Israel Electric Corporation
Strategic Aspects
Overview

November 2012
The Electricity Sector in Israel
Pinchas Rutenberg: Founder of the Company

“The sole and only interest of the Israel Electric Company is the economic development of the country based on pure business considerations.”
Pinchas Rutenberg, 1926
Israel Electric Corporation
Selected Data

- Government company: 99.85% of the Company is owned by the Government.
- Peak demand: 11,920 MW on 19.7.2012.
- Total employees: approximately 13,000 (of which some 9,800 have tenure).
- Total customers: over 2.5 million.
Special Characteristics of the Electricity Sector

- Fast growth rate – which doubled in the last decade. A growth of 3%-4% is expected in the next decade.

- Low reserve compared with the electricity sectors in western countries (without the emergency plan and IPPs).

- “Electricity Island” – no backup or connection to any other source of electricity supply.

- Type of product:
  - Product that cannot be stored
  - Fluctuation in consumption and generation
<table>
<thead>
<tr>
<th>The Electricity Chain</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Generation</strong></td>
</tr>
<tr>
<td>63 Generation units in 17 power stations</td>
</tr>
<tr>
<td><strong>Transmission</strong></td>
</tr>
<tr>
<td>400/161 KV (about 5,246 kms.)</td>
</tr>
<tr>
<td>9 Switching stations</td>
</tr>
<tr>
<td>161 KV (4,386 km. circuits)</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
</tr>
<tr>
<td>Approx. 190 substations</td>
</tr>
<tr>
<td>High and low voltage lines (about 45,000 kms.)</td>
</tr>
<tr>
<td>2.52M customers</td>
</tr>
</tbody>
</table>

Ultra-high voltage customers
High-voltage customers
Geopolitical Surroundings: Neighboring Countries

- **Israel (2012)**
  - Population: 7.9 million
  - 1,615 MW per million residents
  - 12,760 MW

- **Lebanon (2010)**
  - Population: 4.1 million
  - 732 MW per million residents
  - 3,000 MW

- **Syria (2010)**
  - Population: 22.2 million
  - 401 MW per million residents
  - 8,911 MW

- **Jordan (2010)**
  - Population: 6.4 million
  - 463 MW per million residents
  - 2,962 MW

- **Egypt (2010)**
  - Population: 80 million
  - 309 MW per million residents
  - 24,726 MW

These statistics reflect the power generation capacity per million residents in each country.
National Installed Capacity in MW (correct to 30.8.2012)

Total Installed Capacity: 13,248 MW in 63 Generation Units

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>Total Installed Capacity in MW</th>
<th>Total Capacity in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>4,840</td>
<td>36.5</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>7,102</td>
<td>53.6</td>
</tr>
<tr>
<td>Fuel Oil</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Diesel</td>
<td>1,306</td>
<td>9.9</td>
</tr>
<tr>
<td>Total</td>
<td>13,248</td>
<td>100</td>
</tr>
</tbody>
</table>

Coal Units
Natural Gas Units
Fuel Oil Units
Combined-Cycle Units
Gas Turbine Units
Forecast demand in 2013: approx. 12,832 MW

1990-2011 Annual Peak Demand
2013-2015 Forecast Summer Peak Demand, including IPPs

Approx. 3%-4% per year
7.6% per year
3X !!
Sites operated by natural gas:

- Eshkol – as of February 2004
- Reading – as of July 2006
- Gezer – as of July 2008
- Hagit – as of May 2009
- Zafit – as of May 2010
- Ramat Hovav – as of June 2010
- Alon Tavor – as of August 2011
- Haifa – As of November 2011

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Future pipeline between Gezer and Hagit
2.52 Million Consumers

- 30.5% residential
- 32.3% public/commercial
- 20.4% industrial
- 5.6% water pumping
- 8.0% East Jerusalem and the PA
- 3.2% agriculture
- 1.3% of customers

Self-consumption by IEC: approx. 4%
Installed Capacity (Economy) 1948-2012

End of 2011: total of 13,160 MW
IEC: 12,760 MW
Private producers: approx. 400 MW

End of 2012: total of 13,750 MW
IEC: 13,250 MW
Private producers: approx. 500 MW
Electricity Tariff

