The Israel Electric Corporation Ltd.

Financial Reports

For The Year Ended
December 31, 2011

FILES INDEX – PART II

The financial reports, for the year ended December 31, 2011, are presented in a primary order.

Each chapter is numbered separately by its internal sequence.

File name		Page
Chapter C	Consolidated Interim Financial Statements	2
Chapter D	Additional Particulars about the Corporation	177
Annex 1	Actuarial Valuation	217
Annex 2	Assets Impairment Test	276

Prominent Disclaimer

This English translation of the **"Consolidated Annual Financial Statements"** for the year ended December 31, 2011 ("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.

Deloitte.
Brightman Almagor Zohar

Auditors' Report
To the Shareholders of the Israel Electric Corporation Limited

We have audited the accompanying consolidated statements of financial position of the Israel Electric Corporation Limited (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's Board of Directors and its management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Israeli generally accepted auditing standards, including those prescribed by the Israeli 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 Company's Board of Directors and its management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Company and its subsidiary as at December 31, 2011 and 2010 and their results of operations, changes in shareholders' equity and cash flows for each of the years then ended, in conformity with the Government Companies Regulations (as explained in Note 2a1) and the requirements of the Securities Regulations (Preparation of Annual Financial Statements), 2010.

Without qualifying our above opinion, we draw attention to the following matters:

1. The contents of Note 1f in regard to the anticipated material gaps in the Company's cash flows for the years 2012 and 2013, which may occur mainly because of an anticipated shortage in natural gas imported from Egypt, a significant decrease in the gas production from Yam Tetis, and the decision made by the Electricity Authority to spread the increase in the electricity tariff (due to gaps in fuel costs from the natural gas shortage) over several years, and with respect to the actions taken in the present and to be taken in the future by the Company and the government due to the aforementioned events, and the assessment of management and the Board of Directors with respect to the ability of the Company, subject to agreed actions, to bridge these material gaps.

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2. The contents of Note 1g regarding the "Assets Arrangement", particularly regarding significant uncertainty and highly material amounts that the Company may be obligated to pay under that arrangement.

3. The contents of Note 24b (subsections 1, 4 and 5) regarding class action suits, a derivative suit and other material claims that were filed against the Company.

4. Note 2a(4) regarding the aspects in which the financial reporting principles applied in the Company's financial statements, in conformity with the Government Companies Regulations, differ from International Financial Reporting Standards (IFRS).

Notes 36, 37 and other notes in the financial statements, include additional information pursuant to requirements of the Government Companies Authority (by virtue of section 33b to the Government Companies Law), excluding information regarding land rights as discussed in Note 11k.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) as was adopted by the Institute of Certified Public Accountants in Israel, the Company's internal controls over financial reporting as of December 31, 2011, based on the criteria established in *Internal Controls — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 29, 2012 expressed an adverse opinion on the Company's internal controls over financial reporting because of a material weakness.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu Limited

Tel Aviv, March 29, 2012

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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, AS DEFINED IN SECTION 8(b) IN CHAPTER B OF THE SECURITIES REGULATIONS (PERIODIC AND IMMEDIATE REPORTS) – 1970)

I, Harel Zeev Blinde, certify that:

1. I have reviewed the Financial Statements and Directors' Report of The Israel Electric Corporation Limited ("the Company" or the "Electric Corporation") for the year ended December 31, 2011 (collectively - "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 is made known to us by others in the Company 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.

Harel Zeev Blinde
Senior Vice-President of Finance and Economics

March 29, 2012

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, AS DEFINED IN SECTION 8(b) IN CHAPTER B OF THE SECURITIES REGULATIONS (PERIODIC AND IMMEDIATE REPORTS) – 1970)

I, Eliyahu Glickman, certify that:

1. I have reviewed the Financial Statements and Directors' Report of The Israel Electric Corporation Limited ("the Company" or the "Electric Corporation") for the year ended December 31, 2011 (collectively - "the reports").

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

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

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

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

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

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

Eliyahu Glickman
Chief Executive Officer

March 29, 2012

ADDENDUM
(REGULATION 2)
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I, Dr. Ziv Reich, certify that:

1. I have reviewed the Financial Statements and Directors' Report of The Israel Electric Corporation Limited ("the Company" or the "Electric Corporation") for the year ended December 31, 2011 (collectively - "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 is made known to us by others in the Company 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.

Dr. Ziv Reich
Chairman, Committee for Reviewing
the Financial Statements

March 29, 2012

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, AS DEFINED IN SECTION 8(b) IN CHAPTER B OF THE SECURITIES REGULATIONS (PERIODIC AND IMMEDIATE REPORTS) – 1970)

I, Yiftah Ron-Tal, certify that:

1. I have reviewed the Financial Statements and Directors' Report of The Israel Electric Corporation Limited ("the Company" or the "Electric Corporation") for the year ended December 31, 2011 (collectively - "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 is made known to us by others in the Company 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.

Yiftah Ron-Tal
Chairman of the
Board of Directors

March 29, 2012

THE ISRAEL ELECTRIC CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NEW ISRAELI SHEKELS, IN MILLIONS)
(Adjusted to NIS purchasing power of December 2011)

	Note	December 31 2011	2010
CURRENT ASSETS			
Cash and cash equivalents	4	1,152	3,278
Short term investments	5	741	539
Trade receivables for sales of electricity	6	3,864	3,211
Other current assets	7	625	301
Inventory- fuel	8	1,987	1,808
Inventory- stores		124	154
Regulatory assets, net	20	2,449	-
		10,942	9,291
NON-CURRENT ASSETS			
Long-term receivables	9	1,987	1,209
Assets with respect to benefits after employment termination:			
Excess pension plan assets over pension liability	19	5,701	5,276
Funds in trust	10	2,047	1,980
		7,748	7,256
Fixed assets, net	**11**		
Fixed assets in use, net		56,370	57,621
Fixed assets under construction		4,769	4,665
		61,139	62,286
Intangible assets, net	12	847	846
		82,663	80,888

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

Mr. Harel Zeev Blinde Senior Vice-President of Finances and Economics	Mr. Eliyahu Glickman Chief Executive Officer	Dr. Ziv Reich Chairman, Committee for Reviewing the Financial Statements	Yiftah Ron-Tal Chairman of the Board of Directors

March 29, 2012
Date of approval of the Financial Statements

THE ISRAEL ELECTRIC CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NEW ISRAELI SHEKELS, IN MILLIONS)
(Adjusted to NIS purchasing power of December 2011)

	Note	December 31 2011	2010
CURRENT LIABILITIES			
Credit from banks and other credit providers	14	4,602	4,998
Trade payables		2,024	1,259
Other current liabilities.....	15	1,559	1,333
Regulatory liabilities, net	20	-	2,824
Customer advances, net of work in progress	16	399	397
Provisions.....	17	788	754
		9,372	11,565
NON CURRENT LIABILITIES			
Debentures.....	18	31,284	*29,424
Liabilities to banks.....	18	5,042	*4,849
Liabilities with respect to other benefits after employment termination.....	19	2,642	2,602
Regulatory liabilities, net	20	2,786	1,547
Provision for refunding amounts to consumers ...	21	2,257	2,150
Deferred taxes, net	22	5,491	4,142
Debentures to the State of Israel.....	23	2,453	2,444
Liability to the State of Israel	13q	3,686	*3,730
Other liabilities	18	385	385
		56,026	51,273
SHAREHOLDERS' EQUITY			
Share capital.....	33	1,099	1,099
Capital reserves	26	996	996
Retained earnings		15,170	15,955
		17,265	18,050
		82,663	**80,888**

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

* Reclassified

THE ISRAEL ELECTRIC CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(NEW ISRAELI SHEKEL, IN MILLIONS)
(Adjusted to NIS purchasing power of December 2011)

	Note	For the Year ended December 31		
		2011	2010	2009
Revenues	28	24,532	19,843	19,723
Cost of operating the electricity system:				
Wages		1,683	1,539	1,432
Fuel		12,707	8,981	9,098
Purchases of electricity		469	277	142
Operation of the generation system		753	627	677
Operation of the transmission and distribution system		359	301	349
Depreciation and amortization		4,188	4,011	3,813
Provision with respect to non-recognition of fixed assets construction costs	11	(125)	953	-
		20,034	16,689	15,510
Profit from operating the electricity system		**4,498**	**3,154**	**4,213**
Sales and marketing expenses	29	879	790	786
Administrative and general expenses	30	714	671	857
Expenses (income) from liabilities to pensioners, net		146	(19)	(226)
		1,739	1,442	1,417
Income from current operations		**2,759**	**1,712**	**2,796**
Financial expenses, net:	32			
Financial expenses		2,653	1,048	2,250
Capitalization of financial expenses		(200)	(160)	(251)
Transfer of financial income (expenses) to a regulatory asset/liability		(268)	819	513
		2,185	1,707	2,512
Income (loss) before income taxes		**574**	**5**	**284**
Income taxes:				
Other deferred taxes		153	4	66
Expenses (income) from adjustments of deferred tax balances arising from changes in future tax rates	22	1,206	(1)	(1,206)
		1,359	3	(1,140)
Net Income (loss)		**(785)**	**2**	**1,424**
Total comprehensive income (loss)		**(785)**	**2**	**1,424**

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)
(Adjusted to NIS purchasing power of December 2011)

	Paid-up share capital	Capital reserves	Retained earnings	Total
Balance as of January 1, 2009	1,099	996	14,529	16,624
Changes during 2009				
Net income	-	-	1,424	1,424
Balance as of December 31, 2009	**1,099**	**996**	**15,953**	**18,048**
Changes during 2010				
Net income	-	-	2	2
Balance as of December 31, 2010	**1,099**	**996**	**15,955**	**18,050**
Changes during 2011				
Loss for the year	-	-	(785)	(785)
Balance as of December 31, 2011	**1,099**	**996**	**15,170**	**17,265**

a. The Company is subject to the Government Companies Law – 1975 ("The Government Companies Law"), 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, 1999, ("The Companies Law"), is subject to the approval of the Government Companies Authority ("Companies Authority"). The current policy of the Government Companies Authority (which may change from time to time) on appropriating profits for dividend distribution, as of 1995, states that dividends from current income of public utilities companies will be distributed at a rate of 60% of the current net annual income, before profit-based bonus payments to employees.

b. The calculated amount of the dividends according to this policy for 2004-2006 was about NIS 2.5 billion. No dividends were calculated for 2007, since according to the former reporting standards, the Company recorded a loss in that year. According to this policy, the dividends for 2008 amount to about NIS 358 million (after an update with respect to restatement, the calculated sum would have amounted to approximately NIS 548 million). The dividend amount for 2009 is NIS 779 million (after an update with respect to restatement, the calculated sum would have amounted to approximately NIS 843 million).

c. The Company's Board of Directors decided in 2005 to recommend to the General Meeting the distribution of dividends in the amount of NIS 118 million with respect to earnings for 2004, because in its opinion, dividends should not be distributed out of the earnings deriving from an accounting change and from an amount deriving from a decrease in the tax rate. These dividends were not paid as yet.

   For the time being, the Board of Directors does not recommend the distribution of dividends for the years 2005, 2006, 2008, 2009. The Company did not distribute dividends from 2004 onwards.

d. Under the bonus policy in Government Business Companies, as stipulated in the Government Companies Authority circular, dated July 15, 2008, bonus payments to employees are not allowed when no dividends were paid for the year for which the bonus is requested. The Company did not pay bonuses to employees in years where no dividends were paid.

e. The Company applied to the Director of the Companies Authority to receive his approval of the above recommendation for 2004. The Company also requested the approval of the Director of the Companies Authority of the decision of the Board of Directors on distribution of dividends for the years 2005-2009. The Director of the Companies Authority clarified in his letter of May 5, 2009, that this subject will be reviewed with due consideration of the financing requirements of the Company, its internal sources and debt raising, required to enable the Company to fulfill the instructions of the Electricity Sector Law - 1996 and its amendments, including all instructions regarding the preparation for implementing the restructuring of the Electricity Sector, the development plan and the emergency plan of the Electricity Sector. Subsequently the Companies Authority announced that it does not intend to demand a dividend distribution by the Company for the years 2004-2008, in 2009.

   The Company did not distribute nor calculate dividends for the years 2010-2011, since in 2010 the Company recorded in its financial statements an income of NIS 2 million only and in 2011, the Company recorded a loss of NIS 785 million.

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

THE ISRAEL ELECTRIC CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(NEW ISRAELI SHEKELS, IN MILLIONS)
(Adjusted to NIS purchasing power of December 2011)

	For the Year ended December 31		
	2011	**2010**	**2009**
Cash flows from operating activities:			
Net income (loss) according to the statements of operations and comprehensive income	(785)	2	1,424
Adjustments required to present cash flows from operating activities (Annex A)	2,380	3,466	5,594
Net cash provided by operating activities	**1,595**	**3,468**	**7,018**
Cash flows from investing activities:			
Purchase of fixed assets less consumers' participation in assets	(4,141)	(3,116)	(3,877)
Purchase of intangible assets	(176)	(195)	(180)
Purchase of negotiable securities and other long term investments	-	-	(42)
Proceeds from sale of fixed assets	71	50	44
Collection (provision) of long-term debts, net	(1)	159	63
Deposit of deposits in banks	(202)	(539)	-
Net cash used in investing activities	**(4,449)**	**(3,641)**	**(3,992)**
Cash flows from financing activities:			
Issuance of long-term debentures, net	4,016	-	2,722
Other long-term loans received	1,081	185	945
Long-term debentures repayment	(2,695)	(502)	(4,885)
Repayment of other long-term loans	(993)	(999)	(1,130)
Deposit (repayment) of hedging transactions, net	(809)	316	96
Increase (decrease) of short-term credit from banks, net	128	376	(547)
Net cash provided by (used in) financing investing activities	**728**	**(624)**	**(2,799)**
Increase (decrease) in cash and cash equivalents	**(2,126)**	**(797)**	**227**
Balance of cash and cash equivalents at beginning of the period	**3,278**	**4,075**	**3,850**
Balance of cash and cash equivalents at end of period	**1,152**	**3,278**	**4,077**
Additional information about cash flows-			
Actual interest payments, net	2,466	3,000	2,800
Actual tax payments, net	7	12	6

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

THE ISRAEL ELECTRIC CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(NEW ISRAELI SHEKELS, IN MILLIONS)
(Adjusted to NIS purchasing power of December 2011)

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

	For the Year ended December 31		
	2011	**2010**	**2009**
Income and expenses not affecting cash flows:			
Depreciation and amortization	4,414	5,530	4,118
Increase (decrease) in deferred taxes, net	1,355	(4)	(1,152)
Increase in liabilities with respect to employees benefits, net	(286)	(113)	(110)
Revaluation (erosion) of loans and debentures, net, including hedging transactions	46	(1,852)	(938)
Increase in provision for refunding amounts to customers	107	104	91
Increase (decrease) of exposure of the Company to changes in foreign currency transferred to consumers	(987)	438	107
Increase (decrease) in other regulatory liabilities	(2,495)	(278)	2,118
Revaluation (erosion) of long term debts	(4)	(4)	14
Capital loss (gain) on sale of fixed assets	60	(6)	(26)
	2,210	**3,815**	**4,222**
Changes in assets and liabilities:			
Decrease (increase) in trade receivables for sales of electricity	(653)	160	281
Decrease (increase) in other current assets	(114)	15	35
Decrease (increase) in inventory- stores	30	(38)	11
Decrease (increase) in inventory- fuel	(178)	(98)	1,300
Decrease in long term debts	-	1	-
Increase in customer advances, net of work in progress	2	1	141
Increase (decrease) in liabilities to suppliers	827	(266)	86
Increase (decrease) in other current liabilities	256	(124)	(482)
	170	**(349)**	**1,372**
	2,380	**3,466**	**5,594**

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

NOTE 1:- GENERAL

a. Operation of the Company

1. The Israel Electric Corporation Limited ("The Company") is engaged in the generation, transmission, distribution and supply of and commerce in electricity pursuant to licenses granted to the Company by the State of Israel. 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 the Israel Antitrust Authority. The directives of the Restrictive Trade Practices Law – 1988 apply to the Company. The Company also deals in the construction of the infrastructures required for these activities. Additional information on the operating segments of the Company is presented in Note 34 below.
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 (see paragraph d below).
   The Company is also a Public Company as defined by the Companies Law and also a Reporting Corporation, as defined by the Securities Law – 1968.

b. The Electricity Sector Law

1) General

From March 4, 1996, the activity of the Electricity Sector has been regulated under the Electricity Sector Law and its regulations and the Company operates thereby. The provisions of the Electricity Sector Law state that its purpose is to regulate the activity in the electricity sector to the benefit of the public, while securing reliability, availability, quality, efficiency and while creating conditions for competition and minimization of costs.

In accordance with the Electricity Sector Law, the Minister of Energy and Water ("The Minister") is the party in charge of execution of the law. In addition, in accordance with the Electricity Sector Law, the Public Utilities Authority - Electricity ("The Electricity Authority"), which was established pursuant to this law, shall act in accordance with its goals and the policy of the government, or the Minister and the Minister of Finance ("The Ministers") in accordance with their lawful authorities in the electricity sector field, and shall be responsible for giving the licenses in accordance with the law and supervision of fulfillment of the provisions of the law and the licenses. In addition, the Electricity Authority fulfills the functions that have been prescribed for it in the Electricity Sector Law (or that have been imposed upon it in accordance with any other law), including the setting of electricity charge rates and ways to update them, establishing of criteria for the standard and quality of the service that a vital service provider license holder provides and supervision of fulfillment of its duties in accordance with these criteria.

As of this report, the Company generates, transmits, distributes and supplies most of the electricity that is consumed in the Israeli national economy pursuant to the licenses that have been granted to it for each such type of operation, in accordance with the Electricity Sector Law, which have been extended over the years, and it operates as an electricity system administrator. As of the time of this report, the licenses of the Company are valid until January 1, 2013.

2) Implementation of the Structural Change as Required by the Implementation of the Electricity Sector Law

1. The Electricity Sector Law establishes, inter alia, a regulatory framework whose aim is to promote the efficiency of the electricity sector, by creating competition in the electricity sector in Israel using various measures (“the Structural Change”)
   Although the Company generates, transmits, distributes and supplies most of the electricity that is consumed in the Israeli national economy and operates as the system administrator , the Electricity Sector Law states, that the operations of the Company are to be separated between a number of corporations through a process of decentralization and partial privatization of the electricity sector in Israel and the law prescribes a schedule for the implementation of these provisions, as well as transitional arrangements until the implementation of the structural change, which will enable the Company to generate, transmit, distribute, supply, sell and trade in electricity according to licenses it received in accordance of the Electricity Sector Law and also act as the electricity system administrator.
   The directives of the electricity Sector Law are complex and may be construed or implemented in different forms and the Company has no certainty that its own interpretation of the Electricity Sector Law is the interpretation that will eventually be accepted or implemented, although the Government, in its decision on September 12, 2006, related to the implementation of the Electricity Sector Law in a similar form to that of the Company's interpretation, the Company is not certain that the law will be implemented according to this decision, that the required legal and Government approvals for implementing this outline will be accepted.

NOTE 1:- GENERAL

b. The Electricity Sector Law (continued)

In the opinion of the Board of Directors and the Management of the Company, the Electricity Sector Law, as currently worded, does not address all of the issues that the structural change in the Company raises, and does not regulate explicitly the manner of execution of the structural change. It is emphasized that a material portion of the components of the structural change is not under the control of the Company, but rather of the State. See details of the progress in this issue in Note 1 e below.

3) Presenting Separate Financial Statements as Required by the Implementation of the Electricity Sector Law

The Electricity Sector Law states that an essential service provider license holder shall prepare Financial Statements 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 regulations, conditions and procedures for the granting of a license, 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 owing to whose actions Financial Statements that are separate from the other actions of the license holder will be submitted.

However, the Corporation does not submit audited Financial Statements for profit centers as required in most of the licenses and does not submit audited annual Financial Statements separately for each area, for each activity, for each generation unit or power station, but submits audited Financial Statements for the operations of the Corporation in its entirety.

The submission of Financial Statements other than required in the licenses of the Corporation is known to the Electricity Authority and to the Ministry of Energy and Water. Notwithstanding, the new generation licenses that the Company has received include similar provisions that require the Company to submit Financial Statements in the manner stipulated.

However, in the opinion of the Management of the Corporation and the Board of Directors, as long as the issue of reporting by profit centers is not resolved, there is an exposure according to which there is the possibility of steps or proceedings being taken against the Corporation for failure to fulfill the provisions in its licenses.

c. Decisions of the Government and Parties Acting on its Behalf, Regarding the Electricity Sector and Activities of the Company

Over the years, the Governments of Israel and its Ministries 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 decisions of the Government and of parties acting on its behalf are as follows:

1) Promotion and integration of independent power producers in electricity generation while using the Company's transmission system (as of December 31, 2011, the scope of the installed electricity generation capability for independent power producers comprises about 1.9% of the Company's total installed electricity generation capability. At the same time, additional conditional approvals in principle were granted to independent producers with an aggregate volume of approximately 4,861.8 megawatts that, as of December 31, 2011, comprise approximately 38% of the installed electricity generation capability of the Company).
2) Incorporating two Government Companies, held by the State of Israel, to operate in the electricity sector: System Management Company Ltd. and New Power Stations for the Production of Electricity in Israel Ltd.
3) A change to the structure of the electricity sector and the structure of the Company and, to the extent required, a change to the Electricity Sector Law ("The Structural Change.") (See paragraph b above).
4) Government Policy on Energy Generation from Renewable Sources

   A Government guideline target is reducing the expected electricity consumption by 20% of the forecast of electricity consumption in 2020.

   On July 17, 2011, the Government decided to act to realize Government goals for electricity generation that combine renewable energies in the electricity generation system. This electricity generation goal is expected to be attained by installing renewable energies generation capacity of about 2,760 megawatts, which constitutes about 10% of the expected electricity energy requirements of the State up to 2020, as well as an interim goal of generating 5% of the electricity requirements for the end of 2014, by installed renewable energies electricity generation capacity of about 1,550 megawatts.

NOTE 1:- GENERAL

c. Decisions of the Government and Parties Acting on its Behalf, Regarding the Electricity Sector and Activities of the Company (continued)

5) Establishing a Communications Company

On July 15, 2010, the Government published its decision on increasing the number of broadband infrastructures suppliers by the Company, through establishing a communications company that will use a fixed communications infrastructure over the electricity network and operate it to provide telecommunications services, as defined by the Communications Law (Telecommunications and Broadcasting) – 1982. When the Company will enter the agreement with a partner, it will not hold more than 49% of the shareholding in the communications company and will not control it.

On March 6, 2011, the Government published its decision, detailing the conditions for allowing the Company to establish, with another party together with another partner, once it will be chosen, a company for providing telecommunications services and holding shares and means of control, subject to the conditions specified in the decisions.

Pursuant to the Government's decision, a joint selection committee was established, where the number of committee members is equally divided between Company and State representatives, to elect the control holder in the company that will be established. In accordance with its decision, the Company will not invest in the communications company, except investments for granting usage rights in infrastructures that are held by the Company. The communications company will enter an agreement with the Company for building and maintenance of the communications infrastructure, for receiving usage rights in infrastructures held by the Company and will be entitled to enter an agreement with the Company to receive operational services of the optical fibers network that is held by the Company (the Backbone Network). The communications company will only enter agreements with license holders, in an equal and open manner to all license holders, for supplying telecommunications services and will not enter into direct agreements with private consumers (except large scale customers, upon approval of the Minister).

As of the date of this report, the selection committee published the process for choosing the control holder partner for the communications company that will be founded. The founding of the communications company is subject, inter alia, to the consent of the General Director of the Antitrust Authority. The communications company will be required to receive a license to provide fixed national communications services (infrastructure) from the Minister of Communications.

6) During, 2010, the Prime Minister instructed to include the General Manager of the Ministry of Energy and Water in the staff work and will consolidate recommendations on the comprehensive management of the Israeli electricity sector.

On November 30, 2010, the General Manager submitted recommendations that were presented to the Government. The General Manager determined, inter alia, that in order to meet the forecasted needs of the economy, it is necessary that the steam combined cycle should be completed in three power stations, which were constructed and completed recently, according to the decision on the emergency plan stage A. This is required to provide the electricity sector with an additional installed capacity of about 400 MW in the second half of 2013. For details on financing the steam additions, see Note 3 below.

7) On November 28, 2010, a Government decision was published on the formation of a national plan to reduce greenhouse gas emissions in Israel. Among other decisions, it was decided to require the Minister of Energy and Water to bring regulations to the approval of the Knesset on efficient electricity consumption in the household, commercial and public sectors. It was also decided to require the Electricity Authority to submit recommendations on different issues related to the electricity rate and require the Minister of the Environment to implement a comprehensive plan for supporting investments in reduction of greenhouse gas emissions (see section i below).

8) The Ministry of Energy and Water regards the promotion of the development plan for the transmission segment an essential need and intends to promote the plan in an emergency status, including a bi-monthly review of its implementation progress, jointly with all the related parties. Concurrently, in light of the financial condition of the Company, the Ministry of Energy and Water intends to examine, together with the Electricity Authority and other Government authorities, the creation of financial and other conditions that will help the Company to advance the development plan in this format.

NOTE 1:- GENERAL (continued)

d. The Government Companies Law

The Government Companies Law affects the Company, inter alia, in the following aspects:

1) The basis of the financial reporting and inclusion of additional information (see Notes 2 a, 36 and 37 below).
2) Dividend distribution policy (see the statement of changes in equity).
3) Management of Corporate Governance according to mandatory circulars applying to the Company.
4) Establishing and maintaining processes and displays relating to the effectiveness of the internal controls over financial reporting.
5) A Government company will act according to the business considerations according to which a non-Government company customarily operates, except when the Government, with the approval of the Finance Committee of the Knesset, has set other operational considerations.

e. Efficiency Program and Organizational and Structural Change

Over the years, since the Electricity Sector Law application date, the Government of Israel and Government entities have made several decisions that concern the structural change. Some of these decisions were adopted by the Electricity Sector Law and some were not adopted by the law and were not implemented, as aforementioned in Note 1 b2 above.

In May 2008, the Company's Management published a comprehensive plan of an organizational change plan ("The Plan").

Since then, talks were conducted through different channels on a structural change in the electricity sector. In September 2010, an outline in principle for implementing a structural change in the electricity sector and in the Company which was agreed upon between the Company's Management, the Company employees' organization, representatives of the Ministry of Finance and the Ministry of Energy and Water and the Histadrut ("The Understandings Outline") that is materially different from the outline stated in the current version of the Electricity Sector Law or in the decisions of the Government. The main principle of this outline is that except the system management activity and certain assets in the generation segment of the Company, which will be transferred to third parties, the Company will continue to perform all other activities that are currently performed by the Company, as a unified company and will not be divided into separate entities. The detailed principles of an outline for implementing the structural change in the Company, set out in the Understandings Outline, as recorded in writing are as follows:

1) Activities of the Company will not be incorporated as subsidiaries, including the generation, transmission and distribution activities and also headquarters departments that provide services to the Company; all these will remain in the Company as one unified company, except the following:
2) The system management activity will be taken out of the Company and transferred to a separate Government company that will act as the system manager.
3) In the generation segment:
   a) The whole Ramat Hovav site will be sold and transferred to full private or Government ownership.
   b) The activity of CCGT 4 of the Alon Tavor emergency plan will be sold and transferred to full private or Government ownership. The Company will plan and build the unit.
   c) Project D – the coal operated power station will be structured as a separate company. The Company will plan and build it and a private partner will be introduced with a shareholding of 51%.
   d) The prohibition, in principle, that prevents the Company from building additional power stations will be lifted and the Company will build a nuclear power station, or power stations with an equivalent volume, that will be owned by the Company, starting from 2020, according to the needs of the development plan.
   e) The Company will be allowed to upgrade and replace power stations that it owns according to its needs and upon the obsolescence of the existing equipment.
4) The Company will be allowed to plan and build power stations and also act in the fields of technology, logistics, computerization and information, in Israel and abroad, and the current limitations on these fields of operation will be lifted.
5) The Company will operate through profit centers that will enable full transparency and costs attribution according to a model that will be determined in line with the nature of the Company's operations.
6) All the consents to this outline are subject to the approval of all other components of the structural change, including steps to improve the financial condition of the Company, adopting an efficiency plan for the Company, implementing a structural and organizational change, ensuring management flexibility and employees rights as one package.

