant, 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.	2
c)	February 2019	Haifa District Court	The Company	A claim that the Company sends its customers a periodic bill on the basis of an "assessment" when it should have classified the bill as an "initiated skip", as there was no impediment to reading the meter, and accordingly a demand to refund the “meter reading” rate to those customers. A judgment was rendered on June 19, 2022, approving the settlement agreement in a non-material amount. On November 27, 2022, the Supreme Court rejected an application for leave to appeal submitted by the opponents of the settlement agreement (the Forum for a Fair Arrangement) regarding the decision to dismiss in limine their opposition to the application to approve a settlement agreement.	21.7
	Total				**23.7**

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued

b. Contingent Claims and Liabilities (continued)

5) Other material claims and contingent liabilities

a) The total legal claims not mentioned in the previous Notes amount to NIS 524 million (including claims included in section b below) as of December 31, 2022, with respect to which no provision has been made for NIS 311 million of this. The estimate of the Company, which is based on the opinion of its legal advisors, is that the Company included provisions which adequately reflect the costs with respect to the said claims that it is more likely than not that they will be paid

b) The Planning and Building Law states that owners of real estate rights who have been harmed by an outline plan are entitled to compensation from the local committees to whom the outline plan applies. For the construction of new 400 kV lines and 161 kV lines (except for a list of excluded lines as well as maintenance and upgrading to 161 kV lines), outline plans are required. The Company has undertaken to indemnify the local committees in whose area approved plans apply for the construction of 400 kV and 161 kV lines with the full amounts which the committees will be forced to pay to the owners of the real estate that will be harmed, (except for one plan in which the compensation burden will be divided among the institutional entities involved in the plan). These undertakings to indemnify were delivered as it was made clear to the Company that non-delivery would result in the non-approval or suspension of the plans.

Regarding remaining claims under section 197 of the Planning and Building Law, the estimate of the Company, based on the opinion of its legal counsel, which takes into account the opinion of the real estate appraisers who accompany the Company in some of the aforesaid claims, if all its claims are rejected and the Company will indeed be forced to pay monies with respect to these claims, then the Company included a provision which adequately reflects the costs with respect to the said claims where it is more likely than not that they will be paid. The Company is of the opinion that if any amounts are paid, these amounts will be part of the cost of constructing the relevant transmission lines, and due to the essentiality of the transmission lines and based on the opinion of its legal counsel, if and when the Company pays compensation with respect to the letters of indemnity, the Electricity Authority will be obliged to recognize them in the electricity rate).

c) On July 22, 2019, a petition was filed with the Supreme Court, presiding as the High Court of Justice, against the Electricity Authority, the Minister of Energy, and the Company, regarding criteria for disconnecting the supply of electricity. As part of the petition, the Court is requested to instruct the Electricity Authority to amend criteria it set regarding debt collection proceedings, including disconnecting the electricity of consumers.

On January 20, 2022, a judgment was rendered under which some of the remedies requested under the petition were granted: The Electricity Authority should amend the criteria in a manner that will recognize the possibility to prove an exceptional medical condition or financial difficulty as a reason for not disconnecting a consumer from the electricity supply, according to criteria set by the Electricity Authority in this issue, and an arrangement to hold a proceeding to hear the consumer’s claims before reaching a decision to disconnect him from the electricity supply. After the amendment of the criteria as aforesaid, the Company will adopt an orderly and detailed procedure that will determine the practical principles for the implementation of the amended arrangement as anchored in the criteria, including the officers who will be in charge of it. The Court further determined that until the amendment of the criteria, the Company will refrain from disconnecting indebted domestic consumers from the electricity supply insofar as claims are raised regarding exceptional medical condition or financial difficulty based on appropriate documentation. Following the amendments to the criteria carried out by the Electricity Authority as aforesaid, the groups entitled to recognition for exemption from disconnecting the electricity supply were significantly expanded, and the Company’s ability to use disconnection of the electricity supply as a collection tool was significantly limited. The Authority’s decision, which was published on the Authority’s website, but has not yet been published in the Official Gazette, will only enter into effect 90 days after its publication in the Official Gazette. It is further noted that since the date the judgment was rendered in January 2022, and until the entry into effect of the temporary order for the implementation of the High Court of Justice’s Rosenzweig ruling, under which disconnection from the electricity supply cannot be used as a collection tool for customers who have submitted documentation supporting severe financial difficulties and/or an exceptional medical condition as detailed in the aforesaid temporary order, the Company has refrained from disconnecting household customers.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued

b. Contingent Claims and Liabilities (continued)

6) Other financial demand

a) Claims for payment of municipal taxes

As of the Statement of Financial Position date, there are demands against the Company for municipal taxes in amounts exceeding the provision, which adequately reflects the costs with respect to the said claims that it is more likely than not that they will be paid, by about NIS 256 million. These demands mainly derive from the changes in classification of lands held by the Company, the demand to increase the areas being billed, and the demand with respect to municipal tax rate

b) The Israel Land Authority

The Company held and is holding discussions and clarifications with the Israel Land Authority from time to time, as needed, with respect to the lease fees for certain real estate properties at different sites.
As of the date of approval of the financial statements, the Company is unable to estimate if it will be required to pay the usage fees for these sites and, if required, what amounts will be demanded. However, if the Company will be eventually required to pay with respect to all these sites, it is probable that the total amount will not exceed NIS 15 million. The Company did not record any provision with respect to these demands in its Financial Statement

c) Fees, Betterment Levies and Others

1. As of the Statement of Financial Position date, the Company has demands with respect to fees and other levies in amounts exceeding by approximately NIS 24 million the provision in the financial statements adequately reflecting, according to Management's estimate based on the opinion of its legal counsel, the costs with respect to the said demands which are more likely than not to be paid. In addition, there are demands for which provisions were not included in the Financial Statements, in an amount of approximately NIS 982 million (of which NIS 575 million are for the two CCGTs under construction for the Netiv HaOr Company – see section 2 below, and NIS 348 million with respect to other generation sites) that as on the date of approval of the financial statements, the legal advisors of the Company do not have the ability to estimate the exposure with respect to them, and this is, inter alia, as a result of lack of material factual information regarding these cases, in view of their legal complexity and non-receipt of response from the relevant local authority to the claims raised by the Company.
In the event that the Company will be required to pay any sums, they will be included within the fixed assets, and the Company will apply to the Electricity Authority and demand that these sums be recognized in the electricity rate.

2. On April 27, 2021, the Company received a land betterment tax assessment in the amount of NIS 592 million, out of which a demand for payment in an amount of NIS 575 million, with respect to the two CCGTs constructed at the Orot Rabin site by the Company for Netiv HaOr company, due to partial exercise of rights pursuant to NOP 10/a/1/13.
In October 2021, the Company submitted an appeal to the appeal committee against the land betterment tax charge, which was also attached with a counter-assessment. According to the appeal and the counter-assessment, no land betterment took place under the aforesaid outline, and alternatively, the applicable land betterment tax is lower than the amount of the advance paid by the Company and recorded as part of the building cost of the CCGTs. On December 30, 2021, a response to the appeal was submitted on behalf of the Local Committee, and on February 2, 2022, a hearing was held at the Appeals Committee which primarily dealt with the Company's threshold claims to cancel the charge. Since the proceeding is precedential, and the Appeals Committee has not yet decided whether to cancel the charge or refer the parties to a consulting appraiser, and it has not yet provided instructions to the consulting appraiser, the Company's legal advisors are unable to estimate the exposure with respect to this demand.
In the event that the Company is required to pay any amounts with respect to the assessment, these will constitute part of the CCGT construction costs, and the Company will demand the Electricity Authority to recognize these amounts as part of the electricity rate.
For further details regarding the construction of power stations with combined cycle technology, see Note 1e above.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued

b. Contingent Claims and Liabilities (continued)

6) Other financial demands: (continued)

c) Fees, Betterment Levies and Others (continued)

3. In September 2021, the Company received a final land betterment tax assessment with respect to the sale of the Alon Tavor station. This assessment did not accept the Company’s arguments, and the Company filed an appeal. Hearings of the appeal are currently being conducted.
Furthermore, in December 2021, the Company submitted an objection to the land betterment tax assessment received for the sale of the Ramat Hovav site. The objection was rejected in December 2022. The Company is preparing to file an appeal.
As to the sale of the Hagit station, a land betterment tax assessment was received, regarding which the Company filed an objection in December 2022. The response of the Tax Authority has not yet been received.
It should be noted that these tax assessments, insofar as they will be received, have no material effect on the tax expenses in the Company’s Financial Statements. However, there may be material effect on the timing of the use of the Company’s rolled-forward losses and its cash flows.

d) Financial demands by fixed assets contractors:

As of the date of the Statement of Financial Position, the Company has received financial demands from various contractors, mainly with respect to disputes relating to construction of fixed assets, in amounts exceeding the amount of the provision included in the financial statements by approximately NIS 70 million. The management of the Company estimates that the provision adequately reflects the costs with respect to the said claims that it is more likely than not that they will be paid.

7) The compromise agreement with the Egyptian Gas Companies

In August 2005, the Company entered an agreement with E.M.G. (the Company’s Egyptian supplier of natural gas) for the supply of natural gas. Additionally, the Company had signed a tripartite agreement with EMG and the gas owners, the national Egyptian gas companies EGAS and EGPC (the two latter to be referred to jointly hereinafter: the “Egyptian Gas Companies”), under which the Egyptian companies have undertaken towards the Company to place the gas it has undertaken to supply to the Company at the disposal of EMG.

Due to the continuing disruptions in the supply, the Company's Board of Directors decided in September 2011, that the Company will enter an international arbitration process versus the Egyptian gas supply companies and EMG, to receive compensation for the heavy damages incurred and that will be incurred by the Company by non-delivery of the gas from Egypt due to their breach of the agreements with the Company. The sum claimed by the Company was approximately USD 4.15 billion.

The arbitration ended in the middle of 2014 and on December 4, 2015, the Company received the arbitration award, within which it was ruled, inter alia, that the Egyptian gas companies breached their obligation in the tripartite agreement. The Egyptian gas companies were ordered to pay the Company approximately USD 1.76 billion plus interest and plus legal costs.

On February 11, 2016, the Company received an application to appeal the arbitration award that was granted, which was submitted by the Egyptian gas companies to the Superior Court in Switzerland. On April 27, 2017, the Court rendered its decision, rejecting the appeal submitted by the Egyptian gas companies, and determined that they must pay the court fees and indemnification to the Company with respect to the proceeding at court, in the amount of CHF 250,000.

The Company is examining various possible options to collect the amounts to which it is entitled under the Arbitration Award, including the use of various collection methods and/or agreement alternatives. On January 31, 2019, the Company’s Board of Directors approved the compromise agreement formulated between the Company and the Egyptian Gas Companies (hereinafter: the “Compromise Agreement”), subject to receiving a positive position of the Companies Authority regarding the contractual engagement by the compromise agreement.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities (continued)

7) The compromise agreement with the Egyptian Gas Companies (continued)

On May 22, 2019, the Board of Directors conducted a discussion regarding the approval of the compromise agreement, at which the Government Companies Authority’s request for clarifications regarding the compromise agreement and the Company’s responses to the request of the Companies Authority were presented to the Board of Directors. After an in-depth discussion of these issues, the Company's Board of Directors decided to return and approve the compromise agreement and instructed the Company's Management, inter alia, to act for its signature. The approval of the Company's Board of Directors for the signing of the compromise agreement was given after the Company's Board of Directors held numerous discussions regarding the arbitration award and the possibility of its enforcement, examined alternatives and sought to deepen the examination of the alternatives and after the Board of Directors of the Company was presented with legal, financial and other opinions, by a number of external expert consultants renowned in Israel and world-wide regarding the collection possibilities of the arbitration award and the compromise agreement, and regarding the decision making process by the Board of Directors of the Company in connection with it.

During the discussion, the position of the Companies Authority was submitted to the Board of Directors, whereby without expressing a position regarding the Board of Directors' decision itself pertaining to the compromise, it intends to recommend to the Ministers to grant an advance undertaking to indemnify the officers of the Company in connection with the compromise agreement, in a version to be agreed upon by the parties. (For further details regarding the advance undertaking to indemnify granted by the Company to the Company's officers in relation to the compromise agreement, see section 34e1h).

Further to that, on June 16, 2019, the Company and the Egyptian Gas Companies signed the compromise agreement and accompanying documents.

Following are the main points of the compromise agreement:

a) The compromise amount – USD 500 million spread across approximately eight and a half years: USD 60 million will be paid upon closing of the agreement. Half a year later – an additional payment of USD 40 million, and later – 16 semiannual payments of USD 25 million each.

b) Guarantee by the National Bank of Egypt - a bank controlled by the Government of Egypt with an international debt rating that will provide a guarantee (Letter of Credit) to guarantee all payments determined under the compromise agreement (except for the payment determined at the closing of the agreement). In any case of non-payment to the Company of any amount under the compromise agreement (hereinafter: the “amount in arrears”), the Company may demand the realization of the guarantee up to the amount of the arrears. The guarantee is subject to Egyptian Law. Any dispute relating to the guarantee will be adjudicated in arbitration in accordance with the rules of the ICC in London.

c) Acceleration - the Company has the right to accelerate and demand immediate repayment of the entire balance of the compromise amount, insofar as there are two payments that have not been repaid under the compromise agreement and the Company fails to realize the guarantee with respect to the amounts in arrears. In this case, the Company will have the right to demand that the Egyptian Gas Companies pay the full balance of the compromise amount that has not yet been paid to the Company. Insofar as the Egyptian Gas Companies do not pay the Company the full balance of the compromise amount, the Company will have the right to exercise the full amount of the guarantee.

d) Cancellation of the agreement and enforcement of the arbitration award – insofar as even after the acceleration of the payments by the Company as detailed in the preceding paragraph, the Company will not be repaid the balance of the compromise amount by the Bank or the Egyptian companies, on the basis of the aforementioned actions, the Company will have the right to cancel the agreement, repay the amounts received by virtue thereof and demand the enforcement of the entire arbitration award, including interest and linkage.

e) Conditional term - the entry into force of the compromise agreement is contingent upon receipt of the unconditional approval of the compromise agreement by the Electricity Authority after holding a public hearing on the matter by the end of six months from the date of signing the compromise agreement. In addition, if the Company informs the Egyptian Gas Companies, during the six months or later, that the Electricity Authority has not approved the compromise agreement and that accordingly, the conditional term has not been fulfilled, the compromise agreement will be canceled upon receipt of the notification by the Egyptian Gas Companies from the Company.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities (continued)

7) The compromise agreement with the Egyptian Gas Companies (continued)
Following are the main points of the compromise agreement: (continued)

It should be noted that on January 21, 2019, the Electricity Authority reached a preliminary decision, which was published on April 7, 2019, with respect to the Company's actions to collect the Egyptian debt and the compromise agreement, pursuant to which under the circumstances described in the decision and on the face of things and on the basis of the Company's representations, and after preliminary examination of the documents on which, inter alia, the Company relied when reaching the decision on the compromise agreement, the Electricity Authority is impressed that the Company has worked to the best of its ability and the tools that were at its disposal for the signing of the compromise agreement and that the compromise agreement is reasonable under the circumstances.

On December 12, 2019, after the Electricity Authority held an oral hearing, in order to hear the arguments of the Company as well as third parties, the hearing procedure was concluded and the Electricity Authority reached a decision, and the Electricity Authority granted an unconditional approval of the compromise agreement, as specified in the resolution published on December 15, 2019, and thus the conditional term for the validation of the compromise agreement was fulfilled. Under its obligation pursuant to the compromise agreement, the Company notified the Egyptian gas companies regarding the fulfillment of the conditional term.

Accordingly, on December 16, 2019, the compromise agreement was completed and executed , and the Company received, by virtue of the agreement, an executed transfer instruction for the performance of the first payment pursuant to the compromise agreement, in an amount of USD 60 million, and in addition, received the letter of credit from the National Bank of Egypt, for the guarantee of all payments set within the compromise agreement, as well as a legal opinion as required pursuant to the compromise agreement.

As a result of the aforesaid, on the date of the agreement’s completion, the Company recorded income of approximately NIS 1,461 million under the other income item, opposite which a regulatory liability was recorded for returning the compromise sum less legal expenses to the consumers. This income includes the receipt of USD 60 million received at the date of completion and the fair value of the balance of receipts. As of the date of approval of the Financial Statements, all payments were transferred to the Company pursuant to the amounts and schedules as set in the compromise agreement as aforesaid.

NOTE 35:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

c. Labor disputes

On August 1, 2021, a labor dispute was announced by the Chairman of the Professional Union Division of the National Labor Federation (the Histadrut), regarding the following issues:
Continuous unilateral behavior, which means a new creeping reform in the electricity sector and the Electric Company, by promoting new decisions and arrangements in the electricity sector, even in all that pertains to the supply and distribution segment, which have implications for the rights of the Company's employees, including fear of violating the terms of their wages and their occupational security, and even leading to dismissal of employees, and which are made on a systematic and permanent base. The aforesaid is carried out while presenting the employee’s representatives with a fait accompli and without conducting negotiations with them.
The Chairman claimed that a large-scale reform that was signed in 2018 is not promoted and is implemented while dragging feet, delays in implementing various provisions, and avoiding taking action for its implementation. The Company operates with a lack of good faith and continues to carry out the parts of the reform that are convenient for it, including a structural change and massive reduction of manpower in the Company.
Ignoring repeated requirements by employee representatives for transparency in all that pertains to early steps and implementing the reform signed in 2018 in the field.
Conduct with a lack of good faith and in a way that is unacceptable in collective labor relationships, an action to thwart the reform that was agreed upon with the employees’ representatives, and the de facto promotion of a new unilateral reform.

As of the date of approval of the Financial Statements, the Company is operating by holding discussions with the employees’ union and the State for the continued implementation of the reform and the settlement of differences and disagreements with the employees' representatives and the National Labor Federation (Histadrut), as they come to light.

NOTE 36:- 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.
   The team's summary was received on May 5, 2021, regarding the manner of reporting to profit centers and changes accepted during discussions with the Company, and accordingly, the Company changed the format of reporting to the Chief Operating Decision Maker (Company CEO) as from the fourth quarter of 2021.

b. Detailed Reportable Operation Segments

The operations of the Company, according to the reports to the Chief Operating Decision Maker of 2022, are comprised of five main operational segments making up the entire electricity chain. Following are the operating segments:

- 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, 2021, to the Noga Company, a separate Government company. Therefore, this activity was not reviewed 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.
Segmental expenses that can be specifically identified are charged directly to the appropriate segments. 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 as aforesaid 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.

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

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

NOTE 36:- SEGMENTAL REPORTING (continued)

d. Income and Results according to operating segments

1. Income and Results according to Operating segments

	For the Year ended December 31, 2022					
	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions)					
Revenues from electricity	14,223	1,911	6,221	479	-	22,834
Other income	8	1	117	39	106	271
Total revenues	**14,231**	**1,912**	**6,338**	**518**	**106**	**23,105**
Cost of operating the electricity system:						
Fuels	9,561	-	-	-	-	9,561
Purchases of Electricity:						
Purchases of Electricity	50	-	2,809	-	-	2,859
Purchasing and accounting with Noga, net	2,877	22	168	7	-	3,074
	2,927	22	2,977	7	-	5,933
Operation of the generation system	4,094	-	-	-	-	4,094
Operation of the transmission, distribution system and others	-	845	1,929	-	66	2,840
Total cost of operating the electricity system	16,582	867	4,906	7	66	22,428
Profit (loss) from operating the electricity system	**(2,351)**	**1,045**	**1,432**	**511**	**40**	**677**
Other allocated revenues, net	(22)	-	(7)	-	-	(29)
Sales and marketing expenses	-	-	419	400	-	819
Administrative and general expenses	407	85	290	74	-	856
	385	85	702	474	-	1,646
Profit (loss) before regulatory deferral accounts	**(2,736)**	**960**	**730**	**37**	**40**	**(969)**
Movements in regulatory deferral accounts balances, gross	3,636	(461)	210	(16)	(20)	3,349
Segmental profit	**900**	**499**	**940**	**21**	**20**	**2,380**
Unallocated revenues (expenses)						
Other income, net						**1,376**
Income from liabilities to pensioners						**148**
Reform agreement and other agreements results						**(212)**
Financial expenses						**(1,356)**
Movements in deferral accounts, gross, that were not allocated to segments						**(24)**
Tax expenses included in net movement of regulatory deferral accounts						**(764)**
Income tax						**226**
Profit for the year in accordance with the consolidated statements						**1,774**
Additional details:						
Depreciation and amortization expenses	**2,783**	**555**	**1,374**	**49**	**-**	**4,761**

NOTE 36:- 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)				
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	4,365	-	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 expenses, 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 expenses 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:							
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 36:- 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, 2020						
	Electricity generation and purchases	Transmission	Distribution	Supply	Operation not within the electricity chain	Others	Total Company
			(NIS in millions)				
Revenues from electricity	12,091	1,727	5,621	423	-	3,642	23,504
Other income	21	3	101	48	100	1	274
Total revenues	**12,112**	**1,730**	**5,722**	**471**	**100**	**3,643**	**23,778**
Cost of operating the electricity system:							
Fuels	6,220	-	-	-	-	-	6,220
Purchases of Electricity	-	-	1,821	-	-	3,448	5,269
Operation of the generation system	4,143	-	-	-	-	-	4,143
Operation of the transmission, distribution system and others	-	785	1,925	-	75	64	2,849
Total cost of operating the electricity system	10,363	785	3,746	-	75	3,512	18,481
Profit from operating the electricity system	**1,749**	**945**	**1,976**	**471**	**25**	**131**	**5,297**
Other expenses, net	-	-	-	-	10	-	10
Sales and marketing expenses	-	-	501	385	-	-	886
Administrative and general expenses	439	70	288	76	-	98	971
	439	70	789	461	10	98	1,867
Profit from current operations	**1,310**	**875**	**1,187**	**10**	**15**	**33**	**3,430**
Company's share of the loss of associated companies	-	-	-	-	(6)	-	(6)
Profit before regulatory deferral accounts	**1,310**	**875**	**1,187**	**10**	**9**	**33**	**3,424**
Movements in regulatory deferral account balances gross	557	(339)	(311)	11	-	57	(25)
Segmental profit	**1,867**	**536**	**876**	**21**	**9**	**90**	**3,399**
Unallocated revenues (expenses)							
Other expenses, net							2,826
Income from liabilities to pensioners							24
Reform agreement and other agreements results							(708)
Financial expenses							(511)
Movements in deferral accounts, gross, that were not allocated to segments							(2,784)
The tax expenses included in net movement of regulatory deferral account							646
Income tax							(1,189)
Profit for the year in accordance with the consolidated statements							**1,703**
Additional details:							
Depreciation and amortization expenses	2,721	501	1,285	50	12	-	4,569
Impairment of assets held for sale	-	-	-	-	-	-	113
Total depreciation, amortization and impairment of assets held for sale	**2,721**	**501**	**1,285**	**50**	**12**	**-**	**4,682**

NOTE 36:- 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 December 31, 2022						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Assets and liabilities not directly classified	Total Company
	NIS in millions						
Inventory – fuels	3,825	-	-	-	-	-	3,825
Investment in an associated company	-	-	-	-	13	-	13
Fixed assets, net	20,282	16,141	20,476	-	-	2,712	59,611
Intangible assets, net	7	107	821	160	-	58	1,153
Debit balances of regulatory deferral accounts	5,273	(1,263)	582	20	-	6,772	11,384
Other assets not classified	-	-	-	-	-	22,978	22,978
Total assets	**29,387**	**14,985**	**21,879**	**180**	**13**	**32,520**	**98,964**
Credit balances of regulatory deferral accounts, without deferred taxes	1,987	230	159	-	20	858	3,254
Investments in fixed assets for the year	**1,773**	**1,334**	**1,879**	**-**	**-**	**468**	**5,454**

	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							
Inventory – fuels	3,113	-	-	-	-	-	-	3,113
Assets held for sale	160	-	-	-	-	-	-	160
Investment in an associated company	-	-	-	-	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 year	**2,421**	**1,383**	**1,661**	**-**	**-**	**14**	**491**	**5,970**

NOTE 36:- 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 year ended on December 31		
	2022	2021	2020
	Generation (NIS in millions)		
Coal	6,310	2,791	2,019
Natural gas	2,965	2,931	3,896
Diesel oil	218	137	212
Crude oil	68	16	93
Total fuel consumption costs	9,561	5,875	6,220

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

	For the year ended on December 31		
	2022	2021	2020
	Distribution (NIS in millions)		
Photovoltaic	2,689	2,116	1,717
Wind turbine	21	21	22
Hydroelectric	7	6	7
Biogas	84	70	68
Diesel oil generator	8	3	7
Total electricity purchases	2,809	2,216	1,821

Details of kWh generated

	For the year ended on December 31		
	2022	2021	2020
	(kWh in millions)		
Generated by the Company	39,286	38,248	44,363
Supplied by the Company	48,681	51,537	51,991

NOTE 36:- 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 year ended on December 31		
	2022	2021	2020
	Generation		
	(NIS in millions)		
Wages	891	960	1,105
Depreciation	2,505	2,453	2,403
Other	698	673	635
Total operation of the generation system	**4,094**	**4,086**	**4,143**

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

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

	For the year ended December 31, 2021				
	Transmission	Distribution	Operation not within the electricity chain	Other	Total Company
	(NIS in millions)				
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 others	**741**	**1,909**	**45**	**45**	**2,740**

	For the year ended December 31, 2020				
	Transmission	Distribution	Operation not within the electricity chain	Other	Total Company
	(NIS in millions)				
Wages	139	593	-	49	781
Depreciation and amortization	489	1,087	-	1	1,577
Other	157	245	75	14	491
Total operation of the transmission and distribution system and others	**785**	**1,925**	**75**	**64**	**2,849**

NOTE 36:- SEGMENTAL REPORTING (continued)

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

Details of administrative and general expenses according to type of expense

	For the year ended December 31, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions)					
Wages	206	43	150	48	-	447
Depreciation and amortization	65	20	66	10	-	161
Other	136	22	74	16	-	248
Total administrative and general expenses	**407**	**85**	**290**	**74**	**-**	**856**

	For the year ended December 31, 2021						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions)						
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**

	For the year ended December 31, 2020						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions)						
Wages	247	37	155	46	-	46	531
Depreciation and amortization	45	12	55	16	-	12	140
Other	147	21	78	14	-	40	300
Total administrative and general expenses	**439**	**70**	**288**	**76**	**-**	**98**	**971**

NOTE 36:- 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 sale 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 year ended December 31, 2022					
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Total Company
	(NIS in millions)					
Direct costs						
Wages	971	112	649	188	17	1,937
Depreciation and amortization	2,657	515	1,170	-	-	4,342
Others	698	188	322	151	49	1,408
Fuels	9,224	-	-	-	-	9,224
Purchases of Electricity	50	-	2,809	-	-	2,859
Accounting with Noga	2,877	22	168	7	-	3,074
Other revenues	(22)	-	(7)	-	-	(29)
Total direct costs	**16,455**	**837**	**5,111**	**346**	**66**	**22,815**
Indirect costs						
Wages	250	53	219	70	-	592
Depreciation and amortization	126	40	204	49	-	419
Others	136	22	74	16	-	248
Total indirect costs	**512**	**115**	**497**	**135**	**-**	**1,259**

NOTE 36:- 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)						
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**

	For the year ended December 31, 2020						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions)						
Direct costs							
Wages	1,162	128	757	200	-	48	2,295
Depreciation and amortization	2,621	472	1,126	-	-	-	4,219
Others	634	158	337	125	85	15	1,354
Fuels	5,804	-	-	-	-	-	5,804
Purchases of Electricity	-	-	1,821	-	-	3,448	5,269
Total direct costs	**10,221**	**758**	**4,041**	**325**	**85**	**3,511**	**18,941**
Indirect costs							
Wages	334	48	256	72	-	47	757
Depreciation and amortization	100	28	160	50	-	12	350
Others	147	21	78	14	-	40	300
Total indirect costs	**581**	**97**	**494**	**136**	**-**	**99**	**1,407**

NOTE 36:- SEGMENTAL REPORTING (continued)

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

Details of direct and indirect costs divided according to profit centers

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

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

	For the year ended December 31, 2021						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions)						
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

Wage costs not attributed to sectors	
Wage costs charged to joint fixed assets	144
Wage costs charged to joint fixed assets from remeasurements	(13)

NOTE 36:- SEGMENTAL REPORTING (continued)

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

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

	For the year ended December 31, 2020						
	Generation	Transmission	Distribution	Supply	Operation not within the electricity chain	Other	Total Company
	(NIS in millions)						
Wage costs	1,860	645	1,783	272	-	95	4,655
Charged to fixed assets including remeasurements	(390)	(503)	(826)	-	-	-	(1,719)
Remeasurements charged to reduction of fixed assets	26	34	56	-	-	-	116
Wage expenses in profit and loss	1,496	176	1,013	272	-	95	3,052

Wage costs not attributed to sectors	
Wage costs charged to joint fixed assets	154
Wage costs charged to joint fixed assets from remeasurements	(10)

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

	As on December 31, 2021					
	Generation	Transmission	Distribution	Supply	Joint assets	Total Company
	(NIS in millions)					
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 36:- SEGMENTAL REPORTING (continued)

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

For the year ended December 31, 2022

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

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 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.

For the year ended December 31, 2020

1. A gross profit of approximately NIS 13 million was recorded during the year for the provision of unloading and loading services at moorings at the Eshkol generation station.
2. A gross profit of approximately NIS 2.5 million was recorded during the year for the sale of infrastructure services to the Ministry of Defense.
3. A gross profit of approximately NIS 0.6 million was recorded during the year from business development work of selling a communications bundle to the Dalia Power Energies Ltd.
4. A gross profit of approximately NIS 0.7 million was recorded during the year from business development work of constructing a communications cabinet for the Ashdod Energy Company.
5. A gross profit of approximately NIS 1 million was recorded during the year from business development work of constructing a communications cabinet for the Nesher Ramla Company.
6. A gross profit of approximately NIS 2 million was recorded during the year from business development work of increasing energy efficiency in Sderot.
7. A gross loss of approximately NIS 1 million was recorded during the year from business development work of increasing energy efficiency in Or Akiva.
8. A gross profit of approximately NIS 1.4 million was recorded during the year from business development work of constructing a communications cabinet for the OPC Rotem Company Ltd.
9. 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.
10. The Company's share in losses of associate companies during the year amounted to approximately NIS 6 million.
11. Impairment of value of loans to PTI companies was recorded during the year in the amount of approximately NIS 10 million.

The Israel Electric Corporation Ltd.

Chapter D

Additional Particulars about the Corporation For the Year 2022

<u>Prominent Disclaimer</u>

This English translation of the **“Additional Particulars about the Corporation”** for the year ended December 31, 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, 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.

Name of the Company: The Israel Electric Corporation Ltd.
Company Number with the Companies Registrar: 520000472
Statement of Financial Position Date: December 31, 2022
Date of Publication of the Financial Statements: March 16, 2023

This Chapter is prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Regulations**") and in accordance with circular 2020-5-1 of the Government Companies Authority.

Regulation 9d: **Report of the Liabilities Schedule According to Payment Dates**
For the report on the liabilities schedule of the Company, see immediate report concurrently published by the Company (Regulation 126) with this periodic report.