Distribution according to sectors

Distribution according to costs
Development of the 400 kV Transformation System: IPPs/renewable energies/stability of the system

Status in 2012

Forecast until 2016

Total connected generation: 5,790 MW; Transmission: 10,150 MVA; Grid Length: 735 km.
161KV Transmission System
Distribution of existing lines (in 2011) and future status up to 2016

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substations</td>
<td>157</td>
<td>163</td>
</tr>
<tr>
<td>Installed transformation capacity (MVA)</td>
<td>14,855</td>
<td>16,980</td>
</tr>
<tr>
<td>No. of private power stations</td>
<td>33</td>
<td>38</td>
</tr>
<tr>
<td>Circuit lengths (in kms.)</td>
<td>4,292</td>
<td>4,570</td>
</tr>
<tr>
<td>Length of underground cables in kms.</td>
<td>94</td>
<td>115</td>
</tr>
</tbody>
</table>
Electricity – Product Quality
Reliability of Supply

Yearly average index of minutes-of-non-supply of electricity per customer, in medium-voltage grids, for 1988-2011

Index of minutes-of-non-supply has decreased by 84% in the last 24 years.
Cost of Electricity in Israel
(in 2012 prices, in agorot, without VAT)
Electricity Price in Israel is among the Lowest in the Western World even after the Natural Gas Crisis

Average price per kWh, per residential customer consuming between 5,000 and 15,000 kWh per year (including VAT and taxes)

Source: Eurostat publication 2011 – for prices abroad
Official OECD Report (2011)

“...the current price (in Israel), in general, appears artificially low...
...the price of electricity in the wholesale sector (not including tax) are low in international terms...
...the prices are not high enough for a monopolistic supplier to exist (even when taking steps to save costs)…”

It has been 20 years that electricity prices in Israel are a third of the lowest in the western world.
Price Outlook: Prices in previous years were higher than the current price that was caused by the natural gas crisis.

Average price per KWh in the residential sector (in 2012 prices*)

(*) deducted from the price index per customer (annual average) – 2012 Israel Bank forecast 2.6%
Quality of Service to Customers

Israel Electric has been chosen for the 15th consecutive time for customer satisfaction for the quality of service in the public sector!

According to the “Test of the Nation” and the Geocartography Institute
Fuels
IEC: The Pioneer of the Natural Gas Revolution

The chart shows the percentage distribution of energy sources from 2003 to 2011. The energy sources are coal and natural gas.

- In 2003, coal accounted for 79% and natural gas for 0%.
- In 2011, coal accounted for 61.5% and natural gas for 31.9%.

The chart indicates a gradual increase in the use of natural gas over the years, with coal maintaining a majority share.
The Effect of Introducing Natural Gas

- Improved efficiency
- Electricity cost reduction
- Efficiency in HR
- Pollution reduction
- Competition and IPPs

Natural Gas
Redundancy

- Increase in number of suppliers
- Strategic storage
- Transmission and supply redundancy
- Local storage
Relying on gas on a broad scale requires an infrastructure suitable for conducting and storing of gas!
Forecast Changes in the Fuel Basket until 2014

**Forecast 2014***
- coal: 38%
- natural gas & IPPs: 61.5%
- diesel and fuel oil: 0.5%

**2010**
- coal: 36.5%
- natural gas: 61%
- diesel and fuel oil: 2.4%
- IPPs: 0.1%

**2003**
- coal: 79%
- fuel oil: 17%
- diesel: 4%

* The distribution for 2014 is calculated on the basis of data used to prepare the fuel forecast and the electricity generation for financial planning for 2013-2017 (scenario without energetic efficiency).

* Generation for 2014 includes about 2,000 MW by IPPs (conventional and self-generating/cogeneration units).
Fuels: International Comparisons (planned for 2015)

USA

- Coal: 42.3%
- Natural gas: 19.7%
- Other: 6.5%
- LNG: 14.8%
- Other: 2.4%

Europe (OECD)

- Coal: 21.6%
- Natural gas: 12.6%
- Other: 14.5%
- LNG: 23.4%
- Other: 2.4%

In the world

- Coal: 41.3%
- Natural gas: 16.7%
- Other: 4.8%
- LNG: 20.0%
- Other: 2.4%

Japan

- LNG: 29.8%
- Natural gas: 23.3%
- Sun, wind, other: 11.3%
- Nuclear: 3.0%
- Coal: 23.8%
- Other: 8.2%