NOTE 1:- GENERAL (continued)

e. Efficiency Program and Organizational and Structural Change (continued)

The Understandings Outline was not yet studied and approved by all the related Government parties. Implementation of the structural change in the electricity sector according to the understandings outline will require the approval of the Government, the regulators and other third parties, entering significant changes in the Electricity Sector Law and in other laws and performing other actions that were not consented to or adopted as on the date of this report. As on the date of this report the implementation date and means of these understandings, if implemented is uncertain, as is the answer to the question on the eventual implementation of these or any understandings. The duration of the discussions on the remaining components of the structural change, the Government making the suitable decisions and effecting the required amendments to the Electricity Sector Law and other related laws may require an extended period and the precise conditions of the agreements, decisions and regulation, if any, that will materialize may be different from the conditions expected by the Company. In the event that the directives of the law will not be changed and no final agreement will be achieved on the components of the conclusions, the Company is not certain about the way it will be required to perform a structural change and the extent of the effect of the structural change on the business, operation results and the financial condition of the Company is uncertain.

In a letter to the Chairman of the Board of Directors of the Company on February 28, 2007, on the subject of regulating Amendment No. 5 to the Electricity Sector Law, the Director General of the Government Companies Authority clarified that the implementation of the reform in the Company according to the Electricity Sector Law, including Amendment No. 5 to the Law of that date, will be conducted while examining, inter alia, the implications of the structural change for the Company's obligations, with the intent to allow repayment of loans received by the Company.

Moreover, in the opinion on the Company's Board of Directors and Management, implementation of the structural change in the Company (in any outline) involves addressing issues related to creditors of the Company, in light of the agreements with some of them, to the extent that these issues will be affected by the implementation of the structural change, all subject to the effective laws. As on the date of this report, the Company and the Government did not complete the actions related to these issues as yet.

As mentioned, the discussions on the implementation method of the structural change continue. If and insofar as no final agreement will be reached on all the components of the structural change, and as a result the understanding outline or other understandings concluded between the Company and the other parties involved in the structural change and also in the directives of the Electricity Sector Law will not be changed and/or the consent of Government authorities, regulators and other parties whose consent if required to implement the structural change according to the understandings outline or to other understandings concluded regarding the structural change will not be implemented, then the Company will be obliged to implement the structural change as it is outlined in the Electricity Sector Law, either as the Company understands that it can be implemented, as aforementioned, or according to another outline.

The final format of the structural change, its implementation date or implications for the Company, its business and results are uncertain.

f. Status of the Company's Business

1) Events during the reporting period which led to considerable cash flows gaps on the Company and actions and steps taken to resolve it:
   a) Several events, which occurred during the reporting period, in the business environment of the Company, caused a considerable increase in the fuel costs of the Company:
      (1) From February 2011, to the date of this report, a series of explosions occurred in the natural gas pipeline from Egypt. These explosions caused repeated disruptions in the gas supply from Egypt, up to a complete stop of the gas supply for prolonged periods and to uncertainty regarding future gas supply (full or partial) from Egypt to the Company.
      (2) According to announcements received from the partnerships in the natural gas project "Yam Thetis" in October and December 2011, the ability to extract gas from this reserve decreased significantly and stated that, as of the notifications date, the quantity of natural gas supplied to the Company from the Yam Thetis reserve will decrease significantly to about two thirds of the contractual gas quantity, according to the agreement.

NOTE 1:- GENERAL (continued)

f. Status of the Company's Business (continued)

1) Events during the reporting period which led to considerable cash flows gaps on the Company and actions and steps taken to resolve it: (continued)

(3) In December 2010, the Ministry of Environmental Protection published a lateral order, requiring the use of diesel oil prior to using crude, because crude produces higher pollution than diesel. The lateral order resulted in increased fuel costs of the Company, since diesel is a significantly more expensive fuel than crude.

The aforementioned events required the Company to generate electricity using a fuels mix that is considerably costlier than planned. Although according to the principles of the rate the high fuel costs will be covered by the rate, the time gap between the date that these expenses were incurred with respect to the more expensive fuels mix and the electricity rate update that will compensate the Company with respect to these expenses, results in gaps in the cash flow of the Company.

b) In light of the aforementioned events, the Company addressed the Government Ministries and the regulators that regulate its activity requesting them to take steps that will help the Company to bridge the gaps in the cash flow. As a result, several steps were taken. The cumulative effect of these steps helped the Company to bridge the gaps in its cash flows in 2011:

(1) In August, 2011, the Minister of Finance signed an order that stipulates that, starting from February 1, 2011 and up to December 31, 2011, purchase tax on imported diesel oil will be 31% of the amount of the purchase tax applied to imported diesel oil on the eve of the amendment.
(2) In August 2011, updates were entered in the Lateral Order, allowing temporary leniency in the use of cheaper backup fuels by the Company in part of its generation units, up to the earliest of December 31, or up to the repair of the fault in the Egyptian gas supply.
(3) In August 2011, and in December 2011, the Electricity Authority reached decisions on increasing the rate by 9.89%, and 4.72%, respectively.
(4) In November 2011, the Company received the approval of the Electricity Authority to delay the Company's obligation to deposit funds in the dedicated account of the emergency plan (phase B).
(5) The Company raised a total amount of NIS 1 billion as credit from a banking corporation.
(6) The Company reached a conclusion with the Coal Company to postpone payments of approximately NIS 142 million.

These steps helped to increase the cash flows of the Company in 2011 and solved the cash flow squeeze of the Company in 2011.

c) Expected Gaps in cash flows in 2012-2013

Pursuant to the continued natural gas crisis, which began in 2011, and according to forecasted cash flows of the Company, a cash flow deficit is also expected in 2012 and 2013, in the scope of billions of New Israeli Shekels.

Pursuant to the decision of the Electricity Authority to moderate the implications of the natural gas shortage on the required increase of the electricity rate (see the decision of the Electricity Authority below) an additional large cash flow gap was created for the Company.

Therefore, the Company, together with the Ministry of Finance and the Electricity Authority, needed to find immediate solutions to the cash flows in the coming months and for the longer term

2) Steps, taken after the statement of financial position date, which may have a positive effect on the Company's cash flows:

The Company applied to the Ministry of Finance and to other related Government Ministries, requesting its help in contending with the expected gaps in the cash flow

a) Steps taken and to be taken by the Government to help the cash flow condition of the Company.

Following additional meetings and discussions conducted between the Company and representatives of the Ministry of Finance, on a possible outline of help for the Company in bridging the cash flow gap, the following steps were taken:

NOTE 1:- GENERAL (continued)

f. Status of the Company's Business (continued)

2) Steps, taken after the statement of financial position date, which may have a positive effect on the Company's cash flows: (continued)

(1) Provide a State guarantee for a public offering of debentures issued by the Company and listed for trading on the stock exchange. The amount of the State guarantee provided will be determined according to the total addition to the fuel costs, arising from the natural gas crisis.

(2) Exemption from purchase tax on diesel oil at the rate of 88% was approved to the Company for as long as the significant and regular supply of the Egyptian gas is not resumed, for as long as there is no significant and regular supply of Israeli gas, nor a significant alternate gas supply, all while protecting the revenues of the State.

(3) Spread VAT payments during 2012**.**

(4) The Electricity Authority approved the postponement of monthly deposits in the dedicated account for the emergency plan (phase B) for the months January to June 2012, in a total amount of approximately NIS 1 billion.

(5) In March 22, 2012, the Electricity Authority decided to spread the increase in electricity rates over 2012-2014, according to the annual change rates, as follows:
In 2012 an increase at the rate of 8.9%.
In 2013 an increase at the rate of 4.4%
In 2014 an increase at the rate of 3.7%.

Approval of a State guarantee for a public offering of debentures to be offered by the Company and listed for trade on the stock exchange, is subject to the approval of the Finance Committee of the Knesset. Up to the approval date of these financial statements, the Company did not receive the approval. The Company estimates that it is highly likely that it will receive the approval on the required date.

b) Steps which the Company will be required to implement to help its cash flows condition:
As a condition for receiving Government assistance, the Company will be required to act as follows in 2012:

(1) Starting from the issue on the stock exchange onwards, the Company will raise all the financial sources required for its activity, which are not related to the need to finance extra fuel costs.

(2) The Company will file a prospectus with the Securities Authority for the offering of debentures to the public on the Tel Aviv stock exchange no later than May 2012 and will execute the issue on the stock exchange up to and no later than July 1, 2012. The amount of funds raised through the offering on the stock exchange will not be lower than the amount of the Government guarantee.

(3) The Company will implement the efficiency steps according to the decision of the Board of Directors, which will result in saving no less than NIS 400 million per year.

(4) The Company is required to employ all the legal means available to it, to release an amount of not less than NIS 600 million out of funds held in trust (see Note 10 below).

(5) The Company will implement the development plan for the transmission grid, to develop the economy and ensure entry of private electricity producers into the electricity sector.

The Company is implementing the actions required from it, including actions related to filing a prospectus for raising debentures backed by State guarantee, based on the Financial Statements of the Company for 2011.

c) Several events that occurred after the date of the financial statements, that aggravated the expected gap in cash flows.
After the financial statements date, in February 2012, the "Yam Thetis" partnership notified the Company that the quantity of natural gas supplied to the Company from the Yam Thetis reserve continues to drop. As a result, further aggravation is expected in the cash flow condition of the Company.

d) An outline of principles to resolve the expected gaps in the cash flow up to the expected offering date on the stock exchange
Despite the aforementioned Government assistance, expected to bridge the Company's cash flow gap for 2012 and 2013, the aforementioned aggravated shortage in natural gas led the Company to apply to the Ministry of Finance and to the Government Companies Authority, requesting an urgent solution for financing the purchase of more fuel, up to the date of the issue on the stock exchange.

NOTE 1:- GENERAL (continued)

f. Status of the Company's Business (continued)

d) An outline of principles to resolve the expected gaps in the cash flow up to the expected offering date on the stock exchange (continued)

On March 20, 2012, an outline of principles was concluded, with the consent of the Company and the Ministry of Finance, aimed at providing a solution to the cash flow problem of the Company, up to the offering date on the stock exchange. Accordingly, on March 22, 2012, the Company's Board of Directors decided to adopt the concluded principles outline. The main principles of the outline are:

(1) The State of Israel will provide a State guarantee to secure non-negotiable debentures which will be issued by the Company by way of a private placement, or to secure loans which the Company will borrow from the banking system in Israel or abroad, in a total amount of up to NIS 1.5 billion.

(2) The Electricity Authority will release funds that were deposited by the Company in a dedicated account of the emergency plan, expected to contribute approximately NIS 600 million to the cash flow of the Company up to the public offering date. These funds will be returned at a later stage, to be concluded with the Electricity Authority.

(3) The Ministry of Finance will postpone payments of tax deductions which the Company owes, at an approximate amount of NIS 200 million for the second half of 2012.

(4) The Company will act to release excess funds from the dedicated trust account, used to cover non-pension components of the actuarial liabilities of the Company, expected to amount to approximately NIS 350 million, up to the public offering date, and another amount of NIS 250 million up to the end of 2012.

(5) The Company will act to postpone payments and implement other internal solutions in the approximate amount of NIS 0.5 - 1 billion.

The approval of the State guarantee in the amount of NIS 1.5 billion (as aforementioned in section 3 d2 above) is subject to the approval of the Finance Committee of the Knesset. As on the approval date of these financial statements, the Company did not receive the approval. The Company estimates that it is highly probable that the approval will be granted in the next few days.

Subsequent to the date specified in the aforementioned outline, the Electricity Authority decided to act to formulate an outline for releasing up to NIS 600 million out of the balance of the dedicated account for the emergency plan (as mentioned in section 3 d2 above).
On March 29, 2012, the Haifa District Labor Court made a reasoned decision that enables the Company to act according to the decision of the Board of Directors and release the amount of NIS 600 million from the dedicated trust account for covering non-pension components.

3) Estimate made by the Management and the Board of Directors of the Company on the ability of the Company to bridge the expected gaps in the cash flows
The Company's management and Board of Directors are of the opinion that all the steps taken and expected to be taken soon by the Government, as well as the actions which the Company intends to take, including raising of funds through an offering on the stock exchange, issue of a private placement or receiving credit lines from banking corporations and also costs cutting, will enable the Company to bridge the expected cash flows gap in 2012-2013.

g. Assets Arrangement

1) Electricity Sector Law Stipulations
With respect to certain rights and assets, which were held by the Company prior to the replacement of the Electricity Concession Ordinance by the Electricity Sector Law (March 5, 1996), the following provisions were determined in the Electricity Sector Law (section 62):

a) Despite the provisions of section 46 to the amendment to the Electricity Concession Ordinance ("section 46 to the concession"), the liabilities of the Company, as well as the rights and assets which it held at the time that the concession expired, and for which it is entitled to compensation from the State pursuant to the aforesaid section, will remain with the Company and no compensation will be paid for them ("Compensable Assets").

NOTE 1:- GENERAL (continued)

g. Assets Arrangement (continued)

1) Electricity Sector Law Stipulations (continued)

b) The rights and assets for which the Company is not entitled to compensation, as stated above in section (a), and which are used or were designated to be used, whether directly or indirectly, for its operations pursuant to this law, will be purchased by the Company according to their value on the date the rights and assets were acquired, in accordance with an arrangement to be signed by the State and the Company; in this section "are used" or "were designated to be used", as will be determined by the Ministers ("Non-Compensable Assets in Use").

c) Another non-compensable assets group, which is not used and was not intended to serve the Company in its operations, as to which section 46 of the concession states that the Company is not entitled to compensation upon transferring them to the State, where section 62 does not regulate the treatment of these assets, yet in the absence of use or designated use by the Company, is not part of the "plant" within its meaning in the aforementioned section 46 ("Unused Non-Compensable Assets"). The law does not detail which assets will be included under section (a) above, which according to the provisions of the Electricity Sector Law, remain with the Company, and, in accordance with the Electricity Sector Law, it is not required to pay the State for them; or, under section (b) above, which as stated, the assets arrangement is to be prepared. In addition, the Electricity Sector Law does not define the method pursuant to which the value of these assets will be determined.
Section 62 of the Electricity Sector Law obliges the Company to indemnify the State with respect to any payment paid by the State for any of the Company's liabilities in force at the concession expiration date, arising from its expiration or from implementing the provisions of the Electricity Sector Law regarding the assets arrangement.
In the first year following the date on which the concession expired no negotiations were held and therefore the parties did not reach an arrangement and, as of the date on which the Financial Statements were signed, the Ministers had not determined which assets in use are non-compensable (assets used or intended to be used by the Company) and/or any provisions with respect to the acquisition of the aforesaid rights and assets ("the assets arrangement").

d) Until the arrangement referred to above in section (b) is carried out, the assets and rights, as to which the arrangement is being prepared, will remain with the Company, as they were at the time that the concession expired. If the parties do not arrive at the aforesaid arrangement within one year from the date that the concession expires, the Ministers will determine provisions as to the acquisition of the aforesaid rights and assets.

2) The Position of the Company Regarding the Assets Arrangement
The Company believes, based on the opinion of its legal advisors regarding the matter of the appropriate interpretation of the assets arrangement, and taking into consideration the provisions of the Electricity Sector Law mentioned above with respect to the amendment to the Electricity Concession Ordinance, pursuant to which, the vast majority of the assets held by the Company when the concession expired (both fully depreciated depreciable assets and depreciable assets which were not fully depreciated at the time the concession expired, and excluding assets in a marginal amount), are compensable assets and, therefore, they are not supposed to be included in the assets arrangement, therefore, in this case, the implementation of the assets arrangement there should not have, does not have and will not have a material effect on the Company or its financial position, although the matter is to be studied and determined by a Governmental team, appointed for the purpose of defining the implementation mode of the structural change in the Company, to be decided by the Ministers and therefore, there is no certainty that the implementation of the assets arrangement will not have such an effect.

3) The Opinion of the State
On February 15, 2000, the Company received a letter from the Deputy Commissioner of Budgets at the Ministry of Finance in which he indicates that as part of the activities of the Governmental team that was appointed to deal with the issue, an economic, accounting and legal State opinion was prepared (and was attached to the letter to the Company), ("the State's Opinion") the implementation of which might have a material effect on the Company.

According to the State's Opinion and in reference to the provisions of sections 44c and 46 to the concession, the Company is not entitled to compensation for investments already refunded through provisions for depreciation.

NOTE 1:- GENERAL (continued)

g. Assets Arrangement (continued)

3) The Opinion of the State (continued)

Therefore, the State's Opinion included in its definition of the non-compensable assets to which the assets arrangement is supposed to apply, the following assets:

a) All of the Company's assets which at the time the Concession expired were fully depreciated, and this is because of the fact that the investments in them were recognized in the electricity rate through the provisions for depreciation (power plants, transmission and distribution facilities, real estate properties and various assets such as equipment, machinery and various buildings).
b) Assets which were not fully depreciated, in the amount of what was depreciated net of liabilities, according to a certain percentage which depends on their financing sources - primarily the power plants, transmission and distribution facilities, certain real estate and additional equipment.
c) The Company's non-depreciable assets - primarily intangible assets and shares of investee companies, but not cash and inventory.

In the State's Opinion, criteria were determined for classifying the assets, as aforesaid and, in addition, formulae were determined for calculating acquisition value on the basis of the economic value of the assets and the liabilities. There are no data in the economic opinion of the State with respect to the economic value of the assets or liabilities, or the method for determining it.
The cost, as of March 31, 1996, of the assets which were fully depreciated, as detailed in section a) above, as it appears in the Company's Financial Statements as of that date, is approximately NIS 4.46 billion (approximately NIS 7 billion in NIS of December 2011).
The net depreciated cost, as of March 31, 1996, in the Company's books, of the assets detailed in sections b) and c) above, is approximately NIS 4.5 billion (approximately NIS 7 billion in NIS of December 2011).
It should be clarified that the aforementioned data are data as of March 31, 1996, yet the determining date is the end of the concession date, namely, March 5, 1996.
In the opinion of the State, the total amount of non compensable assets for which the assets arrangement will be applied is approximately NIS 7 billion.
In the Company's opinion, one should not infer the economic value of the assets from the amounts indicated above where pursuant to this economic value, the amount which the Company is liable to be requested to pay will be determined, even if the position presented in the State's Opinion is accepted.

4) Letter from the Director of the Electricity Authority

Just after the State's Opinion was received, the Director of the Electricity Authority in the Ministry of Energy and Water ("the Director") wrote a letter to the Company, as instructed by the Minister. In the letter, he instructed the Company not to respond to the Ministry of Finance's communication with regard to the matter of the assets arrangement, as long as the matter had not been discussed in an orderly manner between the offices of the Ministers and between the Company and the Ministry of Energy and Water.

5) The Opinion of the Company

The Company is of the opinion, based on the opinion of its legal advisors, that the interpretation of section 62 to the Electricity Sector Law in a manner which will obligate the Company for the payment of the above amounts or any similar amount, in order to purchase the assets from the State, will be contrary to the declared purposes and objectives of the Electricity Sector Law, contrary to the principles of the appropriate interpretation and will constitute an impairment of the proprietary rights of the Company, due to the impairment which will be created to the Company's equity, the possibility of positioning the Company's loans for early repayment, the doubt as to its ability to repay its liabilities and to continue operating as a going concern, while the explicit intention of the legislator was that the Company will exist and fulfill the functions it was assigned and the tasks imposed upon it in the Electricity Sector Law and the licenses granted to it by virtue of it
In addition, the acceptance of the aforesaid interpretation, and assuming that the acquisition cost must be recognized in the electricity rate, will obligate the electricity consumers to pay for the assets once again, after the acquisition by the Company was already paid for in the past by the consumers by means of the electricity rate.

NOTE 1:- GENERAL (continued)

g. Assets Arrangement (continued)

6) It should be noted that the Company created several floating charges on all its assets over the years and its rights to the assets arrangement may affect the incidence of these floating charges on assets that will be subjected to the assets arrangement.

7) The Company is of the opinion, based on the opinion of its legal advisors, that the cost for the Company, if and to the extent that there will be any with respect to the assets arrangement or in connection with the acquisition directives of the Ministers, needs to be recognized in the electricity rate base, although there is no certainty of this.

8) Certain assets, which, prior to the replacement of the Electricity Concession Ordinance by the Electricity Sector Law, were held and which are not used in, and are not intended to be used in, the Company's operations according to the Electricity Sector Law and which, according to the Company's position, based on the opinion of its legal advisors, are not subject to the assets arrangement (non-compensable assets not in use), which consequently are not intended to be transferred to the State, probably will not continue to remain in the Company's possession. The position presented in the Ministry of Finance's Opinion, assumed that these assets will be transferred to the State.
The Company's policy was and is to purchase assets, which are designated to be used in the Company's operations to generate and transmit electricity.
Therefore, in the Company's opinion, if the aforesaid assets were indeed held, their number is small and their depreciated cost in the Financial Statements is low. As of the date of signing these Financial Statements, no notice was given on behalf of the Ministers regarding this matter.

9) On the basis of all of the above, the Company, based on the opinion it obtained, believes that the implementation of the assets arrangement was not meant to have and does not have a material effect on the Company or its financial position, although it is subject to the determination of the Ministers, therefore there is no certainty that the implementation of the assets arrangement will not have this effect.

i. Environmental Protection Laws

1) The Company's activities are subject to different environmental protection laws and regulations on different issues, e.g., air pollution, noise abatement, electromagnetic fields, hazardous materials, pollution of land and water sources, asbestos and more. Some of these laws are in force on the preparation date of this report while other laws are in the formation stages. The Company believes that as on the date of this report it 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.

2) As at the signing date of the financial statements, several proposed environmental bills and regulations are in various stages of enactment.

3) The Company is studying the economical, legal, operational and technical implications which may arise from the directives, laws, regulations and environmental bills, which according to an initial estimate, may have material economic implications for the Company. The Company allocates funds in its budgets to fulfill the directives of the laws applied to it and those expected to be applied. As on the date of this report, and based on the directives of the Electricity Sector Law, the Company estimates that the material costs which will be applied as a result of new regulatory requirements in the environmental protection field will be covered within the framework of the electricity rate. The decision on recognizing the costs is subject to an audit of the Electricity Authority.

NOTE 1:- GENERAL (continued)

I. Definitions

The Company	–	Israel Electric Corporation Limited
Related Parties	–	As defined under International Accounting Standard 24
Interested Parties	–	As defined under the Securities Law - 1968.
Controlling Shareholders	–	As defined under the Securities Regulations (Annual Financial Statements) – 2010.
Index	–	Consumer Price Index (CPI) as published by the Central Statistics Office.
Dollar	–	US dollar.
Subsidiary Companies	–	Companies either directly or indirectly controlled (as defined under IAS 27) by the Company and whose financial reports are fully consolidated with those of the Company.
Held Companies	–	Subsidiary companies and investee companies.
Investee Companies	–	Companies in which the Company has material influence.
Annual Financial Statements	–	The Annual Financial Statements of the Company as of December 31, 2011 and for the year then ended and the accompanying notes.

NOTE 2:- REPORTING RULES AND ACCOUNTING POLICIES

a. The Basis of Financial Reporting

The Consolidated Financial Statements ("The Financial Statements") fulfill the both the directives of the Securities Regulations (Preparing Annual Financial Statements) – 2010 and the directives of the Government Companies Regulations (Principles for the Preparation of Financial Statements of the Israel Electric Corporation Ltd.) (Temporary Order) - 2004, and all relevant amendments (hereafter: "Government Companies Regulations"), as detailed in section 1 below:

1) Government Companies Regulations

General

The Minister of Finance is entitled, in consultation with the Minister of Justice and, in the event of a public company, in consultation with the Securities Authority, to determine in accordance with a proposal of the Companies Authority, principles for preparing financial statements of a Government company, that was defined by him as a company that provides essential service to the public, including details contained in the statements, the accounting principles used in their preparation and statements and attached notes.

Should the Government Companies Authority feel that the public interest so requires, it is entitled 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.

If the Companies Authority objects to the presentation method of details in the financial statements or any other report that the Government company is required to submit pursuant to any law, it is entitled, if it deems that a public interest requires it, to instruct the company to disclose the position of the Companies Authority and to describe the dispute in the Financial Statements, to the satisfaction of the Companies Authority.

According to the Government's decision of August 5, 2004, the general accounting standards for Government companies are the same as for the private sector. The unique standards for Government companies aim to supplement the private sector's standards or to elaborate or highlight certain issues regarding Government companies as detailed in the Government Companies Authority's circulars. The unique standards for Government companies will be executed in accordance with the law.

Reporting Directives in accordance with the Government Companies Regulations

The Government Companies Regulations, updated as of the date of this report, were published in the Official Gazette on June 30, 2008 and were extended several times since then and apply to the Financial Statements up to and including 2011 and to the interim periods of these years, including comparative data included in these Financial Statements.

In January 2012, the Director General of the Government Companies Authority decided to accept the recommendation of the Advisory Committee to the Director General of the Government Companies Authority that the Government Companies Regulations should be extended up to December 31, 2014 and that from January 1, 2015, the Company will fully implement the International Financial Reporting Standards (IFRS). The Companies Authority is preparing to act to amend the regulations, through the Minister of Finance, as required in a way that will reflect the decision of the Director General of the Government Companies Authority.

Under the directives of the Government Companies Regulations, Rules for Preparing the Financial Statements of the Company are as follows:

a) The Financial Statements will be prepared in accordance with the International Financial Reporting Standards (IFRS), and their interpretations as published by the International Accounting Standards Board (IASB), including IFRS 1 which, for our purposes, the date of transition to International Financial Reporting Standards is January 1, 2007.
b) Notwithstanding any of the instructions of Section a) above:
   (1) The Company will prepare its Financial Statements with adjustment for changes in the general purchasing power of New Israeli Shekels (NIS) (according to the rules established in Opinion No. 36, including the provisions set in Opinions Nos. 40, 50 and 56, of the Institute of Certified Public Accountants in Israel), see details in section 4 below.

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

a. The Basis of Financial Reporting (continued)

1) Government Companies Regulations (continued)

(2) The Company is a regulated company and therefore, prepares its Financial Statements under the principles of the US Financial Accounting Standards Board (FASB) as listed in Chapter RE6 with respect to regulated activities ("Chapter RE6"), in the combined version of the standards of said Board, including revisions, clarifications or additions to these principles, as they were from time to time (hereafter "Standard for Regulated Companies"), see details in section 2 below.

c) The manner of applying International Financial Reporting Standards will be modified or adjusted as required for purposes of implementation.

d) The notes to the Company's Financial Statements will include qualitative (rather than quantitative) disclosure to explain how the reporting principles applied in the Financial Statements of the Company differ from International Financial Reporting Standards (IFRS).

e) The Report of the Board of Directors will provide an estimate of the financial effect of the difference between the effect of the Standard for Regulated Companies and the effect of the Accounting Opinion on items of equity and net income.

f) Should the Company fail to meet the reporting conditions listed in the directives of the Companies Authority, the Company will not prepare its financial reports according to the exceptions detailed in section b above.

2) Main Principles of the American Financial Accounting Standards Board (FASB), Specified in Chapter "RE6" on Regulated Operations

Under the financial reporting principles of the Company in accordance with the Government Companies Regulations, the Company applies the Standards of the Financial Accounting Standards Board in the U.S.A., (FASB) as listed in Chapter RE6, which deal with the effects of certain types of regulation on the accounting policies ("the Standard"). The Standard was published in order to determine and define how generally accepted accounting principles must be applied for regulated companies and how decisions by the regulatory agency must be reflected in the Financial Statements of these companies. Under certain circumstances, the Standard permits accounting treatment other than that accepted with regard to the timing of attribution of expenses and income to operations, all for the purpose of reflecting and creating proper matching between expenses and income incurred by the Company on the dates when they are recognized for purposes of the electricity rates.