Regulation 10a: **Summary of reports on the comprehensive income (loss) in the quarters**
Following is the summary of the reports:

	Quarter 1	**Quarter 2**	**Quarter 3**	**Quarter 4**	**2022**
Revenues	5,866	4,715	7,325	5,199	23,105
Cost of operating the electricity system	5,504	5,023	6,524	5,377	22,428
Profit from operating the electricity system	**362**	**(308)**	**801**	**(178)**	**677**
Other revenues, net	(3)	(1,375)	(12)	(15)	(1,405)
Sales and marketing expenses	193	204	206	216	819
Administrative and general expenses	203	216	211	226	856
Income from liabilities to pensioners	(32)	(38)	(42)	(36)	(148)
Reform agreement and other agreemener results	58	77	33	44	212
Profit (loss) from current operations	**(57)**	**608**	**405**	**(613)**	**343**
Financial expenses, net	662	88	415	191	1,356
Profit (loss) before income taxes	**(719)**	**520**	**(10)**	**(804)**	**(1,013)**
Income Tax expenses (revenues)	(163)	122	-	(185)	(226)
Profit (loss) after income tax	**(556)**	**398**	**(10)**	**(619)**	**(787)**
Company's share of the loss of associated companies	2	-	-	(2)	-
Profit (loss) before regulatory deferral accounts	**(554)**	**398**	**(10)**	**(621)**	**(787)**
Movement in regulatory deferral account balances	839	177	1,531	14	2,561
Profit (loss) for the period	**285**	**575**	**1,521**	**(607)**	**1,774**
Other comprehensive income (loss) for the period, net of tax	1,450	(800)	767	155	1,572
Comprehensive income (loss) for the period	**1,735**	**(225)**	**2,288**	**(452)**	**3,346**

Regulation 11: **A list of investments in subsidiaries and related companies, as of the statement of financial position date (31.12.2022)**

Subsidiaries and related companies held by the Company[1] on December 31, 2022, are listed below with an indication of the number of shares, type, nominal value, proportion of the Company's holding in them out of the total issued shares of this type and the rate of the securities, of the issued shares capital, the voting rights and the authority to appoint directors held by the Company:

Name of Subsidiary	Share Type	Number of Held Shares and Nominal Value	Proportion of the Company's Holding (%)				Millions of NIS
			In Securities	In Capital	In Voting Rights	In Appointment of Directors	Balance Sheet Value
Jordan Investment Company Ltd.	Ordinary	3,000 of NIS 0. 5 each	100.00	12.00	73.17	73.17	-
	Ordinary A	109,999 (*) of NIS 0.1 each	99.99	87.99	26.82	26.82	-
Migrashei Hakablanim Ltd.	Preferred	2,000, of NIS 0.1 each	100.00	76.05	100.00	100.00	-
	Deferred	630 (**) of NIS 0.1 each	100.00	23.95	0.00	0.00	
	Total	2,630 of NIS 0.1 each	100.00	100.00	100.00	100.00	
National Coal Supply Company Ltd.	Ordinary A	910,000 (***) of NIS 1 each	100.00	100.00	100.00	100.00	55
The Management Company of the Advanced Training Fund of Israel Electric Corporation Ltd.(****)	Management A	6 of NIS 1 each	50.00 of the Management shares	-	50.00	50.00	-
PAMA Energy Resources Development Company Ltd.	Ordinary	3,467,790 of NIS 0.1 each	49.99	49.99	49.99	30.77	-
I.B.C. Israel Broadband Company (2013) Ltd.	Ordinary	400 of NIS 1 each	30.00	30.00	30.00	(*****)	-
Netiv Ha'Or – Orot Rabin Ltd.	Ordinary	100,000 of NIS 1 each	100.00	100.00	100.00	100.00 (******)	-
CyberGym Control Ltd. (*******)	Ordinary	500,000 of NIS 0.01 each	38.36%	38.36%	38.36%	50	-

(*) Including 66 Ordinary A shares held by officeholders in trusteeship for the Company

(**) 630 deferred shares held by officeholders in trusteeship for the Company

(***) According to the Articles of Association of the National Coal Supply Company Ltd., the company has at most 9 directors, a third of whom are not employees of the Company and the remainder are employees of the Electric Company.

(****) The Company holds 50% of the management shares and rights to appoint directors, without rights of participation in profits. The remaining 50% are held as follows: The Association of Mutual Assistance among the Electric Company employees in the southern region (final holder) (25%), Non-Profit Organization of the Electric Company employees in the Northern region (registered non-profit organization) (final holder) (16.667%), and the Savings and Mutual Assistance Fund of the Electric Company Employees in Jerusalem Ltd. (final holder) (8.333%). A casting share, granting its holder the right to determine the outcome in any case of equality of votes of the General Assembly or the Board of Directors, was personally allocated to Mr. David Hagoel, the former Chairman of the Board of Directors of the Electric Company. Following Mr. Hagoel's passing in August 2019, the Management Company is taking steps to transfer the casting share to another agreed-upon public figure, in accordance with the provisions of the articles of association of the Managing Company.

(*****) In accordance with the Shareholders' Agreement and the updated Articles of Association of I.B.C Israel Broadband Company (2013) Ltd. ("IBC"), every shareholder holding (together with its authorized transferees) 11% of the Company's shares will be entitled to appoint one director to the Board of Directors of the Company. Notwithstanding the aforesaid, as long as the Company (together with its authorized transferees) holds at least 7% of IBC's shares, it will be entitled to appoint one director to the Board of Directors of IBC. As of the date of the report, six directors are serving in IBC, two of which have been appointed by the Company. During voting at the Board of Directors' meetings, each director or group of directors appointed by the same shareholder will be vested, together, with the same voting power as the holding rate of IBC shares of the shareholder appointing him/them.

[1] All the subsidiaries and related companies detailed in this regulation are not traded in the stock exchange.

An amount of NIS 51 million of the IBC suppliers' debt to the Electric Corporation will be deferred and become an interest bearing deferral debt at a rate of 4% over the most senior debt, which shall be repaid out of IBC's free cash flow, in equivalent terms to those of owners' loans to be provided by Cellcom and IIF upon the date of their entrance into IBC.

(******) In accordance with the Articles of Association of Netiv Ha'Or – Orot Rabin Ltd., 3 directors are appointed as public representative directors, and 4 are appointed from among the employees of the Company.

(*******) In accordance with the Articles of Association of CyberGym Control Ltd., the Company is entitled to appoint 2 out of 4 directors. As of the date of the report, 2 directors are serving in CyberGym on behalf of the Company. In addition, under CyberGym's Articles of Association, decisions by CyberGym's General Meetings will be made by a majority exceeding 50%, provided that the majority includes the Company (as long as it holds at least 15% of CyberGym's issued and paid-up capital), the Cyber Control Company, and Mr. Ophir Hasson (as long as they jointly hold at least 15% of CyberGym's issued and paid-up capital).

Balance of loans to held companies: None.

For additional details see Notes 2i and 11 to the Financial Statements of the Company ("**Financial Statements**").

Regulation 12: **Details regarding changes in investments of the corporation in the reporting year in subsidiaries and related companies**

For details see Note 11 to the Financial Statements.

Regulation 13: **Comprehensive income of every subsidiary or related company of the corporation, during the last reporting year that ended on the date of the statement of financial position of the corporation or before it, adjusted to the statement of financial position date (December 31, 2022), while distinguishing between profit or loss and other comprehensive profit, as their meaning in the accepted accounting principles.**

The following table details the comprehensive income of the subsidiaries and related companies as of December 31, 2022:

Name of Company	Net Profit (loss)	Comprehensive Income)	Proposed Dividend	Management Fees	Interest
National Coal Supply Company Ltd.	12	10	6.4	-	-
Netiv HaOr Company Ltd.	(6.4)	(6.4)			

* Due to immateriality, as of the date of the report, the Company is executing assessments for CyberGym's operation results.

Regulation 20: **Trading on the Stock Exchange - Securities that were Listed for Trading - Trading Halt Dates and Reasons**

During 2022 and until the date of approval of the financial statements, the Company debentures from the issue of the negotiable series were listed for trade on the Tel Aviv Stock Exchange, as detailed:

Name of Series	Security no.	Listing Date	NIS par value
Debentures Series 32	6000384	28.04.2022	669,389,000
Debentures Series 33	6000392	28.04.2022	1,282,131,000
Debentures Series 31	6000285	28.04.2022	730,356,000
Debentures Series 33	6000392	28.04.2022	1,269,644,000
Debentures Series 31	6000285	24.11.2022	1,188,122,000
Debentures Series 33	6000392	24.11.2022	1,102,000,000

There were no breaks in the trading of the Company's securities in 2022 and in the period after December 31, 2022 and until the date of approval of the financial statements.

Regulation 21(a)(1): **Rewards to Officers**

Compensation paid by the Company and commitments to pay it assumed (including employers' costs) for each of the five officeholders in the Company or in a company it controls, who received the highest compensation from the Company itself or from a corporation it holds, as the case may be, paid with respect to 2021 as recognized in the financial statements for 2022 (in current prices) is detailed below:

2022														
Details of Rewards Recipient				**Rewards* for Services**							**Other Rewards**			
Name	**Position**	**Position Scope**	**Equity holding rate**	**Salary****	**Bonus**	**Shares Based Payment**	**Management Fees**	**Consulting Fees**	**Commission**	**Other**	**Interest**	**Rent**	**Other**	**Total**
Dov Cohen (***)	Senior VP Operation and Logicstics	100%	-	2,522,587	138,213	-	-	-	-	-	-	-	-	2,660,800
Yael Nevo (***)	General Counsel	100%	-	1,263,490	142,261	-	-	-	-	-	-	-	-	1,405,751
Yizhak Balmas	Deputy CEO	100%	-	1,201,194	145,891	-	-	-	-	-	-	-	-	1,347,085
Ofer Bloch (***)	Chief Executive Officer	100%	-	1,063,761	174,774	-	-	-	-	-	-	-	-	1,238,535
Shlomo (Shlomi) Zarfati	Senior VP Human Resources	100%	-	1,028,249	146,309	-	-	-	-	-	-	-	-	1,174,558

(*) Reward amounts are presented in terms of annual cost to the company (in NIS) for a period of twelve (12) months ended on December 31, 2022 (in current prices).

(**) The amounts specified above include salary in terms of cost incurred by the Company expenses refund with respect to subsistence allowance, telephone, vehicle ("Expenses Refund") and charging tax with respect to vehicle, insurance, advanced studies, mobile phone, gift and meals ("Charged to Tax"), grants such as a retirement grant.

(***) See reference below regarding the date of termination of employment.

Notes to the Table:

Terms of employment for officers employed by personal contract:

The employment agreement of an officeholder is a personal employment agreement, in a uniform version, dictated and required by the Companies Authority, in accordance with the Government Companies Authority's Circular no. 2001/1 of November 7, 2001 ("**The Authority's Circular Regarding Senior Employees**"), or an agreement of employment by personal contract for senior managers in the Electric Company which was approved by the Government Companies Authority and the Supervisor of Wages at the Ministry of Finance. The salary of an officeholder is determined in accordance with the classification of the Company, which is determined by the Committee for Classifying Government Companies that was established by virtue of the Government resolution (the "**Committee for Classifying Government Companies**"), and is updated once a year in accordance with the increase of the CPI and subject to the approval of the Board of Directors of the Company. As part of the employment of an officeholder and in accordance with his employment agreement, and after receiving approval for it from the Board of Directors of the Company and from the Government Companies Authority, the officeholder is entitled to for purpose of his function, to a vehicle supplied by the employer and the Company bears the costs of its use. Within the framework of his work, he is also entitled to expenses of maintaining a telephone, board and lodging expenses, clothing allowance, advance study fund, annual leave and convalescence pay. The officeholder shall cease to serve in office and his term in office shall expire in accordance with the causes which are set forth in the Government Companies Law and on the dates set forth therein. According to the Authority's Circular Regarding Senior Employees, an advance notice of three months must be issued to a senior employee who is dismissed from employment or by senior employee who resigns voluntarily. The terms of office and employment of the officeholders are compatible with the compensation policy of the Company.

Ofer Bloch - started work in the Company as Company Chief Executive Officer on June 10, 2015. The salary is paid according to the contractual engagement of June 2015, which is in effect until the expiry of his tenure. The amount presented in the "Salary" column for 2022 includes a salary of NIS 662,809 plus employer's costs in the amount of NIS 379,752 plus Charges to Tax in the amount of NIS 21,200 plus a bonus of NIS 174,774. Ended his employment on May 20, 2022.

Yitzhak Balmas – started work as Senior VP Grid Services on January 1, 2015. The salary is paid according to the contractual engagement by personal contract of January 2019, which is in effect until the expiry of his tenure. The amount presented in the "Salary" column for 2022 includes an annual salary of NIS 944,226 plus employer's costs in the amount of NIS 212,742 plus charges to tax in the amount of NIS 44,226, and in addition a bonus in an amount of NIS 145,891.

Yael Nevo - started work as General Counsel on April 15, 2015. The salary is paid according to the engagement of employment from July 2015, which is in effect until the expiry of her tenure. The amount presented in the "Salary" column for 2022 includes an annual salary of NIS 745,265, plus employer's costs in the amount of NIS 467,490 plus Charges to Tax in the amount of NIS 50,735 plus a bonus of NIS 142,261. Ended her employment on September 30, 2022.

Dov Cohen – started work as the Company's Senior VP Operation and Logistics on September 1, 2015. The amount presented in the "Salary" column for 2022 includes an annual salary of NIS 2,292,933, plus employer's costs in the amount of NIS 169,643 plus Charges to Tax in the amount of NIS 60,011 plus a bonus of NIS 138,213. Ended his employment on October 31, 2022.

Shlomo (Shlomi) Zarfati - started his term as Senior VP Human Resources of the Company on July 1, 2020. The amount presented in the "Salary" column for 2022 includes an annual salary of NIS 753,033, plus employer's costs in the amount of NIS 203,330 plus Charges to Tax in the amount of NIS 71,886, plus a bonus of NIS 146,309.

Regulation 21(a)(2): There are no three senior officeholders in the Company itself who receive the highest compensation that are not included in the list under Regulation 21(a)(1).

Regulation 21(a)(3): There are no stakeholders in the Company who receive rewards that are not directors and are not included in the list of regulation 21(a)(1) above, who receive a reward in connection with services they provided as office holders in the Company or a company it controls.

Regulation 21(b): No rewards were paid to senior office holders with respect to the reported year that were not recognized in the statement of financial position for the reported year.

Details regarding compensation given to directors in accordance with the circular of the Government Companies Authority[2]

The compensation given to directors (except the Chairman of the Board of Directors) in 2022, which does not deviate from that which is customary[3], amounted to NIS 1,028 thousand (the amount does not include VAT and is in current prices)[4]. The Compensation of the external directors was determined according to the classification of the Company, at the amounts specified in the Government Companies Regulations (Rules for Compensation and Expenses to an External Director in Government Companies) – 1994. As on the date of the report, the Company is classified in Class 10(1). The compensation of the external directors is determined according to the decisions of the general meeting of the Company, according to minimum amounts specified for a Company in the Company's class in the Companies Regulations (Rules for Compensation and Expenses to an External Director) – 2000, although these regulations allow a higher salary.[5]

Regulation 21 a: The holding in the Company

The State of Israel is the holder of the Company as on the date of the report.

Regulation 22: Transactions with a Stakeholder

The State holds about 99.85% of the share capital of the Company and is the controlling stakeholder in it. For details, to the best of the knowledge of the Company, concerning any transaction with the controlling shareholder or in whose approval the controlling shareholder has a personal interest, which the Company has executed during the reporting year or at a later date than the end of the reporting year, or which is still valid on the date of the report, including with respect to letters of guarantee that were provided by the State of Israel to secure the liabilities of the Company and loans provided by the State of Israel to the Company, see Note 34 to the Financial Statements

[2] Circular 2013-5-1 of the Government Companies Authority "Accounting and Finances - Financial Statements".

[3] Namely, does not exceed the maximum sum under regulations 4 and 5 to the Companies Regulations (Rules for Compensation and Expenses to an External Director) – 2000 (the "Compensation Regulations"), and does not exceed the amount stated in regulation 7 of the Compensation Regulations.

[4] It should be noted that VAT is added to the compensation paid to external directors of the Company.

[5] It is noted that on July 19, 2017, the Company's Audit Committee (in its capacity as the Compensation Committee) passed a resolution stating, inter alia, that: (a) "The Compensation Committee's position is that it will be correct to determine that as of the date of appointment of the next external director to be appointed by the Company, the compensation that will be paid to external directors that will serve the Company will be the average between the fixed compensation amount and the maximum compensation amount under the Compensation Regulations, and that external directors who meet the conditions specified in the Compensation Regulations for an expert external director will be classified accordingly and will be entitled to compensation in the amount of the average between the fixed compensation amount and the maximum compensation amount under the Compensation Regulations , and that: (b) "concurrently, the Committee agrees that if the Companies Authority agrees to the State's vote at the general meeting of the Company for an update of the compensation amount paid to the external directors of the Company, the amount of compensation to be paid to external directors of the Company will be determined as at least 65% of the maximum amount under the Compensation Regulations, and that external directors meeting the conditions specified in the Compensation Regulations for an expert external director will be classified accordingly and will be entitled to compensation of at least 65% of the maximum amount under the Compensation Regulations for an expert external director." The Company began discussions regarding this issue with the Government Companies Authority and the issue has not yet been presented to the Board of Directors of the Company.

The Company has taken a loan directly from the State of Israel. In addition, the Company has received the State of Israel's guarantee for the loan it has taken, as detailed below:

a. **Loan Guaranteed by the State of Israel**

On December 2005, the State has provided a guarantee to the benefit of CITIBANK i with respect to an amount of up to USD 250 million, for the unpaid loan balance, according to an agreement entered in December 2005 between the Company and CITIBANK in the U.S.A., insured by OPIC (an agency of the U.S.A. Government) for receiving credit of up to USD 250 million. The Company paid the State, in advance, a guarantee commission of approximately USD 4.5 million. During 2006 through 2007, the Company utilized approximately USD 222.8 million out of this amount. The balance of the loan as on December 31, 2022, is approximately NIS 131 million.

b. **Loan from the State of Israel**

Lender	Loan Currency	Linkage	Nominal interest	Repayment Period		Outstanding Balance as of December 31, 2022 in NIS million	
				First repayment	Last repayment	Principal	Interest payable
State of Israel	**NIS**	**CPI**	**1.28%**	**12.04.2019**	**12.04.2029**	**1,935**	**5**

As of the date of the report, the Company fulfilled all the terms and obligations under the loan agreement.

For additional details see Note 34b2c.

Regulation 24: Convertible shares and securities held by parties at interest in the corporation, and in investee companies, as close as possible to the date of the report

Following are details of shares and securities held, to the best of the Company's knowledge, by interested parties and senior officers of the Company:

Name of Company	"Party at Interest" / Senior office holder	Type of Share	Nominal Value in NIS	No. of Shares	Proportion of Holding (%)		
					In Capital	In Voting Rights	In Appointment of Directors
In the corporation							
Israel Electric Corporation Ltd.	State of Israel	Ordinary	0.1	79,980,010	99.77	99.77	100.00
		Ordinary B	0.1	40,053,252	100.00	100.00	100.00
	Shlomo (Shlomi) Zarfati	Ordinary	0.1	1	0	0	0

The Company has several other subsidiaries and second-tier subsidiaries in which office holders in the Company hold shares, in trust for the Electric Company, however, since the activities of these companies are immaterial to the operation of the corporation, no information about these holdings are presented.

Regulation 24A: Registered Capital, issued capital and convertible securities on the report date,

see Note 23 to the Financial Statements.

Additionally, the company has no convertible securities.

Regulation 24B: Register of Shareholders of the Company

For an updated list of shareholders see the Company's immediate report of January 18, 2023, at the Magna site (reference 2023-01-008640) regarding the status of corporation's capital and securities registers and changes therein (T087).

Regulation 25A: Registered Address

Address:	:	1 Netiv Ha'Or Street, P.O. Box 10, Haifa 3100001
Telephone	:	076-8631555
Fax	:	072-3431804
Company's website	:	www.iec.co.il
e-mail	:	ubz1d@iec.co.il

Regulation 26: Board Members of Corporation

The following are particulars of the board members:

Director Name	**Dvora Sonia Hassid**	**Efraim Refael Henig**	**Shlomo Arbiv**	**Diana Halabi Hassoun**	**Michael Yehiel Schnider**	**Nissim Alon**	**Anat Oren-Elad**
ID number:	054051719	000050682	0541865754	034989756	000881359	055434195	058744269
Date of birth:	28/2/1956	13/06/1941	16/12/1956	04/01/1979	13/08/1947	06/10/1958	21/08/1964
Address for Service of Process:	Malkei Tzedek St., 25/7 Ramat Gan	32 Givati St., Ashkelon	21, Haeshel Street, Ramat Gan	57 Ha'azmaut St, Haifa	19 King David, Jerusalem	10 HaOdem St., Mevaseret Zion	12 Burla St., Haifa
Citizenship:	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Membership on board committees:	Audit Committee; Compensation Committee; Strategy, Structural Change, Innovation and Image Committee; Human Resources and Organization Committee; Business Development, Marketing and Service and Regional Cooperation Committee; Sub-committee for Reviewing the Company's Preparation for Emergency	Examination of the Financial Statements Committee; Strategy, Structural Change, Innovation and Image Committee; Budget, Financial and Risks Management Committee; Sub-committee for Reviewing the Company's Preparation for Emergency	Audit Committee; Compensation Committee; Examination of the Financial Statements Committee Strategy, Structural Change, Innovation and Image Committee; Budget, Financial and Risks Management Committee; Corporate Liability, Regulation, Environmental Protection and Rate Committee; Agreements and Assets Committee; Sub-committee for Reviewing the Company's Preparation for Emergency	Audit Committee; Strategy, Structural Change, Innovation and Image Committee; Human Resources and Organization Committee; Corporate Liability, Regulation, Environmental Protection and Rate Committee; Corporate Liability, Regulation, Environmental Protection and Rate Committee; Sub-committee for Reviewing the Company's Preparation for Emergency	Audit Committee; Compensation Committee; Examination of the Financial Statements Committee Strategy, Structural Change, Innovation and Image Committee; Budget, Financial and Risks Management Committee; Innovation and Image Committee; Sub-committee for Reviewing the Company's Preparation for Emergency	Strategy, Structural Change, Innovation and Image Committee; Budget, Financial and Risks Management Committee; Human Resources and Organization Committee; Agreements and Assets Committee; Business Development, Marketing and Service and Regional Cooperation Committee; Sub-committee for Reviewing the Company's Preparation for Emergency	Strategy, Structural Change, Innovation and Image Committee; Budget, Financial and Risks Management Committee; Corporate Liability, Regulation, Environmental Protection and Rate Committee; Agreements and Assets Committee; Sub-committee for Reviewing the Company's Preparation for Emergency
Director classified by the Company as Independent:	Yes	Yes	Yes	Yes	Yes	No	No
External Director / External Expert	No	Yes	Yes	No	Yes	No	No
Date of current appointment:	03/12/2020	03/12/2020	29/12/2020	09/11/2020	06/04/2022	03/12/2020	22/09/2022

Director Name	Dvora Sonia Hassid	Efraim Refael Henig	Shlomo Arbiv	Diana Halabi Hassoun	Michael Yehiel Schnider	Nissim Alon	Anat Oren-Elad
Education:	BA. in Political Science and Economics, Bar-Ilan University; MA in Political Science, Haifa University; MA in National Security, Haifa University	BA in Economics and Statistics from The Hebrew University; MBA in Business Management from The Hebrew University	BA in Economics and Political Science, MBA with specialization in financing and information systems, University of Tel Aviv	LLB in Law, Netanya Academic College	LLB in Law, The Hebrew University	BA in Political Science and Criminology, Bar-Ilan; MBA Business Management, The Hebrew University	BA in Economics, University of Haifa; MSc in Industrial Engineering and Management, Technion
Has accounting or financial expertise or professional qualifications:	Has professional qualifications.	Has accounting and financial expertise and professional qualifications.	Has accounting and financial expertise and professional qualifications.	Has professional qualifications.	Has professional qualifications.	Has professional qualifications.	Has accounting and financial expertise and professional qualifications.
Major employment over the past five (5) years including experience, expertise or skill in information security or cyber:	CEO Maccabi Tivi; Head of the Central District of Maccabi Health Services, as part of her tenure as CEO of Maccabi in the area of information security and cyber, Ms. Hassid is, as stated, CEO of Maccabi Tivi, where strict procedures and practice regarding cyber are conducted	President of the Group – Efgad Group (2006) Ltd	Video-Flow Company – consultant as Vice President of Finances, in the field of information security and cyber. Mr. Arbiv has an MBA with specialization in accounting, specialization in information systems. In addition, Mr. Arbiv handled and handles cyber and information security issues as part of his position as director at Yelin Lapidot and director at the Electric Company	Lawyer and Manager Halabi and Co Law Firm	Attorney and Partner at Kramer-Shapira-Schnider, managing a real estate company	Previously CEO of Leumit Health Services; Chairman of the Board of Directors of TRM Emergency Medical Centers in the Community; Prof. Hadassah Academic College, has experience in the field of cyber as part of his position as CEO of a health insurance fund, which requires appropriate organization	Head of Finance and Economics Departments of the Network Services Division of IEC; Former Consumption and Tariffs Department Manager in the Customer Division of IEC; Director on behalf of the employees at the Board of Directors of the Electric Company
List of corporations in which he serves as a director:	Director of the Ramat-Gan Water Corporation	None	Director at GoTo Company since November 5, 2022	None	Director at Agam Schnider Investments Ltd., Director at Kramer Shapira Schnider Advocates, Director at Kramer Schnider Advocates Trusts Ltd.	Chairman of the Board of Directors of TRM Emergency Medical Centers in the Community; Owner and director of N. A. Briut Company Ltd.	None
Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder?	No	No	No	No	No	No	Head of Finance and Economics Departments of the Network Services Division of IEC

Director Name	Dvora Sonia Hassid	Efraim Refael Henig	Shlomo Arbiv	Diana Halabi Hassoun	Michael Yehiel Schnider	Nissim Alon	Anat Oren-Elad
Is he a relative of another stakeholder in the company?	No	No	No	No	No	No	No
Does the company regard him as an accounting and financial expert for purposes of meeting the minimum number determined by the board of directors under section 92(a)(12) of the Companies Law:	No	Yes	Yes	No	No	No	Yes

For details regarding the end of term in office of Meir Spigler Ben Uri, who served as Director of the Company, on March 17, 2022, see the Company's Immediate Report of March 17, 2022 (reference no.: 031186-01-2022).
For details regarding the end of term in office of Avraham Manela, who served as Director of the Company, on September 2, 2022, see the Company's Immediate Report of September 4, 2022 (reference no.: 113254-01-2022).
For details regarding the end of term in office of Yaki Yaacov Vadamni, who served as an Independent Director of the Company, on September 8, 2022, see the Company's Immediate Report of September 8, 2022 (reference no.: 115057-01-2022).
For details regarding the end of term in office of Yoav Druker, who served as Director of the Company, on September 10, 2022, see the Company's Immediate Report of September 11, 2022 (reference no.: 093756-01-2022).

<u>Regulation 26A</u>: <u>Senior Position Holders in the Corporation</u>
The following are particulars of the current senior officeholders:

Name of senior officer	**Meir Spigler Ben Uri**	**Shlomo (Shlomi) Tzarfati**	**Gershon Berkowitch**	**Amir Livneh**	**Oren Hellman**	**Yitzhak Balmas**	**Joseph Roffe**	**Haim Rubin**	**Gilad Hassid**	**Dani Garabagi**	**Tamar Fekler**	**Rachel Ben Moshe**
ID number:	055424782	023851207	024446460	023725740	024163875	058874496	012359733	057785644	054146709	014697239	022990923	029636305
Date of birth:	17/09/1958	10/08/1968	29/08/1969	19/04/1968	3/11/1968	25/7/1964	28/09/1965	5/7/1962	12/2/1957	9/9/1963	13/05/1967	12/09/1972
Date of appointment:	01/11/2022	1/7/2020	01/10/2022	14/4/2011	15/12/2012	VP Grid Services (formerly Customers) as of 01/01/2015; Deputy CEO as of 09/2015	01/01/2023	14/9/2017	1/9/2022	4/7/2019	01/11/2022	01/4/2022
Position in the company:	Chief Executive Officer	VP Human Resources	VP, General Counsel	VP Strategy, Innovation, and Structural Change	VP Service, Marketing, and Regulation	Deputy CEO and VP Grid Services	VP Generation and Energy, and Head of the Generation, Engineering and Cross-District Maintenance	VP Engineering Projects	Acting VP Finance, Economics, and Risk Management, and Head of Accounting Division	VP Telecommunications	VP Operation and Logistics	VP, Internal Auditor and Complaints Commissioner
Position in a subsidiary of the Company, its affiliated company, or in a stakeholder in the Company:	None	Director of the Coal Company	Director in the Advanced Study Fund of the of the Electric Company's Employees	None	Director of the Coal Company	None	None	None	None	None	None	None
Are they a stakeholder of the Company:	Yes (under his position in the Company)	No	No	No	No	No	No	No	No	No	No	No
Are they a relative of another senior officeholder or a party at	No	No	No	No	No	No	No	No	No	No	No	No

Name of senior officer	Meir Spigler Ben Uri	Shlomo (Shlomi) Tzarfati	Gershon Berkowitch	Amir Livneh	Oren Hellman	Yitzhak Balmas	Joseph Roffe	Haim Rubin	Gilad Hassid	Dani Garabagi	Tamar Fekler	Rachel Ben Moshe
interest:												
Education:	BA in Electrical Engineering, the Technion; LLB, Shaarei Mishpat; MBA, the Ono Academic College	BA in Law, College of Law and Business; MA in Law, Bar Ilan University	LLB, College of Management; LLM, University of Haifa	BA in Law, University of Haifa; MA in Law Studies, University of Haifa	BA in Political Science, Tel Aviv University; MA in Public Policy, Tel Aviv University	BA in Electrical Engineering and Computer Science, Ben Gurion University; MA in Mechanical Engineering and Business Administration, Technion, Haifa; MBA, MIT	BA in Electrical Engineering, USA; MBA; Derby College	BA in Mechanical Engineering, Technion; MA in Business Administration, Tel Aviv University	BA in Economics and Accounting, Haifa University; MA in Political Science and a MA in Social Sciences; University of Haifa	BA in Mathematics and Computer Science, University of Haifa	BA in Economics – Extended -the Hebrew University; MBA – specialization in Financing, the Hebrew University; MA in Economics, specialization in Microeconomics and Game Theory, Hebrew University	BA in Accounting and Economics, University of Tel-Aviv; MA in Conflict Settlement and Mediation, University of Tel Aviv; LLM Bar Ilan University;
Employment over the last five years, including experience, expertise or skill in the field of information security or cyber:	CEO of the Electric Company, CEO of the National Insurance Institute, Director of the Electric Company, CEO Keren Kayemet LeIsrael – Jewish National Fund (KKL-JNF)	VP Human Resources of the Electric Corporation; formerly Manager of the Procurement Department of the Electric Corporation; formerly Director of the Electric Corporation's Study Fund; Director of the Coal Company	Deputy Legal Advisor for Operation in the Electricity Sector	VP Strategy, Innovation and Structural Change, Manager of Strategy and Structural Change, and Senior Assistant of the CEO	VP Regulation of the Company	Deputy CEO and VP Grid Services, experience by virtue of his position as Chairman of the Divisional Committee for Cyber Protection of Critical Infrastructure Systems	Head of Generation Division; experience in the field of information security and cyber as part of his position as Member of the Senior Steering Committee headed by the CEO and Chairman of the Divisional Cyber Steering Committee at the Electric Company	VP Engineering Projects; formerly Manager of Missile Administration of the Land Department at Rafael	Acting VP Finance, Economics, and Risk Management, Head of Accounting Division	Manager and VP Information Systems and Communication; experience in the field of information security and cyber as part of his position as VP Information Systems and Communication, coordinates and manages the field of cyber protection in the Electric Company	VP Operation and Logistics; Head of Logistics and Assets Division of the Electric Company	VP, Internal Auditor and Complaints Commissioner; Auditor of Tel Aviv University; Chief Internal Auditor, Israel Railways Group has experience in conducting information security and cyber audits as part of the work plan of the internal audit, managing professionals who conduct audits on information security and cyber issues, Also has experience from other bodies where she served as an Internal Auditor for the past two decades

For details regarding the appointment and end of term in office of senior officers, see Chapter B – the Board of Directors' Report, section b6

Regulation 26(b): **Independent Authorized Signatories as Appointed by the Company:**

Pursuant to the decision of the Board of Directors on the subject of signature authorities and in accordance with the Company's procedure on the subject, the Company does not have independent approved signatories, as this term is defined in the Securities Law - 1968.

Regulation 27: **Accountant of the corporation**

Somekh Chaikin, Accountants - 7 Nahum Hat St., Haifa.

Regulation 28: **Changes in memorandum or articles of association**

No changes were made to the memorandum or articles of association of the Company during the reporting period.

Regulation 29(C): Decisions of a special shareholders meeting

With regard to resolutions passed at a Special Annual General Meeting of February 3, 2022, see the Immediate Report dated February 3, 2022, (reference nos. 2022-01-015226 and 2022-01-015229).

With regard to resolutions passed at a Special General Meeting of April 6, 2022, see the Immediate Report dated April 6, 2022 (reference nos. 2022-01-044137 and 2022-01-044086).

Regulation 29A (4): **Exemption, insurance, or liability for indemnity in respect of officeholders in effect on the date of this report**

a. Insurance for Directors and Office Holders

According to the compensation policy approved by the compensation committee on November 4, 2021, by the Board of Directors of the Company on November 18, 2021, and by the general meeting on February 3, 2022, the Company purchased the following insurance policies:

1. Liability insurance for directors and office holders for a period of one year starting from January 16, 2023 and until January 15, 2024, inclusive.
2. Third party liability insurance - as customary in the Company (the directors and office holders are part of the insured under this policy).
3. Personal accident insurance for the directors.