Participation of Units on 31.7.2011
(Summer Peak in 2011)

Daily energy: some 210,070 MWh
Cost of fuel: approx. USD 24.3M

- IPPs in IEC grid: 0.5%
- Diesel: 16.5% of total generation
- Fuel oil: 0.4% of total generation
- Gas: 27.9% of total generation
- Coal: 54.7% of total generation
Forecast requirements for the electricity sector for the next decade: 6-8 BCM per year

**Neighboring Sources of Natural Gas**

- **Tamar**
  - Israel
  - 240 BCM

- **Leviathan**
  - Israel
  - 450 BCM

- **Dalit**
  - Israel
  - 15 BCM

- **Mari B + Noa**
  - YT
  - 15-20 BCM

- **Gaza Marin**
  - BG
  - 25 BCM

**EMG**
- Gas supply from Egypt has ceased and there is no information as to if it will be renewed

**LNG - Import of LNG for backup**
Development Plans
Problems in the Electricity Reserve

- Large demand of a developing market – 4% per year
- Breaking the peak demand record on 19/7/12: 11,920 MW
- Low cost of electricity encourages demand
- Lack of certainty in entry of IPPs and in the development of IEC
- Climate warming

- Winter
- Night
- Friday
- Saturday
- Week
- Day
- Summer
Significance of Advancing Investments in the Electricity Market

Average generation costs

~ 5 cent/KWh

Cost of damage to the national economy

25 $/KWh

1:250

#### Current projects
- Shutdown of Rutenberg Unit 5 for 6 months as of 10/2013 - 575 MW
- Shutdown of Rutenberg Unit 1 for 6 months as of 10/2014 - 575 MW
- Shutdown of Rutenberg Unit 2 for 6 months as of 4/2015 - 575 MW
- Shutdown of Orot Rabin Unit 4 for 6 months as of 10/2015 - 550 MW
- Shutdown of Orot Rabin Unit 3 for 6 months as of 1/2016 - 360 MW
- Shutdown of Orot Rabin Unit 1 for 6 months as of 1/2016 - 360 MW
- Shutdown of Orot Rabin Unit 2 for 5 months as of 4/2016 - 360 MW
- Shutdown of Orot Rabin Unit 4 for 6 months as of 10/2016 - 360 MW
- Shutdown of Rutenberg Unit 3 for 6 months as of 4/2016 - 550 MW
- Shutdown of Rutenberg Unit 2 for 6 months as of 4/2017 - 575 MW

#### Emergency-plan projects
- Project D 630 MW

#### Emission reduction projects in existing coal-fired power stations; these projects will continue until the end of 2017
- Project D 630 MW

#### Installed capacity during peak demand in summer (in MW)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13,396</td>
<td>13,910</td>
<td>13,910</td>
<td>14,024</td>
<td>13,883</td>
<td>14,372</td>
<td>15,002</td>
</tr>
</tbody>
</table>

*In addition to this development plan, introduction of new IPPs and implementation of energetic efficiency plans is expected.*
Investment plan for 2013-2017
(in million NIS in 12/2011 prices, including interest capitalization)
Business Development
Smart Grid
Diverse infrastructures have undergone significant revolutions; now it’s the Electricity Sector’s turn.

**1950**
- Telephones
- Airplanes
- Computers
- Electricity

**2009**
The Future Electricity Grid: Main Points

**Generation**
- Integration of renewable energy sources
  - Generation at point of consumption (detour of the transmission grid)
  - Efficient use of traditional installations
  - Advanced load management systems

**Transmission**
- Integration of renewable energy sources
- Advanced load management systems
- Automatic grid management
- Ensuring service standards

**Consumption**
- Smart meters
- Generation at point of consumption
Israel Electric’s Communication Venture
The Environment
Main Projects in the Last Decade that Contributed to a Significant Reduction in Emissions

2000
First addition of combined cycle in Ramat Hovav
NIS 415M

2001
Operation of FGDs in Rutenberg 2
NIS 319.3M

2003
Completion of conversion to natural gas in Eshkol and Reading

2004
Introduction of natural gas to the electricity sector
NIS 393.9M

2005
Use of special coal in Orot Rabin

Alon Tavor
12/2004, 2/2005
Emission reduction in Units 1,2 respectively

Hagit
Conversion to natural gas and water injection to reduce diesel oil emissions in Units 1-4
Main Projects in the Last Decade that Contributed to a Significant Reduction in Emissions (cont.)