The Standard applies when all three conditions listed below are met:

(1) Regulation of rates - rates of regulated products or services are either established by an independent third party regulator or by a committee so empowered, or are subject to authorization by such regulator or committee, all under legal or contractual provisions governing consumer rates

(2) Specific coverage of costs - regulated rates are so constructed as to cover the specific costs (including required return on capital) associated with the provision of the regulated product or service.

(3) Competition and collectability from customers – in view of the demand for the regulated product or service and also of the level of direct and indirect competition, it would be reasonable to assume that the rates established so as to cover the costs are chargeable and collectible.

These conditions may also be applied to separate portions of activities, such as generation or transmission of electricity, or to a specific sector of consumers.

In the event that the conclusion is reached that the company no longer meets the conditions listed above for the application of the Standard, the regulatory assets/ liabilities should be deleted, based in directives defined in the said standard.

A company meeting the conditions above will capitalize the expenses which would have otherwise been attributed to the statement of operations and comprehensive income, while the regulatory agency establishes rates which would cover these expenses in the future. Expenses capitalized as above are a regulatory asset. Such companies must also record regulatory liabilities consisting mainly of refunding consumers for collection or postponement of income to a later date (see Note 20 below).

The Standard requires that the regulated entity reevaluate the probability of coverage of regulatory assets as of any date that it publishes Financial Statements.

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

a. The Basis of Financial Reporting (continued)

2) Main Principles of the American Financial Accounting Standards Board (FASB), Specified in Chapter "RE6" on Regulated Operations (continued)

In the event that the conclusion is reached that the Company no longer meets the conditions listed in section 1 above for the application of the Standard "Chapter RE6" and not all regulated assets are covered by the rates, the regulatory assets/liabilities should be erased from the statement of financial position.

Provision for Assets Impairment according to SFAS 90

The Company applies the American Standard SFAS 90, included in Chapter RE6, regarding assets which were defined as assets where construction was recently completed.

Capitalization of Financing Costs

Financing and capital costs with respect to construction of fixed assets that are recognized in the electricity rate are recorded as part of assets under construction, when a "very certain" probability exists that these costs will be recognized in the rate. Financing and capital costs are capitalized to assets under construction until the date on which these assets are substantially complete for the designated use. Capitalized financing costs with respect to construction are recorded as a reduction of financing expenses. Capitalized capital costs with respect to construction are recorded as other income.

3) Principles of Adjusting the Financial Statements According to Changes in the General Purchasing Power of the NIS

General:

(a) As stated above, the Company prepares its Financial Statements on the basis of historical cost, adjusted for changes in the general purchasing power of the NIS.

(b) The adjusted values of non-monetary assets do not necessarily represent the market value of these assets or their value to the Company, but only their cost adjusted for changes in the general purchasing power of the NIS.

(c) In the adjusted statements, the term "cost" shall mean "adjusted cost".

(d) The comparative figures in these Financial Statements were adjusted to NIS of the statement of financial position month.

(e) Statement of Financial Position

(1) The amounts for the non-monetary items (items for which the amounts appearing in the statement of financial position reflect their historical values when purchased or incurred-see below) are adjusted according to the changes in the CPI from the month in which each transaction was carried out to the CPI for the month ending the reporting period.

The following items were treated as non-monetary items: fixed assets, advance land leasing payments, intangible assets and accumulated depreciation, expenses to raise capital, inventory, prepaid expenses, unrecognized actuarial gains and losses, receipts and disbursements for unfinished contracts, perpetual debentures, capital reserves and share capital.

(2) Monetary items (those items for which the amounts appearing in the statement of financial position reflect updated values or realizable values as of the statement of financial position date) are presented in the adjusted statement of financial position as of the date of the balance sheet, in amounts identical to their nominal amounts as of that date (the comparative figures were adjusted to NIS of the statement of financial position month).

(f) Statement of Operations and Comprehensive Income

(1) The statement of operations items (except financing) which express transactions carried out during the reported year - income, expenses, etc. - were adjusted according to the changes in the CPI from the month in which they were recorded and through the month of the end of the reporting period. The erosion of monetary balances relating to those transactions, are included in financial expenses, net.

(2) The statement of operations items related to non-monetary items in the statement of financial position (such as depreciation and amortization, changes in inventory, prepaid expenses and accrued income) have been adjusted on the same basis as the related balance sheet items.

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

a. The Basis of Financial Reporting (continued)

3) Principles of Adjusting the Financial Statements According to Changes in the General Purchasing Power of the NIS (continued)

(3) The statement of operations items related to provisions included in the statement of financial position (such as provisions for pension and severance pay, vacation pay and contingent liabilities) are determined on the basis of the changes in the balances of the relevant balance sheet items after taking into account the relevant cash flows.

(4) The net financial item reflects real financial income and expense, as well as the erosion of monetary items during the year.

4) Qualitative Disclosure

The main differences between the financial reporting rules applied in the Financial Statements and the IFRS are listed below:

a) As aforementioned, the financial statements of the Company include regulatory assets and liabilities deriving from the application of Chapter "RE6"of the American standard, while the IFRS rules do not include a standard that corresponds with Chapter "RE6" standard regarding recording regulatory assets and liabilities.

b) The international standard include no other Standard which compares to the directives of SFAS 90 and when testing assets impairment there is no differentiation between assets completed recently and the other assets. According to SFAS 90 rules, the Company tests a provision for impairment of assets completed recently and in addition, implements the instructions of IAS 36. According to the IFRS rules, the provision for assets impairment is calculated according to IAS 36.

c) According to Chapter RE6 rules, the Company capitalizes financing and return on capital to assets costs. All this defers from IAS 23 that determines capitalization of financing costs to assets under construction costs, does not allow capitalization of the return on investment and is based on the actual financing costs of assets under construction.

d) Under the Company's financial reporting principles as based on the Government Companies Regulations, the Company applies the provisions of Opinion No. 36 with regard to the preparation of Financial Statements adjusted by changes to the general purchasing power of the Israeli currency, including such provisions as are covered under Opinions Nos. 40, 50 and 56 of the Institute of Certified Public Accountants in Israel, which are similar in substance to the provisions of International Accounting Standard No. 29. At the same time, according to the IFRS, the Financial Statements may not be prepared according to the changes to the general purchasing power of the currency except under conditions of high inflation (hyperinflation) (in Israel up to December 31, 2003).

5) The Electricity Sector Law prescribes that licensed vital service providers will prepare their financial statements as required by the Ministers in consultation with the Minister of Justice with regard to their level of detail, the accounting principles under which they are prepared, and any attached declarations and notes. Such instructions and obligations with regard to the Company's Financial Statements have not yet been established by the Ministers.

6) Highly Material Valuations

In accordance with Section 8b of Chapter 1 of the Securities Regulations (Periodic and Immediate Reports) – 1970, the Company is required to attach to its Financial Statements valuations that are highly material to the Company. Therefore, the Company applied a quantitative qualitative test that considers as highly material a single asset/liability valued at 10% or more of the total assets of the Company as of the Financial Statements date or a single asset/liability, where the change in their value is 10% or more of the normative profit of the Company (before tax) in the reported period.

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

b. Functional Currency and Foreign Currency

1) Functional Currency and Presentation Currency

The Financial Statements of the Company and the consolidated company are prepared in the currency of the primary economic environment in which they operate ("the functional currency"). For purpose of consolidating the financial statements, the results and financial position of the Company and the consolidated company are expressed in NIS, which is the functional currency of the Company. The consolidated financial statements of the Company and the consolidated company are presented in NIS.

2) Translation of Transactions in Currencies other than the Functional Currency

In preparing the financial statements of the Company, transactions in currencies other than the 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 items 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, as they relate to the non-monetary item.

3) Method of Recording Exchange Rate Differences

Exchange rate differences are recognized in operations in the period in which these arise, except for:

- Exchange differences with respect to transactions intended to hedge certain foreign currency risks (regarding the accounting policy of the Company on hedging transactions, see section n 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 Company on capitalization of borrowing costs, see section (h) below).
- Exchange differences recognized in the electricity rates for periods following the balance sheet date

c. Cash and Cash Equivalents and Short Term Investments

Cash and cash equivalents include deposits for immediate withdrawal and fixed term deposits with no usage limitation, and maturity dates at the deposit date that 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.

d. Consolidated Financial Statements

The consolidated financial statements of the Company incorporate the financial statements of the Company and the entity controlled by the Company (the Coal Company). Control is achieved where the Company has the power to govern the financial and operating policy of an entity, so as to obtain benefits from its activities.

Financial statements of a subsidiary which are not prepared in accordance with the accounting policies of the Company are adjusted, prior to consolidation, to the accounting policies implemented by the Company.

All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

e. Non-Inclusion of Separate Financial Statements in the Quarterly 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 flows of the corporation, which may affect economic decisions related to the corporation, 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. 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.

f. Inventory in Warehouses

Inventory in warehouses is evaluated at cost determined in accordance with the weighted average method.

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

g. Fixed Assets

1. A fixed asset is a tangible asset, held for use in production or supply of goods or services or for renting to others, expected to be used during more than one period. The Company presents its fixed asset items in accordance with the cost model. Fixed asset items are presented in the statement of financial position at cost, net of accumulated depreciation and net of any accumulated impairment losses. The cost of the fixed assets includes asset acquisition costs, 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 indispensible costs which may be attributed directly to fixed assets construction activity. Cost of qualified fixed assets also includes capitalization of borrowing costs used to build the fixed assets that should be capitalized, as indicated in section h below. See Note 2 j below on impairment testing of tangible assets constant.
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.
   Additions to the existing generation systems are depreciated over the remaining depreciation period of their original cost.
   Details of depreciation of investments in operational power stations, including renovations are presented in Note 3 b2i below.
   Assets leased under financing lease agreements 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)	Depreciation rates (%)
Power stations	30 - 50 (mainly 30 years)	2-3.33
Industrial gas turbines	25	4
Jet gas turbines	15	6.67
Transmission system	30	3.33
Distribution system	20 - 30 (mainly 30 years)	3.33-5
Meters	14	7.1
Inventories (including office equipment), mobile mechanical equipment and telecommunications	10	10
Computers and auxiliary equipment	3-5	20-33.33
Motor vehicles	5-7	14.3-20
Buildings	30	3.33

The residual values, depreciation method and useful life of the asset are reviewed by the Management of the Company at the end of every fiscal year.
Gains or loss 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.

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 value in the books on the materialization date, if it is expected that the future economic benefits attributed to the item will go to the entity. Current maintenance costs are charged to the statement of operations and comprehensive income when incurred. See Note 3 b2i below.

4. Liability with respect to disassembly 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 then producing stock during that period. After the first recognition date:

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

g. Fixed Assets (continued)

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.
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.

h. Capitalization of Borrowing Costs and Capital used to Construct Fixed Assets and Other Assets

Borrowing costs and capital for construction of fixed assets, accepted in the electricity rate, are recorded as part of assets under construction, when it is highly likely that these costs will be recognized in the rate. Borrowing costs and capital are capitalized to assets under construction until these assets are substantially ready for their intended use. Capitalized borrowing costs with respect to construction are recorded as decreasing the borrowing costs. Capitalized capital costs with respect to construction are recorded as other income.

i. Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. The intangible assets of the Company are capitalization of independent software development, with a defined useful life, which 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	5-12	8.33-20

Intangible assets of the Company are capitalized costs of in-house software development.
Intangible assets purchased separately are presented at cost less amortization and accumulated impairment losses.
Amortization of intangible assets with a defined useful life is calculated in accordance with the straight line method over their estimated useful life.
The estimation of useful life and amortization methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

j. Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company tests the book value of its tangible and intangible assets, except inventory, 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. When the recoverable amount of a single asset cannot be estimated, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Joint assets are also allocated to the individual cash-generating units, when a reasonable and consistent basis can be identified for this allocation. When the joint assets cannot be allocated to the individual cash-generating units on this basis, the joint assets are allocated to the smallest group of the cash-generating units for which a reasonable and consistent allocation basis can be identified. See Note 2 a above.
Intangible assets with an unidentified useful life and intangible assets that are not available for usage yet, are tested for impairment once each year, or at a higher frequency if the signs indicate an impairment of the asset.
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 prospects 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.

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

j. Impairment of Tangible and Intangible Assets (continued)

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.

The Company examines tangible assets defined as recently completed assets (as defined by SFAS 90) at each period to decide if it is virtually certain that these assets will be covered by the rate. The Company examines the provision for impairment for all other assets at each period according to IAS 36, see note 2 a4b above and Note 11 below.

k. Fuel Inventory

Fuel 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 the 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 fuel inventory that is held for use in the electricity generation process is not written down if electricity sales amount to total cost or exceed cost.

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.

l. Financial Assets

1) General

Financial assets are recognized in the statement of financial position of the Company when the Company becomes a party to the contractual terms of the instrument. Financial assets are recognized at fair value, except financial assets classified in the category of fair value through operations, where accompanying purchase costs are recorded to the statement of operations.

The financial assets of the Company are classified into the following categories. Classification into these categories depends on the nature and purpose of holding the financial asset and is determined upon the initial recognition date of the financial asset.

- Financial assets at fair value through operations;
- Loans and receivables.

2) Financial Assets at Fair Value through Operations

Financial assets are classified as “financial assets at fair value through operations" when held for

a) Trading; or
b) When designated as financial assets at fair value through operations.
   (1) A financial asset is classified as held for trading, when:
      - It has been acquired principally for the purpose of sale in the near future; or
      - It is part of an identified portfolio of financial instruments that the Company manages together and has a proven actual pattern of transactions for short term profit taking; or
      - It is a derivative that is not designated and effective as a hedging instrument.
   (2) A financial asset, other than a financial asset held for trading, may be designated as a financial asset at fair value through operations upon initial recognition, if:
      - Such designation eliminates or significantly reduces a measurement or recognition inconsistency, that would otherwise arise; or
      - The financial asset is part of a group of financial assets or liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company’s documented risk management policy or investment strategy and information about the group of financial instruments is transferred on this basis in the context of internal reports to key managerial personnel of the Company.

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

l. Financial Assets (continued)

2) Financial Assets at Fair Value through Operations (continued)

A financial asset at fair value through operations is stated at fair value. Any resultant gain or loss arising from changes in fair value, including those originating from changes in exchange rates, is recognized in operations in the period in which the change occurred. The net gain or loss recognized in operations incorporates any dividends or interest earned on the financial asset.

3) Loans and Receivables

Deposits, loans and other receivables that have fixed or determinable payments, and are not quoted in an active market, are classified as loans and receivables. Loans and receivables are measured at amortized cost, using the effective interest method, less impairment in value, if any. Interest income is recognized by applying the effective interest rate, except for short-term receivables, when the recognition of interest would be immaterial.

A customer's outstanding balance is measured at cost, while the provision for doubtful debts is deducted from the customer's outstanding balance and calculated in accordance with a statistical model and also according to an individual test (see Note 6 below)

4) Impairment of Financial Assets

Financial assets, other than those classified as financial assets at fair value through operations, are assessed for indications of impairment of value at each statement of financial position date. Such impairment of value exists where there is objective evidence that, as the result of one or more events that occurred after the initial recognition of the financial asset, the anticipated future cash flows of the investment have been impacted.

Indications of impairment of value of other financial assets, including receivables due to financing leases, may include:

- Significant financial difficulties of the issuer or debtor;
- Failure to meet current payments of interest or principal;
- Probability that the debtor will enter bankruptcy or financial reorganization.

The Company examines indications of impairment of value on a group basis for certain financial assets, e.g. customers for which no indications of impairment were identified, based on past experience with groups of receivables with similar characteristics and changes in the level of delinquent payments and also economic changes related to the sector and the economic environment in which they operate.

For financial assets carried at amortized cost, impairment of value that is recognized is the difference between the book value of the financial asset and the present value of anticipated future cash flows, discounted at its original effective interest rate.

If the amount of loss due to impairment of value of a financial asset decreased in the following period and that decrease is objectively related to an event that occurred after the impairment in value was recognized, then in this case, the loss from impairment of value recognized in the past is fully or partially cancelled through operations. Such cancellation is limited in amount to the extent that the book value of the investment in the asset at the date that the loss from impairment of value is cancelled does not exceed what the amortized cost would have been at that date had impairment in value not been recognized in the past.

The book value of a financial asset is directly reduced by the loss from impairment of value for all the financial assets, with the exception of trade receivables, where the book value is reduced through the use of an allowance account. When trade receivables are considered uncollectible, they are written off against the allowance account. Collections in subsequent periods of amounts previously written off are credited against the allowance account. Changes in the book value of the allowance account are recognized in operations.

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

m. Financial Liabilities and Financial Instruments Issued by the Company

Classification as a Financial Liability or an Equity Instrument

Non-derivative financial instruments are classified as a financial liability or as an equity instrument, according to the essence of the underlying contractual arrangements.

An equity instrument is any contract testifying to a residual right in the assets of the Company after deducting all liabilities. Equity instruments issued by the Company are recorded at the proceeds of the offering less expenses directly related to issuing such instruments.

Financial liabilities are presented and measured according to the following classification:

- Financial liabilities at fair value through operations.
- Other financial liabilities.

1) Financial Liabilities at Fair Value through Operations

A financial liability is classified at fair value through operations if it is held for trading purposes or designated as a financial liability at fair value through operations.

Financial liabilities of the Company, included in this category, include swap transactions and forward transactions.

A financial liability is classified as held for trading purposes, when it is a derivative that is not intended for and effective as a hedging instrument. See section n below.

2) Other Financial Liabilities

Other financial liabilities (mainly including debentures and liabilities to banks), are initially measured at fair value net of transaction costs. Subsequent to the date of initial recognition, other financial liabilities are measured at amortized cost, using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that accurately discounts the forecasted stream of the estimated future cash flows through the expected life of the financial liability to its book value or a shorter period, where appropriate.

3) Financial Liabilities Linked to the Consumers Price Index

The Company has financial liabilities that are linked to the Consumers Price Index ("CPI") which are not measured at fair value through profit and loss. The Company determines the effective interest rate as the real interest rate for these liabilities with the addition of linkage differences, according to the actual changes in the CPI up to the end of the reporting period.

4) Reduction of Financial Liabilities

A financial liability is removed when and only when it is cleared, namely, when the liability that is defined in the contract was paid-up, canceled or expired.

n. Derivative Financial Instruments

1) General

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details on the derivative financial instruments used by the Company are presented in Note 27 below.

Derivative financial instruments are initially recognized at fair value on the date that a derivative contract is entered into and are subsequently 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 operations.

Derivative financial instruments that are not intended for hedging are generally presented as current assets, non-current assets, current liabilities or long term liabilities.

Regarding amendment IFRS 7 "Financial Instruments: Disclosures" (the nature and extent of risks arising from financial instruments) see Note 27 below.

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

n. Derivative Financial Instruments (continued)

2) Embedded Derivatives

Derivatives embedded in financial instruments or any other host contracts are separated from the host contract if the characteristics and economic risks are not closely related to the characteristics and economic risks of the host contracts and the host contracts are not measured at fair value, unless the mixed instrument, in its entirety, (including the embedded derivative) is presented as a financial asset or as a financial liability at fair value through operations. Changes in fair value of separable embedded derivatives are recorded to operations

The Company has an embedded derivative, separated from the host contract, with respect to the US dollar denominated loan, convertible to a Yen denominated loan by the lender.

o. Revenue Recognition

Revenue is measured at the fair value of the consideration received or the consideration which the Company is entitled to receive as revenue from sale of electricity and provision of services in the ordinary course of business. The revenue is presented less estimated discounts, granted according to regulatory conditions applied to the Company.

1) Revenue from Sale of Electricity

Revenues from sale of electricity are recognized upon consumption of electricity by customers, according to 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.

2) Revenues from Interest

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at by use of the effective interest method.

p. Works according to an Implementation Contract

Where the outcome of a material work only according to an implementation contract can be reliably estimated, principal revenues and costs are recognized by reference to the stage of completion of the work, as of the statement of financial position date. The rate of completion is generally measured by the proportion of costs incurred for the work performed as of the statement of financial position date relative to the estimated total costs to implement the contract, except for costs not representative of the stage of completion.

Changes in work, claims payment and incentives are included in work revenues, if agreed upon with the party that placed the order for the work. Contract performance costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenues, the expected loss is immediately recognized to operations (see also Note 16 and 28 below).

q. Leasing

1) General

Leases are classified as financing leases, whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2) Assets Leased

Financial Leases

With respect to finance lease transactions in which the Company leases assets to another entity, the Company recognizes an asset at the inception of the lease to the extent of the present value of the minimal lease payments. Financing income derived from a finance lease is allocated to accounting reporting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding with respect to the lease transaction.

Operating Leases

Rental income from operating leases is recognized on a straight line basis over the lease term. With regard to operating lease arrangements in which at the inception of the lease period, no lease fees are received, or reduced lease fees are received, and also when additional benefits are granted to the lessee, the Company recognizes revenue on the straight line basis, over the lease term.

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

q. Leasing (continued)

3) Asset Leasing

Under financing lease transactions in which the Company leases assets from another entity, the Company, on the date of inception of the lease, recognizes the asset at fair value, or if lower, at the present value of the minimum lease payments. The liability for the transfer of the minimal lease payments to the lesser is included in the statement of financial position as a finance lease obligation. In subsequent periods, current payments with respect to the finance lease are apportioned between the financing component and the liability component so as to achieve a constant rate of interest that is allocated on the balance of the liability.

The portion attributed to the financing element is charged to operations, other than instances in which the leased asset is a qualifying asset, where borrowing costs are capitalized. (Regarding capitalizing borrowing costs, see section h above).

Lease expenses related to operating leases are recognized on a straight-line basis over the lease term.

In lease arrangements, where no leasing fees are paid at the beginning of the lease period, or reduced fees are paid and also when the lesser grants additional benefits, the Company recognizes the expenses on the straight line basis, over the lease term.

Land leases from the Israel Lands Administration are classified as a financial lease. Deferred leasing payments paid at the inception date of the lease are presented in the statement of financial position in the fixed assets section, amortized to one half of the leasing term.

r. Provisions

Provisions are recognized when the Company has a legal obligation or constructive obligation as a result of a past event, as to which the utilization of economic resources is probable 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 flows estimated to settle the obligation, the value of the provision is the present value of those anticipated cash flows. Changes with respect to the time value are charged to profit and loss in the accounts.

When all or part of the present amount to settle an obligation is expected to be recovered from a third party, the Company 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.

s. Taxes on Income

1) General

Income tax expense (income) represents the sum of the tax currently payable with respect to the subsidiary and also the total change in balances of deferred taxes.

2) Current Taxes

Current tax expenses are computed based on the taxable income of the consolidated Company during the reporting period. Taxable income differs from income before taxes on income, due to inclusion or exclusion of taxable income and expenses that are deductible in other reporting periods, and or are not taxable or deductible. Assets and liabilities of the Company for current taxes are calculated using tax rates and tax laws that have been enacted or substantially enacted by the statement of financial position date.

Assets and liabilities of current taxes are presented as offset when the entity has an enforceable legal right to offset the recognized amounts and also an intention to pay off on a net basis or realize the asset and pay off the liability concurrently.

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

s. Taxes on Income (continued)

3) Deferred Taxes

The Company 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.

The taxes that would apply in the event that the investments in investees were realized were not taken into account in the calculation of the deferred taxes, since the Company intends to hold and develop these investments. In addition, the deferred taxes on distribution of earnings by investees as dividends were not taken into account, since the dividends are not taxable.

Assets and liabilities for deferred taxes are presented on an offset basis, when an entity 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 Company intends to settle its current tax assets and the liabilities on a net basis.

t. Benefits to Employees

1) Benefits after Termination of Employment

Company benefits after termination of employment include: pension and grants. Benefits from the Company after termination of employment are in part defined contribution plans and in part for defined benefits plans.

Expenses for the liability of the Company to deposit funds in a defined contribution plan are charged to operations, or capitalized to the cost of assets, at the time that the labor services, as to which the Company 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 are charged to operations, or capitalized to the cost of the assets, utilizing actuarial valuations carried out at every statement of financial position date, under the projected unit credit method. The present value of the liability of the Company for the defined benefit plan is determined by capitalizing future cash flows anticipated for the plan at an interest rate determined according to market yields

of CPI-linked government debentures, and having maturity periods closely identical to projected payoff dates under the plan. In cases in which there is no market with high tradability of debentures with a period to maturity of all benefit payments, the capitalization rate will be estimated by extrapolating current market rates along the yield curve. Current employment cost and total liability as at the statement of financial position date are determined for every period by attributing the benefit to employees to the employment periods, based on accumulated rights in the plan.

In addition, income on plan assets and funds in trust are recorded and registered in the statement of operations or capitalized to the cost of assets, with respect to the anticipated yields from the assets of the plan as of the beginning to the reporting period.

Actuarial gains and losses other than as recognized in the financial reporting period 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, are deducted over the balance of an average anticipated employment period of the employees participating in the plan, starting from the end of the reporting period.

The liability of the Company for a defined benefit plan, recognized in the statement of financial position, represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses, less fair value of the assets of the plan. A net asset, created by this calculation, is limited to the amount of the unrecognized actuarial losses plus the present value of 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)

t. Benefits to Employees (continued)

2) Other Long Term Benefits to Employees in the Other Liabilities section

Other long term benefits to employees are benefits anticipated to be utilized or will be paid after a period exceeding 12 months from the end of the period when the service entitling to the benefit was rendered.

Other employee benefits of the Company include liabilities for a 20-year grant. These benefits (including actuarial gains and losses) are recorded to the statement of operations 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 Company's liability for the grant is determined by capitalizing anticipated future cash flows for the plan at market yields of CPI-linked government debentures, linked to the CPI used to pay the benefits related to the grant, having maturity periods closely identical to the anticipated payoff dates of the grant. In a market without high tradability of debentures with a period to maturity of all benefit payments, the capitalization rate will be estimated by extrapolating current market rates along the yield curve.

Actuarial gains and losses are charged to profit and loss upon their creation. Past service cost is recognized immediately in the Financial Statements of the Company.

3) 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 from the end of the period when service entitling to the benefit was rendered.

Short term benefits to employees include the Company'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 when incurred. The benefits are measured on a non-capitalized basis. The difference between the amount of short term benefits to which the employee is entitled and the relevant amount is recognized as an asset or a liability. Regarding the correction of IAS 19 2011 "Employee Benefits", reclassification of accumulated rights to compensation for absences, see Note 19 section z 3 below.

4) Benefits for Dismissal

Benefits for dismissal are benefits due to be paid as a result of the Company'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 Company for an early retirement plan is charged to operations, where the Company 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.

The benefits amount is determined in accordance with the capitalization rate of government debentures.

5) Interest Rate for Capitalizing the Future Cash Flow

According to the provisions of the International Accounting Standard No. 19 ("IAS 19"), the discount rate for the calculation of pension actuarial liabilities is determined by using market returns at the end of the reported period on high quality corporate bonds. In countries where there is no deep market for such high quality bonds, the market returns on government bonds are used. Until the date of the approval of these Financial Statements the existence or absence of a deep market for high quality corporate bonds in Israel was not clearly determined. In the calculation of pension actuarial liabilities, at this stage, the Company used the appropriate discount rate for market returns on government bonds.

If it will be decided in future that a deep market for high quality corporate bonds exists in Israel, the Company will have to state its pension actuarial liabilities by using the appropriate discount rate for market returns on AA rated corporate bonds. In Israel, there are currently no special publications of data required for the specific calculation of pension actuarial liabilities according to market returns on corporate bonds.

According to data published by "Mirvach Hogen", at every future time range, there is a different margin between the rate of return on AA rated corporate bonds and the rate of return on government bonds.