For details of the terms of the policies mentioned above see the immediate report of the Company of February 3, 2022, see the Immediate Report dated February 3, 2022 (reference nos.: 2022-01-015226 and 2022-01-015229).

b. Indemnification of Members of the Board of Directors and Officers

For details on indemnification of directors and officers in the Company and additional letters of indemnification borne by the Company, see Note 34e1 to the Financial Statements.

Additional Details pursuant to Circular 2020-5-1 of the Government Companies Authority

a) Details of the Freedom of Information Commissioner

1) Name: Dr. Amir Seri
2) Position in the Company: Commissioner of State Audit and Freedom of Information
3) Contact details: amir.seri@iec.co.il

b) Headquarters costs

	For the year ended December 31 (NIS in millions)		
	2022	**2021**	**2020**
Employee salary costs	305.7	320.2	308.5
Consultants costs	26.8	24.9	27.2
Total	332.5	345.1	335.7
Increase/decrease rate	-3.65%	2.8%	
Rate of total headquarters costs in relation to Company turnover	1.44%	1.56%	1.4%

The headquarters units are: general administration (including Strategy, Innovation, and Structural Change Division), Human Resources and Organization Division, Finance and Economics and Risk Management Division.

For details regarding the employee headcount, see section 15.2 of the report of description of the company's business affairs.

c) Company efficiency

The Company is undergoing a material process of organizational change and a streamlining plan. For further details, see Note 1e8) to the financial statements.

d) Registration of rights in assets

Over the last few years, a focused and continuous move has been made to collect and centralize all information about all of the Company's assets, which have been scattered in the divisions and districts, including transformation stations, mobile/temporary/rental facilities, etc., and to arrange them in relation to the establishment of an asset book, registration of rights (including warning notes, as applicable). management and supervision, including the eviction of squatters from the Company's assets or the regulation of the status of those staying in the Company's assets. 314 major sites, as well as a secondary asset book (about 16,977 secondary sites, mainly transformation stations) that is currently in the process of being completed. The Company also works to register the rights in its assets, both in respect of the principal assets and in the matter of secondary assets.

During the report period, the Company registered its rights in the Land Registry Bureau for 5 sites, warning notes were signed for 77 additional sites, 23 lease agreements were signed with the Israel Lands Administration, 447 contracts were signed for the purchase of transformation rooms.

For details regarding the arrangement of assets, see Note 1f to the Financial Statements.

e) Contractual engagement requiring the Government's approval

As of the date of the report, there is no contractual engagement requiring the Government's approval.

f) Disclosure regarding held corporations

Following are details of held corporations:

Name of corporation	Country and place of incorporation	Company's rights in the corporation (including means of control, property rights, rights in profit distribution, and details, to the best of the Company's knowledge, of other holders of the held corporation and their rights)	Names of officers and other representatives who serve or served in the corporation on behalf of the Company in 2022 and remuneration from the held corporation due to this term	Material agreements between the Company and the held corporation, including guarantees to third parties to secure the corporation's liabilities	Dates of general meetings during the report period, topics discussed and decisions passed, manner of the Company's voting, and the party that decided on the manner of voting
Jordan Properties Company Ltd. ("Jordan Properties")	Israel	A Company subsidiary (99.99%)[6]. The Company holds 99.99% of the rights attached to the shares, including dividend receipt, voting rights and the right to appoint office-holders and directors by the Company, all subject to the provisions of the Government Companies Law.	As of December 31, 2014, there are no office holders or other representatives serving in Jordan Properties on behalf of the Company.	None	General Meetings were not held during 2022.
Migrashei Hakablanim Ltd. ("Migrashei Hakablanim")	Israel	A full subsidiary (100%)[7]. The Company holds 100% of the rights attached to the shares, including dividend receipt, voting rights and the right to appoint office-holders and directors by the Company, all subject to the provisions of the Government Companies Law.	As of December 31, 2014, there are no office holders or other representatives serving in Migrashei Hakablanim on behalf of the Company.	There is no material agreement as far as the Company is concerned. Migrashei Hakablanim has a lease right from the Tel Aviv Municipality of a lot on Anilewitz Street on which there is an office building which is used by the Company. In return for the right to use the property, the Company bears all costs associated with holding the property, including taxes, fees, etc.	General Meetings were not held during 2022.
National Coal Supply Company Ltd. (the "Coal Company")	Israel	A full subsidiary (100%). The Company holds 100% of the rights attached to the shares, including dividend receipt, voting rights and the right to appoint office-holders and directors by the Company, all subject to the provisions of the Government Companies Law. Under the articles of association of the Coal Company, out of the up to nine members of the Board of Directors, at most a third will be directors who are not Company employees, and the remainder will be Company employees.	As of December 31, 2022, 5 directors are serving from among the Company's employees and one director is serving on behalf of the State. Directors from among the Company's employees do not receive additional remuneration for their service as directors in the Coal Company. As of August 1, 2022, Adv. Keren Rip, an employee of the Company, is serving as the legal counsel of the Coal Company. She did not receive any additional remuneration from the held corporation during the reporting year with respect to her service as aforesaid.	The Company purchases all the coal it requires through the Coal Company, pursuant to an agreement signed between the parties in July 2004, for the purchase of coal and its supply to the Company's coal-fired power stations. For details of the agreement, see section 7.9.6 of Chapter A - Description of the Company's Business Affairs.	General Meetings were not held during 2022.

[6] 66 Ordinary A shares held by officers in trust for the Company and an additional Ordinary A share held by the trustees of the estate of Pinchas Rotenberg.
[7] 630 deferred shares held by officers in trust for the Company.

Name of corporation	Country and place of incorporation	Company's rights in the corporation (including means of control, property rights, rights in profit distribution, and details, to the best of the Company's knowledge, of other holders of the held corporation and their rights)	Names of officers and other representatives who serve or served in the corporation on behalf of the Company in 2022 and remuneration from the held corporation due to this term	Material agreements between the Company and the held corporation, including guarantees to third parties to secure the corporation's liabilities	Dates of general meetings during the report period, topics discussed and decisions passed, manner of the Company's voting, and the party that decided on the manner of voting
The Management Company of the Advanced Training Fund of the employees of the Israel Electric Corporation Ltd. (the "Management Company")	Israel	The Company holds 50% of the management's shares and the rights to appoint directors, without rights of participation in profits. Remaining 50% are held as follows: Mutual Assistance Association of Electric Corporation Employees in the Southern Region (final holder) (25%), Non-profit Organization of Electric Corporation Employees in the Northern Region (Registered) (final holder) (16.667%) and the Savings and Mutual Assistance Fund of the Electric Corporation Employees in Jerusalem Ltd. (final holder) (8.333%).	Directors from among the Company employees serving on the Company's behalf at the Management Company: Mordechai Levi, Gershon Berkowitch, Shirley Ben-Ami, Ofer Keren and Ella Michaeli. Do not receive additional remuneration with respect to their service as aforesaid. Advocate Iris Yoachimis, Company employee, serves as legal counsel of the Management Company. Does not receive additional remuneration with respect to her service as aforesaid. Gur Achiezra works at the Company, serves as internal auditor of the Management Company. Does not receive additional remuneration with respect to his service as aforesaid.	None	A General Meeting was held on December 27, 2022.
PAMA Energy Resources Development Company Ltd. ("PAMA")	Israel	The Company holds 49.99% of the shares and rights in equity and 30.77% of the rights to appoint directors. The remaining shares are held equally by Israel Chemicals Ltd. and Oil Refineries Ltd. The State of Israel holds one founders share, which grants it certain rights in management and appointing directors.	To the best of the Company's knowledge and as at the report date, PAMA is inactive.	PAMA's operation was halted during 2001, due to the shareholders' decision to stop the flow of funds to its operation. In this context, an agreement was signed between the shareholders, which defined the format of the cessation of PAMA's operation and the sale of its assets.	General Meetings were not held during 2022.

Name of corporation	Country and place of incorporation	Company's rights in the corporation (including means of control, property rights, rights in profit distribution, and details, to the best of the Company's knowledge, of other holders of the held corporation and their rights)	Names of officers and other representatives who serve or served in the corporation on behalf of the Company in 2022 and remuneration from the held corporation due to this term	Material agreements between the Company and the held corporation, including guarantees to third parties to secure the corporation's liabilities	Dates of general meetings during the report period, topics discussed and decisions passed, manner of the Company's voting, and the party that decided on the manner of voting
Netiv Ha'Or – Orot Rabin Ltd. ("Netiv Ha'Or)	Israel	The Company holds 100% of the rights attached to the shares, including the right to vote in the company's general assembly, the right to appoint directors, the right to participate in the company's profits and the distribution of the company's assets upon liquidation, all subject to the provisions of the Government Companies Law and Net Ha'Or's articles of association. Under the Articles of Association of Netiv Ha'Or, out of the seven members of the Board of Directors, 3 are appointed as public representative directors, and 4 are appointed from among the Company's employees.	In Netiv Ha'Or, there is one director serving from among the Company's employees: Ms. Liat Spillinger Kravetz. Adv. Ofer Green, an employee of the Company, serves as the legal counsel and company secretary of Netiv Ha'Or, and does not receive additional remuneration with respect to his service as aforesaid.	Subject to any Law, Netiv Ha'Or will sign agreements with the Company to formulate the relationship between the companies, including with respect to operation, financing, and management, and including a mother company-subsidiary agreement, a financing agreement, an EPC agreement, an O&M agreement, and a land agreement. Except for the O&M agreement, the agreements have been signed, but still require the approval of the authorized entities at the Company and at Netiv HaOr.	General Meetings were not held during 2022. A Special General Meeting was held on January 16, 2023.

Name of corporation	Country and place of incorporation	Company’s rights in the corporation (including means of control, property rights, rights in profit distribution, and details, to the best of the Company's knowledge, of other holders of the held corporation and their rights)	Names of officers and other representatives who serve or served in the corporation on behalf of the Company in 2022 and remuneration from the held corporation due to this term	Material agreements between the Company and the held corporation, including guarantees to third parties to secure the corporation’s liabilities	Dates of general meetings during the report period, topics discussed and decisions passed, manner of the Company’s voting, and the party that decided on the manner of voting
IBC Israel Broadband Company (2013) Ltd. (“IBC”)	Israel	The Company holds 30% of the shares of IBC. Under the Shareholders Agreement and IBC’s updated Articles of Association, each shareholder holding (together with their permitted transferees) 11% of IBC’s shares, has the right to appoint one director to the company’s Board of Directors. Notwithstanding the foregoing, so long as the Company (together with its permitted transferees) holds at least 7% of IBC’s shares, it will have the right to appoint one director to IBC’s Board of Directors. As of the date of the report, eight directors are serving in IBC, out of which two were appointed by the Company. While voting in Board of Directors meetings, each director, or group of directors appointed by the same shareholder, will be jointly given voting powers equivalent to the holding rate of the shareholder which appointed them of IBC’s shares. For details regarding the investment in IBC and regarding the investment in IBC and a transaction in which the Company, IBC and third parties have engaged, and as a result of which, among other things, the Company’s holding rate in IBC decreased to 30%, see Note 11b1 of the Financial Statements.	Mr. Eyal Hermoni and Ms. Onit Even were appointed by the Company to serve as directors of IBC. They do not receive additional remuneration with respect to their service as aforesaid.	For details regarding material agreements, see Note 11b1 of the Financial Statements.	General Meetings were not held during 2022.

Name of corporation	Country and place of incorporation	Company’s rights in the corporation (including means of control, property rights, rights in profit distribution, and details, to the best of the Company's knowledge, of other holders of the held corporation and their rights)	Names of officers and other representatives who serve or served in the corporation on behalf of the Company in 2022 and remuneration from the held corporation due to this term	Material agreements between the Company and the held corporation, including guarantees to third parties to secure the corporation’s liabilities	Dates of general meetings during the report period, topics discussed and decisions passed, manner of the Company’s voting, and the party that decided on the manner of voting
CyberGym Control Ltd. (“CyberGym”)	Israel	The Company holds 38.36% of CyberGym’s shares. In accordance with the Founders’ Agreement, the Company is entitled to appoint 50% of the members of CyberGym’s Board of Directors. In light of the aforesaid, CyberGym is a (non-governmental) subsidiary 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”).	Mr. Eyal Hermoni and Mr. Elad Shaviv were appointed by the Company to serve as directors of CyberGym. They do not receive additional remuneration with respect to their service as aforesaid. Mr. Amir Livne was appointed by the IEC’s Board of Directors as proxy on behalf of the IEC, to participate in General Meetings and Special General Meetings of the CyberGym Company.		General Meetings were not held during 2022.

Additional Details pursuant to Circular 2020-5-1 of the Government Companies Authority - continued

g) Headquarters costs

A company operating in the sector regarding which there is a government decision on structural change

For details regarding the government's decision of a structural change in the Company, see Note 1e to the financial statements.

h) Privatized company

As of the date of the report, the Company is not a privatized company.

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

Date of approval of the report: March 16, 2023.

* **Mr. Yiftach Ron-Tal's term of office as Chairman of the Company's Board of Directors ended on August 1, 2021, and a new Chairman of the Board of Directors has not yet been appointed as of the date of signing the reports.**

In light of the aforesaid, in its meeting of March 16, 2023, the Board of Directors authorized Mr. Shlomo Arbiv, who serves as an external director, to sign the Company's report of Additional Particulars about the Corporation for the year ended on December 31, 2022, in lieu of the signature of the Chairman of the Board of Directors.

ANNEX 1

Actuarial Liabilities of the Israel Electric Corporation as at December 31, 2022

March 19, 2022

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

Dear Sir,

Re: **Actuarial Liabilities for Employee Benefits as at December 31, 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)
Appendix F- Details Regarding Benefits

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

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

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

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

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

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

1.7 According to this valuation, there is a surplus of assets over liabilities in the pension plan. Based on the Company's instructions, this surplus is presented as an asset of the Company in whole. According to legal regulations of the Central Pension Fund for Employees of the Israel Electric Corporation Ltd. ("the Fund"), under certain circumstances a surplus will be returned to the Company, where the surplus is determined according to an actuarial valuation of the Fund. The actuarial valuation of the Fund differs from the Company’s valuation presented in this report, primarily due to different actuarial assumptions regarding interest discount rates and future salary increase rates. According to the most recent actuarial valuation of the Fund (as of December 31, 2022), liabilities were higher than those calculated in this valuation.

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

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

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

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

- International Standard of Actuarial Practice 1 – General Actuarial Practice, approved by Council of the International Actuarial Association on November 18, 2012 and revised on December 1, 2018;

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

1.12 Definitions:

- "salary" – pensionable salary
- "pension plan" – the set of benefits provided by the Fund
- "date of valuation" – December 31,2022
- "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. Benefits Included in the Valuation

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

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

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

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

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

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

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

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

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

2.3.2 Regarding generation C employees, the benefits consist of:

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

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

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

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

[4] Ditto

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

[6] Including:

- Special collective bargaining agreement (“voluntary early retirements above age 64”), from 07/05/2019
- Special collective bargaining agreement (“reform, structural and organizational changes – correction 2”), from 21/01/2020
- Special collective bargaining agreement (“reform, structural and organizational changes – correction 3”), from 30/11/2020

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

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

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

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

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

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

3. Methodology and Actuarial and Accounting Principles

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

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

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

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

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

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

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

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

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

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

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

3.7 The interest cost and expected return on plan assets, are based on a nominal annual interest rate of 3.37%; that is, the uniform discount rate inherent to the defined benefit obligation as at December 31, 2021.

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

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

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

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

4. <u>Data on which the Valuation is Based</u>

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

4.1 Employee and pensioner data[11] – we received files on January 8, 2023, containing data for each employee and pensioner entitled to their relevant benefits. The data includes information regarding age, gender, pension or salary components, rank, service, etc. as at the valuation date. In addition, these files include data for the average monthly value of the holiday gift (grossed up to cover the cost of taxes).

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

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

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

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

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

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

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

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

4.3 Below is a summary of the data described above:

Before the adjustments mentioned in section 4.2 above

Group	Number	Monthly salary/pension in NIS	Average age	Average service (years)
Defined benefit pension plan *				
Employees	**3,656**	**71,013,314**	**57.2**	**31.7**
Pensioners – former employees	**6,360**	**87,164,461**	**71.3**	
Pensioners – survivors (including orphans)	**1,908**	**14,676,599**	**76.7**	
Generation C**				
Employees	**3,145**	**34,410,437**	**46.0**	**16.1**
Pensioners – former employees	**85**	**12,828**	**70.6**	
Pensioners – survivors (including orphans)	**18**	**2,717**	**54.3**	
Employees under special agreements (non-permanent employees) ***				
Employees	**503**	**3,491,662**	**41.0**	**5.4**
Employees covered under special collective bargaining agreement regarding continuing temporary employees *****				
Employees	**703**	**4,315,543**	**39.3**	**6.3**

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	**3,647**	**71,334,249**	**57.2**	**31.8**
Pensioners – former employees	**6,369**	**87,813,691**	**71.3**	
Pensioners – survivors (including orphans)	**1,908**	**14,743,019**	**76.7**	
Generation C**				
Employees	**3,137**	**34,541,292**	**46.0**	**16.1**
Pensioners – former employees	**93**	**14,036**	**69.5**	
Pensioners – survivors (including orphans)	**18**	**2,717**	**54.3**	
Employees under special agreements (non-permanent employees) ***				
Employees	**354**	**2,408,802**	**39.3**	**4.3**
Employees covered by special collective bargaining agreement regarding continuing temporary employees ********				
Employees	**703**	**4,336,689**	**39.3**	**6.3**

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

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

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

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

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

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

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

	Data item	NIS '000
	Assets as at the valuation date	
4.4.1	Balance of plan assets for post-employment benefits	38,273,664
4.4.2	Balance of assets according to paragraph 116 of IAS 19	1,184,215
	Benefit Payments during the reporting period (1/1/2022-31/12/2022)	
4.4.3	Increased severance pay benefits to employees under special agreements	1,193
4.4.4	Supplemented severance pay benefits (2.33%) to generation C employees	–
4.4.5	"20-year grant"	2,030
4.4.6	Termination benefits – for paid benefits by the Fund, and for benefits not paid by the Fund (electricity discount, holiday gifts)	53,268
	Termination benefits – for paid benefits by the Fund only	50,645
4.4.7	Post-employment benefits (excluding termination benefits)	1,033,497
4.4.7.1	Grant for unutilized sick leave	44,683
4.4.7.2	"up to 35 years" grant	5,777
4.4.7.3	Electricity discount and holiday gifts	83,654
4.4.8	Withdrawals from plan assets for payment of benefits	1,187,767
4.4.9	Withdrawals from trust assets for payment of benefits	118,052
	Contributions during the reporting period	
4.4.10	Company's contributions to plan assets, or to assets according to paragraph 116 of IAS 19	1,035,000
4.4.11	Employees' contributions to plan assets, or to assets according to Section 116 of IAS 19	17,549

5. Actuarial Assumptions

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

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

5.1 Financial assumptions

5.1.1 Inflation rate – the difference between the nominal spot interest rate (rate of return to maturity for non-indexed, high quality government bonds) and the real spot interest rate (rate of return to maturity for CPI-indexed, high quality government bonds). For the actuarial valuation, there is essentially no requirement for an explicit assumption for inflation, since, according to the Company’s accounting policy, the interest discount rate is set according to CPI-indexed bonds (please see below), and since the assumed salary increases are mostly set in real terms. The rate of inflation is relevant for calculating the anticipated erosion in value of pension payments and the electricity discount, convalescence pay and holiday gift components of salary, since they are all linked to CPI on a yearly basis (and not monthly). The future rate of inflation that was derived for the purpose of evaluating the erosion in real values, is based on a duration of 14.4 years, and stands at 2.6%.

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 December 31, 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 December 31, 2022 and the projected increase in the cost of living index between December 31, 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[14].

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

5.2.1.6 The cost of the electricity discount is calculated according to the electricity tariff for a domestic consumer at the valuation date (the fixed monthly fee before VAT is NIS 20.71[15], the fixed monthly KVA fee before VAT is NIS 4.58[16] and the variable rate per kilowatt-hour before VAT is NIS 0.5342) and according to the following, forward-looking assumptions:

- The change in tariff for discounted electricity (including VAT and grossing-up for other taxes) is

[14] This amount was received from the Company.
[15] Weighted average of NIS 19.71 for a single-phase base meter, and NIS 20.96 for a triple-phase base meter. Approximately 20% of employees/retirees use a single-phase base meter and 80% use a triple-phase base meter.
[16] This data was determined based on average connection size as reported by the Company.

in accordance with a forecast received from the Company that approximates actual costs.

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

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

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

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

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

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

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

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

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

5.3 Mortality and Disability rates

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

5.3.2 Life Expectancy Improvements (Decline in Mortality Rates)

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

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

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

5.3.3 Mortality Tables - Introduction

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

5.3.4 Pensioner Mortality Tables

The assumption consists of the following components:

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

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

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

5.3.5 Mortality Tables for Survivors

The assumption consists of the following components:

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

5.3.6 Mortality Tables for Active Employees

The assumption consists of the following components:

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

5.3.6 Mortality Tables for Disabled Employees

The assumption consists of the following components:

- Age 67+:

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

- Below age 67:

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

5.3.7 Disability Incidence

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

- 20% of the rate listed in table P8-C of Pension Circular 2017-3-6.

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

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

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

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

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

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

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

- Early Retirement

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

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

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

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

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

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

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

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

[17] Younger ages are allowed under certain circumstances.

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

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

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

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

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

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

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

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

5.5 Marriage Rates and Age Differences Between Spouses

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

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

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

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

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

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

5.6 Orphans

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

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

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

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

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

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

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

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

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

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

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

6. 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[19]. The purchases of such policies during the first quarter of 2022, decreased the Company's liabilities by about NIS 471 million.

In the second quarter of the year 2022:

- Assumed future increases in electricity tariffs, were updated in accordance with Company expectations. This update increased the Company's liabilities (for subsidized electricity to pensioners) by about NIS 15 million.
- On April 13, 2022, a special collective bargaining agreement was signed (*Retirement as a Pensioner of Generation C employees*). The agreement increased the Company's liabilities by about NIS 36 million.
- Circular 2022-9-18 (*Amended Provisions for Liability Measurements – Updated Demographic Assumptions for Life Insurers and Pension Plans*), was published on June 30, 2022 by the Capital Markets, Insurance and Savings Authority.
- On June 30, 2022, the Capital Markets, Insurance and Savings Authority published Circular 2022-9-18 ("*Amended Provisions for Liability Measurements – Updated Demographic*

[19] 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 the third quarter of the year 2022:

- Special collective bargaining agreement (regarding continuing temporary employees) was signed on August 3, 2022. The implementation of this agreement increased the Company's liabilities by about NIS 6 million.
- The collective bargaining agreement of May 17, 2018, provides for an additional retirement pension, whose amount depends on achieving certain “milestones”. The target date for one such milestone was updated. This update decreased the Company’s liabilities by about NIS 57 million.
- The assumed increase in future electricity tariffs was updated in accordance with revised Company expectations. This change caused an increase in liabilities of about NIS 13 million.

In the fourth quarter of the year 2022:

- The collective bargaining agreement of May 17, 2018 provides for an additional retirement pension, whose amount depends on achieving certain "milestones". The target date for one such milestone was updated. This update decreased the Company's liabilities by about NIS 33 million.
- The assumed increase in future electricity tariffs was updated in accordance with revised Company expectations. This change caused an increase in liabilities of about NIS 58 million.

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

7. Valuation Results

The values of liabilities (in millions of NIS) as at December 31, 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	13,435.6
Pensioners and survivors	20,242.5
Total	33,678.1

7.2 Liability in respect of special early retirement agreements:

Pensioners and survivors	111.8

7.3 Liability for the "20 year grant":

Active employees	13.1

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

Active employees	26.4

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

Active employees	9.8

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

8. Uncertainties and Risks

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

8.2 Interest, Inflation and Investment Returns

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

Sensitivity analysis:

a) If the discount rate should fall by 1%, the liability would increase by approximately NIS 4,766 million (14.1%).
b) If the discount rate should fall by 0.1%, the liability would increase by approximately NIS 432 million (1.3%).
c) If the discount rate should increase by 0.1%, the liability would decrease by approximately NIS 423 million (-1.2%).

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

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

8.3 Future Salary Increases

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

- For the years 2018-2025: the percentage increase in salary will equal the actual change in the cost of living index between January 1, 2018 and December 31, 2022 and the projected increase in the cost of living index between December 31, 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[20], then the liability would increase by approximately NIS 705 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[21], then the liability would decrease by approximately NIS 670 million (-2.0%).

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

[21] Ditto.

8.4 Life Expectancy

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

Sensitivity analysis: a) If annual rates of change in mortality rates would be double the assumed rate of change[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 2,255 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 1,508 million (4.5%).

8.5 Early Retirement

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

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

Yours truly,

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

[22] Please see paragraph 5.3.2.

Appendix A – Additional Reports for Disclosure in the Financial Statements

Introduction

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

  1. Amounts relating to all "post-employment benefits"[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

	31/12/2022	31/12/2021
Fair value of plan assets	38,274	42,703
Present value of the gross pension obligation	(28,353)	(35,770)
Subtotal	9,921	6,933
Liability for special, early retirement, pension agreements	(105)	(146)
Surplus pension assets over pension liabilities	9,816	6,787

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

	31/12/2022	31/12/2021
Funds in trust – dedicated to cover actuarial obligations (assets as per paragraph 116)	1,184	1,493

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

	31/12/2022	31/12/2021
Present value of obligations for other post-employment benefits (including liabilities for special retirement agreements)	2,693	3,319

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

	31/12/2022	31/12/2021
Present value of obligations for Reform benefits	2,675	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

	Year Ending 31/12/2022	Year Ending 31/12/2021	Year Ending 31/12/2020
Present value of the obligation –beginning of period	35,770	33,681	33,633
Interest cost	1,195	992	901
Current service cost	221	255	290
Employee contributions	18	20	20
Past service cost	2	4	213
Service cost for settlement	-	49	48
Benefits paid	(1,158)	(1,069)	(997)
Benefits paid in settlement	-	(158)	(188)
Losses (gains) on re-measurement:			
• **Demographic assumptions changes**	107	(49)	-
• **Financial assumptions changes**	(8,768)	1,899	129
• **Experience adjustments**	966	146	(368)
• **Total actuarial losses (gains) on re-measurement**	(7,695)	1,996	(238)
Present value of the obligation – end of period	28,353	35,770	33,681

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

	Year Ending 31/12/2022	Year Ending 31/12/2021	Year Ending 31/12/2020
Present value of the obligation – beginning of period	3,319	3,378	3,323
Interest cost	113	96	91
Current service cost	58	57	65
Reduction of lump-sum benefits because of their replacement by retirement grants in accordance with the special retirement program and an additional provision for employees retiring under the program	-	-	(11)
Past Service Cost	44	-	16
Past service cost due settlement	-	(3)	-
Benefits paid	(143)	(135)	(139)
Benefits paid for settlement	-	(155)	-
Losses (gains) on re-measurement:			
Demographic assumptions changes	7	(12)	-
• **Financial assumptions changes**	(627)	223	73
• **Experience adjustments**	(78)	(131)	(40)
• **Total actuarial losses (gains) on re-measurement**	(698)	79	34
Present value of the obligation – end of period	2,693	3,319	3,378

7. Present Value of Reform Benefits[26]

	Year Ending 31/12/2022	Year Ending 31/12/2021	Year Ending 31/12/2020
Present value of the obligation – beginning of period	3,553	3,338	3,120
Interest cost	113	103	91
Current service cost	115	234	295
Past service cost	2	-	121
Past service cost due to settlement	-	1	-
Benefits paid	(758)	(223)	(143)
Benefits paid for settlement	-	(5)	-
Losses (gains) on re-measurement:			
• **Demographic assumptions changes**	5	(21)	-
• **Financial assumptions changes**	(271)	238	(36)
• **Experience adjustments**	(84)	(112)	(110)
• **Total actuarial losses (gains) on re-measurement**	(350)	105	(146)
Present value of the obligation – end of period	2,675	3,553	3,338

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

	Year Ending 31/12/2022	Year Ending 31/12/2021	Year Ending 31/12/2020
Fair value of plan assets – beginning of period	42,703	38,790	36,887
Interest income from plan assets	1,434	1,143	988
Contributions	1,035	608	1,592
Benefits paid	(1,188)	(1,124)	(1,078)
Gains (losses) on re-measurement: return on plan assets (excluding amounts included in interest income)	(5,710)	3,286	401
Fair value of plan assets – end of period	38,274	42,703	38,790

[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)

	Year Ending 31/12/2022	Year Ending 31/12/2021	Year Ending 31/12/2020
Fair value of trust assets – beginning of period	1,493	1,540	1,588
Interest income from trust assets	49	45	42
Benefits paid	(118)	(180)	(90)
Gains (losses) on re-measurement: return on trust assets (excluding amounts included in interest income)	(240)	88	-
Fair value of trust assets – end of period	1,184	1,493	1,540

10. Total Period Costs

	Year Ending 31/12/2022	Year Ending 31/12/2021	Year Ending 31/12/2020
Current service cost	416	564	670
Employee participation	(18)	(20)	(20)
Net current service cost	398	546	650
Interest cost	1,421	1,191	1,083
Past Service Cost	48	5	350
	-	-	(11)
Service cost for settlement	-	46	48
Early retirement costs	12	40	14
Interest income on plan assets	(1,434)	(1,143)	(988)
Interest income on trust assets (par. 116 assets)	(49)	(45)	(42)
Total costs for the period	395	640	1,104

[27] From accounting standard IAS19

11. Actual Returns on Plan Assets

	Year Ending 31/12/2022	Year Ending 31/12/2021	Year Ending 31/12/2020
Interest income on plan assets	1,434	1,143	988
Gains (losses) on re-measurement: plan assets	(5,710)	3,286	401
Actual return on plan assets	(4,276)	4,429	1,389

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

	Year Ending 31/12/2022	Year Ending 31/12/2021	Year Ending 31/12/2020
Interest income on assets	49	45	42
Gains (losses) on re-measurement: plan assets	(240)	88	-
Actual return on assets	(191)	133	42

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

	31/12/2022	31/12/2021	31/12/2020
Obligation at end of period - pensions	105	146	190
Obligation at end of period – other benefits	6	9	13
Obligation at end of period – total	112	155	202

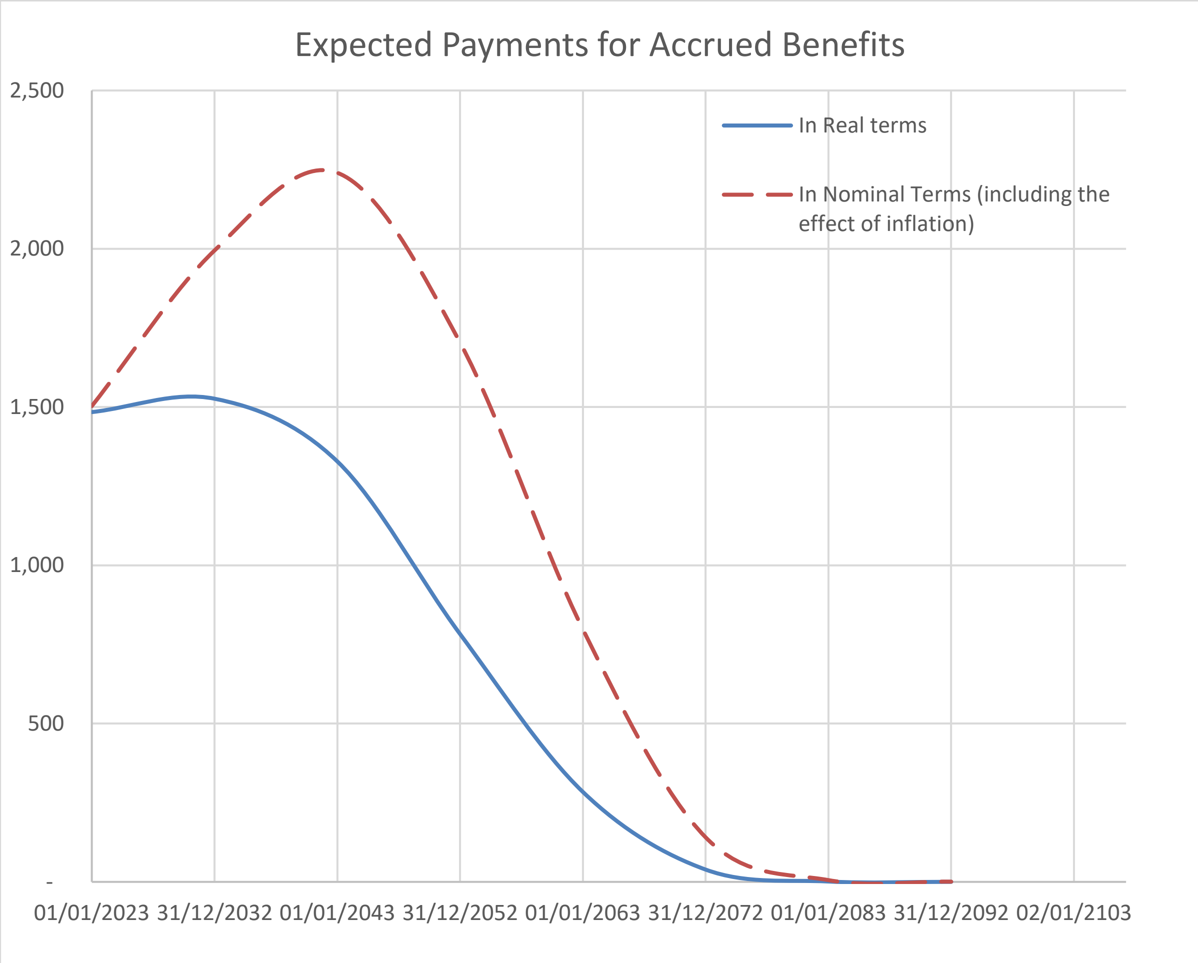
14. Obligation for "20 year grant" (other long-term employee benefits)

	31/12/2022	31/12/2021	31/12/2020
Obligation at end of period	12	14	14

Appendix B – Expected Future Payments of Employee Benefits

Below is a graph of the expected cash flows included in the valuation (including all benefits for employees and pensioners), in real terms and in nominal terms (including the expected future impact of inflation). Nominal cash flows are presented in red, while inflation-adjusted cash flows are presented in blue.