2006 Haifa
Completion of conversion to natural gas in Unit 3

Zafit
Emission reduction project in Units 1,2

2010–2009
Ramat Hovav
Conversion to natural gas and water injection to reduce diesel oil emission in Units 1-4

2011
Alon Tavor
Installation of natural gas system in Unit 3

2017
Emission reduction in coal-fired units

Orot Rabin
Conversion of Units 1-4 to natural gas

NIS 513.5M

NIS 8,500M

By 2017, the performance of coal-fired units will improve as a result of installing devices totaling NIS 8.5 billion (almost equivalent to the construction of another coal-fired power station)!

A forecast 8.6 billion NIS to be invested over 8 years for emission reduction

Orot Rabin 5,6

Rutenberg 1,2

Rutenberg 3,4

Orot Rabin 1-4

FGD, SCR, PM

FGD, SCR

SCR

SCR

2014

2015

2016

2016 / 2017

Rutenberg – A reduction of 80% in sulfur oxides and 80% in nitrogen oxides

Orot Rabin – A reduction of 90% in sulfur oxides and 90% in nitrogen oxides

Rutenberg – A reduction of 80% in sulfur oxides and 80% in nitrogen oxides

Orot Rabin – A reduction of 90% in sulfur oxides and 90% in nitrogen oxides
Reduction of Carbon Dioxide (CO₂)
Emissions Against Electricity Generation
(in 1990 and 2000-2011)
Sulfur Dioxide (SO$_2$) and Nitrogen Oxide (NO$_x$) Emissions Against Electricity Generation (in 1990 and in 2000-2011)
Emission Reduction of SO$_2$ and NOx in the Coal-Fired Power Station at the Orot Rabin Site

Emission rate
Kg./Hour

<table>
<thead>
<tr>
<th></th>
<th>Current State</th>
<th>Apr-14</th>
<th>Oct-14</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>SO$_2$</td>
<td>8183</td>
<td>7438</td>
<td>5992</td>
<td>569</td>
</tr>
<tr>
<td>NOx</td>
<td>6946</td>
<td>5992</td>
<td>4545</td>
<td>513</td>
</tr>
</tbody>
</table>

Emission Reduction:
- SO$_2$: - 93%
- NOx: - 93%
Emission Reduction of SO$_2$ and NO$_x$ at the Coal-Fired Rutenberg Power Station

- SO$_2$: 88%
- NO$_x$: 82%

<table>
<thead>
<tr>
<th>Current State</th>
<th>Apr-15</th>
<th>Oct-15</th>
<th>Apr-16</th>
<th>Oct-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>SO$_2$</td>
<td>5924</td>
<td>3505</td>
<td>1085</td>
<td>907</td>
</tr>
<tr>
<td>NO$_x$</td>
<td>4024</td>
<td>3001</td>
<td>1977</td>
<td>1353</td>
</tr>
<tr>
<td>Emission Red.:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO$_2$:</td>
<td>88%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NO$_x$:</td>
<td>82%</td>
<td></td>
<td></td>
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</tbody>
</table>
Financial Data
The Difficulties of IEC’s Financial Situation

- High leverage

- Acute shortage of cash balance

- Need for extensive investment in development

- Low tariff! One of the lowest among Western countries

- Low profitability: shortage of internal sources

- Strict limitations on the possibilities of raising capital in Israel

- Depletion of the Yam Thetys reservoir

- Cessation of gas flow from Egypt

- Lowering the rate abroad below the investment-permitting rate
The lack of natural gas results in financial consequences of an unprecedented strategic scope.
## BALANCE - ASSETS