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

t. Benefits to Employees (continued)

6) Pension Plan Assets and Funds in Trust (see Note 10 below)

Pension plan assets are presented at fair value according to IFRS standards (see Note 2 a 1 above).

u. Earnings per Share

The Company 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.

v. Exchange Rates and Linkage Basis

1) Balances in foreign currency or linked thereto are included in the Financial Statements at the representative exchange rates published by the Bank of Israel and in effect as of the statement of financial position date.
2) CPI-linked balances are presented at the last known index on the statement of financial position date (index of the month preceding the Financial Statements month) according to the terms of the transaction.
3) The following are data of the CPI and exchange rates of the NIS/US dollar and the rates of their change :

	Consumer Price Index		Representative Exchange Rate	
	CPI for month	Known CPI	of the US Dollar	of the Euro
	Points		As of the Financial Statements date	
As of				
December 31, 2011	216.27	216.27	3.821	4.938
December 31, 2010	211.67	210.89	3.549	4.738
December 31, 2009	206.19	206.19	3.775	5.44
Rates of change in the year ended on	**%**	**%**	**%**	**%**
For the year ended on December 31, 2011	2.17	2.55	7.66	4.22
For the year ended on December 31, 2010	2.66	2.28	(5.99)	(12.90)
For the year ended on December 31, 2009	3.91	3.81	(0.71)	2.64

w. Segmental Reporting

Operation segments are reported according to the same basis used for internal reporting purposes and submitted to the chief operating decision maker of the Company. The chief operating decision maker, responsible for allocating resources for the operational segments of the Company and for assessing the performance of them is identified as the CEO of the Company, who makes the strategic decisions (see Note 34 below).

x. New Standards and Clarifications Published which are in Force and were Adopted by the Company in Early Adoption, which do not have a Material Effect on the Current or Previous Periods

- **IAS 1 (amended) "Presentation of Financial Statements" (on Presentation of Items of Other Comprehensive Income In the Statement of Operations and Comprehensive Income)**

In the framework of the amendment, it was determined that the items of the other comprehensive income will be presented on the face of the statement of changes in equity, or in the notes, according to the accounting policy of the Company. The amendment is applied retrospectively for annual periods beginning on or after January 1, 2011. Accordingly, the Company does not present the items of the other comprehensive income on the face of the statement of changes in equity.

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

y. New Standards and Clarifications Published which are in Force, which have an Effect on the Current or Previous Periods:

Standards which Affect the Presentation and the Disclosure:

1) IAS 24 (amended) "Related Party Disclosures"

The new standard narrows the disclosure requirements of an entity related to a government, a government authority or a similar organization with respect to transactions concluded with entities connected to the same government, a government authority or a similar organization. In addition, the standard changes the definition of a connected party. The standard was applied retroactively for annual reporting periods starting on January 1, 2011 or later. For information on related parties see Note 13 below.

2) Amendment IAS 32 "Financial Instruments Presentation"

In the framework of the amendment, it was determined that derivative instruments issued during a rights issue to existing shareholders, which enable the holder to buy a fixed number of capital instruments in return for a fixed amount of cash or another financial asset, denominated in a currency which is not the company's currency of operation, will be classified as capital instruments, only if the rights were offered to all holders of capital instruments of the entity, pro rata.

3) Amendment IFRS 7 "Financial Instruments: Disclosure" (the nature and extent of risks arising from financial instruments)

The amendment encourages making qualitative disclosures in the context of the quantitative disclosures required to assist readers of the financial statements to create a comprehensive picture of the nature and extent of the risks which arise from financial instruments.

The amendment also clarifies the disclosure level required on credit risk and collateral held and also lightens the required disclosure regarding loans whose terms have been renegotiated. The amendment was applied retroactively for annual reporting periods starting on January 1, 2011 or later. For information on related parties see Note 27 below.

z. New Standards and Clarifications Published which are not in Force and were not Adopted by the Company in Early Adoption, Expected to, or May Affect Future Periods:

1) IFRS 9 "Financial Instruments"

The standard specifies the instructions for classifying and measuring financial instruments. The standard states that all the financial assets will be treated as follows:

- Debt instruments will be classified and measured after initial recognition according to amortized cost or at fair value through profit and loss. The setting of the measurement model will be in consideration of the business model of the entity in relation to financial asset management and in accordance with the characteristics of the contractual cash flows due from those financial assets.
- Debt instruments which upon examination are measured according to amortized cost may be designated to fair value through profit and loss only when the designation cancels inconsistency in the recognition and measuring that would have occurred if the asset would have been measured at amortized cost.
- Equity instruments will be measured at fair value through profit and loss.
- Equity instruments may be designated at the initial recognition date to fair value, where the gain or loss is charged to other comprehensive income. Such designated instruments will cease to be subjected to impairment testing and the resulting gain or loss will not be transferred to the statement of operations and comprehensive income, including on the exercise date.
- Embedded derivatives will not be separated from a host contract included under the application of the standard. Mixed contracts will be measured instead, as a whole at depreciated cost or at fair value, according to the business model tests and contractual cash flows.
- Debt instruments will be reclassified from amortized cost to fair value and vice versa only when the entity changes its business model for managing financial assets.
- Investments in equity instruments that have no quoted prices in an active market, including derivatives of these instruments will be always measured at fair value. The alternative of measuring at cost under certain circumstances was cancelled. Nevertheless, the standard states that under specific circumstances, cost may be an appropriate estimate of fair value.

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

z. New Standards and Clarifications Published which are not in Force and were not Adopted by the Company in Early Adoption, Expected to, or May Affect Future Periods: (continued)

1) IFRS 9 "Financial Instruments" (continued)

The standard also defines the following instructions regarding financial liabilities:

- The change in the fair value of a financial liability designated at its initial recognition as fair value through profit and loss, attributed to changes in the credit risk of that liability, is charged directly to other comprehensive income, unless this charging creates or increases an accounting mismatch.
- When a financial liability is paid off or settled, the fair value amount charged to other comprehensive income will not be classified to profit and loss.
- All derivatives, whether assets or liabilities, will be measured at fair value, including a derivative financial instrument that is a liability linked to an unquoted equity instrument, of which the fair value cannot be measured reliably.

The standard applies by way of retroactive application, other than exceptions specified by the standard regarding annual reporting periods starting on January 1, 2015 or later (the obligatory application date of the standard was postponed from January 1, 2013 to January 1, 2015). Early adoption is allowed. Moreover, subject to the standards transition instructions, the standard may be adopted by way of early adoption to financial assets only without adopting these instructions to financial liabilities

At this stage, the Company's Management cannot estimate the effect of this standard on its financial position and results of its operations.

2) IFRS 13 "Fair Value Measurement"

This standard replaces the guidance on individual fair value measurement in different international financial reporting standards with guidance grouped in one standard that will serve as the guidance for fair value measurement. Accordingly, it specifies guidance for fair value measurement of all the items measured at fair value in the statement of financial position or for disclosure purposes.

The standard defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants, at the measurement date.

The standard states the different possible approaches for fair value measurement and notes that the valuation techniques to be used should mainly apply the use of expected market data.

At this stage, the Company's Management cannot estimate the effect of the implementation of this standard on its financial position and results of its operations.

3) IAS 19 “Employee benefits”

The standard changes the current guidelines of the International Accounting Standard No. 19 "Employee Benefits" (IAS 19) in the following aspects:

- Actuarial gains and losses will be recognized immediately in other comprehensive income and will not be classified later to profit or loss. As a result, the possibility of recognizing actuarial gains and losses immediately in profit or loss, or according to the "corridor method", is eliminated.
- The cost of previous service will be recognized immediately in the profit and loss for the period in which the plan was changed, regardless of the maturity conditions.
- Interest income with respect to assets of a defined benefit plan will be recognized on the basis of the capitalization rate of the obligation and not according to the expected yield of the assets.
- Short term employee benefits will include benefits that are expected to be fully paid off at the end of 12 months from the end of the year in which the service that entitles the employee was given.
- Termination benefits arising from the proposed encouragement of a voluntary retirement plan will be recognized as a liability at a date when the entity can no longer withdraw the offer.

The amendment will be applied retrospectively, excluding certain exceptions stated in the standard, for annual periods beginning on or after January 1, 2013. Early adoption is permitted.

At this stage, the Company's Management cannot estimate the effect of this standard on its financial position and results of its operations.

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

z. New Standards and Clarifications Published which are not in Force and were not Adopted by the Company in Early Adoption, Expected to, or May Affect Future Periods: (continued)

4) IAS 1 (amended) "Presentation of Financial Statements" (on Presentation of Items of Other Comprehensive Income In the Statement of Operations and Comprehensive Income)

The amendment states that the presentation of items included in other comprehensive income will be separated and presented in one of two groups:

- Items which will be classified in the future, to profit or loss.
- Items that would not be classified in the future to profit or loss.

The amendment also states that in the event that the items of the other comprehensive income are presented before tax effect, the tax effect will be presented separately with respect to each of the groups.

The amendment will be applied retrospectively for annual periods beginning on or after January 1, 2013. Early adoption is permitted.

aa. Principal Factors of Uncertainty in Estimates and Accounting Considerations in Applying an Accounting Policy

1) General

Implementation of the aforementioned accounting policies of the Company requires the Management of the Company, to apply, in certain cases, expansive accounting judgment regarding estimates and assumptions on the book value of assets and liabilities which may not be found in other sources. The estimates and the related assumptions are based on past experience and other factors considered relevant. The actual results may differ from these estimates.

The estimates and their basic assumptions are constantly reviewed by the Management. Changes in accounting estimates are recognized in the period on which the estimate was changed, when the change affects only that period, or recognized in that period and in future periods in cases where the change affects both the current period and the future periods.

2) Principal Factors of Uncertainty in Estimates

a) Fair Value of Financial Instruments

As described in Note 27, the Company's Management exercises discretion in choosing the appropriate evaluation techniques for financial instruments that do not have a quoted price in an active market. The evaluation techniques employed by the Company's Management are those applied by market participants. The fair value of other financial instruments is determined on the basis of capitalizing cash flows expected from them, based on assumptions supported by expected market prices and rates. The assessed fair value of financial instruments that are not traded in an active market includes several assumptions that are not supported by expected market prices and rates. The book value of the financial instruments that are evaluated through valuation techniques as of December 31, 2011, amounts to approximately NIS 839 million (December 31, 2010 approximately NIS 978 million), for further details on assumptions used by the Company, see Note 27 below).

b) Provisions for Legal Proceedings

About 516 claims against the consolidated Company are pending in the approximate amount of NIS 22,918 million (December 31, 2010 approximately NIS 23,734 million), for which a net provision (less receivables from the insurance company with respect to insured claims) of approximately NIS 413 million was recorded (December 31, 2010, approximately NIS 410 million).

The Management of the Company relies on the opinions of legal and professional consultants for reviewing the legal aspects of the claims and also for assessing the probability of decisions against the Company. After the advisors of the Company form their legal opinion and the chances that the Company will have to incur the results of the claim or will be able to reject the claim, the Management of the Company estimates the sum which should be recorded in the Financial Statements, if any. An interpretation of a certain legal status that differs from that of the legal advisors of the Company, a different understanding by the Management of the Company of agreements and changes originating from related court decision or new facts, may affect the value of the total provision for legal proceedings filed against the Company and consequently affect the Company's financial position and results of its operations.

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

aa. Principal Factors of Uncertainty Estimates and Accounting Considerations in Applying an Accounting Policy (continued)

2) Principal Factors of Uncertainty in Estimates (continued)

c) Provision for Property Tax

The Company received demands with respect to property tax for periods preceding the report date. These demands derive mainly from a changed classification of land held by the Company, a demand to increase billing area and demands related to property tax rates.

The Company prepares an estimate at each cut-off period of the reasonableness of the demand for payments, of changes in the legal environment, court decisions and new facts, which may affect the value of the provision in the books and affect the financial position and results of operations of the Company.

d) Employees Benefits

The present value of the Company's liability for payment of grants for termination of employee-employer relations, pension plan and benefits for its employees is based on numerous data, determined on the basis of an actuarial estimate, which uses many assumptions, including capitalization rate. Changes in actuarial assumptions may affect the book value of the Company's liability for payments of grants for termination of employee-employer relations, pension and benefits. The Company estimates the capitalization rate once every quarter, based on market yields of Government debentures. Other main assumptions are made in light of prevailing market conditions, and the acquired experience of the Company. See Note 19 below for further details on assumptions made by the Company.

e) Fixed Assets Depreciation

As mentioned in section g above, the Management of the Company reviews the estimated useful life of fixed assets items, during every annual reporting period. The Management stated that there is no change in the useful lives of the fixed assets during the period.

f) Standards for Regulated Companies (SFAS 71)

The Company applies accounting principles of the American Financial Accounting Standard Board SFAS 71 and SFAS 90 (the "standards") (see also section a2 above) that discusses the implication of certain types of regulation on the accounting policy. One of the conditions for the implementation of the standards, stipulates that regulated rates be constructed so as to cover the specific costs (including required return on capital) associated with the provision of the regulated product or service. Therefore, the standard requires the regulated entity to reassess the coverage probability of the regulatory assets on every publication date of the financial statements.

Company rates are determined according to the decisions of a regulating public entity, the Electricity Authority.

The implication of the standard is that the Company can capitalize costs which should usually be recorded to the statement of operations and comprehensive income, since the following conditions are fulfilled:

1) It is probable that future income, in an amount that will not be smaller than the capitalized expenses will be derived from including those expenses in expenses recognized for the rate.

2) Based on available evidence, future income will be earned by the corporation for the purpose of covering accumulated expenses and not for the purpose of maintaining a similar level of expenses. If the income will be earned by an automatic update of rates, the condition is that the regulator will clearly intend to allow coverage of the expenses which were accumulated in the past.

The standard requires a regulated entity to reassess the coverage probability of regulated assets on each publication date of the financial statements. Upon reaching a conclusion that the Company does not fulfill the aforementioned conditions for applying the standard and only part of the regulated assets are covered by the rates, then all or part of the regulated assets should be deleted from the statement of financial position.

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

aa. Principal Factors of Uncertainty Estimates and Accounting Considerations in Applying an Accounting Policy (continued)

2) Principal Factors of Uncertainty in Estimates (continued)

f) Impairment of Tangible and Intangible Assets

The Company reviews the tangible and intangible assets in its books (without inventory) to detect indications of value impairment. Upon finding indications of value impairment, the Company calculates the estimated legally accepted value of these assets, to determine the loss rate with respect to the impairment of these assets, if any.

The Company reviews assets defined as "Recently Completed" (according to the definition in the American Standard SFAS 90), during each period, to determine if it is likely that these assets will be covered by the electricity rate. The Company reviews the provision for value impairment for all other assets, in each period, in accordance with IAS 36. See details in note 11 i below.

NOTE 3:- THE ELECTRICITY RATE

a. General

1) The Manner of Determining the Charge Rate

The revenues of the Corporation are based on the electricity charge rate that the Corporation charges consumers. In accordance with the Electricity Sector Law, the electricity charge rates and their manners of update are determined by the Electricity Authority. In accordance with the provisions of the law, the Electricity Authority shall prescribe the electricity charge rates in accordance with the following rules:

- The charge 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.
- With respect to the cost, an adequate return on capital rate shall be taken into account, considering the rights and duties of a vital service provider license holder. The law does not define what an adequate return on capital rate is.
- For the purpose of setting the charge rates, the Electricity Authority shall perform cost control actions for the vital service provider license holder. The Electricity Authority is entitled not to take into account, for setting charge rates, expenses, in part or in full, which in its opinion are not required for fulfillment of the duties of the vital service provider license holder.

In accordance with these principles, the electricity charge rate is supposed to cover all of the costs sustained by the Corporation from the operation of its assets. These costs consist mainly of costs of fuel, costs of operations and maintenance and costs of capital (depreciation, financing and return on capital).

The resolutions of the Electricity Authority with respect to the setting of the charge rate bases state that every few years, the Electricity Authority is supposed to establish a rate base for a certain test period (a period in which the rate base will be valid). Electricity rate bases for the generation, transmission and distribution segments, , the criteria for 2002-2005 and their update method ("The Rate Document") became effective in 2002. The rate document specified decisions of the Electricity Authority on the structure and level of the rates. A new rate base for the generation segment for 2010-2014 and updates for the transmission and distribution segments were determined in 2010. The electricity charge rates for the various consumers are set in accordance with the type of consumption and the supply voltage. The main charge rate types are: uniform charge rate (domestic, general, street lighting and low voltage and medium voltage bulk) and load and time charge rates (low voltage, medium voltage and high voltage). The electricity charge rate that is derived from the charge rate basis is updated during the test period through regular update and annual update in the manner elaborated in Section 2 below.

In addition, the Electricity Authority adopts, from time to time, various resolutions in which general principles that apply to the electricity charge rates are established, some of which pertain to the electricity charge rate in general and some of which pertain to the electricity charge rate for a certain segment of activity.

2) Rate Update Mechanism

In accordance with the Electricity Sector Law, the electricity charge rates are to be updated according to an update formula that the Electricity Authority will prescribe. In the resolutions of the Electricity Authority with respect to the electricity charge rates, it has been determined that the charge rate will be updated on an ongoing annual basis, as follows:

a) Annual Update – Every year, in April, the Electricity Authority is said to implement an annual update of different components of the costs recognized in the rate of the Company, according to changes in different components in the input basket of the Company. In addition, this decision states that the update of the other segments of the electricity chain will be performed according to the update principles, which were determined in the decision on the rate base in 2002, as long as these do not contradict the decisions of the current rate base.

b) Current rate update - the following update formulas were defined for the following parameters:
   - The recognized fuel costs are linked to changes in fuels prices.
   - Costs of foreign capital are linked to the "determining basket" (defined in the new rate base).
   - Operating costs are partially linked to the CPI and partially to a mean index of a salaried position in the economy.
   - All other components are linked to the CPI.

NOTE 3:- THE ELECTRICITY RATE (continued)

2) Rate Update Mechanism (continued)

In its decision on March 22, 2012, the Electricity Authority updated the timing formula for the regular update of rates. It was determined that the rates will be updated on the earliest date between the following principles regarding the costs of the effective input basket of the rate, where the rate will only be decreased after the collection of the addition to the recognized costs of the fuels will be completed, under the framework of the rate outline determined in this decision:

(1) A change exceeding 3.5% at least in the recognized cost of the inputs basket of all the systems, provided that four months at least elapsed from the last update.

(2) The annual update date, starting from 2013.

3) Rates Update for 2011

a) Annual update - The last annual update of the electricity charge rate took effect in August 14, 2011 applied retroactively from April 2011. The overall rate update led to an increase in the rate at 9.89% on average, compared to the previous annual update that took effect in March 22, 2011. This annual update included an update of components such as: recognized financing costs for 2011, the recognized final fuel mix for 2010, advanced recognized fuel mix for 2011, recognized cost of active assets for 2011 and return of costs for purchases of electricity from private producers and for additional arrangements. The Company has objections to some of the decisions of the Electricity Authority that were adopted within the framework of this update.

b) Current update – the last current update of the electricity rate became effective on November 1, 2011, and increased the rate at an average rate of 4.72%. This update is due to the change in the cost of the recognized inputs basket for the electricity rate, deriving mainly from global increase of fuel prices, uncertainty regarding natural gas supply from Egypt and the depletion of the natural gas output from the Yam Thetis reserve.

4) Rates Update for 2012

In its decision on March 22, 2012, the Electricity Authority determined an outline for spreading the increase in the electricity rates for the years 2012-2014, during a period of natural gas supply squeeze to the energy sector in Israel, all pursuant to the significant continued disruptions in the supply of natural gas for electricity generation and the other exceptional circumstances detailed in this decision and in view of the Government assistants which was approved already and will be consolidated shortly. The update of the recognized costs at an average rate of 8.9% will apply once this decision becomes effective from April 1, 2012.
The determined rate outline:

a) Update of the recognized costs and spreading the addition to the fuels costs
The Electricity Authority will recognize an addition to the recognized fuel costs in 2012 of NIS 7.7 billion in current prices, compared to the recognized cost in the last rates update. The addition to the fuel costs will be spread in the electricity rates in 2012 - 2014, as follows:
- In 2012 – NIS 1.3 billion
- In 2013 – NIS 3.1 billion
- In 2014 – NIS 3.3 billion

The Electricity Authority will also acknowledge an addition to the recognized cost of other generation components costs, which were expected to be updated in the coming annual update, contributing an increase of about 2% in the electricity rate. In addition the Electricity Authority will also recognize an addition to the recognized cost for the transmission and distribution segments in 2012.

b) The expected rate outline for the years 2012, 2013 and 2014 is a rate increase of 8.9%, 4.4% and 3.7% respectively.

NOTE 3:- THE ELECTRICITY RATE (continued)

4) Rates Update for 2012 (continued)

c) Update and Reckoning Mechanisms

- Annual Updates – the annual update for 2012, scheduled for April will be postponed until the required information will be provided by the Company and the required costs audit will be conducted. In this update, the Electricity Authority will also review the gas incentive formula and the Company's claim on the increased fuels costs deriving from assumptions of the Electricity Authority on power stations maintenance dates.
  Differences created between the recognized costs in the annual update for 2012 and the recognized costs according to this decision will be expressed in the annual update for 2013.
- Current updates – see section r a2b above.
- The recognized costs for the transmission and distribution segments, including the addition according to this decision, will remain effective without an amortization factor until a new rate base will be determined for these segments, which will become effective from April 1, 2012.

d) Cash Flow Bridging

- The monthly deposits in the dedicated account for phase B of the emergency plan in the amount of NIS 167 million for the months January – July 2012 will be postponed and resumed from August 2012 up to January 2013. The postponement of these deposits amounts to NIS 1 million.
- The Electricity Authority will act to define an outline for releasing up to NIS 600 million from the balance of funds in the dedicated account for the emergency plan, to be used by the company, subject to different conditions.

e) Dedicated Account for Fuel

A dedicated mechanism will be established for managing the funds of the supplement for fuel costs, as specified in the decision.

f) Government Assistance

This decision and the outline for spreading the rate increase are based on the assumptions of Government assistance as concluded on February 26, 2012 (the publication date of the document for a hearing) and recently, with respect to complementary Government assistance (excise tax exemption, provision of guarantees, spreading VAT payments, spreading income tax payment and extending the effectiveness of the Government Companies Regulations). This Government assistance was subjected to certain conditions and especially to the contribution of the Company by implementing efficiency steps, continued credit raising, performing actions to develop the electricity sector, including entry of private produces and using the trust account funds deposited with respect to benefits and bonuses to Company employees for non-pension components, which were not recognized for deposit in the Central Provident Fund for Pension, according to the legal means available to it.

b. The Generation Segment Rate

1) General

On February 1, 2010, the Electricity Authority published a decision on updating the new rate base for the generation segment for the years 2010-2014, and updated the rate structure book – Recognized Costs for the Generation Segment for the said years ("The Rate Document"). The Rate Document details the decisions of the Electricity Authority on the structure and level of the rates for the generation segment and the compensation formula for the delay in rates update, to be applied to all electricity chain segments. This decision and the rates derived from it became effective on February 15, 2010.

The new rate base determines the level of costs to be recognized for the generation segment for the years 2010 – 2014, updating rate components, including fuel costs, capital costs and operating costs.

The recognized costs were determined after the Electricity Authority conducted a “costs audit” of the Company costs, as recorded in its books over the years.

The Electricity Authority determined that in the event that costs incurred for units under construction are excessive in the opinion of the Company and are not included in the normative cost base, the Company is entitled to request that the Electricity Authority recognize the excessive costs, after the performance of the unit. The Company reviews periodically the effect of the new rate base on its Financial Statements, estimated exposure to fines and estimated provisions, if needed, and updates accordingly.

NOTE 3:- THE ELECTRICITY RATE (continued)

b. The Generation Segment Rate

2) The Main Points of the New Rate Base for the Generation Segment and the Effect on the Financial Statements

a) Depreciation and Assets Base

Assets recognized in the new rate base for the generation segment were determined according a future outline for 2010-2014 and are updated every year. Recognized costs with respect to generation units were determined according to a plan that includes the list of recognized units and their dates of first operation.
The generation units were divided into two main types:

1) Generation units that commenced operation before December 31, 2002 ("Old units"). Recognition of the costs of these units is mainly based on their costs in the Company's books.
2) Generation units that were operated and that will be operated from January 1, 2003 ("New units") - recognition of the costs of the new units is determined according to normative parameters (based on data presented in the international price list GTWH), e.g., operation dates, building duration and normative interest. These were determined according to three primary components: Equipment, development and installation and interest during construction.

The decision of the Electricity Authority on February 1, 2010, reflects, as mentioned, non-recognition of the full construction costs of the Company's generation units. Therefore, the Company recorded a provision for asset impairment in 2010 in the approximate amount of NIS 0.9 billion, in the amount of the non-recognized difference with respect to the new generation units. As on the statement of financial position date, the provision for assets impairment is approximately NIS 0.8 billion (see Note 11 i below).

b) Costs Reduction Due to Failure to Meet Normative Operation Dates ("Fines")

The Electricity Authority determined normative operation dates for operating generation units which are expected to operate during the test period (2010-2014). In accordance with the decision of the Electricity Authority, if the Company fails to meet predetermined normative timetables for commencing operation of generation units, the recognized income of the Company will be decreased under a reduction mechanism, calculated on a daily basis ("The Fines").
On March 24, 2011, the Electricity Authority reached a decision that updates the normative operation dates of generation units, where the delay in their operation date was approved by the Minister.
Consequently, the exposure of the Company with respect to fines decreased, in comparison with the estimate calculated in February 2010, following the publication of the base rate book for the generation segment. Total cost of fines that the Company incurred as a result of this mechanism amounts to approximately NIS 69 million, out of which the Company recorded a provision of approximately NIS 20 million during the reporting period. As of the statement of financial position date, the net liability (less actual payments) with respect to fines is approximately NIS 20 million (see Note 20 g below).
Details of the estimated cost reductions ("Fines") are as follows:

	Estimated costs reduction (NIS million)
With respect to Haifa 3 generation unit (see (1) below)	88
With respect to Alon Tavor CCGT (Stage A and B) (see (2) below)	385
Total	**473**

(1) The Haifa 3 generation unit was not synchronized on the updated normative synchronization date (November 2011), due to events beyond the Company's control. This created an exposure to a fine of approximately NIS 88 million. The Company applied on January 29, 2012 to the Director General of the Electricity Administration in the Ministry of Energy and Water, requesting the approval and update of the operation date of this unit.

(2) In its decision of March 24, 2011, the Electricity Authority updated the normative operation date of Alon Tavor "Emergency" Stage A to July 2012, and Stage B to July 2013. However, due to inability to find a financing source for constructing the unit, its construction did not yet begin, which exposes the Company to a fine estimated at NIS 385 million.
The Company estimates that if a decision will be made to build the unit and a financing mechanism will be provided, the updated operation dates of the project will be concluded.

NOTE 3:- THE ELECTRICITY RATE (continued)

b. The Generation Segment Rate

2) The Main Points of the New Rate Base for the Generation Segment and the Effect on the Financial Statements (continued)

b) Costs Reduction Due to Failure to Meet Normative Operation Dates ("Fines") (continued)

Consequently, and as a result of other available actions it will employ, the Company estimates at a probability level of 'more likely than not', that the Electricity Authority will update the operation dates according to updated development plans and that the Company will avoid deduction of these fines. The Company did not record any provision for these fines in its Financial Statements.
The Management reviews this estimate periodically and updates it accordingly.

c) Financing Costs

Financing costs will continue to be recognized, based on the recognized operating assets. The recognized leverage remains one third equity and two thirds foreign capital. The recognized return on foreign capital is derived from three components: The NIS financing basket (reflecting loans rose in the local market), a hedged financing basket derived from a new hedging mechanism (see paragraph d below) and NIS at higher interest rates (reflecting loans in foreign currency for which the Company is required to initiate hedging transactions).

d) The Hedging Mechanism

The hedging mechanism in the rate is intended to hedge the Company's exposure to changes in foreign currency. According to the new rate base, the hedging mechanism in its former format was cancelled and a new hedging mechanism was determined for all segments of the electricity chain, which will be cancelled gradually within three years, up to 2013. The collection of the debt accrued to the credit of the consumers with respect to cancelling the former hedging mechanism will be spread over a period of five years (see also Note 20 c below).

e) Operating Costs

Recognition of operating costs for the test period was calculated based on past costs (years 2002-2006), while separating between labor costs and other costs and after certain adjustments according to an increase in sales, less a 2% annual efficiency.

- The recognized operating costs of the generation segments include the pension costs according to a correction published by the Company on December 27, 2009 (restatement of the financial statements). The Electricity Authority did not complete the audit of the pension costs as yet. This subject is still being discussed between the Company and the Electricity Authority. Upon reaching a final decision on the subject of recognized pension costs, the pension costs component will be updated accordingly.