The payments shown are annual.



Appendix C – Additional Detail Regarding Financial Assumptions (annualized rates)

	31/12/2022	31/12/2021
Weighted average <u>real</u> discount rate used to compute liabilities as at the end of the period*	2.78%	0.93%
Expected inflation rate	2.6%	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. "ong1222" – 15,172 records – data including all employees / retirees / survivors (permanent workers of generations A, B, and C).
2. "פנסיונרים ושאירים דור ג דצמבר 2022" – 103 records – file specifies whether each retiree is a pensioner or a surviving beneficiary
3. "actuarpizuisug13411222" - 503 records – data including all non-permanent workers (special agreements).
4. "עובד ממשיך 040123"- 703 records, general data regarding employees employed under the Continuing Employment Agreement
5. "פורשי אוקטובר 2022 כולל דור ג מעודכן"- 41 records, "פורשי נובמבר 2022 כולל דור ג מעודכן 1"- 43 records, "פורשי דצמבר 2022 כולל דור ג"- 13 records
6. " change102022", "change112022" , "change122022", "change122022g" – files that describe status changes of employees / retirees in the months October-December 2022.
7. "חשמל דצמבר 2022" – data regarding electricity rates, VAT rate and grossed-up taxes.
8. "שי דצמבר 2022" – value of holiday gifts grossed-up for taxes.
9. "עובדים מדורות א ב ג שעברו להסכם אישי בכיר דצמבר 2022" – 100 records – list of senior employees who have signed personal service contracts (instead of being covered by collectively bargained salary agreements).
10. "שכר רגיל של עובדים שעברו להסכם אישי בכיר דצמבר 2022" – 100 records – list of regular salaries for senior employees who have signed personal service contracts.
11. " יעדי פרישות מוקדמות בחתך חטיבתי לפי שנים ל 03012023 "
12. "פוטנציאל פרישה של פורשי רפורמה ומבצע 200 לשנת 2023 נכון ל 03012023"- 209 records
13. "עובדים פרוייקטאלים הארכה" - 59 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.

חברת החשמל

Date: January 18, 2023

Description of the Main Rights which Should be Taken into Consideration in Determining the Actuarial Obligation with respect to Benefits After Termination of Employment

The Determining Salary Components for Calculating the Pension:

1. **Normal Salary** - including combined salary, service increment (up to a 40 year maximum), extra effort increment, continuing education payments, job classification increment, personal extra, cost of living allowance.

Normal Salary Calculation Formula (will be paid to pensioners/survivors according to the pension rate):

$$\text{Normal salary} = \left[\text{Extra Effort} + \begin{matrix}\text{Continuing}\\ \text{Education and}\\ \text{Administration}\\ \text{Remuneration}\end{matrix} + \text{Personal Extra} + \text{NIS Increment} \right] + (1.01)^{N} \times \left[\begin{matrix}\text{Command}\\ \text{Increment}\\ \text{Percentage}\end{matrix} + 1 \right] \times \left[\left[\begin{matrix}\text{Cost of}\\ \text{Living}\\ \text{Allowance}\\ \text{Rate}\end{matrix} + 1 \right] \times \text{Salary Grade} \right]$$

N – number of years of service for calculating the service increment for payment

Normal Salary Components:

(a) **The Combined Salary** is according to accepted salary tables in the Company.

The last salary agreement was signed on December 11, 2016, (hereinafter: the "2016 Agreement"). This agreement constituted a salary agreement for the years 2013-2017 which is based on the salary agreement signed in the civil service on April 18, 2016 and updated on August 8, 2016.

This agreement, including its amendments, provided the Company's employees with a comprehensive and accrued salary increment of 7.25%, half of which was paid as an NIS increment in the regular salary and half was paid as a percentage increment in the salary table. The agreement was paid in 5 phases, and the last phase was executed in December 2019.

The "2016 Agreement" relates to pensioners who retired during the period of the agreement (2013-2017). These pensioners are entitled to a supplement according to the period of their work during the relevant years (see Appendix A of the 2016 Salary Agreement").

The combined salary of Management level members includes global payment for overtime.

The 2016 Agreement determined that management members who were appointed to their office before October 10, 2013 (hereinafter: "Entitled Management Members") will continue to be entitled to inclusion of global pension overtime as an integral part of their pension for all intents and purposes, subject to the following changes:

- As of August 1, 2016, the scope of their entitlement for global pension remuneration with respect to 50 hours of overtime per month is at a value of 140% per hour.

Employees who were appointed to serve as members of the management after October 10, 2013, are not entitled at all to inclusion of remuneration for global overtime in their regular salary as a determining component for calculation of salary components which are paid on the basis of the pension salary.

As aforesaid, the “2016 Agreement” was with respect to the years 2013-17. As on the date of the financial statement, the Company does not have a salary agreement with respect to 2018 onwards.

(b) <u>Service increment</u>:

1. The annual service increment rate is 1% for each year of service.

2. <u>The Service Increment Calculation Formula</u>:

   <u>Service Increment Amount for Payment</u> = $[(1.01)^N – 1]$ X (job classification increment + salary grade).

   N – number of service years for payments where **N =< 40** (as detailed in HR procedure "Service Increment" No. 04-01-02).

3. <u>Masters Degree Service</u>:

   Another service increment at a 50% rate, starting from completing the studies for a master's degree, for employees at the grade of engineers, academics and lawyers only (instead of a service increment of one year, each year, such an employee is entitled to a service increment of 1.5 years for each year from the Master's studies completion date onwards).

4. <u>Service Increment/ Pension Percentages with respect to Security Service prior to Establishing the State of Israel/ Prisoners of Zion</u>:

   An employee who served a full active service period in one of the recognized service units (Palmach, Hagana, Etzel, Lehi, British Army Jewish Brigade, Palestinian Ghaffir, Policeman in the Mandate Police) - 80% of the service period will be added to the work service factor for determining the pension rate.

   - An employee who served as a volunteer in the Hagana, Etzel or Lehi and is entitled to ALEH decoration – is entitled to a 3% increase in his pension.
   - A "Prisoner of Zion" employee – will receive a 1% increase in pension for each year of recognized imprisonment, up to a total of 5%.
     In any event, the total pension rate will not exceed 70%.

(c) **Extra Effort Increment:**

1. An increment paid according to entitlement groups and updated for active employees with each cost of living allowance and each work agreement.

2. The Main Entitlement Groups are:
   - Group A – Maintenance employees.
   - Group B – Other workers, meter readers.
   - Group C – The population that is not defined in groups A, B, D.
   - Group D – Trainees in a shift.

(d) **Managers continuing education payment:**

1. Monetary increment paid to employees of management rank, who meet the entitlement terms.

2. Entitlement terms are:

   Employees whose nominal grade is 14 at least.

   - Who are high school/vocational school graduates, including 11 years of education.
   - Who completed two study years in a higher education institution or completed a pre-defined number of study hours related to their occupation or profession, as detailed below:

Service years in the field of occupation/ profession	Required study hours related to the occupation or the profession
Up to one year	800
Up to two years	700
Up to four years	600
Up to six years	500
Up to eight years	400
Up to ten years	300
Up to twelve years	200
Twelve years and up	100

Note: An employee with long tenure in his occupation requires a smaller number of study hours.

3. Employees who fulfill all the terms specified in section 2 and also accumulated 400 study hours according to the tests listed in Section 5 of HR procedure "Continuing Education Payments to Employees in Managerial Grade" (No.04-01-04).

4. Threshold Terms (for section 3):
   Courses/continuing education recognized by the "Committee for Recognizing Courses and Continuing Education of the Ministry of Education and Culture" and listed in the Approved Courses List that ended within a period of 5 years prior to the request for payment filing date.

5. Rate Update:
   Managerial continuing education payments rate is updated for active employees according to each cost of living increment. Rate update derived from a wages agreement – if specified in the agreement.

6. Administration Remuneration Supplement
As of May 1, 2018, an employee entitled to an administrative continuing education remuneration is entitled, starting from the end of one year to the date of his entitlement to the administrative continuing education remuneration, to the payment of an administration supplement. The payment was made from November 2018, retroactively from May 2018.
The amount of the NIS supplement was updated in accordance with the update mechanism, update rates and update dates of the Company's continuing education remuneration.

The supplement is included in the ordinary salary, except with regard to the calculation of the retirement grant for retirees in special early retirement (for the removal of doubt in this regard, the supplement will be included in the calculation of the grant for non-utilization of sick leave and redemption of vacation days).

(e) Professional Continuing Education Payment:

1. A monetary increment paid to employees in the professional rank (academic degrees, engineers, lawyers, practical engineers and technicians) who fulfill the terms of entitlement, as detailed in HR procedure 04-01-05.

2. The entitlement to continuing education payment A and B is determined by a joint committee of representatives of the professional Histadrut and representatives of the Ministry of Finance.

3. Recognition of Studies Period for Payment A:
Courses and continuing education that ended in a period of up to 5 years prior to submitting the request for continuing education payment to the payment committee will be recognized, even when these occurred before the employee was entitled to the degree.

4. Recognition of Studies Period for Payment B:
An employee in a professional grade who received continuing education payment A, who completed a continuing education of 400 study hours at least and fulfilled the entitlement terms specified in HR procedure "Continuing Education Payment to Employees in a Professional Grade" (No. 04-01-05) is entitled to payment B.

5. Rate Update:
   - Rates of payment for professional continuing education A + B are published and updated from time to time for active employees by the Supervisor of Wages and Work Agreements in the Ministry of Finance. The rate update that is derived from the salary agreement provided it is specified in the agreement.

   - Employees in the professional grade, at grade 44 (nominal) and up will receive payment at the rate of continuing education B, at a rate of 9% of the salary grade and the service increment of the employee (without the part with respect to job classification increment), up to the ceiling specified in the related HR procedure or according to the standard rate, the higher of the two.

   - As of May 1, 2018, the ceiling amount for the continuing education B remuneration increased by NIS 100 gross per month.
     The updated ceiling is updated according to the same updating mechanism, update rates and update dates of the ceiling in the professional continuing education B remuneration, according to the rules applicable prior to the signing of the collective agreement.

(f) Job Classification Increment

Employees defined as managers are entitled to Job Classification Increment according to the defined group to which they belong.
The "2016 Agreement" determined, inter alia, that as of August 1, 2016, the command increment will continue to be paid to active employees or to pension receivers, according to the following rates:

M	Professional group *	2.5%
P-1	Unit leaders, deputy unit leaders, group leaders and their counterparts	5.5%
P-2	"Large" unit leaders, foremen and their counterparts	6.5%
P-3	Deputy Department Heads, Senior unit leaders Senior foremen and their counterparts are compared to Department Heads (codes 5960, 1960, 5521 and 3861), and office managers (code 1405)	7.5%
P-3 A	Compared to Head of Department at peak rank	10%
P-3 B	Compared to Head of Department after two years at peak rank	15.5%
P-4	Department Heads (codes 1450, 5010, 5061, 6300)	10%
P-5	Department Heads at peak rank	19%
P-6	Senior Department Heads	20.5%

(*) including employees employed by the Company for at least 20 years and who were not entitled to any command increment.

(g) Personal Extra:

1. A fixed monetary increment, paid to a closed group of employees in whose combined salary a gap was created when a uniform salaries grade was defined for all employees in April 1, 1973. Following general wage agreements in 1978, the salaries schedule was updated again, aiming to simplify the salary structure and create a uniform and clear salaries grade, while cancelling certain additions, once again causing the creation of this increment.

2. The personal extra component is intended to maintain the level of the base salary paid to employees prior to the changes in the salary tables.

3. The addition is updated for active employees with every cost of living allowance and wages agreement.

2. Payment of 13th Salary

1. Employees from their 2nd year of employment and pensioners/survivors are entitled to 13th salary payment.
2. Payment of the annual 13th salary **to all eligible employees and to pensioners who retired from the Company as of January 1, 2019**, is paid monthly in the salary/pension, by dividing the regular salary by 12.

   For pensioners who retired before January 1, 2019, and who chose not to join the above arrangement, a 13th salary is paid:

   From a normal salary for the payment month, divided by 12 and multiplied by 6 months, in two parts: the 1st part in the pension before Passover and the 2nd part before the Jewish New Year (Rosh Hashana).
3. The 13th salary is paid to pensioners/survivors according to the entitlement to a pension rate.

3. 20/25 years Salary Payment (14th Salary)

An addition at the rate of one monthly normal salary per year, payable to a woman after 20 years and to a man after 25 years, provided that the employee started working in the Company before January 1, 2004.

Entitlement to payment is according to years of work in the Company, less all unpaid leave periods the employee took after the salary agreement signing date, January 31, 2011, unless and insofar as the employee purchased rights with respect to the unpaid leave period, by paying the Company a payment at the rate of 18.5% of the determining components for calculating the monthly pension (including an increment of 1/12 for convalescence pay).

The aforesaid does not affect an unpaid leave of an employee taken before the signing date of the salary agreement on January 31, 2011, for a period that does not exceed one year and was or will be taken into account be the Company for the purpose of time periods specified in this section.

Pensioners/survivors who fulfilled the aforesaid terms on the eve of their retirement, are entitled to payment of 20/25 years salary multiplied by the pension rate. The salary of 20/25 years will be paid as before to an employee entitled to budgetary pension who retired/will retire from the Company and who, on the eve of retirement, was/will be entitled to 20/25 years salary, according to the aforementioned terms.

As of January 1, 2019, the payment of the 20/25 year salary to eligible employees is carried out every month and is calculated by dividing the regular monthly salary by 12.

The monthly payment outline applies to all active employees: the arrangement will continue for permanent employees with budgetary pension (even after their retirement as pensioners in the budgetary), for Generation C permanent employees who began working at the Company before January 1, 2004, who are insured with the cumulative pension (Veteran Generation C), as well as for pensioners who retired before January 1, 2019 and have chosen to join the outline, and subject to the terms of entitlement as aforesaid. Pensions with budgetary pension who have not chosen to join the aforesaid outline will continue to receive the 14th salary on an annual basis.

4. Convalescence Payments

1. An annual payment of a convalescence allowance.

2. An employee is entitled to convalescence payment only after completing the 1st year of work in the Company. At the end of the year the employee will also be entitled to convalescence payments with respect to parts of the year, relative to the number of paid days.

3. Convalescence payments that are paid to employees are a multiplication of the employee’s annual quota of days (as detailed in section 4) by the price of a convalescence day.

   The convalescence payments that are paid to pensioners/surviving relatives insured by the budgetary pension arrangement are a multiplication of the pensioner/surviving relative’s annual quota of days (as detailed in section 4) by the price of a convalescence day (as detailed in section 5) and by the pension rate they are entitled to.

4. <u>The following are Convalescence Days Quotas</u> (to permanent employees, pensioners and survivors):

Number of work years	Number of Convalescence days per year
1. After one year of work (for the 2nd year)	13
2. After two years of work	14
3. After three years of work	16
4. After eight years of work	18
5. After twelve years of work	20

5. <u>Convalescence Day Rate</u>:
<u>From 1995 and until 2018</u> - the rate per one convalescence day is updated once a year on June 15, at the rate of the cumulative change in the CPI from the CPI of May (published on 15.6.XX) to the CPI in May on the following year (published on 15.6.XX+1)
The rate for a convalescence day, which was published on 15.6 every year, constituted the basis of the sum for calculation of the price for a convalescence day according to the aforesaid in the following year, and so on.
<u>In 2019</u> - the rate for a convalescence day was updated on January 15, 2019 at the rate of the cumulative change that occurred in the CPI, from the CPI of May 2018 (published on June 15, 2018) to the CPI of December 2018 (that was published on January 15, 2019). The rate is for a convalescence day for 2019, was published on January 15, 2019.
<u>As of 2020</u> - the price for a convalescence day is updated once a year on January 15 at the rate of the cumulative change that will be occur in the CPI from the December CPI (published on 15.1.XX) to the December CPI of the following year (will be published on 15.1.(XX+1)). The rate for a convalescence day that is published on January 15 each year will be valid from January 1 to December 31 and will constitute the basis of the sum for calculating the price for a convalescence day according to the aforesaid in the following year and so forth.

6. <u>Manner of Payment</u>:

As of January 1, 2019, annual convalescence payment for entitled employees is made monthly, by dividing the annual convalescence amount by 12. This outline will apply to all active employees: the arrangement will continue for permanent employees in budgetary pensions even after retirement as pensioners in the budgetary), as well as for employees insured by cumulative pension (temporary and permanent).
Pensioners insured by a budgetary pension who retired from the Company before January 1, 2019, and entitled surviving relatives who chose not to join the monthly payment outline, will be paid an advance on account of convalescence payment in the pension of the month before Passover (March/April), and the balance will be paid with the pension of the month before the Jewish New Year (Rosh Hashana) (August/September), according to the convalescence day rate as stated in section 5 above.

5. <u>Arava Addition</u>

1. Arava addition is paid to an employee whose permanent work site and base are located in the Negev, south of latitude 30.

2. Arava addition will be included in calculations of pension to eligible employees who received the addition for at least three years before retiring from work, and will be paid to entitled pensioners/survivors according to the pension rate.

3. The Arava addition rate is updated for active employees after each cost of living allowance. Rate update derived from a wages agreement – if specified in the agreement.

6. Home Service Payment

1. An addition paid to employees on home service, according to the grading of the Company, included in the calculation of the pension.

2. The criteria for including home service payment in the calculation of the pension are:
   - An employee who retired to pension and received a monthly payment for home service of eight hours per evening and/or night for 10 consecutive years just before his retirement is entitled to an addition of 50% paid to him with respect to the home service before the retirement in the pension payment, according to his pension rates.
   - For every year over the aforementioned 10 years, the pensioner is entitled to an addition of up to 5% (for part of the year: up to 6 months – 2.5%; more than 6 months – 5%) of the payment paid before the retirement for home service, according to the pension rate due to him, up to a maximum of 100% of the amount of the addition after 20 years of payment with respect to the home service paid on the eve of the retirement and according to his pension rates.
   - Maximum payment in the pension for fixed or non-fixed home service will not exceed 10 home services per month, multiplied by the pension rate, multiplied by the home service rate, multiplied by the home service increment to the pension.
   - An inspector who was transferred to another role whose entitlement to have the shift percentages included in his pension was recognized and during shift work received payment for home service for 10 consecutive years at least, is entitled to home service payment in the pension, even if the home service was terminated before the retirement date.

3. Home service rate is updated for active employees with every cost of living allowance. Rate update derived from a wages agreement – if specified in the agreement.

4. In light of the company's implementation of the new supervision model - the number of those entitled to the payment of home service on a regular basis has been significantly reduced.

7. **Payment for Shift Work**

1. An addition paid to employees on shift work, according to the grading of the Company, included in the calculation of the pension.

2. The criteria for including shift work percentage increment in the calculation of the pension are:

    1. A shift worker, according to the Company's grade, who worked for at least 10 years in two shifts (morning and evening only) and retires to pension from shift work, will receive an addition of shift percentages in the pension at a rate of 20% of the pension.

    2. A shift worker who is a CCGT operator, according to the Electric Company's grade, who worked for at least 10 years in shifts and retires to pension from shift work, will receive an increment of shift percentages in the pension at a rate of 40% of the pension.

    3. A shift worker, according to the Electric Company's grade, who worked for at least 10 years in three shifts (morning and evening and night) and retires to pension from shift work, will receive an increment of shift percentages in the pension at a rate of 40% of the pension.

    4. A shift worker according to the grade of the Electric Company, who was permanently transferred to another position due to re-organization or an illness approved by a medical board and upon approval of the VP of Human Resources, who worked for at least 10 years in shifts prior to being transferred to another position, will receive shift percentages upon retirement, as follows:

        - Shift worker in three shifts: 2% for each year up to a maximum of 40%.
        - CCGT Operator: 2% for each year up to a maximum of 40%.
        - Shift worker in two shifts: 1% for each year up to a maximum of 20%.

    Regarding a shift worker who worked in 3 shifts and has transferred to an arrangement of 2 shifts, the period of working in 3 shifts will be the first to be taken into account, and the period of work in 2 shifts will only be calculated for the remaining years (completion to the lowest of: 20 years or the period of work in shifts).

Description of the Rights which should be Taken into Consideration in Determining the Actuarial Obligation with respect to Benefits After Termination of Employment

Electricity Rate for Company Employees

1. Permanent employees and receivers of pension (pensioners/survivors), insured in the budgetary pension arrangement, as defined in the labor constitution and according to the directives of the pension regulations and the Company's procedures, are entitled to the electricity rate for Company employees. The obligation of the Company includes the cost of the benefit, the VAT and the grossed up income tax with respect to them.
2. Generation C employees and pensioners and their survivors are entitled to electricity at the Company electricity rate according to their actual consumption and up to a limit of 18,000 kWh, and according to the entitlement rate 50%/100%, in each of the following cases:
   - An active generation C employee.
   - Upon retiring from work in the Company as a Company pensioner pursuant to the terms determined for recognition as a Company pensioner, in the chapter **Retirement of Generation C Permanent Employees** below.
   - Survivors of Generation C employees according to the terms determined in the chapter ***Retirement of Generation C Permanent Employees*** below.
3. The aforementioned entitled employee will be entitled to electricity at the rate of Company employees for one residential unit only, at his actual residence, provided that the electricity is intended for domestic consumption and personal use only.
4. In the event that a number of entitled persons reside together in the same residence, only one of them is entitled to the electricity rate for Company employees.
5. Budgetary and cumulative pensioners/survivors are entitled to electricity at the rate of Company employees without doubling the pension rate or dependence on the pension amount.
6. Pension recipients (including Generation C pensioners and survivors) are entitled to electricity on condition that the pension from the Company is their main source of subsistence.
7. **In accordance with the collective agreement of May 17, 2018, an employee that joins the Company as of November 5, 2018, is not entitled to electricity at the Company employee rate, even if he obtains the status of a permanent employee.**

Holiday Presents

1. The Company grants holiday presents to its employees, pensioners and survivors, handed out on two dates: just before Passover and just before the Jewish New Year (Rosh Hashana). The Company liability includes the cost of the benefit and also the grossed up income tax with respect to them. The amount of the gift is linked to the Consumer Price Index.
2. Generation C employees and pensioners and their survivors are entitled to holiday presents in each of the following cases:
   - An active generation C employee.
   - Upon retiring from the Company as a Company pensioner pursuant to the terms determined for recognition as a Company pensioner, in the chapter **Retirement of Generation C Permanent Employees** below.
   - Survivors of Generation C employees according to the terms determined in the chapter ***Retirement of Generation C Permanent Employees*** below.
3. In the event that in one family the pension is paid to survivors in separate payments, only one family member is entitled to holiday presents.
4. Budgetary and cumulative pensioners/survivors are entitled to holiday presents without doubling the pension rate or dependence on the pension amount.

Life Insurance and Compensation for Successors

1. “Risk" Life Insurance for Employees and Pensioners - CPI-linked Amounts (Benefits and Premiums):

1.1. Insurance applies to: employees upon starting work, pensioners, and spouses.

1.2. The benefit – Two thirds of the premium is paid by the Company (the amount is credited to the employee as value for tax purposes).

1.3. One third of the premium is paid by the employee.

Raise of Salary Grade for Active Employees

1. An employee in the managerial grades up to grade 15 (inclusive), or an employee in the professional grades up to grade 40 (inclusive), will be promoted by one grade every year. An employee in the managerial grades, from grade 16 and up, or an employee in the professional grades from grade 41 and up, will be promoted by one rank once every two years.
2. Employees employed at managerial grade 27 / 46 professional will not be promoted until their retirement.
3. Promotion to senior department manager is not automatic and may only be granted after at least 3 years at the previous grade, by recommendation of supervising section manager and Deputy CEO and with CEO approval. With respect to senior department managers, grade C only serves as a retirement grade.

Star Grade

A permanent employee who began working at the Company before January 1, 2004, and has 25 years of service for a male / 20 years of service for a female, is entitled to a payment equivalent to one additional salary grade to their grade, without changing the nominal grade.

Entitlement to payment is determined according to years of work in the Company, less all unpaid leave periods of the employee after entering the salary agreement, on January 31, 2011, unless and insofar as the employee purchased rights with respect to the unpaid leave period by paying the Company payments at the rate of 18.5% of the determining components for calculating the monthly pension (including and increment of 1/12 for convalescence pay).

The aforesaid does not affect an unpaid leave of an employee taken before the signing date of the salary agreement on January 31, 2011, for a period that does not exceed one year and was or will be taken into account be the Company for the purpose of time periods specified in this section.

Pensioners/survivors who fulfilled the aforesaid conditions on the eve of their retirement are entitled to a star grade. A star grade will be paid as before to an employee entitled to budgetary pension who retired/will retire from the Company and who, on the eve of his/her retirement, was/will be entitled to a star grade, according to the aforementioned description.

Employee who is entitled to a grade promotion and to a star grade on the same date, will be concurrently promoted to both grades.

Additional Grade at Eilat

A permanent employee employed at Eilat under a special tenure agreement and a temporary employee under a special agreement is entitled from starting work in this region to payment equivalent to one additional salary grade, without changing the nominal grade.
The aforementioned employee, who moves out of the Eilat region to another region at the end of seven years of work or more, will carry over the entitlement to payment of the additional salary grade.

Promotion in Grade upon Retirement

1. Starting from the date of the "Changing the Update Method of Budgetary Pension Law, 2012", an employee entitled to budgetary pension who will retire from the Company (and in the event of the demise of such an employee, his survivor), will be entitled to one salary grade on the retirement date from the Company, regardless of the date on which he was promoted by one salary grade as an employee.
2. If an active employee is entitled on April 1, 20XX, to a salary grade according to the work agreements and is scheduled to retire to pension on this date, he will be entitled on April 1, 20XX to both a salary grade according to the work agreements and to a retirement salary grade.

3. An employee who is entitled to a star grade will receive a retirement grade, as detailed above, as if he had the subsequent grade.

4. The following table details the granting mode of retirement salary grades to retiring employees at present:

Grade before retirement date	Granting retirement grade on the retirement date
+43 / 22	44 / 23
44 / 23	+44 / 24
+44/ 24	45 / 25
45 / 25	+45 / 26
+45 / 26	46 / 27
46 / 27	+46 / +27
(f) 46 / (f) 27	+ (f) 46 / + (f) 27
*46 / *27	+*46 / +*27
*(f) 46 / *(f) 27	+ *(f) 46 / + *(f) 27

Pension Updating Mechanism

1. From January 1, 2012, the determining components of the salary for calculating the monthly pension of a pensioner/ survivor entitled to budgetary pension are not updated through any grades, except promotion by one salary grade upon retirement.

2. From January 1, 2012, all the instructions to update the determining salary for calculating the pension were cancelled, including any component included in it, whether they derive from an agreement or an arrangement. Therefore, the determining components of the salary for calculating the monthly pension of a pensioner/survivor entitled to budgetary pension are not updated according to changes in the salary granted to any active employee of the Company at any time, e.g. salary agreement, CPI increment, changed reward rate for advanced studies/effort, command supplement, etc.

3. From this date, the pensions update mechanism of employees entitled to budgetary pension from the Company has changed. The determining salary components for calculating the monthly pension of every pensioner/survivor entitled to budgetary pension will be as follows: normal salary, shift percentage increment (to those entitled), 1/12 of the 13^{th} salary, home service (to those entitled), 1/12 of the 14^{th} salary (to those entitled), Arava increment (to those entitled), and CPI increment (see section 5 below).

These components are updated in January of each year only, according to the rate of the annual change in the CPI (the first update, according to the specified in this section, occurred in the pension for January 2013). The aforementioned applies to every pensioner/survivor entitled to budgetary pension and retired from the Company before the date on which the law became effective and also to employees entitled to budgetary pension (or their survivors), starting from their retirement date from the Company.

4. In the event that the annual change in the CPI rate will be negative, the determining components of the salary for calculating the monthly pension will not be updated on the following January of the year for which the CPI is negative. However, in the first update, and where needed in the following pension updated (in each January), the changes in the CPI with respect to the said period or periods will be fully included in the calculations for those updates.

5. **<u>CPI Calculation Increment:</u>**

From January 1, 2012, a monthly increment to the pension with respect to the months from March 2012 onwards, was paid to every aforementioned pensioner/survivor, who retired from the Company before January 1, 2011, as follows:

a. <u>An 8% monthly increment to the pension</u>:
A pensioner/survivor who received a managerial grade of 27 and up (or a professional grade of 46 and up) before January 1, 2011, or alternately, whoever received a retirement grade of 27 and up (managerial grade) or 46 and up (professional grade), or alternately, received a grade of the senior employees' grade scale before January 1, 2011.

<u>Or alternately</u>

<u>A 12% monthly increment to the pension:</u>
A pensioner/survivor who was not graded at a managerial grade of 27 and up (or a professional grade of 46 and up) before January 1, 2011, whose retirement grade is not an increment to grade 27 and up (managerial grade) or 46 and up (professional grade), or alternately, did not receive a grade of the senior employees' grade scale before January 1, 2011.

An employee/survivor who was promoted to a grade (which is not a retirement grade) in 2011, received a CPI calculation increment at the rate of the difference between 12% and the rate of the change in the pension deriving from receiving a grade in 2011.

b. <u>Increasing the CPI Calculation Increment at an additional rate of 6%</u>:
The CPI calculation increment of a pensioner/survivor who retired from the Company before January 1, 2011, and on January 2, 2012, was graded in a managerial salary grade of 23 and below, or in a professional salary grade of 44 and below, was increased as of March 2016, at an additional rate of 6% of the base pension.

A pensioner/survivor who retired from the Company after December 31, 2011, is not entitled to a CPI calculation increment at all.

Deduction of Payments from Salaries of Employees Insured in Budgetary Pension

1. The "Plan for the Recovery of Israel's Economy" Law – 2003, states (in chapter P to the law, on "Payments of Employees to Budgetary Pension") that an employer whose employees or part of them are subject to a budget arrangement of pension paid by the treasury of the State or from the employer's fund (budgetary pension), will deduct 1% (starting on January 1, 2005 the deduction is at the rate of 2%) from the determining salary paid to the employee, whose pension arrangement is budgetary pension.
2. According to a legal opinion, the instructions of this chapter apply to the Electric Company and its employees, insured in a pension out of the Company's budget, namely, permanent employees who began to work at the Company before June 11, 1996 (employees insured in the budgetary pension arrangement).
3. Determining salary for paragraph 1 above: "Salary components paid to an employee, which would have been included for the purpose of calculation of the pension, had that employee retired to pension at that time." Namely, normal salary, shift work payment, convalescence, 13th salary and 14th salary, permanent home service and Arava addition.
4. The pension liability is not reduced due to the participation of employees insured in the budgetary pension arrangement in the cost of the budgetary pension.

Obligation of the Company to Welfare Activities for Employees and Pensioners / Survivors

a. In addition to salaries paid to employees and pensions paid to pensioners/survivors, the Company has an obligation to incur costs of welfare activities of 0.49% of the regular salary of each employee, or of the pension and grants to which each pensioner/survivor is entitled (this obligation is not calculated for the components that are not normal salary or those that are not affected by a rate per hour: convalescence, electricity, gift, permanent home service and Arava addition).

b. Starting on January 2, 2012, the Company is allocating to a fund, that is managed by the representatives of the employees (in a dedicated bank account that was opened for this purpose) with respect to each pensioner (without survivors) who is entitled to budgetary pension only, an annual sum for the following welfare activities:

The allocated sum is updated on January of each year according to the annual change rate in the CPI.