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NIS</td>
<td>USD</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,176</td>
<td>308</td>
</tr>
<tr>
<td>Short term investments</td>
<td>757</td>
<td>198</td>
</tr>
<tr>
<td>Trade receivables for sales of electricity</td>
<td>3,946</td>
<td>1,033</td>
</tr>
<tr>
<td>Other current assets</td>
<td>640</td>
<td>167</td>
</tr>
<tr>
<td>Inventory - fuel</td>
<td>2,029</td>
<td>531</td>
</tr>
<tr>
<td>Inventory - stores</td>
<td>127</td>
<td>33</td>
</tr>
<tr>
<td>Regulatory assets, net</td>
<td>2,500</td>
<td>654</td>
</tr>
<tr>
<td><strong>Total Current assets</strong></td>
<td><strong>11,175</strong></td>
<td><strong>2,925</strong></td>
</tr>
<tr>
<td>Long-term receivables</td>
<td>2,030</td>
<td>531</td>
</tr>
<tr>
<td>Long-term regulatory asset</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Excess pension plan assets over pension liability</td>
<td>5,820</td>
<td>1,523</td>
</tr>
<tr>
<td>Funds in trust</td>
<td>2,090</td>
<td>547</td>
</tr>
<tr>
<td>Fixed assets in use, net</td>
<td>57,564</td>
<td>15,065</td>
</tr>
<tr>
<td>Fixed assets under construction</td>
<td>4,870</td>
<td>1,275</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>865</td>
<td>226</td>
</tr>
<tr>
<td><strong>Total Non current assets</strong></td>
<td><strong>73,239</strong></td>
<td><strong>19,167</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>84,414</strong></td>
<td><strong>22,092</strong></td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>------------</td>
<td>------------</td>
</tr>
<tr>
<td></td>
<td>NIS</td>
<td>USD</td>
</tr>
<tr>
<td>Short term debentures</td>
<td>2,068</td>
<td>541</td>
</tr>
<tr>
<td>Trade payables</td>
<td>1,591</td>
<td>416</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer advances, net of work in progress</td>
<td>407</td>
<td>107</td>
</tr>
<tr>
<td>Provisions</td>
<td>805</td>
<td>211</td>
</tr>
<tr>
<td><strong>Total Current liabilities</strong></td>
<td>9,569</td>
<td>2,504</td>
</tr>
<tr>
<td>Debentures</td>
<td>31,948</td>
<td>8,361</td>
</tr>
<tr>
<td>Liabilities to banks</td>
<td>5,150</td>
<td>1,348</td>
</tr>
<tr>
<td>Liabilities with respect to other benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>termination</td>
<td>2,698</td>
<td>706</td>
</tr>
<tr>
<td>Regulatory liabilities, net</td>
<td>2,845</td>
<td>745</td>
</tr>
<tr>
<td>Provision for refunding amounts to consumers</td>
<td>2,305</td>
<td>603</td>
</tr>
<tr>
<td>Deferred taxes, net</td>
<td>5,607</td>
<td>1,467</td>
</tr>
<tr>
<td>Debentures to the State of Israel</td>
<td>2,505</td>
<td>656</td>
</tr>
<tr>
<td>Liability to the State of Israel</td>
<td>3,764</td>
<td>985</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>393</td>
<td>103</td>
</tr>
<tr>
<td><strong>Total Non current liabilities</strong></td>
<td>57,215</td>
<td>14,974</td>
</tr>
<tr>
<td>Shareholders equity</td>
<td>17,630</td>
<td>4,614</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>84,414</td>
<td>22,092</td>
</tr>
</tbody>
</table>
## Consolidated Statements of Operation and Comprehensive Income