- The cost of capital services with respect to spare parts inventory was recognized under operating costs, yet the new rate base for the generation segment determined a partial recognition only of these costs. The deduction amounts to approximately NIS 30 million per year and is valid for the current rate period (2010-2014). On February 26, 2012, the Company applied to the Electricity on the subject of several issues for which decision on recognition was not reached as yet, including recognition of the full costs of the spare parts inventory. The Company requested recognition of these costs within the annual update in 2012. The Company estimates that these costs will be recognized. Therefore, the Company did not record any provision for impairment with respect to this item in its Financial Statements.

f) Fuel Costs

The fuel basket is calculated every year as an average of fuel baskets according to a forecast of load curves related to different climates. The fuel basket will be retroactively updated every year, according to the actual demand curve and arising from new, relevant professional information. The difference will be refunded to the consumers or to the Company with interest and linkage.
The decision of the Electricity Authority on August 8, 2011 on the recognized fuel mix for 2011, under the annual update for 2011, states that the fuel mix will be updated once a month with respect to the actual realized load curve, the maximum hourly natural gas from the Egyptian gas supplier and changes in the units loading order arising from environmental protection limitations.

NOTE 3:- THE ELECTRICITY RATE (continued)

b. The Generation Segment Rate

2) The Main Points of the New Rate Base for the Generation Segment and the Effect on the Financial Statements (continued)

g) Gas incentive

The Electricity Authority has established a gas incentive with the aim of encouraging the Company to increase its use of natural gas in the upcoming years, as a result of an increase in the demand for natural gas due to the expected entry of additional generation units that are expected to run on gas in the upcoming years. The gas incentive mechanism is intended to encourage the Corporation to sign additional, long term gas agreements, at relatively low prices, which are expected to reduce the average gas price, reduce the cost of electricity to consumers, in such a manner that some of the saving will remain in the possession of the Company, while contributing to environmental protection due to the exchange between gas and polluting fuels of fuel oil and diesel type. The gas incentive has been restricted to new gas agreements only, beyond the existing agreements. The amount of the incentive depends on the fuel price and quantity in accordance with the new agreement and decreases over the years until the expiration of the effect of the gas incentive mechanism. The gas incentive mechanism was supposed to be in effect in 2009-2012. However, the gas incentive for 2011 was cancelled in August 2011 within the framework of the annual update for the rate in 2011 and it was decided that this issue will be discussed again when the annual update for 2012 will be determined.

In 2009-2010, the formulas that were prescribed in the gas incentive mechanism left the Company with zero incentive only. Following the cancellation of the gas incentive in 2011, the Company has applied to the Electricity Authority on numerous occasions (the last time on January 19, 2012), requesting to receive a gas incentive for 2011, subject to the mechanism determined by the Electricity Authority under the new rate base for the generation segment.

It should be noted that the decision of the Electricity Authority on March 22, 2012, states, as aforementioned, that the Electricity Authority will review the natural gas incentive formula in the annual update date for 2012.

h) Depreciation of Fuel Operated Power Stations

Pursuant to the decision of the Electricity Authority on the new rate base book for the generation segment for 2010-2014 the Company adjusted the recognized depreciated cost of fuel operated power stations to reflect the additional depreciation which would have been accumulated in addition to the depreciated cost in the books.

i) Investments in Operational Power Stations (including Renovations)

The Electricity Authority determined that the cost of investments in operational power stations (including renovations), will not be recognized as an addition to fixed assets and will be recognized instead as operational expenses (except investments that increase the capacity and/or improve availability and/or prolong operational life, or conform to environmental standards). Consequently, the recognized annual cost was determined according to the weighted average method for the years 2002-2006 and it is factored at the sales rate, less efficiency. Consequently, the Company depreciates its investments in operational power stations (including renovations), upon their formation from February 15, 2010.

j) Interest During Construction

For capitalization of borrowing and capital costs in accordance with the instructions of Chapter RE6 see Note 2 a5 above.

k) Conversion to Gas costs

According to the Electricity Authority, the new rate base for the generation segment determines partial recognition of conversion to gas costs, applied only after the unit commences operation with gas. On February 26, 2012, the Company applied to the Electricity Authority on the subject of several issues for which decision on recognition was not reached as yet, including recognition of the full costs of conversion to gas of units that were already operated with gas. The Company requested recognition of these costs within the annual update in 2012. The Company estimates that these costs will be recognized. Therefore, the Company did not record any provision for impairment with respect to this item in its Financial Statements.

NOTE 3:- THE ELECTRICITY RATE (continued)

b. The Generation Segment Rate

3) The position of the Company with respect to the new generation charge rate basis

The Company has many reservations with respect to the new charge rate basis for the generation segment, which it believes may have a material effect on the Company, inter alia due to non-recognition of the full costs of construction of the generation units of the Company and due to the mechanism of reduction of costs recognized in the charge rate in the case of the Company not meeting the normative operation dates that have been prescribed for the new generation units of the Company.

The Company has asked on numerous occasions for discussion before the plenum of the Electricity Authority its main contentions against the decision of the Authority on this subject. As of the date of the report, no such discussion has been held.

c. The Transmission and Distribution Segments

The electricity rates for the transmission and distribution segments were determined according to the decision of the Electricity Authority on the subject of "Electricity Rates and Criteria, and the Manner for their Updating for the years 2002-2005" which became effective on July 5, 2002 ("the Rate Document"). The Electricity Authority's decisions with respect to the structure and level of the rates are detailed in the rate document for the Company's activities segments - generation, transmission, the high-voltage distribution and the low-voltage distribution

The Rate Document determined the cost recognized for the Company that mainly comprises capital costs and operating costs for each of the segments: Transmission segment, high and low voltage distribution segment and the consumer costs segment for each of the segments.

Pursuant to the determination of a new rate base for the generation segment, the Electricity Authority also updated some components of the transmission and distribution segments. Return rates on foreign capital for the transmission and distribution of high voltage and distribution of low voltage were updated similar to the update in the generation segment. Moreover, the new hedging mechanism applied to these segments as well.

On March 28, 2012, the Company received the decision of the Electricity Authority on the subject of "Spreading the Increase in Electricity Rates for the years 2012-2014 in a Period of Natural Gas Supply Squeeze in the Energy Sector in Israel". This decision states, that the Electricity Authority will recognize, inter alia, an addition to the recognized cost for 2012 for the transmission and distribution segments in the approximate amount of NIS 240 million as an advance, until a new rate base will be determined, to be effective from April 1, 2012. This addition contributes about 1.2% to the increase of the electricity rate.

Since the rate base will become effective on April 1, 2012, and since the Company does not have information on the scope of the expected non-recognition, if any, the Company estimates that according to the Electricity Sector Law, the costs will be fully recognized. The Company intends to apply to the Electricity Authority and request retroactive compensation for the continued delay in determining rates bases for a date before April 1, 2012,

Based on all the aforesaid, the Company did not record a provision with respect to fixed assets of the transmission and distribution segments in its Financial Statements.

The differences which will be created between the recognized costs on the date of determining the new rates base and the recognized costs will be included in the compensation for the delayed update. It was also determined that the recognized costs for the transmission and distribution segments, including the addition according to this decision will remain effective without an amortization factor until a new rate base will be determined for these segments.

d. Main costs incurred by the Company which are not covered by rates as granted by the Electricity Authority for Previous Years and General Disputes

The Company disputes numerous decisions of the Electricity Authority in previous years on many open subjects, on which the Electricity Authority did not yet reach a decision, including the liability for pension and general disputes.

The Company is conducting a correspondence with the Electricity Authority and as on the signing date of these financial statements, these subjects are still under discussion and no decision was reached for them.

The Company's Management and Board of Directors are conducting an ongoing dialogue with the relevant Government bodies, including the Electricity Authority, in an attempt to advance the discussions regarding issues in dispute regarding the electricity rate.

NOTE 3:- THE ELECTRICITY RATE (continued)

e. Adjustment of the Rate to the Implications of the Adoption of International Financial Reporting Standards

The International Financial Reporting Standards ("IFRS") were adopted in Israel on January 1, 2008. These standards do not allow the Company to prepare its Financial Statements according to changes in the relevant purchasing power of the currency unless high inflationary conditions exist (in Israel, up to December 31, 2003) only.

Adoption of the financial reporting rules in accordance with IFRS would have required the Company to incur material additional financing costs. The Company applied to the Electricity Authority on the subject, explained the significance of the financial reporting according to the IFRS and requested to adjust the rate of the company to the IFRS, due to the significant difference between the real financing costs and the nominal financing costs (see Note 2 a above).

The Minister of Finance decided that during the years 2007 – 2011, the Company will adopt reporting rules in accordance with the Government Companies Regulations (according to which the Company continues, inter alia, to adopt reporting rules adjusted for the CPI).

In January 2012, the Director General of the Government Companies Authority decided to accept the recommendation of the Advisory Committee to the Director General of the Government Companies Authority that the "Government Companies Regulations" should be extended up to December 31, 2014 and that from January 1, 2015, the Company will fully implement the International Financial Reporting Standards (IFRS). The Companies Authority is preparing to act to amend the regulations, through the Minister of Finance, as required in a way that will reflect the decision of the Director General of the Government Companies Authority.

In response, the Company announced that the implications of transition to implementation of full IFRS are:

1) Cancelling the preparation of financial statements adjusted to the CPI.
2) American standards on regulated companies will not be applied, essentially preventing the creation of regulatory assets/liabilities and erasing the existing assets/liabilities.

The Company estimates that ceasing the adjustment of the financial statements to the CPI, without a corresponding adjustment in the structure of the electricity rate, will erode profitability, because financing costs of the Company will increase by approximately NIS 400 million (before tax effect) with respect to each percent increase in inflation (regarding the September 2011 Financial Statements). Moreover, the equity of the Company will be eroded by approximately NIS 170 million. The Company will not be able to record regulatory assets/ liabilities) and will be exposed to fluctuations in the results of the activities. In addition, the decision does not clarify the transitional arrangements for full implementation of the IFRS, nor the impact on comparative figures in the financial statements.

In light of all the aforesaid, the Company believes that the transition to full implementation of the IFRS should be accompanied by a appropriate rate adjustments that will reflect the nominal financing costs and also by updates of the rate, to prevent a significant delay between amounts due to the Company or to electricity consumers and the collection date, in order to prevent severe damage in the future which will eventually erode the equity of the Company and impair its ability to raise funds. Moreover, in view of the unique condition of the Company, it should be determined how to apply the manner of transition to full implementation of the IFRS.

The present electricity rate is not adjusted to the transition to the aforementioned reporting principles.

f. Petitions Lodged Against the Electricity Authority

On October 20, 2010, the Company filed a petition to the District Court in Jerusalem, on the subject of freedom of information, relating to the request of the Company to instruct the Electricity Authority to forward to the Company all the minutes of the meetings of the Electricity Authority plenum related to the decision of the Electricity Authority on February 15, 2010, on the rate base for the generation segment for the years 2010-2014 and also to forward documents on which members of the Electricity Authority plenum based their decision on the rate base and specifically regarding claims made by the Company. The Company needs these documents for contending with the aforesaid decision of the Electricity Authority on the rate base, which has a significant financial implication for the Company and for all electricity consumers in Israel and which, in the opinion of the Company does not reflect the real costs of the Company adequately, as stipulated in the Electricity Sector Law.

On February 21, 2012, the parties reached a compromise agreement, that received the effect of a court decisions, in which it was agreed (without becoming a precedent) that the Electricity Authority will forward to the Company all the minutes requested in the petition, related to the decision of the rate base. It was also agreed that the Company may request additional specific documents and that this request will be addressed according to the freedom of information law.

NOTE 3:- THE ELECTRICITY RATE (continued)

f. Petitions Lodged Against the Electricity Authority (continued)

As a result of the petition, the Company received for the first time the "Claim Response" book and expects to receive for the first time minutes of the Electricity Authority's plenum meetings. This documents are important in providing the Company with the ability to ensure that the decisions of the Electricity Authority were made according to a proper professional basis and after a methodical and thorough audit of all the data and considering all the related considerations; and to the Company's ability to object to the decisions of the Electricity Authority in a well reasoned and based administrative petition, in the event that there are sound reasons to do so.

g. New Criteria for Relations of the Company with Private Electricity Producers

On February 6, 2011, the Electricity Authority published a document for a hearing on the subject of Company relations with private producers on connecting high and ultra-high voltage.

The Company submitted its response to the document for a hearing. The Electricity Authority did not yet publish its decision on the subject.

The Electricity Authority published over the recent period several rate arrangements for private producers who operate conventional technologies, cogeneration, pumped storage and renewable energy in different voltages, for the purpose of regulating the activities of these producers in the Electricity Sector.

NOTE 4:- CASH AND CASH EQUIVALENTS

	December 31	
	2011	2010
	NIS in millions	
Cash and balances in banks	13	10
Short-term deposits*	1,139	3,268
Total cash and cash equivalents	**1,152**	**3,278**

* Interest rate as of December 31, 2011 and 2010 was 2.99% and 1.47% respectively.

NOTE 5:- SHORT TERM INVESTMENTS

See Note 11 j below for funds held in a dedicated account to finance investments of the Company in developing the electricity sector.

NOTE 6: TRADE RECEIVABLES FOR SALES OF ELECTRICITY

a. Composition

	December 31	
	2011	2010
	NIS in millions	
Customer debts for electricity bills that were issued	2,543	2,158
Allowance for doubtful accounts (see Note 30 below)	(179)	(190)
	2,364	1,968
Income receivable (1)	1,500	1,243
	3,864	**3,211**

(1) Income with respect to the relative portion of the electricity bills issued after the statement of financial position date that, according to an estimate, are attributable to the related reported period.

The last date for paying electricity bills without interest charges ranges from 11 to 14 days from the bill issue date, according to the type of customer, as detailed in the criteria. After this period, customers are charged with monthly interest, at the rate of 10% on the balance of their debt.

b. Aging of customer receivables in excess of credit days (with respect to invoices sent up to November 30, 2011) on the report date:

	December 31	
	2011	2010
	NIS in millions	
From 2 months to 3 months	402	206
From 3 months to 6 months	90	179
Over 6 months	310	245
Total	**802**	**630**

For credit risk management, see Note 27 below.

NOTE 7:- OTHER CURRENT ASSETS

	December 31	
	2011	2010
	NIS in millions	
Current maturities of:		
Loans to employees	17	17
Chartering of tugboats	8	6
Swap transactions	135	-
Total current maturities	160	23
Deposits for securing swap transactions	95	22
Institutions	14	16
Prepaid expenses	82	74
Income receivable	87	37
Other receivables (1)	187	129
	625	**301**

(1) Including indemnification receivable from the insurance companies with respect to legal charges for the years 2011, 2010 which total approximately NIS 35 million, NIS 25 million, respectively.

NOTE 8:- INVENTORY - FUEL

	December 31	
	2011	2010
	NIS in millions	
Fuel oil	192	252
Diesel oil	617	688
Coal	599	612
Coal in transit	579	256
	1,987	**1,808**

NOTE 9:- LONG-TERM RECEIVABLES

a. Composition of long-term receivables:

	December 31	
	2011	2010
	NIS in millions	
Loans to employees (see section b below)	64	67
Chartering of tugboats (see section (b) and Note 13 b,c)	79	81
	143	148
Natural Gas Lines - gas transmission project (see Note 13(g) below)	952	951
Receivables for currency swap transactions, including embedded derivatives (see Note 18a below)	1,023	113
Other (see section c below)	29	20
Total long-term receivables	2,147	1,232
Less – current maturities (see Note 7 above)	160	23
	1,987	**1,209**

NOTE 9- LONG-TERM RECEIVABLES (continued)

b. Loans to employees and chartering of tugboats

1) Linkage basis:

	December 31, 2011				December 31, 2010			
	Unlinked	Linked to the CPI	Linked to the Dollar	Total	Unlinked	Linked to the CPI	Linked to the Dollar	Total
	NIS in millions				NIS in millions			
Interest rates (in percentages):	**2.5**	**4.5**	**7.9-8.4**		**1.9**	**4.5**	**7.9-8.4**	
Loans to employees	63	1	-	64	66	1	-	67
Chartering of tugboats	-	-	79	79	-	-	81	81
	63	**1**	**79**	**143**	**66**	**1**	**81**	**148**

NOTE 9:- LONG-TERM RECEIVABLES (continued)

b. Loans to employees and chartering of tugboats (continued)

2) Maturity dates:

	December 31, 2011		
	Loans to Employees	Tugboats under lease	Total
	NIS in millions		
First year – current maturities	17	8	25
Second year up to fifth year	47	38	85
Sixth year and thereafter	-	33	33
Total	**64**	**79**	**143**

The difference between the amounts of employees' loans and chartering tugboats in the accounts and their fair value is not material.

c. Technological Greenhouse Companies

The "Other" item includes, inter alia, loans that the Company gave to technological greenhouse companies.

The Company started actions to build a technological greenhouse. Accordingly, the Company built a Technological Ideas Promotion Center for promoting and commercializing innovative ideas, supporting entrepreneurs with potential for development and industrial implementation in the field of electricity, related fields and environmental quality fields related to electricity. Those worthy, entrepreneurs and innovators who are accepted into the Center gain financial support (through granting of a convertible loan of up to NIS 3 million per project according to achieved milestones and work plan), guidance from a professional team and the possibility to use the infrastructure of the Company and its contacts locally and abroad. The board of directors of each project company includes one director who acts as the representative of the Company, out of four board members.

Up to December 31, 2011, the Company entered agreements with seven companies, to which the Company granted convertible loans in the total approximate amount of NIS 15 million (of which approximately NIS 8.7 in 2011) to be repaid according to the loan agreement or converted into shares.

NOTE 10:- FUNDS IN TRUST

Funds in trust are designated to cover actuarial liabilities to employees and liabilities as related to the termination of employer/employee relationships and which are invested in government bonds (see Note 19 below). The funds are presented at fair value.

The Company holds funds in a trust account for several years, for the purpose of paying pension liabilities of the Company with respect to salary components that are not including in the Central Provident Fund for Pension since 2000. The trust account was opened after entering a trust agreement between the Company and the Trust Company of Hamizrachi Bank, on March 23, 2000, according to which the Company requested to deposit funds in a trust account to cover its pension liabilities in accordance with its employment agreements with the employees and according to the arrangement between the Company and the Government in 1996 ("The 1996 Arrangement"). After the Central Provident Fund for Pension was founded, 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 Fund), related pension payments, were transferred to the fund. However, it transpired that it was not possible to transfer all the funds deposited in the trust account: amounts related to payment of different bonuses to employees on the termination of employee - employer relations were not transferred to the Fund, 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. In addition, according to the amendment to the pension funds regulations and according to the interpretation of the Capital Market, Insurance and Saving Department in the Ministry of Finance, pensioners' rights that are equivalent to money could not be transferred to the Fund. The funds are presented at fair value (see also Note 19 a c below). See the liability of the Company to employ legal means available to release an amount of no less that NIS 600 million in Note 1 f2bd. See the recommendation of the regulators team on releasing funds from the trust account in Note 19 f4 below.

THE ISRAEL ELECTRIC CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 (NEW ISRAELI SHEKELS)
(Adjusted to NIS purchasing power of December 2011)

NOTE 11:- FIXED ASSETS

a. 1) Composition and changes in 2011	COST			ACCUMULATED DEPRECIATION			NET BOOK VALUE
	Balance as of December 31, 2010	Additions net	Balance as of December 31, 2011	Balance as of December 31, 2010	Change in depreciation net	Balance as of December 31, 2011	As of December 31, 2011
	NIS in millions						
FIXED ASSETS IN USE							
Power plants (including land, buildings and machinery)	61,956	*1,116	63,072	37,230	2,210	39,440	23,632
Sub-stations	12,821	168	12,989	6,835	284	7,119	5,870
Overloading control center	907	14	921	830	24	854	67
Telecommunications	1,417	55	1,472	1,098	64	1,162	310
Switching stations and 400 KV voltage lines	7,882	(97)	7,785	3,613	265	3,878	3,907
High voltage transmission lines	5,948	104	6,052	3,158	143	3,301	2,751
Distribution networks	38,629	877	39,506	20,879	889	21,768	17,738
Installations, etc. - East Jerusalem district	134	-	134	134	-	134	-
Meters	2,246	(544)	1,702	1,717	(515)	1,202	500
Land, office buildings	3,029	(14)	3,015	1,544	44	1,588	1,427
Office equipment and tools	1,444	31	1,475	1,268	38	1,306	169
Computers	1,525	(1)	1,524	1,475	(3)	1,472	52
Motor vehicles	700	(11)	689	396	(16)	380	309
Mobile mechanical equipment	575	(18)	557	485	(54)	431	126
Emergency equipment	58	2	60	47	2	49	11
Various projects	586	49	635	31	18	49	586
Consumers participation in fixed assets not yet attributed to projects	(328)	275	(53)	-	-	-	(53)
	139,529	2,006	141,535	80,740	3,393	84,133	57,402
Less: receipts for extension of the electricity network	(9,017)	(5)	(9,022)	(6,618)	(184)	(6,802)	(2,220)
	130,512	2,001	132,513	74,122	3,209	77,331	55,182
Spare parts for power plants and substations	1,594	(27)	1,567	363	16	379	1,188
Total fixed assets in use	132,106	1,974	134,080	74,485	3,225	77,710	56,370

NOTE 11:- FIXED ASSETS (continued)

a. 1) Composition and changes in 2011 (continued)	NIS in millions						
	COST			ACCUMULATED DEPRECIATION			NET BOOK VALUE
	Balance as of December 31, 2010	Additions net	Balance as of December 31, 2011	Balance as of December 31, 2010	Change in depreciation net	Balance as of December 31, 2011	As of December 31, 2011
FIXED ASSETS UNDER CONSTRUCTION							
Power plants, buildings and other installations	2,904	*(129)	2,775	13	2	15	2,760
Switching and transformer stations and high voltage lines	813	(46)	767	46	2	48	719
Switching stations and 400 KV voltage lines	137	122	259	1	1	2	257
Payments on account of equipment	196	231	427	-	-	-	427
Materials and payments on account of materials designated for investments in fixed assets	675	(69)	606	-	-	-	606
Total fixed assets under construction	4,725	109	4,834	60	5	65	4,769
Total fixed assets	**136,831**	**2,083**	**138,914**	**74,545**	**3,230**	**77,775**	**61,139**

(*) Including cancellation of the deduction in the amount of NIS 125 million according to FAS 90

NOTE 11:- FIXED ASSETS (continued)

a. 2) Composition and changes in 2010

	COST			ACCUMULATED DEPRECIATION			NET BOOK VALUE
	Balance as of December 31, 2009	Additions Net	Balance as of December 31, 2010	Balance as of December 31, 2009	Change in depreciation net	Balance as of December 31, 2010	As of December 31, 2010
	NIS in millions						
FIXED ASSETS IN USE							
Power plants (including land, buildings and machinery)	60,608	*1,348	61,956	34,814	2,416	37,230	24,726
Sub- stations	12,530	291	12,821	6,439	396	6,835	5,986
Overloading control center	893	14	907	813	17	830	77
Telecommunications	1,358	59	1,417	1,031	67	1,098	319
Switching stations and 400 KV voltage lines	7,811	71	7,882	3,334	279	3,613	4,269
High voltage transmission lines	5,632	316	5,948	3,005	153	3,158	2,790
Distribution networks	37,735	894	38,629	19,941	938	20,879	17,750
Installations, etc. - East Jerusalem district	134	-	134	134	-	134	-
Meters	2,169	77	2,246	1,641	76	1,717	529
Land, office buildings	2,939	90	3,029	1,463	81	1,544	1,485
Office equipment and tools	1,418	26	1,444	1,236	32	1,268	176
Computers	1,510	15	1,525	1,451	24	1,475	50
Motor vehicles	692	8	700	425	(29)	396	304
Mobile mechanical equipment	558	17	575	485	-	485	90
Emergency equipment	58	-	58	45	2	47	11
Various projects	87	499	586	23	8	31	555
Consumers participation in fixed assets not yet attributed to projects	-	(328)	(328)	-	-	-	(328)
	136,132	3,397	139,529	76,280	4,460	80,740	58,789
Less: receipts for extension of the electricity network	(9,011)	(6)	(9,017)	(6,417)	(201)	(6,618)	(2,399)
	127,121	3,391	130,512	69,863	4,259	74,122	56,390
Spare parts for power plants and substations	1,385	209	1,594	358	5	363	1,231
Total fixed assets in use	128,506	3,600	132,106	70,221	4,264	74,485	57,621

NOTE 11:- FIXED ASSETS (continued)

a. 2) Composition and changes in 2010 (continued)

	COST			ACCUMULATED DEPRECIATION			NET BOOK VALUE
	Balance as of December 31, 2009	Additions net	Balance as of December 31, 2010	Balance as of December 31, 2009	Change in depreciation net	Balance as of December 31, 2010	As of December 31, 2010
	NIS in millions						
FIXED ASSETS UNDER CONSTRUCTION							
Power plants, buildings and other installations	4,210	*(1,306)	2,904	14	(1)	13	2,891
Switching and transformer stations and high voltage lines	900	(87)	813	46	-	46	767
Switching stations and 400 KV voltage lines	145	(8)	137	1	-	1	136
Payments on account of equipment	104	92	196	-	-	-	196
Materials and payments on account of materials designated for investments in fixed assets	634	41	675	-	-	-	675
Consumers' participation in construction of fixed assets not yet attributed to projects	(244)	244		-	-		-
Total fixed assets under construction	5,749	(1,024)	4,725	61	(1)	60	4,665
Total fixed assets	**134,255**	**2,576**	**136,831**	**70,282**	**4,263**	**74,545**	**62,286**

(*) Including deduction in the amount of NIS 953 million according to FAS 90

NOTE 11:- FIXED ASSETS (continued)

b. Investments in land (before amortization), which are included under fixed assets include NIS 841 million for long term land leases and NIS 656 million for land owned by the Company.
A substantial portion of the landed property, in which the Company has rights, is not registered in the Land 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 Land 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 liable to be substantial.
There are capitalized contracts with respect to the majority of the land leased by the Company from the Israel Land Administration.

c. As of the date of the expiration of the Concession (March 5, 1996), the Company had fully written off the cost of acquiring land in the amount of NIS 559 million as to which the Company's right to receive compensation at the expiration of the Concession was unclear. Land purchased in late 1995 at a cost of NIS 343 million, as to which the Company received confirmation that it would receive adequate compensation, was not written off.

d. See Note 18 e for liens related to fixed assets.

e. See Note 24a5 for fixed asset investment commitments.

f. Accumulated financial costs, net, capitalized as part of the cost of fixed assets (before depreciation) were NIS 4,396 million and NIS 4,127 million as of December 31, 2011 and as of December 31, 2010, respectively (see Note 32 a).

g. The Company's Financial Statements include assets, primarily networks and lines located within Judea, Samaria (including the Palestinian Authority territories) ("the territories") with a net book value of approximately NIS 922.5 million as of December 31, 2011. 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 the same principles applied according to the agreement signed between the Government of Israel and the Palestinian Authority on September 28, 1995, and based on the principles prescribed in the Disengagement Implementation Plan Law - 2005, will apply and if the Company will be indemnified in a full or partial amount, if any, for these assets.

h. **Fixed Assets Impairment Test according to IAS 36**
The Company reviewed, based on the opinion of external consultants, the need for a provision for assets impairment, in accordance with IAS 36. This review was conducted in addition to the provision for assets impairment according to the directives of SFAS 90 (according to recognition of the assets for the rates, see section j above).
In forming its position regarding the number of cash-generating units according to the standard, the Company heard the position of the Electricity Authority and the Government Companies Authority.
The Electricity Authority stated that in the case where IAS 36 applies to the Company, it is of the opinion (backed by a professional opinion which it commissioned), that the generation, transmission and distribution of the Company are one cash-generating unit as defined by that standard.
The Deputy Director General of the Government Companies Authority expressed a similar opinion on the number of cash-generating units.
The forecast of future cash flows expected to be derived from the cash-generating unit was prepared based on the current rates structure and on assumptions, representing, inter alia, the economic conditions that will exist during the useful life span of unit assets. The main economic conditions are:

NOTE 11:- FIXED ASSETS (continued)

h. **Fixed Assets Impairment Test according to IAS 36** (continued)

1) The current rate base for the generation segment, as determined in February 2010, will end at the end of 2014 and a new rate that will become effective at the beginning of 2015.
2) The new rate base for the transmission and distribution sectors (see Note 3 c above), will become effective From April 1, 2012, based on the Decision of the Electricity Authority on March 22, 2012.
3) In reviewing the cash-generating units, the Company identified the three operating segments of the Company as one cash-generating unit.
4) The new rate base for the operating segments of the Company will provide full coverage for investment and operation costs of the Company, in accordance with the Electricity Sector Law.
5) Fuel expenses incurred by the Company will be covered by the electricity rate throughout the periods of the forecast.
6) Weighted Average Capital Cost (WACC) was determined in accordance with the CAPM model for calculating the return on equity. Discount rates taken into account in the calculation of the recoverable amounts are: 6.73% for the generation segment, 6.46% for the network segments. These values reflect the time value of the money and the specific risks for each of the segments as determined in the electricity rate.