The sum is paid once a year, in the month of December, and is transferred with respect to a pensioner who receives pension in the month of December and has retired during that calendar year (will entitled to a pension for the period in which he was a pensioner only), will be calculated proportional to the period in which he is was a pensioner. It is clarified that only a pensioner entitled to a pension from the employer in the month of December of every year will be considered for the purpose of calculating the total sum with respect to that year. Therefore, a pensioner who is not entitled to a pension in the month of December as stated (for example: a pensioner who has passed away during the year will not be taken into account as entitled to receive any sum from the fund) will not be taken into account for the purpose of calculating the total sum each year.

The objective of the fund is to act for the welfare of pensioners in the cultural, health, recreation and leisure fields.
The fund is managed according to accounting measures from aspects of detailed audit and reporting of all actions made by the fund and funds expended by the fund, respectively.
Despite the aforesaid, from January 2, 2012 through July 1, 2023, only half (50%) of the aforementioned total amount is allocated to the welfare of pensioners entitled to budgetary pension, until the CPI calculation increment, detailed in section 5 above under section “Pension Updating mechanism”, is fully financed.

Reform Pension Supplement

a. Pursuant to the collective agreement of May 17, 2018, an employee who retires from the Company commencing from the end of June 2018 for any reason other than death, disability or retirement by the special retirement plan during the reform period, will be entitled, from the date on which he reaches mandatory retirement age, to an additional monthly pension for the rest of his life and to his surviving relatives (spouse only). The pension amount will be determined according to the Company's compliance with the prescribed milestones. This base amount (up to NIS 1,700) will be linked to the CPI and multiplied by the coefficient determined in accordance with the provisions of the collective agreement. The collective agreement even provides a right to a pension supplement under terms arranged in the agreement for a retiree due to disability and the heirs of a deceased employee. The pension will be purchased and paid according to a mechanism that is determined in the collective agreement as follows:

An employee who will retire during the reform period (except for death, disability, special retirement):

In the first stage, the "Base Amount" will be calculated for each employee, up to NIS 1,700 gross, according to the month of his retirement as detailed in the table below:

Month	Base amount in NIS		Month	Base amount in NIS
June-18	250		December-20	1,105
July-18	283		January-20	1,126
August-18	315		February-21	1,146
September-18	348		March-21	1,167
October-18	380		April-21	1,187
November-18	413		May-21	1,208
December-18	445		June-21	1,228
January-18	478		July-21	1,249
February-19	510		August-21	1,269
March-19	543		September-21	1,290
April-19	575		October-21	1,310
May-19	608		November-21	1,331
June-19	640		December-21	1,351
July-19	673		January-21	1,372
August-19	705		February-22	1,392
September-19	738		March-22	1,413
October-19	770		April-22	1,433
November-19	803		May-22	1,454
December-19	835		June-22	1,474
January-19	868		July-22	1,495
February-20	900		August-22	1,515
March-20	921		September-22	1,536
April-20	941		October-22	1,556
May-20	962		November-22	1,577
June-20	982		December-22	1,597
July-20	1,003		January-22	1,618
August-20	1,023		February-23	1,638
September-20	1,044		March-23	1,659
October-20	1,064		April-23	1,679
November-20	1,085		May-23	1,700

The employee's entitlement to the base amount is subject to the realization of milestones as detailed in the table below, so that insofar as on the day of the employee's retirement the base amount will be higher than the milestone proceeds realized by that date, the employee will be entitled to the milestone proceeds that were realized up to the date of his retirement according to the amounts in table below (hereinafter: the "**Adjusted Amount**"), and not to the base amount.

Insofar as additional milestones will be realized in the grace period, as defined below, the adjusted amount will be increased at the time of realization of the milestones according to the milestone proceeds and up to the base amount. For the avoidance of doubt, it is hereby clarified that in any case the adjusted amount will not exceed the base amount. In the special collective agreement of November 30, 2020, the grace period of milestone 4 regarding the signing of a collective agreement on a new wage structure was extended from 12 months to 18 months.

Following is the "**Grace Period**" for an employee who shall retire at the age of mandatory retirement -
For each of the milestones (2) - (3) in the table below - a period of 12 months from the date of the employee's retirement.
For milestones (4) in the table below - a period of 18 months from the date of the employee's retirement.

For each of the milestones (5) - (9) in the table below - a period of 24 months from the date of the employee's retirement.

Notwithstanding the aforesaid, an employee whose age at the time of realization of the milestone during the Grace Period was the mandatory retirement age and above, and the amount of the difference between the base amount and the adjusted amount in his matter (hereinafter: the "Difference") is less than NIS 75, will be entitled only to the adjusted amount even on the date of realization of the milestone, and instead of the aforesaid he will receive the cost of the difference value from the date of realization of the milestone and for the rest of his life as a non-recurring grant calculated as multiplying the amount of the difference by the personal conversion coefficient per employee per a CPI-linked pension at the age of 67, which will be determined in the matter of the employee on the date of his retirement.

The milestones and the proceeds with respect thereto will be as detailed in the table below:

	Milestone	**Date of Realization**	**Milestone Proceeds**
(1)	Entry into effect of the agreement	4.11.2018	NIS 150
(2)	Organizational change I – as detailed in Chapter J section 49.1 of the agreement	27.3.2019	NIS 115
	Organizational change II – as detailed in Chapter J section 49.2 of the agreement	27.3.2019	NIS 115
(3a)	Date of commencement of PDT activity under the System Management Company Ltd, pursuant to a license by virtue of the Electricity Sector Law, 1996 ("**SMC Milestone 1**")	1.12.2020	NIS 160
(3b)	Date of commencement of system management by Noga Ltd, pursuant to a license by virtue of the Electricity Sector Law, 1996 ("**SMC Milestone 2**")**	1.11.2021	160
(4)	Signing a collective agreement regarding a new salary structure *	18 months from the date of the Government Resolution / realization	NIS 100
(5)	Sale of the Alon Tavor generation site	3.12.2019	NIS 150
(6)	Sale of the Ramat Hovav generation site	3.12.2020	NIS 150
(7)	Sale of the Redding generation site **	36 months from the date of the Government Resolution	NIS 90
(8)	Sale of units at the Hagit power station	48 months from the date of the Government Resolution	NIS 90
(9)	Sale of the Hakoakh Eshkol generation site ***	60 months from the date of the Government Resolution	NIS 420

*** Milestone 4 - the signing of a collective agreement regarding a new wage structure - there is a postponement in the execution schedules until 12/2025, and not on the date as stated in the table above.**

**** Regarding the sale of the Reading power station, for the purpose of calculating the actuarial estimate, expected realization date is December 2025.**
***** Regarding the sale of the Eshkol power station, for the purpose of calculating the actuarial estimate, expected realization date is October 2023.**

a. “Reform Pension Supplement” for retirees after December 31, 2025

An employee that will retire from the Company and is insured with a budgetary pension or an old pension fund over 60 years old - will be entitled to an additional monthly pension for the rest of his life and to his surviving relatives (spouse only). The pension amount that will be purchased and paid according to the Company's compliance with the prescribed milestones. The reform amount (up to NIS 1,700 in accordance with the milestone mechanism in the agreement) will be linked to the CPI and multiplied by a conversion coefficient determined in accordance with the provisions of the collective agreement, as detailed in the collective agreement.

For an employee that will retire from the Company and is insured with a new cumulative pension over 60 years old – a monthly pension as will be received from division by the insurer’s conversion coefficient, of the deposit amount that will be calculated as the multiplication of the amount according to the formula in the agreement by the “personal conversion coefficient for the employee to an index-linked pension at the age of 67”, which will be purchased and paid in accordance with the collective agreement**.**

All of the aforementioned amounts will be updated according to the rate of increase in the CPI between the known CPI on the date of signing the agreement and the known CPI on the date the employee reached the mandatory retirement age of each employee or on the date of realization of a milestone during the grace period, as applicable

The collective agreement also grants a right to a pension supplement under the conditions set out in the agreement for the disabled retiree .
Grants - the agreement determines conditions under which the heirs of a retiree/employee deceased before reaching the minimal age for acquiring a pension (60 years old) or before commencing deposits to the insurer, a non-recurring grant which replaces the abovementioned pension supplement.
Furthermore, the agreement determines a non-recurring grant for retirees under the age of 60, calculated pursuant to the milestones fulfilled up to the retirement date, capitalized.
The grants replace the abovementioned pension supplement.

b. Reform pension supplement for retirees in special retirement

An employee insured with a budgetary/cumulative old pension retiring through the special retirement plan will be even entitled to a supplement of a monthly pension, in addition to the retirement pension in accordance with the provisions of the regulations of the central fund, from the date of his retirement for the rest of his life and his surviving relatives (spouse only). The base amount of the pension is NIS 1,250 per month. This amount will be linked to the CPI and is multiplied by the coefficient determined in accordance with the provisions of the collective agreement.
A retiree insured with the new accruing pension in the special retirement plan will receive a supplement of a monthly pension, from the date of his retirement, for the rest of his life and his surviving relatives (spouse only). The amount of the pension will be a monthly pension as received from the deposit of an amount that will be calculated as the multiplication of a base amount of NIS 1,250 by the “personal conversion coefficient for the employee for an index-linked pension at age 67”, which will be purchased and paid in accordance with the collective agreement.

c. Reform supplement – for an employee insured for part of the period of his work in the Company by a veteran cumulative pension and part by a new cumulative pension – will be calculated and paid according to calculation mechanism of a reform supplement for one insured by a new cumulative.

d. Reform supplement update mechanism for a retiree of over 60 years old commencing from the date of transfer to an external insurer, is according to the yield of the external insurer. And a retiree under the age of 60 – according to the CPI increase.

<u>A bridging pension for employees insured in cumulative pension in accordance with the reform collective agreement of May 17, 2018 and the amending agreements 1-3.</u>

<u>An employee insured by an old pension</u>

1. An employee insured in an old pension fund and who retires in the special retirement plan will be entitled to the following terms:

   1.1 A bridging pension for each of the months during the bridging period - a monthly pension in the amount obtained from the multiplication of a determining salary for deposits by the contractual pension rate and the average position rate of the employee.

   1.2 "Contractual Pension Rate" – multiplication of 0.1667% by the number of months the employee worked for the Company in respect of which he was entitled to provisions to the old pension fund, plus a rate of 5%, provided that the pension rate does not exceed 70%.

   1.3 "Determining Salary for Deposits" - means the regular salary that the employee received prior to the date of retirement, with the addition of a retirement rank, a 13th salary (1/12), calculated on the basis of the regular salary plus the rank of retirement, a 14th salary (1/12), insofar as will be paid to the employee prior to his retirement, which will be calculated on the basis of the regular salary plus the retirement rank.

   1.4 "Insured Determining Salary" - the average salary insured in the old pension fund during the 12 months preceding the date of retirement.

2. It was agreed that the bridging pension, the determining salary for deposits and the insured determining salary will be updated as follows:

   As of the date of retirement every January, according to the rate of increase of the CPI between the new CPI and the previous CPI.

   If the rate of change in the CPI during the period for calculating the update is negative, in a given year or in a number of years, the update will not be made for that period. However, in the first update, and if necessary, also in subsequent updates, the changes in the CPIs for the said period or periods will be taken into account in full for the purpose of those updates.

3. Continued accumulation of rights in the old pension fund - in order to continue accruing the rights, employer remuneration at the Company's expense, employee remuneration and an additional amount obtained from multiplying 20.5% by the difference between the insured determining salary and the determining salary for deposits (hereinafter: the "Additional Amount"), will be transferred monthly during the bridging period to the old pension fund where the employee is insured on the eve of the retirement date, and they will be deducted from the employee's bridging pension. If the employee chooses not to continue accumulating the rights in an old pension fund, the additional amount will not be deposited, and the additional amount will not be deducted from the bridging pension, accordingly.

4. Further to the aforesaid, for shift workers entitled to a bridging pension and insured by an old cumulative pension, who were sold to private electricity producers, the bridging pension will be multiplied by a coefficient determined by a monitoring committee.

Employee insured by a new cumulative pension

A Generation C employee insured by a new cumulative pension who will retire within the special retirement plan will be entitled to the following terms:

1. A bridging pension for each of the months in the bridging period. This pension will be calculated as follows:

   The sum of these two divided by the conversion coefficient:

   a. The accumulated balance multiplied by 78%, and it is advanced from the date of retirement of an employee until the age of mandatory retirement, based on a net yield estimate.

   b. Employer's remuneration and employee remuneration for each month of the bridging period, each of which are advanced from the month of the expected payment to him during the bridging period until the age of mandatory retirement based on a net yield estimate. It is agreed that the bridging pension and the determining salary for deposits will be updated from the date of retirement of the employee according to the rate of increase of the CPI between the new CPI and the previous CPI.

      In addition to the aforesaid, shift workers entitled to a bridging pension and insured by a new cumulative pension, who were sold to private electricity producers, the bridging pension will be multiplied by 16.5%.

2. Continued accrual of rights in a new cumulative pension - in order to continue accruing the rights, employer's remuneration at the Company's expense and employee remuneration that will be deducted from the bridging pension, will be transferred every month during the bridging period to the provident fund in which the employee is insured, In this regard:

   “Determining Salary for Deposits” - the regular salary that the employee received prior to the date of retirement, with the addition of a retirement rank, a 13^{th} salary (1/12), calculated on the basis of the regular salary plus the rank of retirement, a 14^{th} salary (1/12), insofar as will be paid to the employee prior to his retirement, which will be calculated on the basis of the regular salary, plus a retirement rank.

   “Employer’s Remuneration” – 13.5% of the Determining Salary for Deposits.

   “Employee’s Remuneration” – 7% of the Determining Salary for Deposits”.

   A generation C employee insured by the new cumulative pension, who has been insured for part of his period of employment at the Company, by an old cumulative pension – and will retire within the special retirement plan with a bridging pension, such an employee will receive a monthly pension that will be calculated by the combination of the two formulas, according to the old and according to the new.

Lending Employees at the Generation Sites being Sold to Private Electricity Producers

1. During the lending period (the period from the date of delivery of possession of the generation site until the end of 5 years from that date), employer-employee relations continue to exist between the employees on loan and the Company, including payment of the full salary to the employees and its collection from the station purchaser.

2. During the loan period, the purchaser cannot terminate the employment of the loaned employees, except with the consent of the Histadrut, in accordance with the existing dismissal and disciplinary proceedings in the Company and with the adjustments made.

3. All the terms of employment and wages and their updating in accordance with the contractual array applicable to all employees of the Company continue to apply to the loaned employees during the lending period, including collective agreements and collective arrangements, including the labor constitution, procedures, practices and rules, as updated from time to time during the lending period and subject to the collective agreement of May 17, 2018.

4. For the avoidance of doubt, it is hereby clarified that during the lending period, the Electric Company continues to pay the employees all the terms of employment and wages, as stated, regardless of its contractual engagement with the private electricity producers.

5. A one-time grant for employees of private electricity producers –for an employee on loan to a private electricity producer, a one-time grant of NIS 50,000 gross will be paid in the last salary with respect to the loan period or in his last salary as a loaned employee, whichever is earlier. (Except for an employee who was fired and denied eligibility for severance pay as well as for an employee who resigns).

6. The agreement stipulated conditions at the end of employment of the employees loaned after 5 years of loan / or at mandatory retirement age, including one-time grants, and bridging pensions for those entitled, increase of a bridging pension for an eligible private electricity producer's employee who is insured by a new cumulative pension, and who is a shift worker as detailed above.

<u>Retirement of Generation C Permanent Employees</u>

1. <u>Background</u>:

Pursuant to a new collective agreement that entered into effect on 16.5.2022, the Company arranged the **circumstances of termination of employment in which Generation C permanent employees will be considered as the Company's pensioners, as well as the set of entitlements upon retirement and afterwards, including the grants that will be paid at the time of the retirement of the Generation C permanent employees** (permanent employees insured under the cumulative pension fund arrangement who started working for the Company on or after 11.6.1996), in "mandatory retirement", "age retirement", "dismissal retirement", "disability retirement", "early retirement", "special early retirement", and "death".

2. <u>The Circumstances of a Generation C Permanent Employee with a Right to be a Company pensioner</u>:

An employee who terminated his employment in the Company in one of the cases described below will be a Company pensioner for all intents and purposes, and he and his survivors are entitled to all the pensioners' rights as detailed in the agreement.

2.1 Mandatory Retirement – the employee's retirement at the "mandatory retirement age" as defined in the Retirement Age Law (67 at present), provided he has accumulated seniority entitling compensation in the Company of at least 10 years.

2.2 Age Retirement - the employee's retirement as of the "retirement age" as defined in the Retirement Age Law (for a woman it gradually increases to the age of 65, and for a man 67), provided he has accumulated seniority entitling compensation in the Company of at least 10 years.

2.3 Early Retirement - the employee's retirement as of the "early retirement age" as defined in the Retirement Age Law (60 at present) and until the "retirement age" as defined in the Retirement Age Law, provided he has accumulated seniority entitling compensation in the Company of at least 15 years.

2.4 Special Early Retirement – a retirement entitling the employee to a bridging pension from the Company pursuant to the agreements that apply to the Company employees.

2.5 Dismissal Retirement – employment terminated with dismissal, or resignation which is considered a dismissal according to section 11(a) of the Severance Compensation Law-1963 (tangible deterioration), and meeting the following two cumulative conditions:

(a) The employee's age on the date of retirement is 50 or more.

(b) The sum of the employee's age and the years of seniority entitling compensation from the Company is at least 70.

2.6 Disability Retirement – termination of the employee's employment in the Company under circumstances of absence due to illness/loss of working capacity (as detailed in section 5).

2.7 Death and Leaving Survivors-

Survivor:

(a) Anyone who was a spouse of a Generation C employee or a Generation C Pensioner, as the case may be, at the time of his death; "Spouse" – a person who is married to an employee or a Generation C pensioner or a person who has been recognized by an authorized judicial court as a common-law spouse of an employee or of a Generation C pensioner.

(b) Orphan – a person recognized as an orphan by the pension insurance of the employee/Generation C pensioner, and in the case of an employee whose entire salary was insured by a pension insurance that does not include coverage in the event of death – a person who is an orphan according to the definition of the standard regulations of the new pension funds (currently – a child up to the age of 21 or a child with a disability).

3. <u>Rights and Grants in all Types of Retirements Listed in Section 2 Above:</u>

3.1 Compensation for Unused Sick Days –
A Generation C employee who ended his employment with the Company at an age of no less than 50 years, after having accumulated a qualifying seniority in the Company of at least ten years before the end of his employment (without unpaid leave periods), will be entitled to compensation for unused sick days as follows:

The compensation will be given for the balance of the accrued sick days at full salary to the employee's credit on the day of his retirement (hereinafter: “sick days’ balance”), and only in the event that the employee used, during the full period of his work, no more than 65% of the total quota of sick days due to him for his period of work in the Company.

3.1.1 **The compensation for unused sick days will be calculated as multiplying A by B when:**

3.1.1.1 **A** is the <u>**compensation amount**</u> as detailed below:

3.1.1.1.1 If the employee used up during his entire period of work in the Company from 36% to 65% of the total quota of sick days that accrued to him as aforesaid, the compensation will be at the rate of 6 (six) days' salary for every 30 (thirty) days of sick leave in the sick days’ balance (20%).

3.1.1.1.2 If the employee used less than 36% of the total number of sick days that accrued to him during the entire period of his employment with the Company, the compensation will be at the rate of 8 (eight) days' salary for every 30 (thirty) days of sick leave in the sick days’ balance (26.66%).

3.1.1.1.3 For the accrued sick days’ balance that is less than 30 days, the proportional part of the compensation as mentioned in sections 3.1.1.1 or 3.1.1.2, as the case may be, will be paid.

3.1.1.1.4 “Salary” regarding the payment of compensation according to the value of a sick day - regular salary, 13th salary divided by 25.

3.1.1.2 B is the <u>**compensation rate**</u> as detailed below:
Regarding an employee who retired at the age of 50 or later after accumulating 10 years of qualifying seniority or retirement due to death:
His work ended at the age of 50 and up to the age of 51 (not including) - 30%;
His work ended at the age of 51 and up to the age of 52 (not inclusive) - 40%;
His work ended at the age of 52 and up to the age of 53 (not inclusive) - 50%;
His work ended at the age of 53 and up to the age of 54 (not inclusive) - 60%;
His work ended at the age of 54 and up to the age of 55 (not inclusive) - 70%;
His work ended at the age of 55 and up to the age of 56 (not inclusive) - 80%;
His work ended at the age of 56 and up to the age of 57 (not inclusive) - 90%;
His work ended at the age of 57 or older - 100%

3.1.1.3 Regarding and employee who retired due to death: the B compensation rate will be 100% without a minimal age condition.

3.2 Grant for up to 35 years - one regular monthly salary for every 10 years of actual work and on a proportional basis, up to a ceiling of 3.5 times regular salary, in accordance with procedure 04-12-01 “Grants and compensation upon retirement”.
And except in cases where this grant is included in the special grant paid to the employee, as detailed in section 4 below.

3.3 The right to electricity at the Company employee rate and the right to a discount for electricity connections - regarding a permanent employee hired to work in the Company until November 4, 2018 (inclusive), in accordance with the Company's agreements and procedures.

3.4 Reform pension supplement - the right will be given to Generation C permanent employees who are entitled to it in accordance with the provisions of the third part of chapter 18 of the reform agreement of May 17, 2018 (as amended). The right applies to a Generation C employee who received tenure by

May 17, 2018, as well as to a temporary employee whose maximum temporary period (5 years) ended by 17.5.2018 and received tenure by December 31, 2018.

3.5 Additional rights for Generation C employees - in accordance with the details in section 2 of the additional rights chapter which are not taken into account in determining the actuarial obligation for post-employment benefits.

4. <u>Additional special grants for the various types of retirement:</u>

4.1 Dismissal Retirement:

A retirement grant at a rate of 50% of the salary that determines severance pay (regular salary and 13th salary) for each full year of work and proportionally to parts of a year, unless it has been agreed to negate or reduce the amount of the grant in light of the circumstances of the dismissal. The grant includes and **replaces** the grant for up to 35 years**.**

4.2 Death of an Employee:

The survivors of a deceased employee will be entitled to a special grant, in addition to the severance pay deposited in the provident funds.

4.2.1 **Death Grant for Survivors -** 1.5 times the salary determined for compensation (regular salary and 13th salary).

4.2.2 **<u>Death grant for survivors in case of a death resulting from a work accident –</u>** <u>these two amounts:</u>

a. "Death Grant": 3 times the salary that determines compensation.

b. "Compensation for Death": 36 times the salary (regular salary, 13th salary, 14th salary for those entitled, average overtime and shift supplement in the year preceding the death, permanent home shifts), in accordance with the Human Resources Division procedure "Special payment from the Electric Company for a work accident/compensation in case of death" no. 04-10-03.

4.3 Special Early Retirement:

In accordance with the conditions that will be established in special early retirement agreements.

4.4 <u>Disability:</u>

An employee who retires from the Company on "disability retirement" will be entitled to a "**disability grant**" that will not be less than the grant for up to 35 years, and will be calculated as follows:

(a) **Disability grant** – the total grant is the lower of:
(1) Multiplying 1.2 by the "determining salary for disability grant" (determining salary for compensation plus retirement level) in the period from the date of retirement until the age of 67 (in years); or
(2) 12 determining salaries for a disability grant; or
(3) 100% severance pay according to multiplication of the determining salary for a disability grant by the seniority qualifying for compensation (in years).

(b) **Disability grant as a result of a work accident** – the total grant is the lower of:
(1) Multiplying 1.8 "determining salary for disability grant" in the period from the date of retirement until age 67 (in years); or
(2) 18 determining salaries for a disability grant; or
(3) 150% severance pay according to the multiplication of the determining salary for a disability grant by the seniority qualifying for compensation (in years).

5. <u>Disability - the method of reporting and payment of salary during a period of absence due to illness/loss of working capacity and the conditions for disability retirement:</u>

Definition: disability/absence due to illness – 100% absence from work in full, due to illness / disability / loss of working capacity, including due to a work accident**.**

Reporting and salary payment during absence due to illness:

5.1 The Condition: Recognition of 100% Disability by a Pension Insurer:
Regarding the disability outline, the pension insurer's recognition of full disability (100%) / total loss of working capacity (according to the type of pension insurance) is required, and after notification to the Company and not retroactively, following is the procedure.

5.2 Payment of Salary During Period of Disability:
During the disability period, the sick days' balance of the employee who is absent from work will be charged and the Company will pay his wages for sick days as follows:

5.2.1 **100% paid sick days -** starting from the first day of complete absence from work due to illness until the date of **<u>receipt</u>** of the pension insurer's decision on the recognition of full disability (100%) / total loss of working capacity.

5.2.2 **33% paid sick days -** starting from the date of receiving the decision from the pension insurer until the full utilization of the sick days' balance accrued to the employee's credit.

5.2.3 **50% paid sick days -** starting from the end of the utilization of the full sick days' balance accrued to the employee's credit, until the end of the qualifying quota.

5.2.4 **Vacation days -** starting from the end of 50% utilization of the sick days' quota, until the full utilization of the rest of the vacation days.

5.2.5 **Sick day fund -** starting from the end of the utilization of the remaining vacation days, the employee will be paid up to 42 days from the sick day fund, subject to the Human Resources Division procedure 04-10-04 "Absence from work due to illness",

5.2.6 **Leave without pay due to disability -** starting from the end of the utilization of the entitling quotas from the sick day fund, the employee will be on unpaid leave for a maximum period of 3 years (and subject to the date of termination of work, section 5.3). During this period, the employee is entitled to the Company's continued participation in the payment of the premium in the group health insurance, subject to the employee paying his share.

5.2.7 **Emphasis:**

5.2.7.1 In case of **a disability event that occurred after the age of 64 -** the payment of sick days will be at a rate of 100%, even after the start of the date of receiving a decision from the pension insurer until the quota of accrued sick days to which the employee is entitled is exhausted. That is, section 5.2.2 above will not apply to the employee.

5.2.7.2 **An employee who is not entitled to receive a disability allowance from the pension insurer** – will withdraw 100% sick days' payment until the end of the quota (section 5.2. above will not apply).

5.2.7.3 The right to unpaid leave for an employee who is not entitled to receive a pension from the pension insurer due to his medical condition - will be submitted to the examination of an internal medical committee in the Company.

5.3 Retirement of an Employee After a Period of Disability
An employee who is absent from work due to a disability as aforesaid, will finish his work in the company and will retire at the earliest of the following dates –

(1) The end of a period of absence that does not exceed 5 years and 3 months (**disability retirement**); or
(2) 3 years of absence as unpaid leave due to disability (**disability retirement**); or
(3) Mandatory retirement age (**mandatory retirement**).

5.4 The employee's return to work for a period or periods that do not exceed 3 months each, will not be taken into account in the amount of the disability period, but will not interrupt the continuity of the disability period.

5.5 If the employee did not apply to the pension insurer to receive a disability allowance and did not return to work, his employment with the Company will end upon termination of the sick day fund quota, and he will not be a pensioner of the Company, unless he requested to retire by "early retirement" and met the conditions entitling to this retirement.

Continuing Temporary Employee Agreement

Continuing Temporary Employee Agreement - a special collective agreement (continuing temporary employee) was signed on August 3, 2022, and approved by the Wage Commissioner on August 15, 2022. This agreement regulates the manner in which employees in a temporary status continue to be employed after the basic temporary period (of 4/5 years), as well as their rights during the period of work and at its end. The agreement defines the outline of the salary and pension deposits for employees in this position during the period of work, outlines the receipt of tenure, the circumstances of the end of the employment and the conditions and rights to receive increased grants at the end of the work.

This agreement, as long as it is not extended by consent, is for a fixed period of 10 years starting from the date of its entry into force (the day after its approval by the Commissioner of Wages at the Ministry of Finance) and will apply to the employees who will be included in it for the entire period of their employment in the Company.

1. Grants and Rights at the end of Employment – Temporary Employees

1.1. The termination of employment of a temporary employee who does not have the status of a continuing temporary employee:

A temporary employee is entitled to the release of severance pay at the rate of 100% deposited in the provident funds according to law.
A project temporary employee will be entitled to increased compensation from the Company for his period of work as a project employee including during the extension period for the project.

1.2. A grant for a project employee who transitioned to a continuing temporary status – "Project Grant"

A project employee who has transitioned to a continuing temporary status - will be entitled at the time of termination of his employment to an increased compensation grant for the period of his work as a project employee (in the 13/22 status) until the date of transition to a continuing temporary status, the amount of which will be determined on the day of the transition and will be index-linked to the day of payment ("Project Grant"). The grant will be paid to the employee upon termination of his employment with the Company insofar as he did not receive tenure and his employment ended with **dismissal** or **resignation entitling compensation.**

1.2.1. A project employee who transitioned to a continuing temporary status and his employment ends in circumstances where he was denied severance pay (all or part of it), it will be possible to deny or reduce the project grant as well, with the consent of the employees' committee.

1.3. Grants and rights upon termination of employment of a continuing temporary employee:

1.3.1. **Compensation for unused sick days** - the compensation will be paid to a continuing temporary employee whose employment ended when he was at least 50 years old and has a qualifying seniority of at least 10 years in the Company, according to the **amount of compensation** determined according to the percentage of sick days utilized (determined according to the ratio between the unused sick days' balance from the quota of the sick days accrued to the employee for the entire period of work in the Company and multiplied by the value of a sick day), **multiplied by a** graduated **compensation rate** according to the age of the employee at the time of termination of employment, in accordance with the arrangement stipulated in the Generation C retirement agreement.

1.3.1.1. **Upon death**, the employee's survivors will be paid the amount of compensation for unused sick days, without a condition of minimum age, and the compensation rate will be 100%.

1.3.2. **Grant for up to 35 years** – one regular monthly salary for every 10 years of actual work and on a proportional basis, up to a ceiling of 3.5 times regular salary, in accordance with procedure 04-12-01 "Grants and compensation upon retirement". **And except in cases where this grant is included in the framework of the special grant paid to the employee, as specified in section 2 below.**

1.3.3. **Additional rights** – as Generation C retirees are entitled to with regard to the period of their employment with the Company and its termination according to any law, the labor constitution and the Company's procedures**.**

1.3.4. **Severance pay** – at the rate of 100% deposited in the provident funds according to law, will be released at the end of the employment due to an event that qualifies for compensation (dismissal, age 60 or older, disability, death, retirement).

1.4. A continuing temporary/project/temporary employee at the end of his employment **will not be a pensioner of the Electricity Company.**

2. <u>Special grants and rights depending on how the employment of a continuing temporary employee is terminated:</u>

2.1. Normal employment termination (dismissal procedure):

In any case of termination of the employment of a continuing temporary employee in the Company other than under one of the circumstances described in sections 2.4-2.6 below, the termination of employment will be in accordance with the dismissal procedure for a permanent employee**.**

And the employee will be entitled to a "**severance grant"** calculated as follows:

The multiplication of the determining salary for compensation (regular salary and 13th salary) during the work period that qualifies for compensation and by the sum of the following two**:**

a. 50%

b. Multiplication of 1% by the seniority that qualifies for compensation

"Severance grant" exhausts the employee's right to a grant for up to 35 years (1.3.2) and replaces it, and no additional grant will be paid beyond the aforesaid.

2.1.1. **A project employee** who received the status of a continuing temporary employee and will terminate his employment at the normal termination of employment - the seniority period at work that he accumulated as an employee in a project status and for which he is entitled to a project grant, will not be taken into account for the purpose of calculating the aforesaid "severance grant"**.**

2.1.2. **A continuing temporary employee who is a "loaned employee" (at the stations sold as part of the reform agreement)** will be entitled, at the end of the loan, to the terms of termination of the employment as detailed in the reform agreement regarding a "temporary employee – private electricity producer", and will not be entitled to a "severance grant".

2.2. Termination of employment due to age retirement / mandatory retirement:

A continuing temporary employee who ends his employment by age retirement (for a woman it gradually increases to age 65, and for a man age 67) or at mandatory retirement (age 67) will be entitled to the rights as stated in section 1.3 above**.**

2.3. Death of an employee:

The survivors of a continuing temporary employee who dies will be entitled to a death grant, in addition to the severance compensation deposited in the provident funds according to law.

2.3.1. **Death grant for survivors:** 1.5 times the determining salary for compensation (regular salary and 13th salary).

2.3.2. **Death grant to survivors and compensation for death, in the event of an employee's death as a result of a work accident:**

a. "Death grant": 3 times the determining salary for compensation (regular salary and 13th salary).

b. "Compensation for death": 36 times the salary (regular salary, 13th salary, as well as a monthly average of payable shift hours and overtime hours received by the employee in the year preceding the work accident, and permanent home shifts, all according to the components to which the employee was entitled).