<table>
<thead>
<tr>
<th>Description</th>
<th>31/12/2011</th>
<th>30/09/2011</th>
<th>30/09/2012</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cost of operating the electricity system</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>1,719</td>
<td>1,288</td>
<td>1,613</td>
</tr>
<tr>
<td>Fuel</td>
<td>12,977</td>
<td>9,002</td>
<td>16,157</td>
</tr>
<tr>
<td>Transfer of fuel to regulatory assets</td>
<td>0</td>
<td>0</td>
<td>(4,509)</td>
</tr>
<tr>
<td><strong>Purchases of electricity</strong></td>
<td>479</td>
<td>329</td>
<td>667</td>
</tr>
<tr>
<td>Transfer of purchases of electricity to regulatory assets (from assets)</td>
<td>0</td>
<td>0</td>
<td>(56)</td>
</tr>
<tr>
<td>Operation of the generation system</td>
<td>769</td>
<td>552</td>
<td>554</td>
</tr>
<tr>
<td>Operation of the transmission and distribution system</td>
<td>367</td>
<td>268</td>
<td>228</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,277</td>
<td>3,143</td>
<td>3,262</td>
</tr>
<tr>
<td>Provision (release) with respect to non-recognition of fixed assets costs</td>
<td>(128)</td>
<td>(116)</td>
<td>1</td>
</tr>
<tr>
<td>Total costs</td>
<td>20,460</td>
<td>14,466</td>
<td>17,917</td>
</tr>
<tr>
<td><strong>Profit from operating the electricity system</strong></td>
<td>4,592</td>
<td>4,297</td>
<td>3,465</td>
</tr>
<tr>
<td>Sales and marketing expenses</td>
<td>898</td>
<td>643</td>
<td>723</td>
</tr>
<tr>
<td>Administrative and general expenses</td>
<td>729</td>
<td>562</td>
<td>607</td>
</tr>
<tr>
<td>Expenses from liabilities to pensioners, net</td>
<td>149</td>
<td>143</td>
<td>1,540</td>
</tr>
<tr>
<td>Income from current operations</td>
<td>2,816</td>
<td>2,949</td>
<td>595</td>
</tr>
<tr>
<td><strong>Financial expenses, net</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial expenses</td>
<td>2,708</td>
<td>1,918</td>
<td>2,092</td>
</tr>
<tr>
<td>Capitalization of financial expenses</td>
<td>(204)</td>
<td>(151)</td>
<td>(198)</td>
</tr>
<tr>
<td>Transfer of financial income (expenses) to a regulatory liability</td>
<td>(274)</td>
<td>(183)</td>
<td>53</td>
</tr>
<tr>
<td>Financial expenses, net</td>
<td>2,230</td>
<td>1,584</td>
<td>1,947</td>
</tr>
<tr>
<td>Income (loss) before income taxes</td>
<td>586</td>
<td>1,365</td>
<td>(1,352)</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other deferred taxes</td>
<td>156</td>
<td>281</td>
<td>(317)</td>
</tr>
<tr>
<td>Expenses (income) from adjustments of deferred tax balances arising from</td>
<td>1,232</td>
<td>(30)</td>
<td>0</td>
</tr>
<tr>
<td>future tax rates</td>
<td>(802)</td>
<td>1,114</td>
<td>(1,035)</td>
</tr>
<tr>
<td><strong>Net Income (loss)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
IEC Consolidated Debt Breakdown
(as of September 30, 2012)

- Diversified debt portfolio
- Foreign currency exposure substantially mitigated through the tariff structure and utilizing hedging transactions
- No maturity spike in the coming four years

**Annual Debt Maturities as of September 2012**
(Principal in NIS millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans from financial institutions and from the State of Israel</th>
<th>Private and public debt offerings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2012</td>
<td>890</td>
<td>621.6</td>
</tr>
<tr>
<td>2013</td>
<td>6,507.3</td>
<td>2,090.7</td>
</tr>
<tr>
<td>2014</td>
<td>4,781</td>
<td>2,098.3</td>
</tr>
<tr>
<td>2015</td>
<td>4,669</td>
<td>792.8</td>
</tr>
<tr>
<td>2016 and thereafter</td>
<td>30,011</td>
<td></td>
</tr>
</tbody>
</table>

**Debt by Currency**

- USD: 32%
- NIS linked to CPI: 51%
- JPY: 7%
- EUR: 5%
- NIS not linked: 5%

**Type of Instrument**

- Domestic bonds: 50%
- Internationally marketed bonds: 30%
- Loans in foreign currency: 14%
- Loans in NIS: 6%

**Interest Rate Exposure**

- Floating: 9%
- Fixed: 91%

Source: IEC and IEC’s filings.

1. The hedging through tariff mechanism will be eliminated by April 2013.
2. In November 2012 the IEC has issued: tradable CPI linked debentures in a total amount of NIS 1.0 billion guaranteed by the State of Israel; non tradable CPI linked debentures in a total amount of NIS 0.2 billion and non tradable unlinked debentures in a total amount of NIS 0.8 billion.
Structural Change
In the last decade many reforms have occurred in government companies in Israel, but no reform has dealt with a company of IEC’s scale. Reform in IEC is compared with a number of reforms in the large companies simultaneously, due to the number of employees and financial scope.