The aforementioned calculations show that the recoverable amount of the assets is not lower than their value in these Financial Statements

i. Reduction with respect to Non-Recognition of Building Costs of Generation Units According to the American SFAS 90 Standard.

As aforementioned in Note 3 a)3)a) above, the decision of the Electricity Authority on February 1, 2010, reflects incomplete recognition of the Company's costs, since the normative recognition of construction costs of the majority of the generation units is lower than the actual construction costs, even for units that already commenced operation, where construction costs have been recorded in the books.

According to the decision of the Electricity Authority, in the event that, in the opinion of the Company, excessive costs are created by units under construction that are not included in the normative cost base, the Company may request that the Electricity Authority recognize these costs, after the actual operation of the unit.

The decision of the Electricity Authority on March 24, 2011, updated the normative operation dates of generation units, where the delay in their operation date was approved by the Minister on December 15, 2010.

The decisions of the Electricity Authority relating to the update for 2011, published on August 8, 2011, include, update of the recognized building costs, in accordance with errors found by the Company in the calculations of the Electricity Authority, and also updated recognized equipment costs.

The Company revalued the differences between the recognized building costs of generation units and the costs to the Company, consisting of the actual costs paid up to December 31, 2011, and the forecast of costs for completing the unit, for the purpose of determining the provision for impairment as of December 31, 2011. The valuation for this report also included an updated estimate of Company's costs, according to the updated valuation of the forecast completion of the projects.

Calculation of the differences relates to units operated on and operated from January 1, 2003 onwards, since the book value of costs of units operated before this date was recognized, except prolonging the life of fuel operated units and investments in units converted to gas. The estimated difference includes, updating linkage to relevant indices, and also excessive costs in units under construction, which according to the Company's estimates, are highly likely to be recognized by the Electricity Authority after they are operated. The costs incurred by the Company include estimated investments up to the completion of the investment in the unit, according to Company estimates.

NOTE 11:- FIXED ASSETS (continued)

i. **Reduction with respect to Non-Recognition of Building Costs of Generation Units According to the American SFAS 90 Standard. (continued)**

Details of the differences range between the recognized costs and Company's cost ("The Differences"):

	Total Cumulative Provision for decreased assets value as on December 31	
	2011	2010
	(NIS in millions)	
With respect to new generation units (including estimated cost of assets completion)	828	953

(1) With respect to investments in assets that were operated and with respect to investments in assets that were not yet operated that are under construction, the Company is acting and will act, through all available means to change the decision of the Electricity Authority and receive recognition for the full costs due to the Company, since the Company is of the opinion that the decision on the investment in these assets is unreasonable and is a retroactive non-recognition of Company expenses. In light of the estimates of the Management regarding the success prospects of the appeal against the decision of the Electricity Authority, this accounting provision is not a waiver made by the Company of its requests to cover the non-recognized costs.

(2) In light of the non-coverage of the rate and the fact that two years elapsed since the rate base was published, the Company estimates that it is probable that the electricity rate will not include an adequate costs refund.

(3) Therefore, the Company recorded a provision for the impairment of assets in the full amount of the non-recognized difference with respect to costs incurred up to the statement of financial position date, after reviewing the extent of the non-coverage in the rate of each of the Company's assets.

(4) The calculation of the provision did not include an investment of NIS 0.3 million deriving from pension costs that were capitalized to fixed assets. The Company estimates that these costs will be recognized, since these are an integral part of the assets construction cost.

(5) The provision included in the financial statements was calculated according to the percentage of performance out of the gaps of each component in the cost of the generation units.

(6) In the event of a change in the decisions of the Electricity Authority and the costs for which a provision for impairment was recorded will eventually be recognized, or in the event that the best estimate of Company's cost will be updated according to updated Company costs according to an updated estimate of projects completion, these costs will be returned to the fixed assets costs.

(7) The estimation of the difference takes into account equipment costs linked to the changes in the GTWH price list. The calculation of the recognized costs takes into account the GTWH 2010 price list. The Company received the GTWH booklet for 2012 in March 2012. The Company is studying the information in this booklet and applied to the Electricity Authority regarding the recognition mode of equipment costs, pursuant to the publication of the booklet.

(8) Total expected difference between the recognized construction costs and the costs of the Company, comprised of costs expended up to December 31, 2011, and forecasted costs as of the statement of financial position is approximately NIS 926 million.

(9) The difference presented does not include the Alon Tavor generation unit ("emergency"), on which the Board of Directors did not reach a decision to implement the project.

(10) The Company capitalizes interest costs during the construction according to the capitalization ceiling, recognized in the rate.

j. **Emergency plan for the Electricity sector and its Financing**

The Company constructs power stations in recent years according to an emergency plan, approved by the Minister of National infrastructures.

1) Emergency Plan Stage A

On October 30, 2008, the Electricity Authority reached a decision on financing construction of stage A of the emergency plan as approved by the Minister (the gas turbine at Ramat Hovav - units 6 and 7, gas turbine at Eshkol, Hagit and Ramat Hovav - unit 8).

NOTE 11:- FIXED ASSETS (continued)

j. **Emergency plan for the Electricity sector and its Financing (continued)**

On October 31, 2008 the Company's Board of Directors approved stage A of the emergency plan for the electricity sector. Total expected investment at the planning stage of the emergency plan amounted to approximately NIS 3.6 billion. Its financing was determined as follows: Approximately NIS 0.9 billion was received through financing from foreign banks and NIS 2 billion that was collected through the electricity rate, in accordance with the decision of the Electricity Authority and the balance from internal sources of the Company.

Consumer financing of the construction of fixed assets in the amount of NIS 2 billion, financed the construction of the emergency plan phase A and additional projects included in the development budget of the generation segment for 2011 (according to the decision of the Electricity Authority on March 7, 2011).

The Company records this rate addition, setting off from related asset items.

2) Emergency Plan Stage B

On December 15, 2010, the Board of Directors approved an outline for financing the three steam turbine add-ons project of Stage B of the Emergency Plan at an estimated total cost of NIS 3.5 billion. The financing will be based on the following components: Financing of approximately NIS 2 billion from the Electricity Authority as financing by electricity consumers for 15 years, dedicated credit of approximately NIS 1.1 billion received through purchase of equipment and the balance, as needed, will be financed by the Company.

On March 7, 2011, the Electricity Authority published a decision to spread a debt of NIS 2 billion out of the Company's debt to consumers up to 2025 (see Note 20 i below), for financing construction of the three steam additions included in phase B of the emergency plan. This sum will be managed through a dedicated and separate account, supervised by the Electricity Authority, where the Company will transfer the outstanding cash balance to the said dedicated account in 12 equal monthly.

The Company started depositing these payments to the dedicated account in April 2011. As at the statement of financial position the balance in the dedicated account amounts to approximately NIS 0.7 billion. See deposits in the dedicated account in Note 1 f above.

On March 17, 2011, the Board of Directors reached a decision approving actions of the Company's Management to start construction of the three steam additions, which will be financed according to the aforementioned decision of the Company.

k. According to the circular of the Companies Authority (see Note 2 a1 above) the company is required to provide disclosure in the Financial Statements of the implementation of the directives of the Government Companies Authority regarding control and reporting rules for land and attached assets in Government companies in accordance with the Financial Statement Circular 2006-3 of September 17, 2006. The information required above was not included in the Financial Statements due to employee sanctions (see Note 24 c below). In a letter to the Director of the Government Companies Authority dated January 10, 2007, the Company's CEO states that back in 1998, the Company stated that it was preparing to collect the extensive amounts of material required. Furthermore, in 1998, a list of the Company's assets was transferred to the Ministry of Finance as of the date of the expiration of the concession and since then and, to date, the list of added assets is immaterial in relation to total assets and is irrelevant with relation to the assets arrangement prescribed by the Electricity Sector Law.

In addition, the Company does not currently possess all of the required information due to various problems in registering the many assets that have been accumulated by the Company over tens of years and due to the considerable costs and duration required to issue assessments. The CEO also mentioned that in meetings held with the Government Companies Authority and representatives of the Company's Management in negotiations regarding the structural change, the representatives of the employees' organization announced that they would not allow giving out information to the State or transferring any documents in connection with the Company's assets, etc.

NOTE 12:- INTANGIBLE ASSETS, NET

	Balance as of December 31, 2010	Additions in 2011	Balance as of December 31, 2011
	NIS in millions		
Cost of software	3,327	176	3,503
Accumulated amortization of software	(2,481)	(175)	(2,656)
Intangible assets, net	**846**	**1**	**847**

	Balance as of December 31, 2010	Additions in 2010	Balance as of December 31, 2010
	NIS in millions		
Cost of software	3,132	195	3,327
Accumulated amortization of software	(2,305)	(176)	(2,481)
Intangible assets, net	**827**	**19**	**846**

NOTE 13:- RELATED AND INTERESTED PARTIES

a. Transactions with the State of Israel, its Authorities and Other Government Companies

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 in them), constitute related and interested parties of the Company. The Company's revenues from those transactions carried out with 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 natural gas, transmission, water and land leasehold services from the above 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.

1) The Company reconciles balances with the State, its authorities, other Government companies and other interested parties.
   The Company sent requests for balances confirmations at the end of 2011 to approximately 190 customers, and approximately 72 suppliers who conform to the aforementioned criteria. The Company received 24 confirmations from customers and 38 confirmations from suppliers.

2) The transactions with the interested parties during the reported period were as follows:
   a) Revenues
      1) Revenues from the State and its authorities (in accordance with invoices that were issued, and not including income receivable) – approximately NIS 559 million (mainly revenues from the Ministry of Defense of approximately NIS 420 million.
      2) Revenues from interested and other parties of approximately NIS 956 million (primarily revenues from Mekorot Ltd. – about NIS 492 million).
      3) Invoices issued to Natural Gas Lines Ltd., for building the natural gas pipeline, of approximately NIS 16 million (see details in section g below).

   b) Expenses
      1) Expenses for natural gas transmission to Natural Gas Lines Company Ltd. ("Natural Gas Lines") – about NIS 277 million (see details in section f below).
      2) The remaining expenses (primarily leasehold fees, pumping of fuels and water) - about NIS 116 million.

   c) With regard to State guarantees, see Note 18.h. below.

b. State of Israel (Chartering of Tugboats)

In 1997, the Company chartered two tugboats that it had purchased from the Israel Shipyards Ltd. according to a contract signed in the past between it and the Ministry of Communications, to the Hadera Port Authority for periods of twenty years each, pursuant to the charter agreement entered into between the Company and the Hadera Port Authority in 1995. The balance for the charter as of December 31, 2011 was approximately NIS 31 million as compared with NIS 33 million as of December 31, 2010. The amount is linked to the U.S. dollar with the addition of interest at customary rates (see Note 2 q) above).

c. The Eilat Ashkelon Pipeline Company Ltd. ("EAPC")

Pursuant to an agreement between the Company and EAPC, EAPC allocated an area that it owns to the Company for the purpose of building a pier for the unloading of coal for the Rutenberg power plant. In the context of this agreement, the Company entered into an agreement for the building of two tugboats by the Israel Shipping Ltd. In 2000, the tugboats were chartered to the Ashkelon port for periods of 240 months each, from the date of their delivery, in accordance with the charter agreement reached between the Company and EAPC. The balance of the amount of the charter fees as of December 31, 2010 and as of December 31, 2011 is approximately NIS 48 million. The amount is linked to the U.S. dollar with the addition of interest at customary rates (see Note 2.q) above).

NOTE 13:- RELATED AND INTERESTED PARTIES (continued)

d. Oil Infrastructures Ltd. ("Oil Infrastructures ")

Pursuant to an agreement signed in the past between the Company and Oil Infrastructures., Oil Infrastructures constructed an oil distillate line ("the oil distillate line") to the Gezer site and, through which oil distillates are pumped for 50 years. In exchange for Oil Infrastructures' commitment to pump oil distillates through the line during the aforesaid period, the Company incurred 64% of the value of the investment in the oil distillate line by way of the payment of 25 annual installments linked to the CPI. The Company recorded this transaction as a financial lease. The balance of the lease as of December 31, 2011 amounts to approximately NIS 21 million as compared with NIS 22 million as of December 31, 2010. The amortized amount as of December 31, 2011 is approximately NIS 18.3 million, and NIS 19.6 million as of December 31, 2010.

e. The Israel Lands Administration

The Company held and is holding discussions and clarifications with the Israel Lands Administration from time to time, as needed, with respect to the lease fees for certain real estate properties at different sites that it uses
As of the statement of financial position date, 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. The Company did not record any provision with respect to these demands in its Financial Statements.

f. Commitment for the Transmission of Natural Gas

In June 2006, the Company and Israel Natural Gas Lines Ltd 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 who enter into a transmission agreement with Israel Natural Gas Lines Ltd. The agreement is designed to regulate the commercial, technical and legal principles regarding natural gas transmission for a period of 15 years.
Up to the end of 2011, all sites were connected to the gas delivery system.

g. Project for the Establishment of a Natural Gas Transmission System ("the project")

The Company was charged by the Israeli Government with funding, ordering and managing the work to set up part of the natural gas transportation system in Israel. For this purpose, an agreement signed in November 10, 2004 between the Israel National Gas Lines Ltd (hereinafter “INGL”), the Government of Israel and the Company. Four annexes constituting an integral part of this agreement were subsequently prepared ("The Tripartite Agreement"). The Company engaged the services of planners, executing contractors and supervisors, all of whom are experts in their fields. Under the tripartite agreement the responsibility cap of the Company is $ 20 million, yet it should be noted that the State and INGL, who are the parties to the tripartite agreement, interpret this limitation in a wider context, up to $ 50 million. This interpretation was studied by the legal advisers of the Company who concluded that the probability that the arbitrator will accept this claim is low.
The construction was executed over five years, during which several segments of the gas transportation system were transferred to the State. The onshore segment from "Dor" station to the "Hagit" power station and the PRMS station at "Hagit" was the last segment transferred to the state in February 2009.
The Company financed the major part of the project through a U.S. Dollar loan from Citi Bank, of approximately $ 231 million. The balance of the financing came from the Company's own sources. INGL repays its debt to the Company in parallel to the repayment of the loan. Repayment of the principal of the loan started in December 2010 and will end in 2025, in semi-annual payments.
In May 2008, an arbitrator was appointed in the disputes between the Company on the one side and INGL and the State on the other side pursuant to several reciprocal claims between the Company and the State and INGL. The dispute between the parties is pending, since no arbitrator was appointed to replace the former arbitrator . Completion of the litigation between the parties cannot be estimated at present time.

Another claim in an amount of NIS 35 million, filed against the Company in 2007 by Ordan Fishing and Marketing Company et al against the parties to the "tripartite agreement", the Natural Gas Authority and Yam Thetis Ltd., with respect to alleged damages caused to fishermen by the marine pipeline project is still waiting for a hearing in court. The legal advisors of the Company believe that the likelihood that the Company will be required to incur any cost at the end of the legal process is very low.
Previous Financial Statements include an adequate provision for covering damages, of approximately NIS 44 million which according to Company estimates may be charged to the Company.

NOTE 13:- RELATED AND INTERESTED PARTIES (continued)

h. Letter of Indemnification to the State of Israel

The Company furnished a letter of indemnification to the State of Israel (the Ministry of Defense) in connection with the damages likely to be caused to the State due to passage of the gas transmission line through security areas that belong to the State, and the Company's liability for indemnification to the Ministry of Defense for any damage,, expense, payment or loss that will be borne by the Ministry as a result of the positioning of an underwater pipe that is not in accordance with the provisions of the coordination agreement that was signed with the Ministry of Defense in this matter. The force of the letter of indemnification has expired and, as of the date on which these financial statements were signed, the Company is not aware of any event whatsoever that might create responsibility and/or liability in accordance with the letter of indemnification.

i. Establishment of a Desalination Facility at the Orot Rabin site

On September 7, 2004, an agreement was signed between the State and the Company, pursuant to which the Company granted I.D.E. Technologies the right to use land with an area of about 71 thousand sq. m. in the proximity of the Hadera power station, for the purpose of constructing a sea water desalination facility. The right of use of the land started on December 10, 2007 ("the determined date") and will extend for 24 years and 11 months. In consideration for granting the aforesaid use of the land, the Company is entitled to a non-recurring sum of NIS 6 million for covering the costs of evacuating the buildings on the designated plot designated to be assigned to the concessionaire and relocating them to another place at the power station. Furthermore, from the record date to the end of license, the Company will be entitled to an amount of NIS 1 million per year (linked to the CPI). As of the date of generating desalinated water in the facility, the Company will be entitled to a payment of 0.24 cents for each one cubic meter of desalinated water that the operator will sell to the State (the facility is intended to supply about 129 million cubic meters of desalinated water a year) in respect of additional services provided to the operator. The facility commenced operations at the end of 2009.

j. Benefits to Interested Parties

	Group	Year Ended December 31,			
		2011	2010	2011	2010
		Number of Individuals		NIS in millions	
1.	Interested parties employed by the Company (including Directors employed during part of the year)	**3**	**2**	**2.4**	**1.4**
2.	Directors not employed by the Company	**16**	**13**	**1.1**	**1.2**

k. Subsidiary and Associate Companies

1) Details of the consolidated companies of the Company

Subsidiary Name	Residence	Status	Holding rate	Rate of voting rights
			%	%
National Coal Supply Corporation Ltd.	Israel	The company purchases coal for the power stations of the Electric Company	100	100

a) On July 15, 2004, the Company signed an 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.

NOTE 13:- RELATED AND INTERESTED PARTIES (continued)

k. Subsidiary and Associate Companies (continued)

On January 24, 2011, an amendment to the agreement with the Company was entered, effective from January 1, 2011, on the timing of transferring the ownership of coal shipments. According to the agreement prior to the amendment, the ownership was transferred to the Company at the shipping port, causing the outstanding balance owed by the Company to the Coal Company to include a charge for the "inventory on route". According to the amendment to the agreement, the ownership of and responsibility for the coal will be transferred to the Company at the deck of the ship that offloads the coal at the offloading port. The Coal Company will also be responsible for performing all the actions required to release the coal shipments and transfer the ownership to the Company upon offloading the coal from the ship, using the cranes on the quay, including payment of the charges, tolls and taxes.

b) In the years 2011 and 2010, the Company acquired coal from the National Coal Supply Corporation at a cost of approximately NIS 6,311 million, and NIS 4,792 million respectively, included in fuel expenses.

c) The Company concluded with the Coal Company a postponement of payments due from the Company with respect to coal supplied to the Company in November 2011. See details in Note 1 f1b.

2) Details of Investee Companies

Investee Company Name	Residence	Status	Holding rate of Ordinary Shares	
			December 31	
			2011	2010
			%	%
PAMA Ltd.	Israel	Inactive since 2000	49.99	49.99
Migrashei Kablanim Ltd.	Israel	Inactive	76.00	76.00
Jordan Properties Company	Israel	Active	99.98	99.98

The Company holds 99.98% of Jordan Properties Ltd. Jordan Properties Company Ltd., holds real estate, registered in its name in the lands register and are used by the Company. The Company also holds rights of use of radio frequencies, the purchase of the frequencies was financed by the Company. These frequencies were leased to the Company.
Jordan Properties Ltd. has two wholly-owned inactive affiliated companies - Ma'abarot Hayarden Ltd. and the Palestine Construction Company Ltd.

3) Regarding the resolution of the Board of Directors on establishing four subsidiaries for expanding the Company's business and entrepreneurial activities, these subsidiaries were not established as yet, due to the opposition of the worker's association, see Note 24 c below.

4) The Advances Studies Fund of the Employees of the Israel Electric Corporation Ltd. ("Advanced Studies Fund")

The Company holds 50% of the Management shares and of the rights to appoint Directors (except the right to share the profits) of the Advanced Studies Fund of Company employees. 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 Million
For the year ended on December 31, 2011	69
For the Year ended on December 31, 2010	66

The Advanced Studies Fund does not invest in the securities of the Company

NOTE 13:- RELATED AND INTERESTED PARTIES (continued)

l. Indemnification Letter to the Outgoing Actuary of the Company

The outgoing actuary of the Company received on December 23, 2009, an indemnification letter from Inbal Insurance Company Ltd. ("Inbal"). According to the indemnification letter, Inbal is obliged to indemnify the actuary with respect to any sum, liability or expense which the actuary pays or will be required to pay with respect to a claim, demand, complaint or other proceedings opened against him (including civil or criminal, in or outside the courts, arbitration and mediation processes), as detailed in the indemnification letter.

The Company gave Inbal an autonomous, irrevocable bank guarantee of U.S.$ 30 million, to be used for realizing all of Inbal's liabilities according to the indemnification letter and in addition, undertook to indemnify Inbal for any cost or expense that it incurs exceeding the amount of the guarantee.

At this stage, discussions are being conducted to replace the indemnification letter of Inbal with an indemnification letter of the Company.

m. Indemnification Letter to Officers

On December 24, 2009, the Company received an approval in principle from the State for issuing an indemnification letter to officers of the Company (member of the Company's Board of Directors who served in this capacity on the date of the formal submission of the Financial Statements of the Company as of June 30, 2009 ("the Determining Date"), the CEO of the Company, the CFO of the Company and the Legal Consultant of the Company, provided that they served in those positions on the determining date).

In the indemnification letter, the Company undertakes to indemnify any officer for any liability or expense for which no indemnification was received from others:

1) With respect to any direct or indirect action related to the preparation, approval and publication of the Financial Statements of the Company as of June 30, 2009, unless the Company objects to the indemnification because the liability or expense is not related directly or indirectly to the correction of the error and the Director of the Government Companies Authority approves the position of the Company, after receiving the opinion of the Deputy Attorney General and the affirmation of the court.
2) With respect to implications of the correction of the error on the preparation, approval and/or publication of the Financial Statements and/or implications of the error correction on transactions related to or based on the Financial Statements of the Company preceding the determining date, all according to the terms specified in the indemnification letter.

The indemnification will not apply in the following cases:

- Breach of obligation of trust, except breach of obligation of trust towards the Company, when the officer acted in good faith and had a reasonable basis to assume that the act will not affect the benefit of the Company.
- Intentional or reckless breach of the obligation of caution, except when it is a result of negligence only.
- An act taken with the intention of deriving unlawful personal gain.
- Indemnification with respect to paying a penalty or a fine imposed on an officer.

The cumulative sum of indemnification that the Company may pay to all officers according to this indemnification letter and according to all other obligation and indemnification letters to position holders (as implied by the Companies Ordinance – 1999) and to Company employees, issued or as will be issued by the Company in the future, including, if and as far as the Company will grant indemnification regarding restructuring and/or privatization of the Company, will not exceed 25% of the Company's equity, as of June 30, 2009, linked to the CPI in Israel, starting from the July 2009 index ("Maximum Indemnification Sum").

The Company's indemnification obligation will not apply to any sum which the insurer of the officer's insurance policy has recognized as its responsibility and placed at the disposal of the officer on a date that enables him to fulfill the obligation imposed on him. However, when the officer is charged with an indemnifiable event in an amount exceeding the sum paid by the insurer, the indemnification will apply to the difference between the financial liability imposed on the officer and/or legal expenses expended by the officer or that were imposed on him and the sum received from the insurer for the same event, provided that the indemnification sum that the Company will be charged with according to this obligation letter will not exceed the maximum indemnification sum. The Company will also indemnify the officer with respect to the deductible that he will be required to pay according to the insurance policy.

NOTE 13:- RELATED AND INTERESTED PARTIES (continued)

m. Indemnification Letter to Officers (continued)

The obligation of the Company according to this indemnification letter will be valid from the determining date, namely from the formal submission of the Financial Statements of the Company as of June 30, 2009.
The obligation of the Company to indemnify a Director is a transaction with an interested party, by being an agreement between the Company and a Director in the Company regarding the terms of his position, therefore, approval of the Audit Committee, Board of Directors and the General Meeting is required according to the Companies Law.
The obligation to provide indemnification, in the version approved in principle by the State, was approved by the Audit Committee of the Board of Directors and the Board of Directors of the Company and by the General Shareholders' Meeting of the Company.

n. Other Indemnification Letters Provided by the Company

1) The Company furnished a letter of indemnification to the State of Israel (the Ministry of Defense) in connection with the damages likely to be caused to the State due to passage of the gas transmission line through security areas that belong to the State, and the Company's liability for indemnification to the Ministry of Defense for any damage,, expense, payment or loss that will be borne by the Ministry as a result of the positioning of an underwater pipe that is not in accordance with the provisions of the coordination agreement that was signed with the Ministry of Defense in this matter.
2) The Company furnished a letter of indemnification to the Caesarea Development company in connection with the damages likely to be caused due to the emissions reduction project performed at Orot Rabin power station, on lands in which the Caesarea Development company is the holder of the rights.
3) The Company furnished a letter of indemnification to the Nes Ziona local municipality in connection with damages likely to be caused due to the Nes Ziona sub-stations works, which may cause damage to the land in impair its value, in accordance with section 197 to the Planning and Building Law.
4) The Company furnished a letter of indemnification to the Gan Raveh local municipality in connection with damages likely to be caused due to works in the Gan Sorek logistic center plan, which may cause damage to the land in impair its value, in accordance with section 197 to the Planning and Building Law.
5) The Company furnished a letter of indemnification to the Caesarea Development company against receiving a permit for fire fighting works in Caesarea sub-station in connection with the damages likely to be caused to the Caesarea Development company due to these works.
6) The Company furnished a letter of indemnification to the administrator general in connection with the damages likely to be caused to land of absentee owners, on which a fuel container of the Company is located. Under the letter of indemnification, the Company will be obliged to incur expenses of an environmental survey and land cleaning in the event of damage.

p. Technological Greenhouse

See details of the technological greenhouse in Note 9 c above.

q. E.M.G.

See details on the agreement with E.M.G. to supply natural gas in Note 24 a3.

r. 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 (see Note 18 a below). Pursuant to the assignment there was no change in the conditions of the loans. The balance of the loan as on December 31, 2011 is NIS 3,970 million.

s. On the subject of debentures to the State of Israel, see Note 23 below.

t. State Guarantees

Details of State guarantees related to expected funds raisings by the Company see Note 1 f above.

NOTE 14:- CREDIT FROM BANKS AND OTHERS

	December 31	
	2011	2010
	NIS in millions	
Short term loans*	658	530
Current maturities of loans and debentures (**,***)	3,676	3,658
Current maturity of a liability to the State of Israel	247	222
Maturities for forward and swap transactions	21	588
Total	**4,602**	**4,998**

(*) As on December 31, 2011, the interest rate was Libor + 0.45%.
(**) With respect to interest rates for current maturities, see Note 18.
(***) As for currency types, see Note 18.

NOTE 15:- OTHER CURRENT LIABILITIES

	December 31	
	2011	2010
	NIS in millions	
Employees	191	97
Institutions	154	199
Interest and accrued expenses	1,089	922
Other current liabilities	125	115
	1,559	**1,333**

NOTE 16:- 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 (see also Note 2(p) above and Note 28 below).