2.4. Termination of employment due to incompatibility:

A continuing temporary employee who ends his employment with the Company due to incompatibility, in accordance with the established quotas**,** will be entitled to a "**job termination grant due to incompatibility**", which will be calculated as follows**:**

2.4.1. **Job termination grant due to incompatibility for an employee with a qualifying seniority for compensation of less than 10 years**:

Multiplication of the determining salary for compensation (regular salary and 13th salary) by the qualifying seniority for compensation and by the sum of the following two:

a. 50%

b. Multiplication of 1% by the qualifying seniority for compensation

2.4.2. **Job termination grant due to incompatibility with a qualifying seniority of at least 10 years for an employee up to the age of 45:**

Multiplication of the determining salary for compensation (regular salary and 13th salary) by the qualifying seniority and by the sum of the following two

a. 50%

b. Multiplication of 1.5% by the qualifying seniority for compensation

2.4.3. **Job termination grant due to incompatibility for an employee with a qualifying seniority for compensation of less than 10 years for an employee from the age of 45 up to the age of 62**:

Multiplication of the determining salary for compensation (regular salary and 13th salary) by the qualifying seniority and by the sum of the following two:

a. 50%

b. Multiplication of 1.5% by the qualifying seniority for compensation

c. Multiplication of 1.25% by the horizon years (the years and parts of the years between the employee's age at the time of dismissal and mandatory retirement age and no more than 15).

2.4.4. "Job termination grant due to incompatibility" exhausts the employee's right to a grant for up to 35 years (1.3.2) and replaces it, and no additional grant will be paid beyond the aforesaid.

2.4.5. **A project employee** who received the status of a continuing temporary employee and will terminate his employment due to incompatibility - the seniority period at work that he accumulated as an employee in project status and for which he is entitled to a project grant, will not be taken into account for the purpose of calculating the aforesaid "job termination grant due to incompatibility".

2.5. Termination of employment due to job redundancy:

A continuing temporary employee who terminates his employment due to the redundancy of a position or profession as a result of an external change that nullifies the need for a position or profession in the Company as detailed in the agreement will be entitled to the following rights:

2.5.1. **A continuing temporary employee with seniority qualifying for compensation in the Company of over 12 years**:

The manner of work termination and his rights will be determined by the employees' union and the management.

2.5.2. **A continuing temporary employee with seniority qualifying for compensation in the Company of up to 12 years:**

Will be entitled to all the grants detailed below:

a. **Additional severance pay** – “Additional Severance Pay” that will be calculated as follows:

Determining salary for compensation	X	Percentage of severance pay according to the employee’s qualifying seniority in the Company for compensation (as detailed below)	X	Number of months the employee worked at the Company divided by 12	=	Severance pay that will be paid to the employee

The percentage of severance pay will be in accordance with the seniority qualifying in the Company for compensation, as detailed below:

Seniority qualifying in the Company for Compensation (in years)	**Percentage of severance pay (in addition to the deposit to the provident pension fund for severance pay)**
At least 5 years and less than 9 years	100%
At least 9 years	130%

2.5.2.1. The additional severance pay include the grant of up to 35, and replace it.

2.5.2.2. For a **project employee** – the period of his employment with a status of project employee for which he is entitled to a project grant will be taken into account for determining the percentage of the severance pay, but will not be included in the number of working months when calculating the additional severance pay.
Nonetheless, if the regular calculation of the additional severance pay grant (for the whole of his employment period in the Company) is higher than the calculation for a project employee plus the project grant, he will be entitled to a grant according to the regular calculation.

b. Acclimation **grant** – in an amount equal to the multiplication of the determining salary for compensation by the number of months detailed in the table below:

Seniority qualifying in the Company for compensatio (in years)	**Acclimation months for ar employee aged up to 55 years**	**Acclimation months for ar employee aged 55 years ar older**
At least 5 years and less than 9 years	9	13
At least 9 years and less than 10 years	10	14
At least 10 years	11	15

c. **Special grant** – in accordance with the number of years the employee has worked in the Company, as detailed in the table below**:**

Qualifying seniority in the Company (in years)	**Special grant**
At least 5 years and less than 9 years	NIS 100,000
At least 9 years and less than 10 years	NIS 110,000
At least 10 years	NIS 120,000

Regarding section 2.5.2 the “**determining salary for compensation**” - the normal salary that the employee received on the eve of his retirement plus two retirement levels, and a 13th salary (1/12) which will be calculated on the basis of the normal salary plus two retirement levels. If the employee is in the top level at the time of termination of employment, the determining salary for compensation will be calculated with the addition of one retirement level only.

2.6. Termination of employment due to disability

A continuing temporary employee who terminates his employment due to a disability event will be entitled to a "**disability grant**" that will not be less than the grant for up to 35 years and will replace it**.**

In the case of a **project employee** who received the status of a continuing temporary employee and terminates his employment due to disability - the period of seniority at work that he accumulated as an employee in a project status and for which he is entitled to a project grant, will not be taken into account for the purpose of calculating the "disability grant".

A "d**isability grant**" will be calculated as follows:

(c) **Disability grant** – the total grant is the lower of:
- (1) Multiplying 1.2 by the "determining salary for a disability grant" (determining salary for compensation - regular salary and 13th salary plus retirement level) in the horizon years (the years and parts of the years between the employee's age at the time of dismissal and mandatory retirement age); or
- (2) 12 determining salaries for a disability grant; or
- (3) 100% severance pay according to the multiplication of the determining salary for a disability grant by the seniority qualifying for compensation.

(d) **Disability grant as a result of a work accident**– the total grant is the lower of**:**
- (1) Multiplying 1.8 "determining salary for a disability grant" by the horizon years (the years and parts of the years between the employee's age at the time of dismissal and mandatory retirement age); or
- (2) 18 determining salaries for a disability grant; or
- (3) 150% severance pay according to the multiplication of the determining salary for a disability grant by the seniority qualifying for compensation.

Details of Grants Paid During Work/upon Termination of Employer-Employee relations:

(including grants not detailed in other chapters in this document)

1. **Excess years grant** (for employees insured under the budgetary pension arrangement) -

   The grant is calculated as one monthly salary for every additional year worked beyond 35 years' service. The grant is based on the normal salary plus 13th and 14th salaries. The entitlement is subject to retirement after age 60 for males or after age 55 for females. For fractions of a year, the proportionate share of the grant is paid.

   In the event of death after 35 years worked in the Company after age 55 for females or age 60 for males, eligibility to the grant exists. In the event that the death is after 35 years worked at the Company, but the age on date of death is under 55 for females or 60 for males, the entitlement is at a rate of 10% (10% of the normal salary only, multiplied by the number of excess years).

2. **Apprenticeship period grant** (for employees insured under the budgetary pension arrangement)

   A monetary sum given to an employee retiring to pension, for the period of his work as an apprentice, with respect to which the employee did not receive compensation. This grant is calculated according to one salary for each work year as an apprentice at the Company. The grant is calculated on the basis of a regular salary plus a 13th salary (plus a 14th salary if the employee worked at the Company for more than 35 years and is over 60 years old for a male and over 55 for a female).

3. **Disability retirement grant** (for employees insured under the budgetary pension arrangement)

   An employee retiring with a disability pension is eligible to a grant of 50% of one monthly salary for each year worked. The grant is limited to a total amount of 15 monthly salaries (up to 30 years worked in the Company). The grant is calculated on the basis of the normal salary only. The grant for 35 years of work will not be paid when this grant is paid.

4. **Grant for Up To 35 Years**

   A monetary grant given to a permanent employee retiring to pension and to an employee with the status of continuing temporary, equal to one normal monthly salary for every ten years of actual employment (according to service factor for pension), up to a maximum of only 3.5 salaries (up to 35 years of employment). For a period of less than ten years, the proportional amount of ten years benefit is paid. This grant will not be paid to an employee who has worked less than 10 years and in respect of years for which another compensation is payable. In the event of the employee's death, the grant will be paid to the survivors. Applies to Generation C employees only upon retirement due to dismissal at the age of 60 or later and provided they have worked for the Company for at least 10 years or, alternatively, upon retirement due to age.

5. **Retirement Grant for Early Retirees During the Reform Period (2018-2025) budgetary + Generation C**

   A permanent employee who retires at an age not exceeding 62 years is entitled to a grant of 120%

   For an employee who will retire at an age exceeding 62 and up to 64 years - 120%, less 1.805% for each full month of work, starting from the first of the calendar month after the date on which the employee turned 62 (for the purpose of illustration, the retirement grant of an employee who turned 62 on July 24 and retired on September 1 will be 120% less 1.805%).

   For this purpose, the “Determining Salary for Severance Pay” - the regular salary, with the exception of “Administration Supplement” and 1/12 13th salary, and in respect of a male employee aged 60 and over and a female employee aged 55 and over employed by the Company 35 years and over 1/12 14th salary with respect to the years beyond the 35.

The retirement grant includes advance notice fees under any law, labor constitution and Company procedures, compensation under regulation 3(b) of the Company employees' pension regulations, severance pay, a grant of over 35 years, a grant of up to 35 years, and a grant with respect to the apprenticeship period, and replaces them.

6. **<u>Grant for unused sick days (for employees insured under the budgetary pension arrangement)</u>**

A sum of money paid to an employee upon retirement to pension (including mandatory retirement early retirement and disability retirement), or to survivors of a deceased employee, according to the percentage of sick days used to which he was entitled during all his years of employment in the Company and in accordance with the number of unused sick days accumulated to his credit as of the retirement date:

- For an employee whose percentage of used sick days is less than 36%, a grant equal to 26.66% of the unused sick days accumulated to his credit is paid.
- For an employee whose percentage of used sick days is between 36% and 65%, a grant benefit equal to 20% of the unused sick days accumulated to his credit is paid.
- For an employee who used 65% or more of the sick days, a grant is not paid.

It should be noted that until April 1, 1990, the annual quota of sick days benefit was 26 days per year and from this date the annual quota of sick days benefit is 30 days per year.

The salary per sick day for purposes of calculation of the grant is 1/25 of the normal monthly salary (including the 13^{th} salary).

The salary per sick day after 35 years of service and after age 60 (55 for women) includes the 25/20 years salary. Attributing the balance of sick days accumulated to the credit of the employee at the date of his retirement (at least 55/60) will be performed according to the FIFO method. Namely, first using accumulated sick days up to 35 years and after them those that were accumulated beyond 35 years. Payment of the benefit will first be for the sick days accumulated beyond 35 years (namely, including 20/25 years salary) and after them for sick days that were accumulated up to 35 years (namely, not including 20/25 years salary, only the part of 13^{th} salary).

7. **<u>20 year grant (while working) –</u>**

Permanent employees and employees with a continuing temporary status who have completed 20 years of service in the Company are entitled to a one-time grant equal to the regular monthly salary.

8. **<u>Supplement of Company obligation for severance payments to Generation C employees</u>** – 2.33% -

For permanent employees with a cumulative pension arrangement, who began work after June 10, 1996.

As of the salary of January 2021, the Company began current deposits to the pension provident fund at a rate of 2.33% of the severance payment determining salary, for all Generation C employees. In addition, during 2021, the Company deposited completion for the Company's liability to pay full severance pay, pursuant to section 14 of the Severance Pay Law, for existing employees (except for a few employees on unpaid leave) for the transfer period and thus cleared its liability in this subject.

Until 31/12/2020, supplementary severance pay pertaining to Generation C employees was paid to those eligible upon termination of work at the Company, and was conducted as follows: last normal salary (including the 13^{th} salary fraction) multiplied by the number of entitling years of employment with the Company and multiplied by 28%. The supplementary severance payment was also paid in the event of death (to survivors), disability and compulsory retirement.

9. **<u>Increased severance payments for employees under special agreement</u>**

According to the relevant collective agreement, Company employees under special agreement (non-permanent staff) are eligible for increased severance payments beyond the 100% deposited in external cumulative funds (under the directives of Section 14 of the Severance Payments Law). These employees are entitled to severance pay grant from Company funds equal to one monthly salary for compensation for each of the first two years of employment; from the 3rd year onwards, two additional monthly salaries for compensation. An employee who resigns from work voluntarily is not eligible for this extra severance benefit in excess of that provided for him in the cumulative funds.

As of January 1, 2005, the maximum basic temporary term of employment for these employees is five years. In accordance with the collective agreement of May 17, 2018, the basic period of temporary employment is up to 4 years from the date of the beginning of their employment.

In March 2019, a special collective agreement was signed, enabling the extension of employment up to the end of 2023, for some of the employees employed by special agreement who completed their maximum employment period (exceeding 5 years of employment).

Pursuant to the continuing temporary agreement, August 2022, it is possible to continue employment of an employee with a special veteran agreement up to one additional year after the end of the basic temporary period, under increased compensation grant terms as above.

An employee receiving tenure is not entitled to increased severance pay for the temporary employment period, as stated. A continuing temporary employee will have the right to a grant under terms that have been set.

Rights of Employees Entitled to Pension from the Budgetary Pension Fund of Company Employees and Rights of Pensioners

1. **Retirement Pension**

1.1 Upon a budgetary permanent employee retiring from work according to work agreements, the status of the employee will change from an entitled active employee in the fund to the status of an entitled pensioner.

1.2 **Mandatory Retirement Date**

In general, the employee retires at the end of the month in which the retirement age applies. For this purpose, verification of the date of birth of the employee will be carried out with the identity card compared to that registered in the Company's systems. If there is any discrepancy, the employee must report the correct date and it will be fed into the Company's systems. If it is found that the employee's retirement date has passed, the employee's employment will be terminated (compulsory retirement) at the end of the calendar month in which the discrepancy was discovered.

1.3 **Entitlement to Retirement Pension**

An active entitled permanent employee, who ends his employment with the Electric Company due to one of the following circumstances will become an entitled pensioner and will receive a retirement pension for life:

- **Retirement for Age Reasons** ("Age Retirement"):

  An entitled, active male / female employee who worked for at least ten years in the Electric Company and reached the compulsory retirement age will be entitled to receive retirement pension for life.

  The 1st retirement pension will be paid in the calendar month following the month on which the employee retired from work, for the current month. Retirement from work when retiring on the compulsory retirement age will be at the end of the month on which the employee reached the compulsory retirement age.

- A female employee is entitled to retire on age retirement if she worked in the Company for at least 10 years and chose to retire between the retirement age and the compulsory retirement age. It should be mentioned that, based on the experience of the recent years, there were only a few cases of women retiring voluntarily in the range between retirement age and compulsory retirement age, therefore the subject is immaterial.

- **Retirement due to Employment Termination** ("Termination Retirement"):

  An entitled active employee who worked in the Company for ten years at least and is over age 40 and was dismissed from the Company under circumstances detailed in work agreements, will be entitled to receive a retirement pension for life.

- **Early Retirement** ("Early Retirement"):

  An entitled active employee who worked for at least 30 years, aged 55 or older (if male) or 50 or older (if female), who wishes to retire from work voluntarily and the Electric Company consented or, where the Electric Company would like the employee to retire and the workers committee consented to this move, will be entitled to receive a retirement pension for life.

- **Special Retirement** ("Special Retirement"):

  An entitled employee is entitled to retirement pension under a special retirement framework, if – and to the extent that – it will be established according to a specific agreement, made and approved by the legally authorized authorities, according to the approved principles.

- **Disability Retirement** – see above.

1.4 **Pension Rate**

In age retirement, termination retirement, early retirement or special retirement, the pension rate shall not be less than 25% and not more than 70% of the determining salary of the employee for calculating the pension, and the rate will always be a calculation of the number of work years, determined by the Electric Company, according to the following principles:

- After ten years of work: 25% of the determining salary of the employee.
- For each additional year until 30 years of work: 25% with respect to the first 10 work years and an addition of 2% for each full year of work after the first 10 years (up to a maximum of: 25% + 20*2% = 65%).

  For calculating entitlement for a fraction of a year, the employee will be entitled to an addition of 2% if he/she worked more than half a year and a 1% addition only when working for a shorter period.
- For each additional year over 30 years and up to 35 years of work - 65% with respect to the first 30 years of work and an addition of 1% for each full year or a fraction thereof, of work after the first 30 years (up to a maximum of: 25% + 20*2% + 5*1% = 70%).

2. **Pension to Survivors of a Pensioner:**

2.1 **Eligibility of Pensioner Survivors to Pension**

The widow, orphans and also parents who were dependent on the employee while employed are entitled to receive a pension subject to the following:

- **A widow -** is entitled to pension until she remarries.
- **An orphan** – is entitled to pension until he/she reaches age 18, or if and as long as he/she does compulsory service in the army/national service but no later than 21, or without any age limitation if he/she cannot support him/herself due to an illness.
- **A parent** – is entitled to pension if he/she was dependent on the deceased when he/she was alive.

2.2 **Pension Rates to Survivors**

- The pensioner's widow will be paid a monthly pension equal to 60% of the pension paid to her deceased husband. In addition, 25% of the pension paid to the deceased pensioner will be paid to all other dependants jointly. Eligibility of a widow will stop when she remarries.
- When a deceased pensioner has no widow, or upon the death of a widow, a monthly pension of 15% of the pension paid to the deceased pensioner will be paid to each of the survivors. In addition, 45% of the pension paid to the deceased pensioner will be paid to all survivors, even if there is only one, provided that the total pension payments to all survivors will not exceed 80% of the deceased's pension.

3. **Pension to Survivors of an Active Employee:**

Following the death of an active employee, his survivors will be eligible to a pension, as detailed below:

3.1 **Entitlement of Active Employee Survivors to Pension**

The widow, orphans and also parents who were dependent on the active employee while employed are entitled to receive a pension as detailed below and according to the entitlement and tests thereof, as stated in section 2.1 above.

3.2 **Pension Rate to a Widow**

The widow of an active employee will receive a monthly pension according to the number of the employee's work years in the Company, at the following rates:

- Widow of an employee who worked in the Company – after one or two years of work – 20% of his determining salary.
- Widow of an employee who worked in the Company – after three or four years of work – 25% of his determining salary.
- Widow of an employee who worked in the Company – after five years of work and up – 42% of his determining salary.

3.3 **Pension Rates to all Other Survivors**

- Up to 5 years of work, the other survivors will each receive a pension of 10% of the determining salary, provided that the total pension to the widow and all other survivors jointly shall not exceed 50% of the determining salary of the employee just before his death.
- Starting from the fifth year of work onwards, the other survivors will each receive a pension of 15% of the determining salary, provided that the total pension to the widow and all other survivors jointly shall not exceed 70% of the determining salary of the employee just before his death.

3.4 **Survivors Pension in the Absence of a Widow or after her Death**

- Up to 5 years of work, each of the survivors will be entitled to a pension of 10% of the determining salary of the employee just before his death, with the addition:
  - Of 10% to all survivors, even when there is only one survivor, if the deceased worked for up to two years.
  - 15% to all survivors, even when there is only one survivor, if the deceased worked for 3 to 4 years.
  - The aforesaid is subject to the principle that payments to survivors of an employee according to this section will not exceed 50% of the determining salary of the employee just before his death.
- Starting from the fifth year of work onwards, each of the survivors will be entitled to a pension of 15% of the determining salary of the employee just before his death, with an addition of 25% to all the survivors, even if there is only one survivor, provided that the total payments to the employee's survivors according to this section shall not exceed 70% of the determining salary of the employee just before his death.

4. **Survivors Pension to a Common-Law Wife of a Deceased Pensioner/ Employee:**

In the absence of a widow, a common-law wife (as defined in Section 4.9 of HR Procedure No. 04-12-11 "Pension to Survivors") will be eligible to a pension as if she is a widow, subject to the following conditions:

4.1 A common-law wife who is entitled to a widow's pension from any other source on the date of death of the employee/pensioner, will be entitled to a pension from the Company only if the pension to which she is entitled from the Electric Company is higher than the pension to which she is entitled from another source. In this case, the common-law wife is entitled to a pension from the Electric Company according to the difference between the pension to which she is entitled from the Electric Company and the pension she receives as a widow from another source.

5. A common-law wife, whose pension from another source as a widow is higher than the pension she would have been eligible to from the Electric Company if she would not have received a pension from another source, is not entitled to a pension from the Electric Company and/or any other entitlement due to a pensioner of the Electric Company (electricity rate for Company employees, gifts).

Disability Pension:

5.1 **Determining the Eligibility to Disability Pension**

The disability of an active employee will be determined as follows:

The employee will be examined by a medical board. If the medical board decides on permanent disability, an interdisciplinary team will be appointed, headed by the Human Resources Manager, the welfare officer and a representative of the workers committee. Based on the recommendations of the medical board, the interdisciplinary team will determine if the permanent disability of the employee prevents him from fulfilling any other position in the Company. In the event that the interdisciplinary team decides that the employee cannot fulfill any other function in the Company and upon approval of the Senior Vice President - Human Resources and Organization, the employee will retire to disability pension.

5.2 **Pension Rate**

An employee entitled to a disability pension will receive a pension, at the rate calculated according to the number of work years as determined by the Electric Company, according to the following principles:

- After one work year and up to the end of two work years - 20% of the determining salary.
- Starting from the 3rd year and up to the end of four work years – 25% of the determining salary.
- Starting from the 5th year and up to the end of the 5th year – 30% of the determining salary.
- Starting from the 6th year and up to the end of 25 work years – a 2% addition for each work year after the 5th year and up to the 25th year (up to a maximum of: 30% + 20*2% = 70%).

There is no incremental disability pension with respect to work years exceeding 25 years.

5.3 **<u>Supplements to the Disability Pension with respect to Dependents</u>**

5.3.1 <u>A dependent for the purpose of this section</u>:

- Wife / husband.
- Child, including a step child or an adopted child until age 18, or without age limit if the child is unable to support himself due to an illness.
- Parents of the disabled employee, if they are dependent on the disabled employee.

5.3.2 After 1 year to the end of 5 years of work – the pension is increased by 10% of the determining salary for each dependent of the disabled person as long as the total payments to the disabled person do not exceed 50% of his final determining salary. After 6 years of work – the pension is increased by 10% of the determining salary for each dependent of the disabled person as long as the total payments to the disabled person do not exceed 70% of his final determining salary.

5.3.3 The additional entitlement to disability pension with respect to dependents will be paid for each dependent at any time and as long as the definition of a dependent applies to the dependent, as detailed above.

5.3.4 A divorced employee who retired due to disability is entitled to a percentage of increment with respect to children until age 18, even if these children are not in the employee's care.

5.3.5 Marriage of an employee who retires due to disability, or birth of children to such a pensioner, <u>after</u> the retirement date, **<u>does not</u>** entitle the pensioner to additional percentage increments of the pension.

5.3.6 Following a change in their marital status (divorce/death of the spouse) or when children reach the age of 18, the percentage of the pension will be decreased accordingly.

6. **<u>Pension – General Instructions</u>**:

6.1 **<u>Pension Payment Dates</u>**

Pensions of eligible pensioners/survivors will be paid on the same dates as salaries to active permanent employees in the Company.

6.2 **<u>Work up to age 18</u>**

The years during which the employee served in the Company before reaching age 18 will not be considered as work years for the purpose of pension according to these rules.

6.3 **<u>Breaks from Work</u>**

Calculation of the number of work years of a Company employee will include the following breaks during the work period:

- Leave granted to the employee according to labor law.
- Absence caused by an accident at work.
- Break in work over which the employee had no control.
- Army service in its meaning in the Discharged Soldiers Law (return to work) - 1949 and any absence afterwards if it occurs during a period regarded by law as military service according to Section 12 of the said law.
- Partial military service in its meaning in the said Discharged Soldiers Law.
- Absence for a period of up to one year due to continued studies or appointment to a mission on behalf of institutions, upon written approval of the Company. Cases of absence from work for a period exceeding one year will be submitted to a discussion between the Company's management and the workers committee.

6.4 Complete Entitlement of an Orphan to Pension

An orphan's right to receive pension according to these rules is complete and does not depend on the economic condition, employment or marital status of the surviving parent.

6.5 Responsibility of the Surviving Parent to a Pension for the Orphan

The widow or widower will be responsible for drawing the pension due to orphans, for their support. If proven that pension funds paid for the orphans are not used for the intended purpose, the Company and/or the Fund and/or the Managing Company have the right to pay the pension to the said orphans in another appropriate way.

6.6 Pension Payment to Parents

Pensions to parents will be paid to them directly, together or separately, according to their wishes.

6.7 Payment of One Time Only Amounts and Pension Capitalization

The fund is not permitted to pay to an eligible employee or his survivors one time only amounts, including capitalization of his/her pension, except capitalization permitted by work agreements, as valid on the joining date, or according to any law, subject to the directives of the Central Provident Fund for Pension Statutes and the income tax regulations. When all the above are fulfilled, an employee who retires to pension or a pensioner up to two years from his retirement date, are entitled to capitalize up to 25% of the respective pension. The capitalization is for six years. A reduced pension, based on the proportion capitalized, is paid for six years to the pensioner. Following the death of a pensioner, his survivors are entitled to a pension, according to pension regulations, as if there was no capitalization.

6.8 Prevention of Double Pensions

The person who is eligible to two pensions of the same type according to these rules has the option to choose only one of them. In this case, each of the following will be regarded as separate types: retirement pension, survivors pension, disability pension.

6.9 Minimum Pension

An employee who retires due to age or disability, whose pension rate is less than 40%, may have the pension increased to 40%, provided that the two following conditions are fulfilled:

- The pension paid according to these rules is the only income of the pensioner, for as long as it is the sole source of income. An allowance from the National Insurance Institute will not be considered as additional income in this case.
- The pensioner was accepted as an employee of the Company before reaching age 55.

6.10 Rights of Company Employees who are Members of Bereaved Families

6.10.1 The law requires an employer to employ a widow/widower or a parent of a person who was killed in certain circumstances (soldier/policeman/jailor that were killed, and a victim of hostilities that passed away as a result of the injury), including a step parent and an adopting parent (subject to the Families of Soldiers Killed in Action Law – 1950), who is qualified to work, for the period as follows:

Until they turn 72 years old for men and five years beyond retirement age for women (it is presently increasing in a gradual manner), following Amendment 35 to the “Families of Soldiers Killed in Action (Compensation and Rehabilitation)” Law. In effect from January 1, 2014.

6.10.2 The pension of a bereaved parent (a parent of a soldier who was killed) who retires as a pensioner will be increased by 50% provided that it does exceed full doubling of the pension with respect to the actual service period of the bereaved parent in the Company.

Notwithstanding the above mentioned, if a bereaved person deserves to receive a pension of 45% and more before increase of the pension rate, his pension will be increased by 6% only, up to a maximum of 70% pension.

6.11 **Rights of a parent employee whose child is deceased**

As of January 2018, an employee who is a parent a whose child is deceased and who has reached retirement age may apply to continue his work for up to four work years (for a period not exceeding the date of his reaching the age of 71), if he has been employed by the Company for at least 7 years before his retirement age. This temporary provision has been extended until 2023.

7. **Pension to Survivors Shortly after the Death of an Employee/Pensioner**

7.1 In the case of the death of an employee/pensioner, survivors will receive, respectively, full determining salary (100%) for the 3 months after the death, or the full pension paid to the deceased pensioner before his death. Pension payments to survivors according to pension regulations will begin from the fourth month after the death of the employee/pensioner.

7.2 Survivors of an employee whose death was caused by a work accident will receive the determining salary for pension (100%) paid to the employee for the 1st 6 months after the date of death. Pension payments to survivors of a deceased employee according to pension regulations will begin from the seventh month after the death of the employee/pensioner.

7.3 The pension rate for survivors of a pensioner who capitalized the pension and died will be equal to the pension rate without capitalization.

8. **No Frozen Rights**

Rights cannot be frozen (as applied to civil servants); namely, a person who resigns from the Company will not be eligible for a pension upon reaching the retirement age.

9. **No Continuation of Rights from Other Employers/ Former Employment Period**

Pension rates are calculated only according to work years in the Company.

10. The Division of Pension Savings Among Separated Spouses Law - 2014 entered into effect on February 6, 2015. The Company is implementing the Law word for word.

11. **Transfer of members of management employed within a collective employment to employment by personal contracts.**

As of the date of entry into effect of the collective agreement of May 17, 2018, the Company may employ managers in the format of employment by personal contract.

Below are the main terms in the personal contract for the senior employees that were employed within the framework of a collective agreement and were insured by a budgetary pension.

The salary in the personal contracts will be derived as a percentage of the salary of the CEO of the Electric Company, in classification 10 (1) of the classification of government companies. The percentage of the employee's salary will be determined according to the definition of his position. In addition, these employees will be entitled to global per diem expenses, clothing allowance, holiday gifts (under the collective agreement), birthday gift, convalescence (pursuant to amounts and quotas in the collective agreement), study fund, a quota of 24 days leave, a quota of 30 days (calendar) sick leave, pension provisions for the period of employment under a personal contract.

Determined salary for a budgetary pension - the pension rights of the employee with a budgetary pension will be frozen upon the transition to a personal contract, and his pension rights for the period of his employment by personal contract will be insured in a cumulative pension.

The outline includes an increase in the determining salary for each actual year of employment by personal contract at the rate of 2%, plus the rate of change in the CPI in that year, for a period of up to 7 years of employment by personal contract.

In addition to a senior employee who has not completed 70% pension, the employee will be entitled to increase the accrual for a budgetary pension by up to 10%, but in any event not more than 70% and not above the rate that the employee would accrue if he continued to work by the collective agreement until the mandatory retirement age or until the end of his employment with the Company.

Dismissal

In the event of dismissal of the transferring employee before he reaches mandatory retirement age, the employee will be entitled to a bridging pension and grants as follows:

First agreement for those transitioning to personal contract by March 31, 2019 (inclusive) – for employees with a budgetary pension arrangement.

Bridging pension – The pension will be calculated according to the weighted average of the determining salary for a budgetary pension and the total salary of the employee prior to the termination of his employment. The weighted average will start from the ratio of 25:75 (the determining salary for the budgetary pension: total salary) and will increase by 5% on each year of employment by personal contract, up to a ratio of 50:50 at most. After 5 years of employment by personal contract, with an increase supplement in the first 7 years of 2% or NIS 1,250, the highest among them. The determining salary for the bridging pension will be multiplied by the percent of accumulation for the employee's budgetary pension (including increase of pension percentage by up to 10% and not exceeding a total of 70%, as stated above under "Determining salary for budgetary pension").

Deposits during the bridging period – preserving rights - employee and employer deposits will be carried out during the bridging period at the rates customary for cumulative pension on the basis of the difference between the employee's pension during the bridging period and his pension in the budgetary pension as of the date of retirement, and up to a ceiling of CPI-linked NIS 15,000. (Termination of employment at less than 7 years –provision for the full bridging pension in the first year).

Dismissal grant in the event of dismissal of an employee before reaching the mandatory retirement age - will be calculated on the day of transition to the personal contract as the difference between the mandatory retirement age (67 years) and the employee's age on the eve of the transition, multiplied by his total salary in the personal contract on the date of termination of his employment, but in any case will not exceed NIS 1 million.

-The grant that is calculated will be linearly reduced from the date of transition and over 7 years, to a value of at least 3 salaries.

Second agreement for those transitioning to a personal contract between April 1, 2019 until June 1, 2019 (inclusive), for employees with Budgetary pension arrangement.

Bridging pension – the pension will be calculated according to the determining salary on the eve of the transition to employment under a personal contract, CPI linked, from the day of the transition until the retirement day, and multiplied by the coefficient of 140%.

The determining Salary for the Bridging Pension will be multiplied by the percentage of the employee's pension budget accrual (including increase of the pension percentage by up to 10% and not exceeding a total of 70%, as stated under "Determining salary for a budgetary pension").

Deposits during the bridging period – preserving rights - during the bridging period, employee and employer will execute deposits at the rates customary for accumulative pension on the basis of the gap between the employee's monthly pension during the bridging period and his pension with the budgetary pension as on the date of retirement, and up to a ceiling of CPI-linked NIS 15,000. (Termination of employment at less than 7 years – provision over the full bridging pension in the first year).

Dismissal grant in the event of dismissal of an employee before reaching the mandatory retirement age - will be calculated on the day of transition to the personal contract as the difference between the mandatory retirement age (67 years) and the employee's age on the eve of the transition, multiplied by his total salary in the personal contract on the date of termination of his employment, but in any case will not exceed NIS 1 million.

-The grant that was calculated will be linearly reduced from the date of transition and over 7 years, until a value of at least 3 salaries.

Eligibility for reform supplement - no eligibility.

Third agreement for those transitioning into a personal contract between 2/6/2019 and 31/12/2025 - for employees in a budgetary pension arrangement.