**Selected reforms in leading companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Description</th>
<th>No. of Employees*</th>
<th>Assets*</th>
<th>Income cycle*</th>
<th>Foreign capital*</th>
<th>Product sensitivity</th>
<th>Complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel Electric</td>
<td>Converted to government company (2005)</td>
<td>700</td>
<td>NIS 0.35 billion</td>
<td>NIS 1.5 billion</td>
<td>0</td>
<td>Full substitution by hiring new workers</td>
<td>4</td>
</tr>
<tr>
<td>National Roads Company</td>
<td>Privatized (2005)</td>
<td>8,000</td>
<td>NIS 17.3 billion</td>
<td>NIS 4.7 billion</td>
<td>NIS 9 billion</td>
<td>Partial substitution during reform (mobile phones, cable)</td>
<td>2</td>
</tr>
<tr>
<td>Bezeq</td>
<td>Privatized (2004)</td>
<td>1,100</td>
<td>NIS 5.5 billion</td>
<td>NIS 8.9 billion</td>
<td>NIS 3 billion (estimated)</td>
<td>High substitution by foreign shipping companies</td>
<td>1</td>
</tr>
<tr>
<td>Zim</td>
<td>Completed privatization (2003)</td>
<td>3,200</td>
<td>NIS 1.5 billion</td>
<td>NIS 1.2 billion</td>
<td>NIS 0.8 billion</td>
<td>High substitution by foreign air companies</td>
<td>2</td>
</tr>
<tr>
<td>El-Al</td>
<td>Privatized (2007)</td>
<td>900</td>
<td>NIS 9 billion</td>
<td>NIS 16.7 billion</td>
<td>NIS 2 billion</td>
<td>Refines 80% of the fuels in the economy; Partial substitution by import</td>
<td>3</td>
</tr>
<tr>
<td>Oil Refineries</td>
<td>Structural changes (2005)</td>
<td>2,300</td>
<td>NIS 3.5 billion</td>
<td>NIS 1.6 billion</td>
<td>0</td>
<td>99% of exports pass through the ports; no substitution is possible</td>
<td>5</td>
</tr>
<tr>
<td>Israel Ports</td>
<td>Structural changes (2009)</td>
<td>12,200</td>
<td>NIS 70 billion</td>
<td>NIS 23 billion</td>
<td>NIS 44 billion</td>
<td>Unreplaceable product</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Companies Authority Reports, Privatization Forecasts. Analysis: TASC. * On the date of privatization/structural changes. ** Includes parameters by average linear weight in relation to IEC.
Where will stopping the reform process lead to?

**Non-execution of the reform in IEC will cause ever increasing damage to the Company, its employee, and the country**

- Non-performance of reform
- Low electricity reserves
- Damage to IEC employees
- There will be no new investments by IEC
- Reduction in the IEC market
- Constant deterioration of IEC’s financial state
- Broad regulatory restrictions
- Large investments as an incentive for IPPs
- Low yields/returns on capital (IEC)
- Damage to the electricity sector, to IEC and employees

Damage to IEC and its employees:

- Damage to employees
- Non-performance of reform
- Low electricity reserves
- Reduction in the IEC market
- Constant deterioration of IEC’s financial state
- Broad regulatory restrictions
- Large investments as an incentive for IPPs
- Low yields/returns on capital (IEC)
- Damage to the electricity sector, to IEC and employees
Structural change

Workers’ rights

Efficiency

Financial strength

Organizational change
Goal Structure for the Reform

Extracting the National Dispatch from IEC

IEC as a united company & organizational change and efficiency plan

Profit Centers

Transmission

Distribution

Central services & cancellation of EPC ban

Generation: regional power stations as profit centers vs. system head & rotation

EPC

Ramat Hovav 1150 MW 100% private/government

Alon Tavor 380 MW 100% private/government

Project D 1300 MW 51% private

National Dispatch

Continued introduction of IPPs

Removal of ban to build stations and nuclear station (equal or equivalent to 2020)

IPP

IPP

IPP

IPP

IPP

IPP
Caring About the Environment