	Connections to buildings		Work paid for by others		Total	
	December 31		December 31		December 31	
	2011	2010	2011	2010	2011	2010
	NIS in millions					
Receipts from customers	353	238	606	761	959	999
Less: expenses with respect to work in progress	178	176	382	426	560	602
	175	**62**	**224**	**335**	**399**	**397**

NOTE 17:- PROVISIONS

	Provision for legal claims (1)	Provision for vacation pay	Municipal tax	Advance payments from customers less works in process	Total
	NIS in millions				
Balance as of January 1, 2011	**436**	**243**	**65**	**10**	**754**
Additional recognized provisions	80	-	35	-	115
Updated current provisions	(4)	211	1	-	208
Amounts used during the period	-	(203)	(18)	-	(221)
Amounts canceled during the period	(68)	-	-	-	(68)
Balance as of December 31, 2011	**444**	**251**	**83**	**10**	**788**

(1) In 2011, the Company recorded net revenues of approximately NIS 47 million resulting from the settlement of legal claims as existed on December 31, 2010 in amounts smaller than the provisions recorded for them.

	Provision for legal claims (1)	Provision for vacation pay	Municipal tax	Advance payments from customers less works in process	Total
	NIS in millions				
Balance as of January 1, 2010	**473**	**283**	**94**	**10**	**860**
Additional recognized provisions	44	-	13	-	57
Updated current provisions	(26)	208	1	-	183
Amounts used during the period	-	(202)	(36)	-	(238)
Amounts canceled during the period	(55)	(46)	(7)	-	(108)
Balance as of December 31, 2010	**436**	**243**	**65**	**10**	**754**

NOTE 18:- DEBENTURES AND LIABILITIES, TO BANKING CORPORATIONS AND OTHERS

a. Composition of the long-term debentures and liabilities and hedging transactions, net

	December 31, 2011								December 31, 2010
Linkage Basis:	**Unlinked NIS**	**Linked to the CPI**	**Denominated in U.S. Dollars**	**Denominated in Euro**	**Denominated in Swiss Francs**	**Denominated in Japanese Yen**	**Denominated in Pounds Sterling**	**Total**	**Total**
	NIS in millions								
(1) Debentures									
Interest rates (%)	**8.5**	**2.8-6.9**	**2.7-9.4**			**2.8-4.1**			
Debentures traded on the Israel Stock Exchange (1)	-	7,305	-	-	-	-	-	7,305	7,278
Debentures not traded in Israel	657	12,267	-	-	-	-	-	12,924	9,399
Debentures issued abroad.	-	-	9,055	-	-	3,697	-	12,752	14,651
	657	19,572	9,055	-	-	3,697	-	32,981	31,328
Less: deferred charges	-	(16)	(39)	-	-	(20)	-	(75)	(81)
(Discount)/premium	32	942	(32)	-	-	(8)	-	934	680
	689	20,498	8,984	-	-	3,669	-	33,840	31,927
Current maturities:									
Debentures	-	2,843	-	-	-	-	-	2,843	2,800
Deferred charges	-	(6)	(4)	-	-	(1)	-	(11)	(12)
(Discount)/premium	5	192	(3)	-	-	-	-	194	161
	5	3,029	(7)	-	-	(1)	-	3,026	2,949
Total long-term debentures, net.	684	17,469	8,991	-	-	3,670	-	30,814	28,978
Long-term debentures issued in the United States	-	-	478	-	-	-	-	478	453
Less: Deferred charges	-	-	(7)	-	-	-	-	(7)	(7)
Discount	-	-	(1)	-	-	-	-	(1)	-
Total long-term debentures issued in the United States, net	-	-	470	-	-	-	-	470	446
Total debentures, net	**684**	**17,469**	**9,461**	**-**	**-**	**3,670**	**-**	**31,284**	**29,424**

NOTE 18:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

a. Composition of the long-term debentures and liabilities and hedging transactions, net (continued)

	December 31, 2011								December 31, 2010
Linkage Basis:	**Unlinked NIS**	**Linked to the CPI**	**Denominated in U.S. Dollars**	**Denominated in Euro**	**Denominated in Swiss Francs**	**Denominated in Japanese Yen**	**Denominated in Pounds Sterling**	**Total**	**Total**
	NIS in millions								
(2) Liabilities to banks									
Interest rates (%)	**4.6**	**0.4-5.4**	**0.8-2.5**	**2-2.5**	**0.6**				
Loans from banks	250	1,627	1,050	2,714	2	-	-	5,643	5,187
Less: Deferred charges	-	(1)	-	(123)	-	-	-	(124)	(157)
	250	1,626	1,050	2,591	2	-	-	5,519	5,030
Current maturities:									
Loans from banks	-	95	91	485	2	-	-	673	723
Deferred charges	-	-	-	(29)	-	-	-	(29)	(34)
Total current maturities	-	95	91	456	2	-	-	644	689
Total liabilities to banking corporations (including hedge transactions)	**250**	**1,531**	**959**	**2,135**	**-**	**-**	**-**	**4,875**	**4,341**

NOTE 18:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

a. Composition of the long-term debentures and liabilities and hedging transactions, net (continued)

	December 31, 2011								December 31, 2010
Linkage Basis:	**Unlinked NIS**	**Linked to the CPI**	**Denominated in U.S. Dollars**	**Denominated in Euro**	**Denominated in Swiss Francs**	**Denominated in Japanese Yen**	**Denominated in Pounds Sterling**	**Total**	**Total**
	NIS in millions								
Brought forward from previous page	**250**	**1,531**	**959**	**2,135**	-	-	-	**4,875**	**4,341**
Hedging transactions									
Deposits	-	(84)	(9,330)	(3,200)	-	(3,237)	(241)	(16,092)	(12,515)
Loans.	802	11,666	832	1,706	-	-	244	15,250	13,386
Total swap transactions	802	11,582	(8,498)	(1,494)	-	(3,237)	3	(842)	871
Forward transactions	76	-	(117)	27	-	-	-	(14)	140
Total hedging transactions	878	11,582	(8,615)	(1,467)	-	(3,237)	3	(856)	1,011
Current maturities of swap transactions	-	829	(516)	(398)	-	(36)	-	(121)	444
Current maturities of forward transactions	76	-	(117)	27	-	-	-	(14)	140
Total current maturities	76	829	(633)	(371)	-	(36)	-	(135)	584
Total hedging transactions, net	**802**	**10,753**	**(7,982)**	**(1,096)**	-	**(3,201)**	**3**	**(721)**	**427**
Transfer of swap transactions to long-term receivables, net	-	(9,762)	7,278	176	-	3,201	5	888	81
Total liabilities to banking corporations (including hedge transactions)	**1,052**	**2,522**	**255**	**1,215**	**-**	**-**	**2**	**5,042**	**4,849**

NOTE 18:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

a. Composition of the long-term debentures and liabilities and hedging transactions, net (continued)

	December 31, 2011								December 31, 2010
Linkage Basis:	**Unlinked NIS**	**Linked to the CPI**	**Denominated in U.S. Dollars**	**Denominated in Euro**	**Denominated in Swiss Francs**	**Denominated in Japanese Yen**	**Denominated in Pounds Sterling**	**Total**	**Total**
				NIS in millions					
Interest rates (%)			**6.7-7.4**						
(3) Liabilities to the State of Israel			3,970					3,970	3,995
Loans from the State of Israel (see Note 13q above)			(37)					(37)	(43)
Less deferred expenses			**3,933**					**3,933**	**3,952**
Current Maturities:									
Loans from the State of Israel			253					253	228
Deferred expenses			(6)					(6)	(6)
Total current maturities			247					247	222
Loans from the State of Israel net			3,686					3,686	3,730
Interest rates (%)		**4.5**		**2.2-2.7**					
(4) Other Liabilities									
Loans from suppliers		-	-	6				6	26
Liabilities for finance leases		21	-	-				21	21
Long term payables		347	17	-				364	359
Total		368	17	6				391	4,406
Current maturities:									
Other liabilities		1	-	5				6	21
Total other liabilities, net		367	17	1				385	385
Total debentures, liabilities and hedging transactions, net	**1,736**	**20,358**	**13,419**	**1,216**	**-**	**3,670**	**(2)**	**40,397**	**38,388**

NOTE 18:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

b. Composition of the long-term debentures and liabilities and hedging transactions, net

1) Negotiable debentures Series 22 which was issued on the Tel-Aviv Stock Exchange, is linked (principal and interest) to the known CPI, and is due for redemption through the years 2012 until 2015.
2) Non negotiable debentures Series X, XI, XII, XIII "2018 Linked Electric", "2018 NIS Electric", "2012 Linked Electric", "2015 Linked Electric" and "2014 Linked Electric", "2020 Linked Electric" and Series 2022, which were issued on the Tel-Aviv Stock Exchange, due for redemption in 2012 – 2023.
3) Non negotiable debentures series in the U.S.A., due for redemption up to 2096.
4) Non negotiable debentures series in Japan and Europe, due for redemption up to 2032.
5) Negotiable debentures series registered on the Singapore stock exchange, due for redemption up to 2020.

c. Material Funds Raised

1) On January 12, 2011, the Company published an offering tender for issuing private (non-negotiable) debentures linked to the CPI "Series 2022" to entities specified in section 15 a (b)(1) or (2) to the Securities Law – 1968 ("Institutional Bodies"), through the distributors Clal Finance and Leader Capital Markets, in the amount of NIS 2,196 million, nominal value, in return for approximately NIS 2,503 million at a nominal interest rate of 6% (effective redemption yield of about 4.42% per year with respect to semi-annual payments). The principal of the debentures will be paid off in six semi-annual payments starting on July 18, 2020 up to January 18, 2023.
2) On June 16, 2011, the Company published an offering tender for issuing private (non-negotiable) debentures linked to the CPI "Series 2022", to institutions through the distributors Clal Finance and Leader Capital Markets, in the approximate amount of NIS 970 million, nominal value, in return for NIS 1,111 million at a nominal interest rate of 6% (effective redemption yield of about 4.82% per year with respect to semi-annual payments). The principal of the debentures will be paid off in six semi-annual payments starting on July 18, 2020 up to January 18, 2023.
3) On July 28, 2011, the Company published an offering tender for issuing private (non-negotiable) debentures linked to the CPI "Series 2022", to institutions through the distributors Clal Finance and Leader Capital Markets, in the approximate amount of NIS 348 million, nominal value, in return for NIS 386 million at a nominal interest rate of 6% (effective redemption yield of about 4.98% per year with respect to semi-annual payments). The principal of the debentures will be paid off in six semi-annual payments starting on July 18, 2020 up to January 18, 2023.
4) On December 15, 2011, the Company received an index linked loan from Bank Hapoalim at a stated interest of 3.65%, in the amount of NIS 1 billion. The loan will be repaid in one payment on December 15, 2014.
5) After the Statement of Financial Position Date
   On February 10, 2012, the Company issued debentures, distributed by Barclays Capital and USB Investment Bank to institutional buyers in and outside the U.S.A, in a total amount of $ 0.5 billion, nominal value, out of a GMTN for issuing debentures in a total amount of up to $ 2 billion, nominal value. These debentures, issued in the framework of the GMTN, were registered on the Singapore stock exchange. The debentures were issued at a nominal interest rate of 6.7% (effective return to redemption 6.81%). The principal of the debentures will be paid off in one payment on February 10, 2017.
   This offering is added to previous offerings in the framework of the GMTN plan, executed in May 2008, in the amount of $ 1 billion, nominal value and in January 2009, $ 0.5 billion, nominal value. Therefore, the cumulative amount offered up to now under the GMTN plan is $ 2 billion, nominal value.

d. Material Repayments:

1) On January 31, 2011, non-negotiable debentures were paid off in the amount of Yen 4 billion issued by the Company in the global capital raising abroad plan.
2) On March 22, 2011, non-negotiable debentures were paid off, in an approximate sum of $ 100 million, issued by the Company in the global capital raising abroad plan.
3) On May 31, 2011, non-negotiable debentures were paid off, in an approximate sum of $ 600 million, issued by the Company in the global capital raising abroad plan.

NOTE 18:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

e. To secure complete and accurate repayments of the part of the payments with respect to the above debentures and loans (principal, interest and linkage differences) and to secure exact compliance with the other terms of the debentures, the Company pledged all its assets (including fixed assets under construction) in a floating charge and all of its rights to those assets of any type and class whatsoever, which currently exist or will exist in the future, ranking equally with all other floating charges granted by the Company proportionately (pari passu) to the amounts of liabilities which will be secured, from time to time, by each of these charges.

To secure the liabilities of the Company to lenders for purchasing three electricity generation turbines from Siemens, that were installed at Ramat Hovav, Eshkol and Hagit sites, the Company created a fixed pledge in favour of the lenders for these turbines.

At the time the fixed assets under construction for which a generation license must be obtained are operated, the Minister is entitled to determine restrictions on the transfer, encumbrance or attachment of that property. The Company is of the opinion that these restrictions cannot apply to existing encumbrances.

In addition, the lenders were granted the right to offset or place a lien regarding all of the cash, notes, securities and other negotiable instruments that the Company delivers to them for collection, security, safekeeping or other activities.

f. Fair Value of Negotiable Debentures

The fair value of the debentures traded on the Israeli Stock Exchange is approximately NIS 7,731 million. The fair value of debentures traded on the Stock Exchange abroad is NIS 6,347 million. Calculation of the fair value is based on the market values of these debentures, see also Note 27.h below.

g. 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, the granting of a liquidation order, issuing an attachment order in a considerable amount as to Company assets, or the appointment of a receiver for material assets of the Company, provide the lenders with the right to demand immediate repayment. When such events occur, a lender in whose favor the Company recorded a floating charge is entitled to realize this 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 agreement) 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 financing contracts, if the Company shall breach its liabilities toward a certain lender and that lender demands immediate repayment as a result of that breach, the matter will result in a "cross violation", whereby a lender with whom an agreement was not breached is also entitled to demand immediate repayment. In addition, in some of the financing contracts, the very existence of the right to demand immediate repayment of the debt, granted to one lender (namely, even when this lender does not demand an immediate repayment), grants the right to another lender, with whom the contract was not breached, to demand immediate repayment (cross default).
4) The majority of the financing contracts determine that nonpayment pursuant to a ruling against the Company in excess of a certain amount (in the majority of cases, $ 25 million or more) provides the lender with the right to demand immediate repayment.
5) In all financing contracts where the Company's liabilities are secured by a State guarantee, the cancellation of the State guarantee or the insertion of changes to it without the lender's consent constitutes a breach that provide the lender with the right to demand immediate repayment.

NOTE 18:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

g. Terms of the Company's Financing agreements that might result in immediate repayment (continued)

6) In part of the financing contracts, there is a blanket 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 accumulated conditions are fulfilled:
   a) that the transfer is made at market value (according to the determination of an appraiser or the Company),
   b) at least 75% of the proceeds was received in cash or cash equivalents,
   c) that the Company shall invest the proceeds in active assets. In the framework of the global plan of capital offerings abroad ("the capital offerings plan"), the Company is entitled to use the proceeds in order to pay part of the amounts it owes to the holders of debentures that were issued in the framework of this plan. In the many agreements that stipulate such limitations and conditions, a breach constitutes cause to demand immediate repayment. Limitations on assets transfer exist in the majority of the debentures. In the majority of the financing contracts that include such limitations and conditions, a breach constitutes cause for demanding immediate repayment of the debt.

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 the majority of financing contracts, the Company is obliged to exhibit 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. In addition, non-disclosure of material details that are liable to result in a materially adverse change in the Company's business activities or its ability to repay, provide the lender with the right to demand immediate repayment.
9) In certain financing contracts, the Company is obligated to provide the lender with 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 decide, at his discretion, if there is anything to these changes that endanger the Company's ability to repay the balance of the unpaid principal and the accrued interest. Should the lender decide that that is the case, it is provided with the right to demand immediate repayment.
10) In the signed trust deeds in connection with the debentures (Series 22) that the Company issued to the public and institutional investors in Israel, it was determined that the trustee will be entitled to require immediate repayment of the entire unpaid balance of the debentures and will be obligated to do so if so requested by a special decision made in a general meeting of the holders of the debentures, or by the written demand of holders of debentures owning at least 20% of the aggregate par value of the outstanding debentures, inter alia, on the occurrence of one or more of the events listed below:
   a) if the holders of the charges on the Company's assets will realize the charges that they have on the Company's assets, in whole or in part (that is, a cross violation);
   b) if a court shall grant a final order or if a valid decision will be made to liquidate the Company (excluding a liquidation for objectives of a merger with another company or a change in the Company's structure). It was determined in the trust deed, with respect to the debentures that the end of the validity of the generation and/or generation licenses held by the Company (at the time these financial statements were signed) does not constitute a cause for 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 financing contracts secured by insurance companies that provide credit risks insurance, cancellation of the insurance is a cause for immediate payment, as well as the cancellation of the insured purchase contract.

NOTE 18:- DEBENTURES AND LIABILITIES TO BANKING CORPORATIONS AND OTHERS (continued)

g. Terms of the Company's Financing agreements that might result in immediate repayment (continued)

13) Under the terms of debentures issued through Goldman Sachs and Dexia investment banks and the framework agreement for issuing debentures in an amount of $ 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 a at a lower than an Investment Grade rating; and
   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.

15) According to the general terms of the debentures (series 2022) issued by the Company in January 2011, holders of debentures are entitled to demand immediate repayment of the principal and interest of the debentures, inter alia when:
   a) Rating of the debentures 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)
   b) Insofar as the debentures will be listed for trade on the stock exchange, if the stock exchange suspends the trading in the debentures and the suspension was not lifted within 90 days (except a suspension when non-clarity is created according to the articles of the stock exchange).

16) Some of the financing contracts include a right to demand immediate repayment in any event, which in the opinion of the lender may materially affect the Company's ability to pay the loan.

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 fulfill 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.

To the best knowledge of the Company, at the time these financial statements were signed, none of the lenders with whom the Company entered agreements have the right to demand immediate repayment of the Company's debt to them.

h. The balance of the Government guarantees, given to various financial institutions with relation to certain loans given to the Company, amounts to approximately NIS. 1.1 billion as of the Financial Statements date.

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION

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

	December 31	
	2011	2010
	NIS in millions	
Fair value of plan assets (see section m 2 below)	21,250	21,033
Present value of pension obligations (see section l 1 below)	(16,427)	(15,732)
Unrecognized actuarial losses (see section o 1 below)	1,088	252
	5,911	5,553
Present value of pension obligations with respect to special agreements on early retirement (see section l 3 below)	(210)	(277)
Excess pension plan assets over pension obligations	**5,701**	**5,276**

b. Funds in Trust*

	December 31	
	2011	2010
	NIS in millions	
Fair value of funds in trust	**2,047**	**1,980**

* Funds in trust are designated to cover actuarial liabilities to employees and liabilities related to termination of employee – employer relations and are invested in Government debentures (assets according to section 104A of IAS 19) (see Note 10 above, section p below and Note 1 f above).

c. Liabilities with respect to other benefits after employment termination

	December 31	
	2011	2010
	NIS in millions	
Present value of obligation with respect to other benefits after employment termination, including with respect to special agreements on early retirements (see section l 2 below)**	2,462	2,210
Unrecognized actuarial gain (see section o 2 below)	180	392
Liability with respect to other benefits after employment termination	**2,642**	**2,602**

**** Composition according to types of the other benefits:**

	December 31	
	2011	2010
	NIS in millions	
Discounted electricity	1,013	887
V.A.T. and grossed up tax with respect to discounted electricity	341	308
Retirement benefits	787	704
Holiday gifts including grossed up tax	321	311
Total obligation for other benefits after employment termination as of the end of the period	**2,462**	**2,210**

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

d. The Pension Plan of the Company

1) 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 ("Insured in a Budgetary Pension Arrangement"). The Articles of the Central Pension Fund of Company employees and pensioners and their survivors is based on the said directives of the pension regulations and determine the entitlement of those insured in a budgetary pension arrangement (see also section m 1 below)..

A summary of the Budgetary Pension Arrangement in accordance with the Pension Regulations of the Company ("Regulations of the Fund") is as follows:

The entitlement to pension is created upon fulfillment of one of the following conditions:

(a) At the mandatory retirement age, as determined by the Retirement Age Law.
(b) Early retirement after working in the Company for at least thirty years, provided that the employee turned 55 (women, 50).
(c) An employee who was employed by the Company for at least 10 years and reached the age of 40 years and was discharged.
(d) Retirement due to disability.
(e) Survivors of an employee/pensioner have a right to pension according to the pension rates detailed in the pension regulations.

Pension Rates:

(a) After 10 years of employment in the Company – 25% of the final salary.
(b) After each additional employment year, up to 30 years of employment in the Company, - 2% of the final salary for each year of such employment, in addition to the rate specified in sections (a) above.
(c) Starting from the 31st year and up to 35 years of employment in the Company - 1% of the final salary for each year of such employment in addition to the rates specified in sections (a) and (b) above.
(d) For tenure exceeding 35 years in the Company, the employee is entitled upon retirement to a grant in the amount of one final monthly salary for each year of tenure exceeding 35 years.
(e) Pension rates for a permanent employee who retires due to disability are determined in accordance with the provisions of the pension fund regulations.

The actuarial obligation includes, in addition to pensions to be paid after termination of work, the following entitling components with respect to employees and pensioners insured in the budgetary pension arrangement:

- "Excess Years Grant" upon retirement (over 35 years of employment).
- "Up to 35 years Grant" paid upon retirement and to survivors upon the demise of an employee.
- Retirement grant due to disability retirement (an employee entitled to this grant will not receive in addition the "Up to 35 years Grant").
- Unused sick leave days grant.
- Entitlement to reduced electricity rates to pensioners (including grossed up tax and VAT)
- Holiday gifts to pensioners (including grossed up tax).
- Grant to an employee upon reaching 20 years service.
- Welfare activities (at the rate of 0.49% of the grants and the pension less the replenishing pay, electricity and holiday gift benefits).
- Severance pay (8.33%) for retirement without entitlement to pension.

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

d. The Pension Plan of the Company (continued)

2) The estimated financial liability for pensions and grants for termination of employee-employer relations is based on actuarial calculations calculated by an external actuary. The liability is calculated in accordance with rights and assumptions of the Company submitted to the actuary for the calculation. The benefits to employees after employment termination include additional entitling components. Permanent employees of the Company whose employment began on June 11, 1996 onwards (who are not entitled to the aforementioned budgetary pension - generation C) are also entitled to additional entitling components. The discount rates used to calculate the actuarial liability conform to market yields on government debentures as of December 31, 2011.

3) The interest vector used to calculate the capitalization of the actuarial liability is according to a quote of "Mirvach Hogen", following its election as the company for operating price quotes and interest rates. Formerly, the Company used interest vector quotes of "Shaarey Ribit". The changed source of interest quotes in the financial statements as of September 30, 2011, from "Shaarey Ribit" to "Mirvach Hogen" caused an increase in the liability as of that date, in the amount of NIS 320 million.
However, due to the spreading mechanism of IAS 19, implemented by the Company, these updates do not have a material effect on the statement of financial position or the statement of operations and comprehensive income of the Company.

e. The Pension Plan of the Company

The other permanent employees of the Company ("Generation C Employees") – permanent employees whose employment began on June 11, 1996 onwards, who are not included in the pension plan described in section d above, are insured, by default, in a comprehensive pension in an old or new accrual external pension fund, or in other pension insurance according to the individual choice of the employee. The Company deposits its liabilities with respect to these employees, except completion of severance compensation at the rate of 2.33%. As regards the liability of supplementing severance pay at the rate of 2.33%, the Company created a liability within the actuarial liability for this obligation and is presented in the liabilities with respect to other benefits after employment termination (see section l 2 below)..

The amounts deposited in the pension insurance are recorded in the name of the employees and the liabilities with respect to these amounts are not presented in the statement of financial position of the Company, since these are not controlled and managed by the Company. Moreover, certain grants to which the Company assumes liability are included in section l 2 below.

The actuarial liability with respect to generation C employees includes, when the following are fulfilled:

- Supplementing the severance pay (2.33%) on the salary, including 13th salary (a completion to compensation with respect to this component for over 35 years of work will be calculated for those entitled to 14th salary that started working in the Company before January 1, 2004).
- "Up to 35 years Grant" paid upon retirement and to survivors upon the demise of an employee.
- Unused sick leave days grant.
- Entitlement to reduced electricity rates to pensioners (including grossed up tax and VAT)
- Holiday gifts to pensioners (including grossed up tax).
- Grant to an employee upon reaching 20 years service.
- Welfare activities (at the rate of 0.49% of the grants).

f. Collective Salary Agreement ("Salary Agreement")

On January 31, 2011, two collective agreements were signed between the Company, the national employees' organization and the Histadrut, with the approval of the authorized parties in the Ministry of Finance and the Government Companies Authority. The salary agreement is mainly based on the salary agreement of employees in the public sector, signed on January 12, 2011, and entitles employees to a salary increment of 5.75%, to be paid in three stages (the last stage will be paid in January 2013). This agreement also includes settlement of salary deviations, against a deduction of 0.5% of the corresponding salary increment of the public sector (see section 1 below) and in parallel, an agreement was signed on the changing the pensions update mechanism of those included in the budgetary pension arrangement, to linkage to the CPI (see section 2 below).

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

f. Collective Salary Agreement ("Salary Agreement") (continued)

1) The main principles of the Salary Agreement

a. In February 2011, an increment at the rate of 2.25% was paid retroactively as of January 1, 2011.
The difference up to 3.75% was paid on January 1, 2012.
The difference up to 5.75% will be paid as from January 1, 2013.

b. In February 2011, a one time grant of NIS 2,000 gross was paid to employees and pensioners/ survivors in accordance with the salary agreement.

c. The agreement includes, inter alia, an update of the supplement for child day-care rate and a gradual increase to the provisions and deductions to the pension fund, as specified in the agreement.

d. Settlement of Salary Deviation:
Entitlement for a star rank and 14th salary:
An employee who started work in the Company before January 1, 2004 will be entitled to a star rank and a 14th salary upon reaching 20/25 years of work in the Company for a woman/man respectively.
An employee who started work in the Company on or after January 1, 2004 will not be entitled to a star rank and a 14th salary at all.

e. The agreement also defined entitlement to a rank upon retirement and the manner of acquiring the rights during unpaid leave.

2) The main principles of the Pension Agreement

A pension agreement was entered on January 31, 2011, on changing the pensions update mechanism of those insured in the budgetary pension to linkage to the CPI. A supplementary collective agreement was entered on January 15, 2012, dealing mainly with the postponement of the date set for completing the law on changing the pension linkage methods. Subsequent to discussions on the draft law in the Knesset, another collective agreement was entered on February 20, 2012, that included a certain change to the agreement, at no added cost to the Company.

On February 27, 2012, the Knesset approved in a second and third call the law on "Changing the Update Method of Budgetary Pension 2012". The law completes and regulates the pension agreement.

The main principles of the law, the collective agreement of January 31, 2011 and the supplementary agreement of February 2012 are as follows:

a) A change in the existing pension update mechanism in the Company for those insured in a budgetary pension, similar to the agreement applied to the State in 2008, which links the pensions to the CPI, to maintain their real value. The change will apply from January 2012. Pensions will be linked to the CPI from January 2013 (according to the annual change in the CPI in 2012), and thereafter.

b) A one time bonus payment to pensioners entitled to a budgetary pension who retired from the Company before January 1, 2011 ("existing pensioners/survivors"). The first part was paid in February 2011 and the second part was paid in July 2011.

c) Payment of a percentage addition to the pension, at the rate of 8% or 12% to existing pensioners/survivors (according to their grade) from January 2012.

d) In addition, a small group of pensioners (of defined low ranks), will be entitled to a percentage supplement of 6% to the pension until four years will elapse from the publication date of the new law. This supplement will be financed by reducing the payment to the welfare fund for pensioners (as mentioned in section 2 e). Pursuant to the aforesaid, the Company will allocate from 2012 and up to July 1, 2023, only half (50%) of the total amount for the welfare of pensioners entitled to budgetary pension, until the full financing is completed.

e) From January 2012, a welfare fund will be established for pensioners entitled to budgetary pension, similar to the fund established for public sector employees, all subject to the aforesaid in section 2 d above.

f) In the framework of the approval of the pension agreement by the Supervisor of Wages and Work Agreements in the Ministry of Finance the entitlement to budgetary pension from the Company of every employee and pensioner of generation B (whoever started work on April 1975 up to June 10, 1996 inclusive and became a tenured employee of the Company) and their survivors was approved.