Bridging pension - the pension will be calculated for an employee entitled according to the pension determining salary on the eve of the transition to employment by a personal contract, when it is linked to the index from the date of transition to the date of retirement, and multiplied by a coefficient determined according to the month of transition to personal contract, 140% and reduction at a rate of 0.65% for each month beyond January 2021, inclusive. For example: an employee who transitions to a personal contract in July 2023, (30 months after January 2021 inclusive), will be entitled to a coefficient of 120.5%.

- The determining salary for the bridging pension will be multiplied by the percentage of the employee's budgetary pension accrual (including the increase of the pension percentage by up to 10% and not more than a total of 70%, as stated above under "Determining salary for budgetary pension").

Deposits during the bridging period - Preservation of rights - during the bridging period, employee and employer deposits will be made at acceptable rates for cumulative pension based on the gap between the employee's pension during the bridging period and his pension in the budgetary pension as of the retirement date, up to a ceiling of CPI-linked NIS 15,000. (Termination of the employment in less than 7 years - in the first year a provision for the full bridging pension).

Dismissal grant in the event of dismissal of an employee before reaching the mandatory retirement age - a grant of 3 salaries will be paid at the end of the employment.

Eligibility for a reform supplement - there is eligibility according to milestones that have materialized up to the date of transition to a personal contract.

For the purposes of the third agreement, the Company will be able to transfer up to 30 employees (budgetary and cumulative) until the end of 2025, under the terms of this agreement.

First and second agreements for those transitioning to a personal contract by June 1, 2019 (inclusive), - for employees with a cumulative pension arrangement.

Bridging pension - will be calculated for an employee entitled on the day of the transition to a personal contract in accordance with the collective agreement dated May 17, 2018 (the reform agreement). An amount of NIS 1,250 will be added to the amount of the bridging pension, and the amount obtained from calculating the bridging pension together with NIS 1,250, will be multiplied by a coefficient of 140%. The said coefficient will decrease in a linear path from the age of 52 to the age of 62, so that it will be 100% for an employee whose age at the end of his employment is 62, provided that at the end of the employment, at least 5 years have passed since the date of the transfer to the personal contract. The bridging pension will be linked to the CPI and will be updated once a year.

The monthly bridging pension will be calculated according to the lower sum from among the aforesaid and NIS 26,000.

Deposits during the bridging period – preservation of rights – employee and employer deposits will be executed, during the bridging period, to a cumulative pension from the 100% bridging pension at the customary rates.

Dismissal grant in the event of dismissal of an employee before reaching the mandatory retirement age – the grant will be calculated on the date of transition to a personal contract as the difference between the mandatory retirement age (67) and the employee's age prior to the transition, multiplied by his total salary in the personal contract on the date of termination of employment, but in any case will not exceed NIS 1 million.

The calculated grant will be linearly decreased from the date of transition, over 7 years, up to a value of 3-month acclimation at least.

Eligibility for reform supplement - no eligibility.

Third agreement for those transitioning into a personal contract between 2/6/2019 and 31/12/2025 - for employees in a cumulative pension arrangement.

Bridging pension - will be calculated on the day of transition to a personal contract in accordance with the collective agreement dated 17/5/2018 (reform agreement). The said amount will be multiplied by a coefficient to be determined in accordance with the month of transition to a personal contract, 140% and reduction by 0.65% for each month beyond January 2021, inclusive. For example: an employee who transitions to a personal contract in July 2023, (30 months after January 2021 inclusive), will be entitled to a coefficient of 120.5%. Table of multiplication simulators. The bridging pension will be linked to the consumer price index and will be updated once a year. The monthly bridging pension will be calculated according to the lowest amount from among that listed above and NIS 26,000.

Deposits during the bridging period - preservation of rights - during the bridging period, employee and employer deposits will be made, for a cumulative pension from 100% of the bridging pension at the customary rates.

Dismissal grant in the event of dismissal of an employee before reaching the mandatory retirement age - at the end of the employment, a grant of 3 salaries will be paid.

Eligibility for reform supplement - there is eligibility according to milestones that have materialized up to the date of transition to a personal contract. For the purposes of the third agreement, the Company will be able to transfer up to 30 employees (budgetary and cumulative) under the terms of this agreement.

It should be noted that there are a number of individual employees (in a budgetary and cumulative arrangement) who were supposed to be in the third agreement and were attributed to the second agreement with the special approval of the Commissioner of Wages in the Ministry of Finance.

Additional Right Not Taken Into Consideration in Determining the Actuarial Obligation with respect to Benefits After Termination of Employment

1. For the retiree with a budgetary pension
Early retirement to pension grant (due to severance)

A grant of 50% of one monthly salary for each year worked. The grant is calculated on the basis of a normal salary with the addition of the 13th salary. This grant is not calculated for the years for which the retiring employee is entitled to receive excess years grant.

The grant rate (50%) will be offset at the rate of 1.111% for each month of work over age 62 and up to age 65, consequently, the grant rate starting from age 65 after the offset is 10% (similar to the grant for up to 35 years of work).

It is noted, that when a female employee chooses to continue working in the Company after retirement age and retires from the Company due to severance, she will be entitled to a grant at the rate of 50% of the salary, according and subject to the aforementioned, as applied to any other employee.

Severance payments for employment termination without pension

Upon termination without pension entitlement, an employee is eligible to a severance payment of one monthly salary for each year of employment. Upon resigning after a prolonged employment period, the aforesaid severance payment is paid if the authorized authorities approve it. The severance pay is calculated on the basis of the normal salary with the addition of the 13th salary.

2. Additional rights and benefits for Pensioners

In addition to the aforesaid, the pensioners of the Company are entitled to the following rights and benefits:

- Bonuses for marriage and birth (includes the grossing up of tax).
- Gifts for children of pensioners and successors serving in the IDF (including tax grossing up).
- Company participation in cost of setting a tombstone – solely in cases of death as a result of a work accident.
- Partial participation of the Company in meals 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.
- An outing for widows of workers who died while working for the Company.
- Reduction of cost of connecting electricity to the apartment as well as transfer or increase of existing connection.

3. Compensation in cases of death as a result of a work accident

These benefits are not material and therefore no actuarial liability is calculated in respect thereof.

4. **Compensation payments for senior executives subject to personal contracts of the Government Companies Authority**

Senior executives employed by personal contracts of the Government Companies Authority are entitled, with the approval of the Board of Directors, to additional compensation payment at a rate of up to 100% on the date of termination of their office in the Company.

5. **Advance Notice Period** - is the period of time between the notice of termination of the employee's employment and the date it enters into effect, which is determined according to the period of employment in the Company. The Company is permitted, within the advance notice period, to continue to employ the employee or waive, under special circumstances, his actual work during the advance notice period (in full or in part) and then he will be paid a regular salary, fixed supplements that do not depend on attendance, and social provisions.
In special cases in which the Company decided to dismiss the employee without giving prior notice in practice (in whole or in part), the Company will pay the employee compensation in lieu of prior notice: his ordinary salary and the 13th salary only without social benefits. It should be noted that in case of compulsory retirement/death of an existing employee, there is exemption from advance notice obligation.

Note: That which is stated in this document constitutes the main rights. Company procedures and agreements include extended details of the rights specified above in this document.

The Israel Electric Corporation Ltd.

Asset Impairment Test as of December 31, 2022 in accordance with IAS 36

March 2023

Wise
Consulting Group

Disclaimer

- At your request, this report has been prepared for the Israel Electric Corporation Ltd. ("**IEC**" and/or "**the Company**") for the purpose of asset impairment test in accordance with IAS 36, as of December 31, 2022.
- This report has been prepared by Wise Consulting group ltd. ("**Wise**"), and is intended solely for the Company use. It is not to be used in any other way, including distribution, copying or transferring by any other means, without receipt of our authorization in advance and in writing, except for the report's publication in the Company's financial statements as of December 31, 2022.
- For the preparation of this report, we have relied on information and/or explanations and/or forecasts and/or exhibits the Company and/or anyone on its behalf have provided us with. Wise assumes that this information is credible and does not perform an independent examination of the information. Also, nothing which may point to the data being unreasonable has come to our attention. The data has not been examined in an independent manner, and therefore the report presented to you does not constitute a verification of these data's correctness, completeness and accuracy. An economic evaluation should reflect in a reasonable and fair manner a given state of being at a given time, based on known data, while considering the basic assumptions and estimated forecasts.
- This report does not constitute a due diligence review and is not to replace such. Furthermore, this report is not intended to determine the Company's value for a specific investor, and there is nothing within this report to constitute any legal advice or opinion.
- This report does not include any accounting auditing regarding the compliance with the accounting rules. Wise is not liable for the manner of the Company's accounting presentation of the financial reports in all that regards the accuracy and completeness of the data and the implications of that accounting presentation, as far as such exist.
- This report includes a description of the methodological principles and analysis principles. The description refers to the main substantial practices which we have implemented, and does not constitute a complete and detailed description of the Company and its environment.
- If the case may be that the data Wise has relied upon is not complete nor accurate or credible, the results of this report might change. We reserve the right to return and update this report in light of new data which might have not been brought before us. For the avoidance of any doubt, this report is valid only for the time it has been signed.
- This report includes Forward-Looking Information as defined in the Securities Law, 1968, received, inter alia, from the Company. In this opinion, we referred, inter alia, to evaluations, projections and assessments provided by Company management. Realization of this information is not certain. The information is based in part on knowledge existing in the Company as of the date of the report, as well as on various assumptions and expectations pertaining both to the Company and to various outside elements, including the state of the market in which the Company is active, potential competition and the state of the economy as a whole. We emphasize that there is no certainty that these conjectures and expectations will be realized, in whole or in part.
- We hereby confirm that we are not dependent on the report or on the Company, with the exception of the fact that we are receiving a fee for this report. Likewise, we hereby confirm that our fee is not dependent on the results of the report.
- We confirm that we have no personal interest in the company.
- We agree to the inclusion (including by way of referral) of this work in the financial statements / shelf offering report / overseas prospectus.

Wise
Consulting Group

Previous valuations and Sources of Information

Previous advisory services

- Wise Consulting group provided advisory services for the Company regarding Asset Impairment Test as of June 30, 2020 in accordance with IAS 36
- We hereby confirm that we have no personal interest in the Company or its controlling interest.

Main sources of information

- Audited annual financial statements of IEC for the fiscal year 2021 (audited) and for the fiscal year 2022
- The Company's budget and forecasts for the years 2023-2027
- Various other financial data received by the company as per our request
- Background material and market data , from public information published on web sites, articles in the press or other public sources
- Publications of the Bank of Israel and the Central Bureau of Statistics
- Publications of the Public Utilities Authority, and specifically the charge rate basis book
- Meetings, correspondences, and phone calls with various Company officials

Details of the Valuating Company

Wise Consulting Group specializes in providing economic, strategic and financial advisory services.

Wise offers unique combination of academic theory and practical experience. Wise offers economic and financial valuations, expert opinion letters, debt and capital market analysis, regulation advisory and game theory applications including tender design and strategic consultancy.

Wise (CG) is a team of leading economic and financial professionals providing clients with a wide range of business and financial services for any product, business, or market. Our team of experts accompanied the biggest economic processes in Israel.

This Report has been prepared by a team headed by Yoel Sequerra, CPA. Mr. Sequerra holds BA in Accounting and Economics and MA in accounting and has over 15 years experience in the field of financial and accounting advisory.

Sincerely yours,

Wise Consulting Group ltd.

March , 2023

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Consulting Group

Executive Summary

Valuation summary

Scope of services

- We were requested to perform an asset impairment test in accordance with IAS 36 for Israel Electric Corporation, as of December 31, 2022.
- We estimated the value in use of the Company's generation and network segments which, according to management clarifications, together constitute one cash generating unit. Therefore, examination of recoverable amount was performed for all the company assets together.

Notable events since the last asset impairment test (from the day of June 30, 2020)

- In 2020, the sale of the "Ramat Hovav" site was completed, and the subsidiary company "Nativ Ha'or" was established, fully owned by the company.
- On November 1, 2021, the company sold the entire activity of the system management unit to "Noga" and the company ceased to act as the manager of the electricity system.
- Also, "Hagit Mizrah" power plant was sold in 2022 and the process of selling "Eshkol" power plant has begun promotion.
- At the same time, a process of organizational change and an efficiency plan continues, within the framework of which the number of employees in the company is reduced.
- After the balance sheet date, on January 9, 2023, the Electricity Authority published a final version of the decision regarding a new base rate for the generation segment for the years 2022-2027 ("the decision").
- The rate base replaces the previous rate base set in 2010 and will apply retroactively from February 1, 2022.
- As part of the decision, the Authority established part A of the rate base for the production segment, which includes reference to the recognition of the operating component, cost of capital, recognized assets, working capital, availability of production units, updating demand hour files and accounting for the differences between predicted values and actual values.
- Part B of the production base will be published in a separate decision of the Authority and will include additional topics, including, among others, the known fuel cost methodology, the level of service and other chapters.
- The essential changes included in the decision compared to the previous rate base are:
  - Changing the recognition method of capital costs from the equal fund method to the Spitzer method.
  - Reducing the rate of return on capital sold in the production segment similar to the rate sold in the network segments.
  - The set leverage rate will be in the ratio of 1:3 (25% equity and 75% foreign capital) like the leverage rate in the network segments.
  - For the first time, operating costs were determined for all production units separately.
  - Normative availability values have been determined for all production units, which the units are required to meet. The company's compliance with the normative availability values has a direct impact on its income from operations and capital services in the form of a reward/fine for exceeding the availability values, according to the decision.

Valuation summary

Valuation Results

- **We compared the value in use and the carrying amount of the assets in accordance with IFRS, and concluded that the value in use is greater than the carrying amount:**

	NIS Million
Value in use	66,419
Carrying amount	65,312
Surplus in value in use over carrying amount	**1,107**

- The recoverable amount is based on the calculation of the value in use and not on the fair value, since according to the provisions of the standard it is not necessary to calculate the fair value because the value in use is higher than the book value.
- As part of the evaluation of the value of use, no consideration was taken into account that the company would give up from the sale of the “Eshkol” site beyond the tariff value, a consideration that would have increased the recoverable amount.

Executive Summary

Estimates and assumptions

The following is an overview of the main assumptions and estimates that are the basis of the examination of the value in use (further details regarding the assumptions applied are in the relevant chapters in the body of the full work):

- Full recognition of costs and investments in the production segment as of January 1, 2028 and in the network segments as of January 1, 2024 plus an adequate return on capital (hereinafter "full coverage assumption").
- The company assumes that in accordance with the Authority's decision regarding the rate base for the production segment and according to which the determined weighted rate of return and its components: the financial leverage, the rate of foreign capital and the rate of equity will be examined when determining the rate base for the network segments and will be updated if necessary, the company estimates that it will be updated as of January 1, 2024, including the manner where the parameter for calculating the risk margin will reflect current market prices at the time of the examination.
- Investments for the establishment of CCGT’s in “Orot Rabin” will be fully covered plus a return on capital and interest for the entire period of establishment.
- The company's investments in the conversion of coal-fired stations to gas will be fully covered by the tariff, in the company's estimation, gaps as a result of the prolongation of the projects and the increased costs that occurred resulted from events beyond the company's control, and therefore it is entitled to full recognition upon the activation of the conversions.
- The company assumes that its other investments required in accordance with regulatory requirements of environmental quality and other investments that have not yet been recognized, including investments in the production segment, will be recognized in full by the Authority plus interest at the time of establishment.
- Fuel expenses that the company will bear will be fully covered within the electricity tariff throughout the forecast periods.
- Property under construction in the transmission section as well as works not priced within the rate base will be fully covered plus an adequate return.
- Full collection for future sales to PA and East Jerusalem. The assumption of the company's management is that if there are any collection difficulties, they will be reflected only in the timing and not in the collection amounts and the amounts will be collected in full (the timing of the collection from the PA and East Jerusalem does not have a material effect in the aspect of capitalizing the receipts).

Executive Summary

Estimates and assumptions – con't

- Cash flow forecasts do not include the following potential positive flows:
  - Collection of past debts that were not recognized as income in the financial statements.
  - No consideration was taken into account that the company would give up from the sale of the Eshkol site beyond the tariff value.

Executive Summary

Sensitivity Analysis

The following is a sensitivity analysis of the assumptions applied in connection with the discount rate, the leverage rate, and the market premium rate, relative to the result of the value in use that would have been obtained had different assumptions been applied than those implemented:

	Change in Weighted Average Cost of Capital				
	0.50%-	0.25%-	0.00%	0.25%	0.50%
Surplus in value in use over carrying amount	1,824	1,464	1,107	754	406
Change in value in use	717	357	-	(353)	(701)
	Leverage Ratio				
	67.00%	62.00%	57.00%	52.00%	47.00%
Surplus in value in use over carrying amount	1,107	1,107	1,107	1,249	1,249
Change in value in use	0	0	0	142	142
	Market Premium				
	6.30%	6.55%	6.80%	7.05%	7.30%
Surplus in value in use over carrying amount	1,392	1,249	1,107	1,107	965
Change in value in use	285	142	0	0	(142)

Chapter A – Description of the Company

Description of the Company

Description of the company

General description

- The Israel Electric Corporation Ltd. was incorporated in Israel on March 29, 1923, and is engaged in the generation, transmission, distribution, sale and supply of electricity to consumers in Israel.
- The validity of the Concessions was set for a period ended on March 3, 1996, and from that time on, the provisions of the Electricity Sector Law - 1996, which replaced the Electricity Concessions Order.
- The company produces, conducts, distributes and supplies electricity consumed in the Israeli economy in accordance with the licenses granted to it for each type of activity by virtue of the Electricity Sector Law.
- The Company is an "essential service supplier license" holder and is also engaged in the construction and setup of the infrastructure that is required for its other operations.
- As of the date of the valuation, the State of Israel holds approximately 99.85% of the issued, paid-up share capital of the Company, and therefore, the Company is a "government company", and is also subject to the law provisions. The balance of the issued and paid up capital of the Company is held by approximately 120 individuals and corporations.

Description of fields of activity

- The Company operates as a single combined, coordinated system that engages, as set forth, in the supply of electricity to consumers, from the stage of generation of the electricity to its transmission, distribution and supply. In addition, the Company engages in the establishment of infrastructures that are required for the operations that have been set forth above and operates as the administrator of the electricity system.
- As of the time of the valuation, the Company has three primary fields of activity:
  - **Generation of electricity** – the operations of the Company in this field include all of the operations that are involved in the generation of electricity at the generation sites of the Company.
  - **Transmission and transformation of electricity** – the operations of the Company in this field include the transmission of electricity from the generation sites using high and extra high voltage lines to the switching stations and major substations, and between the switching stations and major substations to the substations.
  - **Electricity distribution** – the operations of the Company in this field include the transfer of electricity from substations to consumers via high voltage lines and low voltage lines and the supply and sale of electricity to consumers.
  - **Electricity supply** – the company's electricity in this segment includes costumers metering services, accounting services and customer contact services.

Description of the Company

Description of the company

Company assets

In general, the company's assets are divided into five main types:

- Power plants - power generation facilities exceeding 5 megawatts
- Sub-stations and switching facilities that are used in the transmission section and connect the electricity networks and their types (about 167 stations)
- Transformation rooms - facilities used in the division section and located on the street or as part of a residential building (approximately 15,800)
- Infrastructure lines - surface or underground power lines used in the transmission or distribution segments (thousands of columns)
- Logistics and management sites - warehouses, offices, etc. (about 60 sites)

The Generation Segment

Description of the generation segment

The generation segment

- The company's production line is based on 50 production units that include steam units, combined cycle units, open and jet gas turbines. The units are spread along the shores of the country and are located in Haifa, Hadera ("Orot Rabin"), Tel Aviv ("Reading"), Ashdod ("Eshkol") and Ashkelon ("Rotenberg"). As well as in domestic sites such as Ramat Hovav, Tzafit, Gezer and Hagit.
- As of December 31, 2022, the Company possesses and operates 15 sites of power stations with total installed generation capacity of about 10,955 MW.
- The company operates the production units in accordance with the instructions transmitted to it from the Noga company. These instructions are based, among other things, on environmental limitations, fuel costs per kWh produced, operational and system constraints.
- As part of the implementation of the structural change, the company is reducing its activity in the production segment and within a period of about five years from the date of the government's decision on the reform, the company has sold and is expected to sell to third parties, five of the company's existing gas-powered production sites, including the infrastructure and land of each site. In this framework, and as part of the implementation of the structural change plan, the company sold the production sites Alon Tabor, Hagit Mizrach and Ramat Hovav.

Steam generation units

- The steam generation units of the Company, which generate electricity using gas turbines, are powered, in accordance with what has been stated above, using coal as their primary fuel, or crude oil or natural gas. Some of the generation units are “dual fuel” (Can be operated using coal as the main fuel or using natural gas as the main fuel and fuel oil or diesel as the secondary fuel).

Gas turbines

- The construction of gas turbines involves relatively low investments and the duration of their construction is short, but the production of electricity using jet gas turbines is more expensive than using steam units or industrial gas turbines. Because gas turbines can be propelled and stopped in a relatively short time relative to steam production units, the company usually operates the gas turbines mainly during peak demand periods.

Combined Cycle Gas Turbine Units

- The CCGT is a combination of an industrial gas turbine and a steam turbine. In combined cycle technology, the residual heat emitted from an industrial gas turbine is utilized and used to operate another steam turbine without added fuel, so the exhaust gases are used to generate more electricity. This activity contributes to both fuel consumption saving and environmental protection.

Description of the generation segment

Entry of private electricity producers (PEPs)

- Since the enactment of the Electricity Economy Law, the Government's policy has been to encourage competition in the electricity economy while increasing the capacity of electricity generation by private electricity producers. Accordingly, the Government of Israel and the Electricity Authority are taking steps, including changes in legislation, enactment of regulations, decision-making and other arrangements aimed at encouraging the entry of private electricity producers into the electricity sector.

- The company, as an essential service provider, is obligated according to the Electricity Sector Law:
  - To purchase electricity from production license holders, from storage license holders or from those who produce or carry out storage of electricity that are exempt from the license obligation, and to provide infrastructure services and backup services, all in accordance with the terms of its license and according to any law.

    It should be noted that the obligation to purchase electricity from owners of production and storage licenses connected to the transmission network as well as from private suppliers with production and/or supply licenses has been transferred to "Noga" Electricity System Management Ltd. in accordance with its license and this after the completion of the sale of the system management unit from the electricity company on November 1, 2021.
  - To connect the PEPs to its distribution and transmission network in order to allow the PEPs, among other things, to contract with suppliers, or to supply electricity themselves to end consumers.
  - To give the applicant connection or integration of a generation or storage facility in the distribution network a reply from a distributor for the purpose of connecting or integrating it to the Authority and this subject to a colleague in the facility under threshold conditions.

- The tariff mechanism that exists today should ensure that the costs known to the company will not be substantially harmed as a result of the entry of private manufacturers.

The Transmission and Distribution Segments

Description of the transmission and distribution segments

The transmission segment

- Within the framework of this field of activity, the majority of electricity that is generated, as described by the Company, and partly by private electricity producers, is transferred by the Company via its transmission segment. The transmission segment is deployed throughout the State of Israel and the territories that have been subject to its rule since June 1967.
- The transmission grid consists of extra high voltage lines (400 kV) and a high voltage grid (161 kV), through which electrical energy is transmitted from the generation units to the switching stations (stations of 400 kV voltage) and to the major substations (stations of 161 kV voltage) and from the switching stations and the major substations to substations that are built nationwide.
- At the switching stations and substations of the Company, transformation activity is performed, changing the electricity voltage levels from extra high or high voltage (through connection transformers) and from high to medium (through the output transformers at the substations). The electricity transmission at extra high voltage facilitates enable transfer of energy between the power stations generating the energy and the switching stations and substations of the transmission segment, at low energy losses.
- Operation, maintenance and handling malfunctions should also be included in the execution of activity of the segment of electric energy transmission.
- The Company has three types of substations: permanent, temporary, and mobile. Mobile substations are built on land that is not usually zoned for the construction of a permanent substation, until the construction of a permanent substation in the area.
- In addition, there are private substations divided into 2 types:
  - New substations owned by a consumer or producer of high voltage. The operational and maintenance responsibility of the high voltage and extra high voltage lies with the Electric Company.
  - Old substations that are owned by a consumer of high voltage.

The distribution and supply segment

- The distribution segment of the Company conveys electric energy from the substations, at which the voltage level drops to the level of the distribution voltage, for consumption purposes. The distribution system consists of distribution lines of 33 kilovolt, 22 kilovolt and 6.3 to 12.6 kilovolt tension levels (all of these are high voltage lines), low voltage lines and a distribution transformer that interconnects them.
- The Company delivers to most consumers electricity at low voltage, and to major consumers (consumers that consume a large amount of electricity) electricity at high voltage.
- As of the date of the report, the company operates as a monopoly in the field of distribution and except in areas of historical divisions, the company distributes electricity to the vast majority of consumers in the economy. In addition, the company is obliged, among other things, as the holder of an essential service provider license, to allow private electricity producers to use its transmission and distribution system.
- The distribution segment consists of three network divisions and a network engineering division, through which the main part of the working and service relations between the company and its customers, which mainly include a telephone customer service center, frontal customer service and client portfolio managers.

The Generation Charge Rate

General

The charge rate basis for generation segment

- The company's revenues are based on the electricity base rate that the company charges consumers, in accordance with the Electricity Economy Law through updates made by the Electricity Authority.
- In accordance with the Electricity Economy Law, the base rate is determined in accordance with the following rules:
  - Tariffs will be determined on the basis of the cost principle, taking into account, among other things, the type of service and its level. Each price will reflect the cost of the particular service. These costs consist, among other things, of fuel costs, operating and maintenance costs and capital costs - depreciation, financing and return on capital.
  - The Authority may not take into account expenses, in whole or in part, which in its opinion are not necessary to fulfill the Company's obligations as a licensee.
- It should be noted that some of the components in electricity base rate are determined on the basis of a normative cost in various methods, for example on the basis of costs of electricity companies in the world and service providers in Israel, comparing both the cost components as recorded in the company books and the projected costs.
- Electricity tariffs for different consumers are determined according to the type of consumption and the supply voltage. The main types of rates are: a uniform tariff or “Taoz” base rate (a rate that varies according to the seasons and daytime hours of the day).
- Every few years, the Electricity Authority sets a "Base Rate." When determining the “Base Rate", the Authority determines how it is updated. Each segment of activity has a separate "Base Rate".
- The electricity rate is derived from the “Base Rate” which is updated during the test period through an annual update and a regular update. The components that the Electricity Authority is required to update are: capital costs, of recognized assets in production, yield rates, composition of the financing basket, mix and fuel costs, electricity purchases, incentives, consumption distribution, fuel price updates and various price indices.
- Since the consumer rates are not updated following any change in the input basket, there is a mechanism called "compensation for delay in updating" that accumulates the gap between the recognized input basket and the income calculated according to the valid rate.

The Generation Charge Rate

The generation segment charge rate

The charge rate basis for generation segment

- After the balance date, on January 9, 2023, the Electricity Authority published a decision regarding a new rate base for the generation segment for the years 2022-2027. The decision was made after a public hearing procedure to which the company submitted its comments. The production rate base will apply retroactively from February 1, 2022 and will apply until the end of 2027. In the first stage, the tariff bases were determined for the production segment, which includes reference to the recognition of the operating component, the price of capital, known assets, working capital, the availability of production units and accounting for the differences between predicted values and actual values, where at this stage it is expected to determine the methodology of the cost of the sold fuels, the level of service, as well as other chapters which will apply from the same date as the first part.
- The rates resulting from this decision were reflected in an Authority decision regarding an annual update for 2023. Below are the main changes that took place:
  - Changing the recognition method of the capital costs in a way that reduces the flow income return in the first years.
  - Determining the rate of return recognized in the production segment similar to the rate recognized in the network segments.
  - Determining operating costs for each production unit separately.
  - Normative availability values have been determined for each production unit that the units must meet.
  - Updating the calculation mechanism of the company's compensation for delay.
  - As of the date of approval of the financial statements, a methodology for calculating a recognized cost for a basket of fuels has not yet been established.
- Below is a concise overview of the components of the current production rate:
  - The cost of the assets - the cost will be calculated according to the Spitzer table method with reference to the consumer price index.
  - Lifespan of production units - the life span of CCGT and GT units operating with gas as the main fuel will be 30 years. The lifetime of the coal units will be 50 years.
  - Recognition of investments for the existing production units - will only be recognized if at least one of the following conditions is met: increasing power, improving availability, environmental benefits, regulatory instructions and extending economic life.
  - In addition to these investments, investments in operated production units are recognized as part of recognized operating income.
  - Acknowledgment of the cost of establishing the CCGTs in Orot Rabin - the acknowledgment will be made after cost control in accordance with normative operating dates.
  - Recognition of operating costs in the production segment - operating costs are recognized separately into fixed costs and variable costs per production unit. All operating costs, including wages, are linked to the consumer price index.
  - Renovation costs - for the purpose of determining the known cost of renovations, the authority determined an hourly cost according to the price lists and the frequency of the renovations.
  - Essential costs - these costs were recognized on an average basis for the years 2016-2018.
  - Administrative and general costs - these costs were recognized on an average basis for the years 2016-2018. No costs were recognized for the company in respect of bad and bad debts.

The Generation Charge Rate

The generation segment charge rate

The charge rate basis for generation segment – con't

- **A concise overview of the components of the current production rate (continued):**
  - Preservation of coal units - according to the authority's position, a cost of NIS 115 million will be recognized for operating costs.
  - Recognized rate of return on recognized assets - The recognized rate of return is determined as determined in the network section of the authority's decision for the 2018 network rate base.
  - Operating working capital - the amount of recognized working capital, including a security cushion, will amount to NIS 410m, for which an interest rate on foreign capital will be received.
  - Customer working capital - for the recognized annual cost without credit, customers will be recognized for 46 days of credit at the interest rate on foreign capital.
  - Working capital full of fuels - will be determined later
  - Availability of units - the company will be measured on the performance of its production units based on normative unavailability values for each production technology.

The Generation Segment Charge Rate

The generation segment charge rate – overview of potential gaps between the recognized costs and the actual costs

Potential gaps between recognized and actual costs

- **On the theoretical assumption that a rate calculated to cover all of the company's costs, including the return required on these costs, will be received, there should not be a positive or negative gap between the cost of the assets in the books and the value in use of the assets (as defined in Chapter B of this work).**
- However, the rate structure as established is not the same as the cost structure that actually arises, and the rate of return determined within the rate is different from the rate of return used to discount the free cash flow and therefore there are positive and negative gaps, which result in the discounted free cash flow not necessarily being the same as the value of the assets in the books.
- Below is a concise qualitative review of the cost items of the production segment and the method of coverage established for them within the tariff:
  - **Fuel inventory** - to the extent that there are gaps between the cost prices (fuel purchase prices at the time of purchase) shown in the books and the current prices as of the evaluation date (date of their consumption), which will receive tariff recognition, there may be a positive or negative gap.
  - **Cost of assets (known costs and method of reduction)** - the rate covers capital costs for the production segment for the years 2022-2027 starting on February 1, 2022 for existing production units according to the reduced costs known for each production unit as of February 1, 2022 as shown in Table 1 at the base of the rate. There are some positive and some negative gaps compared to the actual balances in the books for that day for those units.
  - **The cost of emission reduction facilities** - on June 4, 2020, an authority decision was published on the recognition of the costs of emission reduction facilities in the company's coal-fired units. The decision reflects a lack of recognition of investments and interest
  - **Financing costs (recognized rate of return)** - the rate of return recognized in the rate on assets is intended to compensate the company for the timing differences between the date of outflows (investments and expenses) and receipts (revenues from rate collection). The rate of return known in the rate is different from the discount rate. To the extent that a higher return is obtained according to the rate formula than the rate of return determined in this assessment, positive gaps may arise and vice versa.

The Generation Segment Charge Rate

The generation segment charge rate – overview of potential gaps between the recognized costs and the actual costs

Potential gaps between recognized and actual costs (con't)

- **Operating costs -** the operating costs known to the company are based, as mentioned, on the average operating costs in the years 2016-2018. These costs are calculated for each production unit separately for fixed operating costs (some of which are based on NIS per kWh and some are essential in NIS) and variable operating costs for each production unit (some of which are based on the volume of production (kWh), and some of which are based on equivalent operating hours). As a result of the normative recognition, a gap may arise between the recognized cost and the cost in the books, and therefore there may be positive or negative gaps between the value in use and the cost in the books for this component.
- **Normative availability values** - the Authority has established normative availability values for each production technology, failure to comply with which will result in a reduction of fixed income for capital and operating services. The mechanism of the availability payments, at this stage, is determined only for gas generators and open GTs that operate with gas as the main fuel. According to the mechanism established by the Authority, non-compliance with availability values will result in revenue losses
- **Spare parts costs** - these costs during the forecast period are recognized as part of operating costs using the Spitzer table method.
- **Index differences** - following the transition to reporting according to IFRS, the company stopped coordinating the balances of fixed assets shown in its books to amounts linked to the Consumer Price Index. However, the property balances, which are recognized for the needs of electricity tariff revenues, continue to be linked to the consumer price index. In December 2015, a decision was made by the Electricity Authority on the subject, which allowed the company, starting January 1, 2016, to partially bridge this non-acceptance, by recording deferred control accounts for the linkage differences on account of the foreign capital that financed the reduced cost of the fixed assets and the other assets sold at the rate of foreign capital.
- In light of this, the company recognizes in its books a deferred supervision account in accordance with the linkage differences as mentioned (up to the limit of the relevant financing expenses) minus the accumulated depreciation for them. For the year 2022 only, due to the 5.3% increase in the index, a gap of about NIS 1,500 was created between the linkage of the recognized property in the network and production segments and the books, the property in the books plus the supervisory property, which was expressed in the excess of the recoverable value on the books in the results of this work.

The Network Segment Charge Rate

Base rate for network segments

- On January 8, 2018, a decision came into force regarding the base rate for the transmission, distribution and supply segments for the years 2018-2022. The tariffs derived from it entered into force on January 15, 2018. On April 10, 2018, the company passed an authority decision that constitutes a wording update to the above decision.
- The recognized costs are divided into several components:
  - **Assets**: The company's active assets and those that the company is expected to establish between the years 2018-2022.
  - **Rate of return on capital**: the recognized return to the company on equity and the interest recognized on foreign capital.
  - **Operation**: The Company's operating costs in the transmission, distribution and consumer services segments.

Investment in assets

- The tariff recognition of property in the transmission and distribution segments until the end of 2017 is according to the operated property registered in the company's books. As of 2018, the tariff recognition of the new investments in the transmission and distribution segments is partly based on a normative tariff and partly in accordance with cost control.
- The recognized cost of the Electric Company is based, as much as possible, on normative costs established by the Authority for the various activities performed by the Electric Company. The rate base directly links the scope of the company's investments and the network rate to the consumer.
- The normative recognized investment is determined through a price list for infrastructure works established within the tariff. The cost of assets that are not included in the price list is determined according to the cost control mechanism. The new assets that came into operation up to and including the year 2020 have a recognized lifespan of 35 years, and the new assets that came into operation from 2021 onwards have a lifespan of 45 years. The investment sold in accordance with the price list is returned to the company in a spread over these periods through a mechanism of depreciation and return on capital.

Return on capital

- The recognized rate of return on the assets sold is calculated as a weighted average between the rate of return on foreign capital and the rate of return on equity according to the normative financial leverage of the company. The rate of return on the assets will apply both to recognized active assets at the starting point of the rate base and to assets that will be established after the rate base comes into effect.
- The normative financial leverage of the company is 1:3 (75% foreign capital, 25% equity).
- The rate of return on equity each year will be the risk-free real interest rate in Israel for 10 years in that year plus a fixed margin of 6.8%.

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The Network Segment Charge Rate

Base rate for network segments – con’t

Operation

- The Authority established a normative rate for operating costs in each segment, which the company must reach in 2022. In 2022-2018, the company was given additional income beyond the "proper cost", which is based on the company's costs in 2016.
- The cost of operation in the transmission and distribution segments was determined on the basis of a comparison between similar companies that provide similar services (benchmarking). The cost calculation is based on the cost generators as follows:
- Transmission: the length of lines and the extent of transformation;
- Distribution: length of lines and number of consumers.
- As part of the Authority's decision regarding the financing of the costs of the reform, the Authority determined that the wage cost components will remain fixed in the tariff and will not change. In the company's estimation, the addition beyond the proper cost will remain unchanged until the end of financing the costs of the reform within the tariff. The efficiency goals set for the company in operations are: 15% in the transmission segment, 15.1% in the distribution segment and approximately 35% in the consumer services segment.
- In the transmission and distribution segments, an increase was given that reflects the full costs of 2016, and in the consumer services segment, an increase was given that is 55% of the gap between the appropriate cost and the actual cost of consumer services in 2016. Beyond the increase given for consumer services, an increase was given to the consumer services segment intended to finance the reform.

The network segment charge rate – overview of potential gaps between the recognized costs and the actual costs

Potential gaps between recognized and actual costs

- As noted, the rate structure of the network segments is intended to cover the costs of the segments, including financing costs and the return required on equity. Under the theoretical assumption that the Company's costs for the various components of the activity will be identical to the price list determined - there should be no positive or negative gap between the cost of assets in the books and the value in use of the assets (as defined in Chapter B of this paper).
- **Price list** - since the new rate structure is based on outputs, it's significant for the efficiency of the Company and the extent of the output it is able to generate through its existing resources. These will affect the average cost per unit of output. Therefore, gaps between the average cost per output unit and the recognized cost determined in the hearing proposal may arise, and there may be positive and negative differences that lead to the fact that the discounted cash flow is not necessarily identical to the value of the book assets.
- **Index differences -** following the transition to reporting according to IFRS, the Company ceased to adjust the balances of fixed assets presented in its books to amounts linked to the Consumer Price Index. However, the balances of assets recognized for income purposes from the electricity rate continue to be linked to the consumer price index
- In December 2015, a decision was made by the Electricity Authority on the subject, which allowed the company, starting January 1, 2016, to partially bridge this non-acceptance, by recording deferred control accounts for the linkage differences on account of the foreign capital that financed the reduced cost of the fixed assets and the other assets sold at the rate of foreign capital. In light of this, the company recognizes in its books a deferred supervision account in accordance with the linkage differences as mentioned (up to the limit of the relevant financing expenses) minus the accumulated depreciation for them. For the year 2022 only, due to the 5.3% increase in the index, a gap of about NIS 1,500 was created between the linkage of the recognized property in the network and production segments and the books, the property in the books plus the supervisory property, which was expressed in the excess of the recoverable value on the books in the results of this work.
- **Financing costs** (recognized rate of return) - The rate of return recognized in the asset rate is intended to compensate the company for the timing gaps between the date of the cash outflows (investments and expenses) and the receipts (income from the rate collection). The rate of return recognized in the tariff is different from the discount rate. The higher the yield according to the rate formula than the rate of return set in this estimate, the positive gaps may be created and vice versa.

Chapter B – Value in Use

General assumptions

Main Assumptions

- **Full rate coverage**: The company estimates that for the production segment a new tariff will be published on 1/1/2028 and for the network segments, a new tariff will be published on 1/1/2024 within which full coverage will be provided plus an adequate real return on capital for all investment and operating costs The company carries, for each of the respective segments, starting from the date of updating the rate base for it.
- **The Palestinian Authority and East Jerusalem Electricity Company:**
  - Full collection for sales to the PA and East Jerusalem Electricity Company commencing January 2023. The company's management assumes that if there are collection difficulties, they will be reflected only in the timing and not in the collection amounts and the amounts will be collected in full.
  - The cash flow forecast does not include the positive cash flow from the collection of full past debts (which were not recognized as income) in accordance with the agreement signed with East Jerusalem Electricity Company in July 2020.
- **Regulatory assets and liabilities:**
  - In the framework of this work, the reference to the balances of deferred control accounts is as financial balances, and therefore the valuation did not include, on the one hand, cash flows resulting from covering deferred control accounts, and on the other hand, the balances were not included in the value of the CGU in the books, with the exception of the required balances of deferred control accounts, for which an adjustment was made, since they were included As part of the cash flow assumptions and deferred control account liability balance due to index differences.
  - Deferred control account balances were taken into account for the purpose of calculating the leverage ratio in the capital price calculation.
- **Emission reduction:** Income and investments in respect of emission reduction facilities were calculated in accordance with the Authority's decision of June 2020**.**
- **Evacuation and dismantling**: Full recognition of dismantling and evacuation costs.
- **Profit from the sale of power plants**: As part of the valuation of the VIU, no consideration was taken into account that the company would give up from the sale of the Eshkol site beyond the tariff value. Such consideration would have increased the gap between the recoverable amount and the book value
- **System management unit**: Expenses for activities that are included in the system management rate and are expected to remain in the hands of the company will be recognized by the company.
- **Effects of IFRS16**: The book value includes the rights of use in accordance with the standard and the liability in respect of the lease. Cash flows include lease payments. The effect of the liabilities in respect of a lease on the leverage rate and the discount rate is not material.
- **Unpriced works**: As part of the valuation, it was assumed that the property under construction in the transmission segment, as well as works that will not be priced within the tariff base, will be fully covered plus a net return that is not lower than the discount rate.

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The accounting standard

- As requested by the Company, the valuation shall be used to implement International Accounting Standard 36, Impairment of Assets (“the Standard”) in its financial statements.
- The purpose of the Standard is to establish procedures a corporation must implement in order to ensure that its assets are not presented at a sum higher than their recoverable amount. An asset is at a sum higher than its recoverable amount when its book value is higher than the sum received from the use or sale of the asset. In this case the asset has an impairment and the Standard demands that the corporation recognize an impairment loss. The Standard also specifies when a corporation must write off impairment loss and requires certain disclosure regarding assets undergoing impairment, and regarding investment in investees not constituting subsidiaries presented in the Financial Statements at sums significantly exceeding their market value or net sales price.
- The Standard prescribes the accounting treatment and presentation required in the event of impairment of assets. If a corporation prepares consolidated financial statements (including through relative consolidation), the standard shall be applied to the accounting treatment of the impairment of all the assets appearing in the corporation’s consolidated balance sheet, including investment in investees not constituting subsidiaries, goodwill deriving from the purchase of subsidiaries and fair value adjustments. This standard also applies to investments in subsidiaries and jointly-controlled companies in such a manner that impairment provisions recognized in the consolidated financial statements for the assets of the subsidiary or the jointly controlled company, including goodwill and fair value adjustments, shall be presented in the parent company’s separate financial statements as a reduction of the balance of the investment in the subsidiary or the jointly-controlled company.
- The Standard states that the asset’s recoverable amount shall be assessed whenever signs indicate the possibility of the asset’s impairment. This standard requires recognition of the impairment loss of an asset (meaning that the value of the asset has dropped) at any time the book value of the asset supersedes its recoverable amount. Impairment loss shall be recognized in the Statement of Income regarding those assets presented at cost and shall be treated as a reduction of a new assessment, this only regarding those assets presented at the re-assessed sum, in accordance with other accounting standard or as required by law.
- <u>The Standard states that the recoverable amount shall be calculated as the fair value (less sales costs) or the value of use, whichever is higher</u>:
  - The Net selling price (less sales costs) is the sum that may be received from the sale of the asset in a good faith transaction between a willing buyer and a willing seller, acting in an enlightened manner, less any direct added sales costs.
  - The value of use of an asset is the current value of estimated future cash flow expected to be derived from the continuous use of the asset and its sale at the end of its useful life span.
- <u>In determining an asset’s value of use, this standard requires that a corporation use, among other things</u>:
  - cash flow projections on the basis of reasonable and established assumptions that:
    1. Reflect the asset’s current value (not considered in future investments or structural changes which have not yet decided, which may increase the asset's performance).
    2. Represent the management’s best estimate regarding the economic conditions that will apply throughout the balance of the asset’s useful life span.
  - Pre-tax capitalization rate, which reflects current market estimates of the money’s time value and the risks specific to the asset. The capitalization rate will not reflect risk to which future cash flows have already been adjusted.
- Estimated recoverable amount will be calculated for each asset separately. If this is impossible, this standard requires that the corporation set the recoverable amount for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identified group of assets that yield cash inflows from continuous use, which are largely independent of inflows from other assets or from other groups of assets. At the same time, if the output created by an asset or a group of assets is traded on the open market, the asset or group of assets shall be recognized as a separate cash-generating unit, even if part or all of the output produced by the asset or the group of assets is intended for internal use.
- When examining the impairment of a cash-generating unit, this standard demands taking into account goodwill and shared assets (such as head office assets) related to that cash-generating unit.

Methodology

Discounted Cash Flows (DCF)

- The valuation was conducted according to the discounted cash flow approach (DCF). The discounted unlevered cash flows in a commonly accepted method in the Theory of Finance, and in mentioned as the preferred method in IAS 36.
- A DCF analysis is appropriate and reasonable as long as the basic assumptions it is based on are correct and accurate. Furthermore, the analysis is sensitive to the determination of the appropriate discount rate, which by itself is not an easy task and is somewhat subjective.
- According to the Standard, the cash flows shall be discounted by a pre-tax discount rate, that reflects current market expectations of the time value of money and the specific risks relevant for the asset. The discount rate shall not reflect uncertainties that the forecasted cash flows had already been adjusted for.
- Theoretically, discounting pre-tax cash flows by a pre-tax discount rate, should arrive to the same result as discounting post-tax cash flows be a post-tax discount rate, as long as the pre-tax discount rate is equivalent to the post-tax discount rate after certain adjustments to reflect the amount and the timing of tax payments. In accordance with common practice, we discounted post-tax cash flows by post-tax discount rate.

Cash Generating Units

- **According to the Company's view, the generation, transmission and distribution segments together constitute one CGU**, for the following reasons:
  - The company is a vertical company that produces cash flows as one piece, and in practice almost all of its end consumers do not purchase the intermediate products but the final product that has passed through all the segments.
  - It is important to note that the definition of an active market in financial reporting standard number 13 is a market in which transactions are made with a sufficient frequency and scope that can provide information regarding said price on an ongoing basis. In this case, there is no active market for generation, transmission, distribution, or supply, and this is because transactions are not carried out with sufficient frequency and volume in connection with part of the electricity chain (that is, consumers who are not end consumers who consume the entire electricity chain). The fact that the regulator established within the tariff a separation of prices between the various components, in the company's opinion, does not change the accounting analysis according to which there is no active market for any of the various segments.
  - In tests conducted by the company around the world, other supervised companies in the field of electricity were found, such as BC Hydro and Fortis Inc. Which defined supervised activity as a single cash-generating unit.

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Methodology

Cash Generating Units – Con't

- Although all segments constitute a single cash-generating unit, the capitalization of the cash flows is calculated for the production and network segments separately, due to the tariff arrangement, so that their aggregate amount is the one included as the value in use.

Chapter C – The Generation Segment

The Generation Segment – Assumptions for the Forecasted Period

Assumptions for the generation segment

Forecasted period

- For the purpose of valuating the value of use of the production segment, it was assumed, based on the clarifications of the company's management and following its talks with the Electricity Authority on the subject, that the publication of the new tariff will apply on January 1, 2028. Accordingly, it was assumed that starting from this date the company will receive full tariff coverage for its expenses and recognition of investments plus an adequate return on capital.

Income from capital services

- **Return on assets:**
  - The return on the assets is calculated on the basis of the reduced recognized cost of the assets, shown in the tables published by the Electricity Authority in the rate base book, divided by old units and new units.
  - The recognized return on these assets is calculated according to parameters defined by the Authority. The rates of return included in the calculation of the return on invested capital for the years 2023 to 2027 are 3.69% in 2023 and increase linearly in the range 5.11% to 5.19% in the years 2024 to 2027, when it was assumed that starting in 2028 the rate of return will be updated according to market data (market premium, missing interest risk, beta, etc.).
- **Depreciation cost:**
  - The cost of depreciation of the property sold at the tariff is calculated on the basis of the recognized asset tables and the period of recognition of the Electricity Authority.
- **Adjustments to the assets:** some adjustments are conducted to the assets in accordance with the clarifications in the chare rate basis book, and other adjustments are conducted due to costs arising from statutory obligations:
  - Consumer Financing - The Electricity Authority has determined that in calculating the cost of financing and the cost of depreciation recognized for the purpose of tariffing active assets, amounts representing the financing of the Company's investments by electricity consumers will be deducted from the cost of the assets.
  - Liquidation and eviction costs - The Company's management estimates that recognition of the costs of liquidation and removal of fixed assets will be received.

The Generation Segment – Assumptions for the Forecasted Period

Assumptions for the generation segment

Sites sale and system management unit

- Profit flows that are expected to result from the sale of the Eshkol unit were not included as part of the value-in-use examination.

Revenue from fuel

- Profit / loss from fuels: The company assumes full recognition of the costs of the fuel costs.

working capital

- It has been assumed that working capital balances remain constant at an annual level over the years.

Recognized operating costs

- Operating costs are recognized separately into fixed costs and variable costs per unit of production. All operating costs, including wages, are linked to the consumer price index.

Other income and expenses

- The IEC assumes that the sale of vehicles, equipment and inventory amounts to approximately NIS 40 million per year.
- Determining the amount of use does not include expenses for purchases of electricity from private producers, since these expenses are fully covered by the tariff.

Reform

- In accordance with the Company's forecasts, the Government's decision and the letter from the Chairman of the Electricity Authority to the Minister of Energy, the Company is entitled to full coverage of the reform costs as presented by it, totaling NIS 6.4 billion in NIS 12/17 plus 0.7 billion for other expenses and investments as specified in the Company's forecasts. The valuation included flows for the reform and the impact of the reform was examined as part of this valuation.

The Generation Segment – Assumptions for the Forecasted Period

Assumptions for the generation segment

Investments

- The forecast period is based on the life of the assets currently in use (and / or will come into use during the forecast period).

Residual value

- In accordance with the full coverage assumption, it was assumed that as of the date of full coverage, the value of the company's recognized property, operating balances and other assets reflects the discounted value of the Company's future cash flows and therefore the value in use at that date. The value of the sale of the recognized property is the balance of the reduced cost of the sold assets (in accordance with the normative depreciation tables) as of the date of the assumption of full coverage.

PA and EJEC debts

- For the purpose of estimating the cash flow that will be used to determine the value of use of the fixed asset, it was assumed that in the long term the company will collect the funds for future sales to PA and EJEC. As long as there are collection difficulties, in the estimation of the company's management, they will be reflected only in the timing and not in the collection amounts, so that the amounts will be collected in full.

Index forecast

- Below are forecasts of changes in the consumer price index that were used in the valuation:
  - For the year 2023 - an increase of 2.7%
  - For the year 2024 : an increase of 2.1%
  - For the years 2025 onwards: annual increase of 2.05%
  - The nominal discount rate is based on these forecasts.

Liabilities for liquidation

- Obligations created by the company regarding dismantling and preservation costs in the production units will be recognized by the Authority, since these are statutory requirements.

The Generation Segment – Cash Flow

Cash flow for the generation segment

NIS Million	2023	2024	2025	2026	2027
Financing costs for active assets	1,324	1,511	1,510	1,585	1,632
Depreciation costs	2,542	2,338	2,248	2,288	2,350
Fuels					
Fuel basket costs	9,043	6,309	4,718	4,016	4,197
Return on emergency diesel	29	40	40	41	41
Working capital – fuel inventory	1	1	1	1	1
Profit (loss) from fuels	77	78	78	80	81
Total income from fuels	**9,150**	**6,428**	**4,837**	**4,138**	**4,320**
Working capital customers	14	14	14	15	15
Working capital Fuels	104	84	76	75	77
Other income	10	10	10	10	10
Total income from the generation segment	**13,144**	**10,385**	**8,695**	**8,111**	**8,404**
Fuel costs	9,043	6,309	4,718	4,016	4,197
Total operating costs	2,067	1,926	1,944	1,904	1,928
Investments in operating power plants	143	120	111	117	122
Cyclical renovations	86	139	291	129	157
Depreciation expenses	1,029	1,022	1,062	1,172	1,174
Total expenses	**12,368**	**9,516**	**8,126**	**7,338**	**7,578**

NIS Million	2023	2024	2025	2026	2027	Residual Value
Operating profit	**776**	**869**	**569**	**773**	**826**	
Depreciation expenses	1,029	1,022	1,062	1,172	1,174	
EBITDA	**1,805**	**1,891**	**1,631**	**1,945**	**2,000**	**20,706**
Tax expenses	**179-**	**200-**	**131-**	**178-**	**190-**	
Total investments in fixed assets	**1,153**	**1,303**	**614**	**298**	**112**	
Residual value of working capital						**4,415**
Residual value of common property and other						**876**
Discounted cash flow	**473**	**388**	**886**	**1,469**	**1,698**	**25,997**

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Chapter D - network segments - transmission, distribution and supply

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Network segments - Assumptions for the Forecasted Period

Assumptions for the network segments

General

- On January 8, 2018, a decision came into force regarding the tariff base for the transmission, distribution and supply segments for the years 2018-2022. The tariffs derived from it entered into force on January 15, 2018. On April 10, 2018, the Company received a decision by the Authority that constitutes a wording update to the above decision.
- Predicted surpluses / inconsistencies in investments in the distribution segment during the forecast period will be reflected in capital services income during the forecast period and as part of the residual value at the end of the forecast period.
- After the forecast period, it was assumed that as of 1/1/2024, there will be no positive or negative discrepancies between the tariff coverage and the operating and investment costs in the network segments.

- **Return on Assets**
  - The return on the assets is calculated on the basis of the reduced recognized cost of the assets, according to the rate - approximately 3.69% in 2023. Starting in 2024, it was assumed that the rate of return will be updated according to market data (market premium, risk-free interest, beta, etc.).

Different costs

- The company's operating budget and long-term plan for the network include various expenses in the amount of about 120 million, in respect of which it was assumed that income would be received in the amount of the same expenses.

Counters and a smart meters

- An adjustment was made for the balance of the meters plus the investments minus their depreciation during the forecast period in accordance with the assumption of full coverage.

Network segments - cash flow forecast

Cash flow forecast for the network segments

NIS Million	*2023*
Financing costs for active assets	1,246
Depreciation costs	2,380
Total income from capital services	**3,626**
Revenues from working capital	**37**
Revenue from innovation	**20**
operating costs recognized	**2,348**
Other income	150
Total income from the network segment	**6,181**
Total operating costs	2,124
Depreciation expenses	2,431
Total expenses	**4,555**
Operating profit	**1,626**

NIS Million	*2023*	*Residual Value*
Depreciation expenses	2,431	
EBITDA	4,057	40,623
Tax expenses	(374)	
Total investments in fixed assets	**(4,082)**	
Changes in working capital	**-**	
Residual value of working capital		**773**
Residual value of other operating assets		**3,123**
Free cash flow	**(401)**	**44,519**

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Chapter E – Cost of Capital

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Weighted Average Cost of Capital

Weighted Average Cost of Capital

In our estimation, we used a real weighted average discount rate (WACC) of about 4%. To this rate was added the Company's Inflation Forecast for each of the forecast years, in order to determine the nominal discount rate for each year.

We used the Capital Asset Pricing Model (CAPM) to determine the required return on the Company's equity, and made certain assumptions to determine the Company's appropriate cost of debt and capital structure.

Parameter	Value	Note
Risk free rate	0.89%	1
Market premium	6.8%	2
Beta	0.8	3
Cost of equity	**6.4%**	

1. Nominal yield to maturity of government bond with a duration of 11.25 years, as of December 31, 2022. The duration was selected according to the average duration of the fixed assets, in accordance with "Mirvah Hogen" publications.
2. Based on the Israeli market premium (according to Damodaran* data), which is estimated at 6.8% (in accordance with the alternative considered in Sovereign CDS. This premium does not include volatility adjustment for developing countries.
3. In order to determine the Company's Beta, we selected a number of publicly traded companies which operate in the generation, transmission and distribution segments together (see Appendix 4 for list of comparables). The following is the calculation of the Company's re-levered Beta:

Parameter	Beta calculation
Unlevered Beta – industry average	0.40
Selected leverage ration	133%
Long term tax rate	23.0%
Re-levered Beta	**0.8**

Leverage ratio and cost of debt

The selected leverage ration (D/E) is the Company's specific leverage ratio. To determine the ratio, we implemented an iterative calculation using the Company's asset value as is calculated in the valuation.

The value of debt was determined according to the Company's fair value of the debt raised from banks, financial corporations and the public, net of the value of regulatory liabilities, as we received from the Company.

The Company's leverage rate is 133% (debt to assets ratio of 57%).

The long term tax rate was determined according to Israel's corporate tax rate, from December 31, 2022– 23%.

http://pages.stern.nyu.edu/~adamodar/ *

Cost of Capital

Weighted Average Cost of Capital (con't)

WACC summary

The following tables summarizes the WACC calculation:

Parameter	Value	Note
Risk free rate	0.89%	
Market premium	0.8	
Beta	6.8%	
The Company's cost of equity	6.4%	
Cost of debt	2.75%	4
Tax rate	23.0%	5
D/V*	57%	
WACC	**4.0%**	

4. The cost of debt was determined according to the average rate of return of corporate non inflation-linked bonds rated AA1 and AAA with a duration of 11.25 years, Which is the weighted duration of fixed assets, as quoted by "Mirvah Hogen" as of December 31, 2022.
5. The long term tax rate was determined according to the Israel's corporate tax rate, from December 31, 2022– 23%.

Since the cash flows of the model are nominal, we added to the real discount rate the Company's inflation forecast for each of the forecast years, in order to determine the nominal discount rate for each year. Below is the company's inflation forecast for each of the cash flow years

2023	2024	2025 etc
2.70%	2.10%	2.05%

Calculation of the Cost of capital estimate before tax

For the purpose of estimating cash flows before tax, we made an adjustment to the Company's WACC. Theoretically, discounting cash flows after tax, at a discount rate after tax, and discounting cash flows before tax, according to a discount rate before tax, should give the same result, as long as the discount rate before tax is equal to the discount rate after tax, when adjusted accordingly, Which will reflect the specific amount and timing of cash flows, in respect of taxes. Hence the weighted capital price used by us in valuing the estimated cash flows is detailed in the body of valuation. The company's adjusted real discount rate before tax is 5.2%.

Chapter F – Valuation Results

Valuation Results

Valuation Results

	NIS Million
Value in use	66,419
Carrying amount	65,312
Surplus in value in use over carrying amount	**1,107**

We compared the value in use to the carrying amount of the assets in accordance with IFRS, and concluded that the value in use is greater than the carrying amount.
As part of the valuation of the value of use, no consideration was taken into account that the company would give up from the sale of the Eshkol site beyond the tariff value, a consideration that would have increased the recoverable amount.

Sensitivity Analysis

Sensitivity Analysis

The following is a sensitivity analysis of the assumptions applied in connection with the discount rate, the leverage rate, and the market premium rate, relative to the result of the value in use that would have been obtained had different assumptions been applied than those implemented:

	Change in Weighted Average Cost of Capital				
	0.50%-	0.25%-	0.00%	0.25%	0.50%
Surplus in value in use over carrying amount	1,824	1,464	1,107	754	406
Change in value in use	717	357	-	(353)	(701)
	Leverage Ratio				
	67.00%	62.00%	57.00%	52.00%	47.00%
Surplus in value in use over carrying amount	1,107	1,107	1,107	1,249	1,249
Change in value in use	0	0	0	142	142
	Market Premium				
	6.30%	6.55%	6.80%	7.05%	7.30%
Surplus in value in use over carrying amount	1,392	1,249	1,107	1,107	965
Change in value in use	285	142	0	0	(142)

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Appendices

Appendix 1 – Consolidated Balance Sheet

Consolidated Balance Sheet

Assets, NIS Million	31.12.2021	31.12.2022
Current assets		
Cash and cash equivalents	2,454	3,654
Short-term investments	332	459
Trade receivables for sales of electricity	4,290	4,702
Other current assets	665	886
Inventory – fuel	1,489	2,412
Inventory – stores	128	166
Assets classified as Held for sale	160	-
	9,518	**12,279**
Non-current assets		
Inventory – fuel	1,624	1,413
Long-term receivables	2,294	2,111
Investment in an investee company	4	13
Assets with respect to benefits after employment termination	8,280	11,000
Fixed assets, net		
Fixed assets in use, net	52,917	54,294
Fixed assets under construction	4,050	3,326
	56,967	**57,620**
Intangible assets, net	1,169	1,241
Total Non-current assets	**75,301**	**75,301**
Total assets	**82,031**	**87,580**
Balance of deferred Regulatory assets	8,581	11,384
Total assets and deferred Regulatory assets	**90,612**	**98,964**

Liabilities and Equity, NIS Million	31.12.2021	31.12.2022
Current liabilities		
Credit from banks and other credit providers	5,425	5,360
Trade payable	2,786	3,807
Other current liabilities	1,238	1,365
Customer advances, net of work in progress	740	834
Provisions	686	684
	10,875	**12,050**
Non-current liabilities		
Debentures	24,488	30,791
Liabilities to banks	5,155	3,546
Liabilities with respect to other benefits after employment termination	6,874	5,374
Deferred taxes, net	7,198	8,051
Liabilities to the State of Israel	1,793	1,876
Liabilities to lease	542	460
Other liabilities	592	514
	46,642	**50,612**
Equity		
Shareholders' equity	**28,825**	**32,171**
Total liabilities and equity	**86,342**	**94,833**
Balance of deferred Regulatory liabilities	4,270	4,131
Total liabilities, deferred Regulatory liabilities and equity	**90,612**	**98,964**

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Appendix 2 – Consolidated Income Statement

Consolidated Income Statement

Income Statement, NIS Million	For the year ended at December 31 ,2021	For the year ended at December 31 ,2022
Revenues	**22,150**	**23,105**
Cost of operating the electricity system		
Fuels	5,875	9,561
Purchases of electricity	6,872	5,933
Operation of the generation system	4,086	4,094
Operation of the transmission and distribution system	2,740	2,840
Profit from operating the electricity system	**2,577**	**677**
Other income	15	(1,405)
Sales and marketing expenses	853	819
Administrative and general expenses	782	856
Expenses (income) for liabilities to pensioners, net	(47)	(148)
Expenditure on reform agreement	348	212
Income from current operations	**626**	**343**
Financing expenses (income), net	1,912	1,356
Profit before income taxes	**(1,286)**	**(1,013)**
Taxes on income and deferred taxes	**(266)**	**(226)**
Taxes on income	356	917
Loss for the year	**(1,020)**	**(787)**
Changes in net Regulatory liabilities, net of Tax	2,314	2,561
Company's share of the loss of associated companies, net	(9)	-
Net Profit	**1,285**	**1,774**
Re-measurement of a defined benefit plan after tax	776	1,693
Changes in net Regulatory liabilities, net of Tax	110	(181)
Profit/Loss of Hedge accounting, net	(74)	60
Other comprehensive income (loss) for the year, after taxes	812	1,572
Comprehensive profit for the year	**2,097**	**3,346**

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Appendix 3 – Determination of Unlevered Beta

List of comparables

Company	levered Beta	D/V	D/E	Tax Rate	Unlevered Beta
Duke Energy Corporation	0.72	48%	93%	27%	0.43
Electricité de France S.A.	0.95	62%	166%	33%	0.45
NextEra Energy, Inc.	0.83	28%	39%	27%	0.65
The Southern Company	0.83	42%	73%	27%	0.54
American Electric Power Company, Inc.	0.49	44%	79%	27%	0.31
Korea Electric Power Corporation	0.80	91%	1029%	25%	0.09
SSE plc	0.16	33%	50%	19%	0.12
PPL Corporation	1.14	39%	64%	27%	0.77
Xcel Energy Inc.	0.48	40%	66%	27%	0.32
FirstEnergy Corp.	0.81	47%	89%	27%	0.49
Entergy Corporation	0.92	54%	116%	27%	0.50
Chubu Electric Power Company, Incorporated	0.34	74%	286%	31%	0.12
Pinnacle West Capital Corporation	0.92	50%	100%	27%	0.53
OGE Energy Corp.	1.04	36%	57%	27%	0.73
Tokyo Electric Power Company Holdings, Incorporated	0.73	88%	743%	31%	0.12
Tohoku Electric Power Company, Incorporated	0.43	90%	869%	31%	0.06
VERBUND AG	0.66	8%	9%	25%	0.62
CPFL Energia S.A.	0.62	41%	69%	34%	0.42
Companhia Energética de Minas Gerais	1.05	29%	41%	34%	0.83
The Chugoku Electric Power Company, Incorporated	0.26	92%	1206%	31%	0.03
Emera Incorporated	0.55	57%	132%	27%	0.28
Average	**0.70**	**52%**	**256%**	**28%**	**0.40**

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Appendix 4 – Carrying Amount

Carrying amount

NIS Million	***Generation Segment***	***Transmission Segment***	***Distribution Segment***	***Total***
Fixed assets in use, net	17,907	13,236	20,990	52,133
Fixed assets under construction	3,784	3,188	506	7,478
Other fixed assets	205	161	788	1,153
Working capital, net	3,776	(10)	(43)	3,723
Deferred Regulatory accounts	2,747	(783)	301	2,264
Net of: Balances of fixed assets and post-reform assets	(188)	(233)	(470)	(890)
Fixed assets liquidation liabilities	(124)			(124)
Capitalized lease liabilities (IFRS 16)	(425)			(425)
Total	**27,682**	**15,559**	**22,071**	**65,312**

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