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

f. Collective Salary Agreement ("Salary Agreement") (continued)

2) The main principles of the Pension Agreement : (continued):

g) The estimated effect on this law, which will be expressed in the financial statements for the first quarter of 2012 is an increase of the actuarial liability of the Company by approximately NIS 2.8 billion and recording an expense in the statement of operation and comprehensive income of approximately NIS 1.8 billion, before tax effect.
Calculation of the actuarial liability, as calculated by the actuary of the central provident fund for pension of Company employees in accordance with the rules of the Capital Market, Insurance and Savings Division of the Ministry of Finance, included the linkage of pensions to the CPI in its calculations, therefore, the law is not expected to affect the cash flow of the Company. See section l 1c below.

3) In light of signing the salary agreement and resolving the salary deviations (according to the letters of the Supervisor of Wages and Work Agreements), the debit balance for refunding sums paid to employees was cancelled (in the report period), in the amount of approximately NIS 152, which had been included in previous periods as an asset in the statement of financial position of the Company, NIS 76 million was recorded as an increase of salary costs and NIS 76 million for increased pension expenses. The calculated actuarial liability also increased by approximately NIS 84 million due to canceling the effects of the salary deviations on the actuarial liability, less the cancellation of the 0.3% balance of the salary agreement. Approximately NIS 22 million were recorded as increased salary costs and approximately NIS 62 million as increased pension costs.

4)

a) In his letter on October 2, 2011, the Supervisor of Wages and Work Agreements noted, that he intends to conduct a hearing process on the subject of paying global overtime hours for pension to Management members at Grade B.

b) On February 20, 2012, the Supervisor of Wages and Work Agreements in the Finance Ministry ("The Supervisor") addressed the Company on the subject of paying increased compensation to employees employed under a special agreement. A review of the supervisor showed that employees employed by the Company under a special agreement are entitled to increased compensation, exceeding the current monthly provision of 8.33% that is deposited in the pension fund. These employees are entitled to supplementary compensation from the Company of one salary with respect to each year of the first two years of employment and to two additional salaries, starting from the third year onwards. The Supervisor claims that this arrangement deviates allegedly from instructions 29 to the Foundations of Budget Law.
It should be mentioned, that the Supervisor intends, as part of this annual work plan, to review the conditions of the wages, work and pension paid to Company employees and pensioners in the future. This review will examine the effectiveness of the salary components in the Company, where, in the first stage of the audit, the Supervisor will use information provided by the Company to the team of regulators, established for the purpose of increasing the coordination and efficiency of the supervision of the Company ("The Regulators Team").
On March 22, 2012, the Deputy Supervisor of Wages addressed the Company on alleged deviations in the subject of global pension overtime to Class B Management members, on payment for overtime, not according to the actual performance, on payments for living and food expenses on the command addition. At this stage, the Company is studying the subjects presented in the document of the Deputy Supervisor of Wages and will respond within the required time.

c) On March 26, 2012, the Company received the recommendation of the regulators team on the subject of releasing funds from the dedicated trust account for covering its actuarial liabilities (non-pension components), maintained according to an agreement entered on March 26, 2000, between the Company and the Trust Company of the United Hamizrachi Bank Ltd., ("The Trust Account"). The team believes that it is appropriate for the Company to take all the required steps, including versus the trustee or the beneficiaries, according to any law, to release the funds which in the opinion of the team, the Company is not obliged to deposit in the trust account. The Company is studying the recommendations of the team and its implications.

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

f. Collective Salary Agreement ("Salary Agreement") (continued)

g) In the actuarial estimate of the liability as of December 31, 2011, the Company decided to change the estimate of the reduced electricity rate, as a result of research that the Company conducted on the subject, while using a forecasted increase of electricity rates and changes of the average electricity cost to a pensioner. The effect of the changed assumption is an increase of approximately NIS 10 million in the liability. The update does not have a material effect on the statement of financial position and statement of operations and comprehensive income of the Company as of the date of the financial statements, due to the spreading mechanism of IAS 19, applied by the Company.

h) Indemnification Letter to the Actuaries of the Company

See Note 13 m above.

i) The aforementioned reserve sections, with respect to employees after termination of employment, as of December 31, 2011, December 31, 2010 amount to a total of NIS 19,099 million, NIS 18,219 million respectively.

j) The State Comptroller notified the Company on February 22, 2009, of his decision to include, inter alia, the financial condition of the Company and the provisions for employees' rights in his audit plans for 2009.

k) Pursuant to the aforementioned in paragraph (j) above, the Company received a draft of the State Comptroller's report on the subject of the pension arrangements in the Company and on July 4, 2010, the Company submitted its response to the draft report to the State Comptroller. In December 2011, the Company received an updated draft of the State Comptroller's report and submitted its response to that report.

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

l) Reserves

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

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Present value of the obligation for pensions as of the beginning of the period	15,732	14,326	14,093
Cost of interest	450	470	501
Current service cost	200	187	185
Previous service cost - changes in the plan terms following decisions of the Wages Officer in the Ministry of Finance and implementation of the wages agreement (section f)	78	-	(130)
Benefits paid	(536)	(554)	(521)
Actuarial losses	503	1,303	198
Present value of the obligation for pensions as of the end of the period	**16,427**	**15,732**	**14,326**

2) Changes in the present value of the obligation for other benefits after employment termination

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Present value of the obligation for other benefits after employment termination as of the beginning of the period	2,210	2,220	2,287
Cost of interest	65	78	83
Current service cost	45	39	18
Additional cost with respect to early retirement	-	2	2
Previous service cost - changes in the plan terms following decisions of the Supervisor of Wages in the Ministry of Finance	-	-	(12)
Benefits paid	(51)	(51)	(65)
Actuarial gains included in the statement of operations	-	(4)	-
Actuarial losses (gains) included in the statement of financial position	193	(74)	(93)
Present value of the obligation for other benefits after employment termination as of the end of the period	**2,462**	**2,210**	**2,220**

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

l) Reserves (continued)

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

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Present value of the obligation as of the beginning of the period	277	311	392
Cost of interest	7	9	13
Additional provision for employee retirement due to employment termination	3	15	29
Previous service cost - changes in the plan terms following decisions of the Wages Officer in the Ministry of Finance and implementation of the wages agreement (section f)	5	-	(9)
Benefits paid	(83)	(84)	(93)
Actuarial (gains) losses with respect to the obligation included in the statement of operations	1	26	(21)
Present value of the obligation as of the period end	**210**	**277**	**311**

m) Funds

1) Central Pension Fund

a) From March 8, 2005, the Company deposits funds to cover pension liabilities for pension for employees included in the pension plan in the Central Pension Fund ("Fund").
The Pension Fund acts by force of the Income Tax Regulations (Rules for Approving and Managing Pension Funds) - 1964 ("income tax regulations"). The fund was managed by the managing company in accordance with these regulations. CPY managed the fund up to April 30, 2010 and as of May 1, 2010, Infinity – Administrating the Main Pension Fund Ltd., manages the fund.

b) According to the Financial Statements of the "Fund", the actuarial liability as of December 31, 2011 is NIS 22,695 million and the debt of the Company on that date is approximately NIS 1,445 million. According to the Financial Statements of the Company, its actuarial liability for the pension obligations of December 31, 2011 is NIS 19,097 million, neutralizing obligations with respect to other post employment termination benefits which are not managed by the Central Pension Fund amounting to NIS 2,462 million, the obligation is NIS 16,635 million.

c) The difference of approximately NIS 6 billion between the liability according to the financial statements of the "Fund" and the liability according to the Company records derives from differences between the actuarial assumptions used by the Fund to calculate the actuarial liability and the assumptions and models used by the Company to calculate the actuarial liability (in accordance with the principles of IAS 19). The Company calculates the actuarial liability in accordance with the accounting rules applied to the Company (in accordance with the principles of IAS 19), 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 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 real increase in salary and pension assumptions. The Company calculates the liabilities according to an individual development model of employees and pensioners, while the actuary of the Fund already applied the signed agreements to the pensioners for which the required legislation processes were not completed as yet (see section d b above) and applied the real increase assumption to active employees, that relates to expected salary increments, which cannot be included in the assumptions of Company calculations according to the directives of IAS 19.

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

m) Funds (continued)

d) The Articles of the Central Pension Fund that fix, inter alia, the payment arrangements between the Company and the Fund, were amended in 2010 with the approval of the Capital Market, Insurance and Savings Division of the Ministry of Finance, as follows:

(1) Supplements with respect to the debt arising from the increased liability to pensioners

(a) Current will be completed within 3 months in equal payments that will not exceed the same tax year in any case.

(b) Exceptional (arising from a change beyond the sole control of the Company) will be paid within 12 months in equal payments during the same tax year, in any case.

(2) Additions with respect to a debt arising from increased liability to active employees

(a) Current will be completed within 3 months in equal payments.

(b) Exceptional (arising from a change beyond the sole control of the Company) will be paid within 120 months in equal payments.
The monthly payment will not be less than NIS 50 million, provided that the comprehensive debt balance exceeds NIS 50 million.

e) The Company deposited in the pension fund NIS 662 million in the first nine months of 2011.

f) The Fund approved its financial statements as of December 31, 2011, on March 13, 2012.

g) The Fund presents the value of its assets at fair value according to IFRS principles.

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

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Fair value of plan assets as of the beginning of the period	21,033	19,960	18,261
Anticipated yield on plan assets	605	647	745
Deposits	662	101	2
Benefits paid	(698)	(621)	(629)
Actuarial (gains) losses on plan assets	(352)	946	1,581
Fair value of plan assets as of the period end	**21,250**	**21,033**	**19,960**

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Employees participation in the plan	**25**	**25**	**25**

3) Composition of Assets folder of funds of those insured in the fund:

	For the Year ended December 31	
	2011	2010
	NIS in millions	
Negotiable Government debentures	11,875	11,940
Negotiable debentures of concerns	6,842	6,488
Deposits and loans		
Securities	1,741	2,185
Other investments	192	190
Cash	600	230
	21,250	**21,033**

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

m) Funds (continued)

4) Anticipated yield from plan assets in the negotiable channels is determined according to the fair value of the assets and the rate of return derived from them. The anticipate yield from non-negotiable assets is determined on the basis of quoted interest rates provided by "Mirvach Hogen".

n) Funds in trust are designated to cover actuarial liabilities to employees and liabilities as related to the termination of employer/employee relationships and which are invested in Government bonds. (see also Note 1 f).

1) Changes in fair value of funds in trust designated to cover actuarial liabilities (assets according to section 104 A):

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Fair value of plan assets as of the beginning of the period	1,980	1,821	1,668
Anticipated yield from funds in trust	57	59	58
Deposits	-	-	43
Actuarial gains	10	100	52
Fair value of funds in trust as of the period end	**2,047**	**1,980**	**1,821**

2) Yield of funds in trust:

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Anticipated yield from funds in trust	57	59	58
Actuarial gains from funds in trust	10	100	52
Actual yield from funds in trust	67	159	110
Anticipated annual yield rate of funds in trust as of the beginning of the year	**2.88%**	**3.3%**	**3.35%**

o) Actuarial Gains (Losses)

1) Change in actuarial gains (losses) not recognized with respect to pension obligation and plan assets

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Actuarial gains (losses), not recognized as of the beginning of the period	(252)	112	(1,361)
Actuarial gains (losses) created during the period:			
With respect to actuarial liability for pensions	(503)	(1,303)	(198)
With respect to plan assets	(352)	946	1,581
Actuarial losses (gains) recognized as at the end of the period	19	(7)	90
Actuarial gains (losses) not recognized as of the end of the period	**(1,088)**	**(252)**	**112**

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

d. The Pension Plan of the Company (continued)

o) Actuarial Gains (Losses) (continued)

2) Change in actuarial gains (losses) not recognized with respect to other actuarial obligations and trust assets

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Actuarial gains, not recognized as of the beginning of the period	392	233	95
Actuarial gains (losses) created during the period:			
With respect to other benefits after employment termination	(193)	74	93
Trust assets (assets according to section 104 A)	10	100	52
Actuarial losses (gains) recognized for the period	(29)	(15)	(7)
Actuarial gains not recognized as of the end of the period	**180**	**392**	**233**

p) Amounts Presented in Cost of Salaries and in Expenses with respect to Liabilities to Pensioners

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Cost of Salaries and Expenses with respect to Liabilities to Pensioners			
Current service cost after deducting employees participation in the pension plan	222	202	180
Cost of interest	522	557	597
Anticipated gain on plan assets after deducting management fees	(586)	(630)	(736)
Changes in plan terms arising from decisions of the Supervisor of Wages and implementation of the wages agreement (section 4 d4)	286	5	(274)
Actuarial loss (gain), net, recognized for the period	(63)	(44)	16
Total cost recognized in salaries cost and expenses with respect to liabilities to pensioners	**381**	**90**	**(217)**

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Anticipated yield from plan assets	605	647	745
Actuarial gains (loss) on plan assets	(352)	946	1,581
Actual yield (loss) on plan assets	**253**	**1,593**	**2,326**

NOTE 19:- EMPLOYEE BENEFITS AFTER EMPLOYMENT TERMINATION (continued)

d. The Pension Plan of the Company (see details in Note 19 to the Annual Financial Statements) (continued)

q) Main Actuarial Assumptions Applied to the Actuarial Liability and Plan Assets

	For the Year ended December 31		
	2011	**2010**	**2009**
Weighted annual real interest rate grossed in the present value of the obligation.....	2.77%	2.88%	3.3%
Anticipated annual real rate of return grossed in the fair value of plan assets.....	2.88%	3.3%	4.16%

Real update of salaries during the work period.....	- individual salary development model of the active employees (according to salary table + ranks promotion according to work agreements +tenure promotion + individual advancement evaluation and the assumption that the salary table is eroded at a rate of 1.54% compared to the CPI) and also inclusion of salary increments arising from current or future general agreements on salaries (after deducting inflation effects).
Real update of pension amounts after employment termination.....	- an individual pension development model of pensioners (according to salary table + rank promotion every 3 years and the assumption that the salary table is eroded at a rate of 1.54% compared to the CPI) (after deducting inflation effects).
Pensioners and next of kin mortality, including updated mortality data	- According to the Ministry of Finance circular dated May 17, 2007.

r) 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 20:- REGULATORY LIABILITIES

a. The Company applies the accounting principles of the US Financial Accounting Standards Board (FASB) as listed in Chapter RE6 which permit, under certain conditions, an accounting treatment other than by that acceptable with regard to the timing of expense/income attribution to operations, all for the purpose of reflecting and creating proper matching between expenses and income incurred by the Company on the dates when they are recognized for purposes of the electricity rates. One of the conditions for the implementing the said standards stipulates that regulated rates be so constructed as to cover the specific costs (including required return on capital) associated with the provision of the regulated product or service (see also Note 2. a. 2).

b. Details of the amounts of the regulatory liabilities, net

	December 31	
	2011	2010
	NIS in millions	
With respect to the erosion of the Company's liabilities in foreign currency, passed on to the electricity consumers (see section 3 below)	(1,456)	(2,443)
With respect to the gap between dates for actual updating rates and the theoretical rate and others (see section d below)	399	*732
With respect to social rate (see section e below)	105	109
With respect to accounts settlement with private producers and load management arrangements (see section f below)	558	362
With respect to provision for fines - Electricity Authority (see section g below)	(20)	-
With respect to consecutive non-update of the fuel component in the rate (see section h below)	2,031	*(2,622)
With respect to consumers participation in financing construction of assets unattributed as yet to construction cost (see section i below)	-	(539)
With respect to consumers participation in financing emergency plan stage B (see section j below)	(2,060)	-
With respect to coal price differences (see section k below)	106	30
Total	**(337)**	**(4,371)**
Presented in current assets	2,449	-
Presented in current liabilities	-	(2,824)
Presented in non-current liabilities	(2,786)	(1,547)
Total	**(337)**	**(4,371)**

** Reclassified

c. The Hedging Mechanism

The Former Hedging Mechanism – The rate hedging mechanism has been in place since 1998 and hedges the Company's exposure with respect to foreign currency loans. The Electricity Authority decided in its decision on a new rates base for the generation segment to end the old hedging mechanism and return the debt to the consumers, spread over five years.

The Company's debt to consumers with respect to the former mechanism was updated by the decision of the Electricity Authority of November 1, 2010 and amounts to NIS 1.6 billion from which approximately NIS 0.3 billion was deducted with respect of the recognition of the Electricity Authority of financing costs of hedging transactions related to former assets under construction (that were not recognized in the rate base in 1997).

The balance of the regulative liability, less the refund to the consumers, as of the statement of financial position date with respect to this debt of approximately NIS 0.9 billion, will be refunded to the consumers over the next three years remaining since the rate update in February 2010.

The Company recorded in its Financial Statements for the year ended December 31, 2011, real linkage differences, in the financial expenses item approximately NIS 40 million.

NOTE 20:- REGULATORY LIABILITIES (continued)

c. The Hedging Mechanism (continued)

The New Hedging Mechanism - At the same time, a new hedging mechanism was defined, to be decreased up to its cancellation over the next three years, since the rate was published in February 2010. The balance of the regulatory liability as of the statement of financial position date is approximately NIS 0.5 billion. The Company recorded in its Financial Statements for the year ended December 31, 2011, a transfer of expenses with respect to interest and real linkage differences to decrease the liability in the approximate amount of NIS 308 million in the financing income item.

d. Asset with Respect to a Gap between Rate Updating Dates

Each year, in April, the Electricity Authority is supposed to carry out an annual update of the various components of the recognized costs. In practice, the updates were delayed in recent years. The Company creates a regulatory asset in its Financial Statements, calculated on the basis of previous decisions of the Electricity Authority, on the decision of the Electricity Authority on August 8, 2011 on the 2011 annual update and according to Company estimates. The compensation amount presented in these financial statements and the theoretical collection of this component (without the fuel component, presented separately in section g below) is the amount accumulated with respect to the consecutive failure to update the electricity rates and also includes components that were not included in the annual update of 2009, namely, recognized interest rates, additional assets with respect to conversion to gas and steam additions, a component with respect to compensation due for a delay in updating electricity purchases from private producers and a frequency shedding arrangement as well as a component with respect to a change in the recognized capital servicing costs (depreciation, interest and yield) arising from postponing the normative operation dates, according to the decision of the Electricity Authority on March 24, 2011 and also a component with respect to capital services of units converted and operated with gas and units in which emissions reduction was performed but did not receive a rate coverage.

The total asset with respect to the compensation due for the delay in the consecutive update of the rate and the theoretical collection (without the fuel component), net, with the addition of these components as of December 31, 2011 is NIS 399 million. This balance is after deducting the component with respect to compensation due for a delay in updating electricity purchases from private producers and a frequency shedding arrangement amounting to NIS 7 million net.

e. Asset 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 corresponding regulation was published in 2010, on reduced payment for entitled disabled holocaust survivors. On July 18, 2011, additional regulations were enacted on the subject of reduced payment for the disabled who receive old age pensions for the disabled. A consumer who is entitled to old age pensions to the disabled will also pay the reduced payment.

As of the statement of financial position date, the Company created a NIS 105 million regulatory asset for collecting reduced payments from needy populations. According to the decision of the Electricity Authority, this cost, consisting about 0.5% of the recognized costs of the Company will be charged to all electricity consumers.

f. Asset with respect to Load Management Arrangements

On the annual update date every year, the Electricity Authority updates the recognized cost with respect to purchase of electricity from private producers and load management arrangements. The Company recorded a regulatory asset in the amount of NIS 558 million with respect to the gap in the timing of the recognition of the costs arising from these arrangements and the date of recording the expenses in the books.

g. With Respect to Provision for Fines

The Company created a regulatory liability as of the statement of financial position date amounting to approximately NIS 20 million with respect to failure to meet the timetables of Haifa 4 stage A generation units.

NOTE 20:- REGULATORY LIABILITIES (continued)

h. Asset With Respect to Non-Update of the Fuel Component in the Rate, Net

The Electricity Authority publishes the recognized fuel basket for the Company for each year during the following year, with respect to the difference between the actual fuel components charged and the theoretical fuel basket that will be recognized retroactively and for compensation with respect to the delay in updating the fuel components in the rate, based on valid decisions of the Electricity Authority and on expected change in the assets, according to estimates of the Company regarding future decisions of the Electricity Authority.

According to the decision of the Electricity Authority, in August 2011, the Electricity Authority updates the fuels mix every month according to demands and actually realized gas quantities in the previous month and updates the current rate when the change exceeds 2.5%.

According to the decision of the Electricity Authority, in March 2011, on spreading the Company's debt for financing stage B of the emergency plan, the regulatory liability with respect to the consecutive non-update of the fuel component in 2009, of approximately NIS 2 billion was converted to a long term regulatory liability, from April 1, 2010, for financing stage B of the emergency plan. This loan was classified as a long term regulatory liability (see section (i) below).

According to this decision, the liability with respect to 2009, the balance of the amount exceeding NIS 2 billion, will be included in the compensation component with respect to the delay in the update for 2009 and will be part of the fuel cost recognized retroactively from April 1, 2010. As of December 31, 2011, the balance of the regulatory asset with respect to consecutive non-update of the fuel component is NIS 2,031 million. On January 26, 2012, the Electricity Authority stated in a document for a hearing that on the annual update date for 2012, it will review the formula of the natural gas incentive. The effect of this component is not included in the balance of the regulatory asset.

i. Liability with respect to Consumers' Participation in the Balance of Financing Stage A

According to the decision of the Electricity Authority of March 7, 2011 on spreading the debt of the Company to electricity consumers up to 2025 (for financing stage B of the emergency plan), the Electricity Authority stated, inter alia, that the balance of the stage A financing, as bound in the decision of the Electricity Authority on October 31, 2008, will be transferred to the Company and will be used solely for developing the Electricity Sector. As of December 31, 2011, the Electricity Authority released the balance of the amounts deposited with respect to stage A of the emergency plan for projects under construction. Consequently the balance of the liability was classified to related asset items (see also Note 3 e 1 above)

j. Long Term Liability with respect to Consumers Participation in Financing Stage B

According to the decision of the Electricity Authority on March 7, 2011, approximately NIS 2 billion out of the fuel regulatory liability with respect to 2009 will be repaid to consumers spread out to the end of 2025 and will be used as a loan, in order to finance stage B of the emergency plan. The decision of the Electricity Authority also states that the balance of the principal with respect to the loan will be repaid to consumers retroactively from April 2010, where this repayment will be deducted from the recognized cost.

Therefore, the Company created a long-term regulatory liability, the balance of which on December 31, 2011, is NIS 2,060 million.

k. Asset/ Liability with respect to Coal Price Differences

The Company records a regulatory asset with respect to price differences in coal costs for the reporting period, for which the rate coverage is expected to be received in the subsequent periods. These gaps are created between costs of coal prices paid to the Coal Company and the coal price in the updated electricity rate. Therefore, the Company recorded a regulatory asset of NIS 106 million in the Financial Statements as of December 31, 2011.

NOTE 21:- PROVISIONS FOR REFUNDING SUMS TO CONSUMERS

The Financial Statements include provisions amounting to NIS 2,257 million with respect to refunding sums to consumers arising from the restatement of the financial statements (in the report of June 2009) regarding the difference between calculations (mainly due to the change in the actuarial liability) which served as the basis used to determine the rate in the past and the updated calculations.

At the same time, the Company has claims against the Electricity Authority, stating that the current rate coverage for pension liabilities is lower than that required to cover these liabilities and the Company has addressed the Electricity Authority with a demand to receive them. Therefore, it is too early to estimate whether these provisions will have an eventual effect on the cash flow of the Company.

NOTE 22:- INCOME TAXES

a. Benefits under the Law for the Encouragement of Industry

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 enlarged rates.

b. Tax loss carry-forward to future years

The tax loss available for carry-forward to future years on the report date was NIS 15,511 million. The Company recorded a deferred tax asset with regard to the loss carry-forward in the aggregate amount of NIS 3,878 million as of December 31, 2011 and NIS 2,807 million as of December 31, 2010 (section h 1 below), based on management's estimation that there is a high level of certainty that the loss carry-forward will be utilized (including realization against deferred tax liabilities, see section h 2 below).

c. Tax rates

The Economic Efficiency Law (Legislative Amendments for Implementing the Economic Program for the years 2009 and 2010) – 2009 ("The Arrangements Law"), published on July 23, 2009, prescribes, among others, an additional gradual decrease in the corporate tax rate to 18% in 2016 and thereafter ("2009 Amendment"). According to the 2009 amendment, corporate tax rates from 2010 onwards are as follows: in 2010 - 25% in 2011 – 24%, in 2012 – 23%, in 2013 – 22%, on 2014 – 21%, in 2015 – 20% and in 2016 and thereafter – 18%.

Pursuant to the 2009 amendment, Company liabilities for deferred taxes as of December 31, 2009, decreased by approximately NIS 1,206 million, charged to the statement of operations and comprehensive income, as income.

On December 6, 2011, the Law on Changing the Tax Burden (Legislative Amendments) – 2011, ("2011 Amendment ") was published in the Official Gazette, that stopped the gradual decrease of corporate tax rate, prescribed under the aforementioned 2009 Amendment and increased the corporate tax rate to 25%, starting from 2012 onwards and raised the rate of the capital gains tax and the betterment tax to the rate of the corporate tax.

Since the legislation process was completed in the last quarter of 2011, the Company updated the balance of its deferred taxed as on the statement of financial position date, as a result of the said changes in the tax rates in the years on which the temporary differences for which the Company recognized the deferred taxes are expected to turn over. Accordingly, the 2011 Amendment caused an increase in the deferred taxes liability of the Company as on December 31, 2011 of approximately NIS 1,206 million charged against an expense in the statement of operations and comprehensive income.

d. The tax that will apply to the shareholders due to the payment of dividends by the Company is not expected to be material since almost all of the Company's shares are held by the State of Israel.

e. Tax assessments

The Company received final tax assessments through the 2006 tax year.

f. Theoretical tax

Below is a reconciliation between the theoretical 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:

	Year Ended December 31		
	2011	2010	2009
		NIS in millions	
Income (loss) before income taxes	574	4	284
Statutory tax rate	24%	25%	26%
Computed tax per statutory rate	138	1	74
Expenses disallowed net (including depreciation)	7	4	28
Effect of tax law compared to adjusted statements	2	(1)	(10)
Expenses (income) arising from change in the tax rate	1,206	(1)	(1,206)
Effect of the difference between the statutory tax rate and the tax rate according to which the deferred taxes were calculated	6	-	(25)
	1,359	**3**	**(1,139)**

NOTE 22:- INCOME TAXES (continued)

g. Composition of deferred taxes in the statement of operations

	Year Ended December 31	
	2011	2010
	NIS in millions	
Decrease (increase) in deferred tax assets	(1,477)	467
Increase (decrease) in deferred tax liabilities.....	2,831	(471)
Current taxes of subsidiary	5	7
	1,359	**3**

h. Deferred taxes

1) Deferred tax assets with respect to the following:

	Loss carry-forward	Accrued vacation pay	Allowance for doubtful accounts and legal	Debt to Consumers	Accrued pension pay, net	Total
	NIS in millions					
Balance as of December 31, 2009	3,265	43	63	409	1,351	5,131
Changes during 2010	(458)	(17)	(3)	18	(7)	(467)
Balance as of December 31, 2010	2,807	26	60	427	1,344	4,664
Changes during 2011	1,071	12	14	137	243	1,477
Balance as of December 31, 2011, long term	**3,878**	**38**	**74**	**564**	**1,587**	**6,141**

The deferred taxes are calculated according to tax rates that are expected to apply at the time they are realized.

2) Deferred tax liabilities consist of the following

	Adjustment of depreciable fixed assets, depreciation and other assets	Fuel and other inventories	Total
	NIS in millions		
Balance as of December 31, 2009	9,353	37	9,390
Changes during 2010	(511)	40	(471)
Long term balance as of December 31, 2010	8,842	77	8,919
Changes during 2011	2,744	87	2,831
Long term balance as of December 31, 2011	**11,586**	**164**	**11,750**

NOTE 22:- INCOME TAXES (continued)

3) Composition of deferred taxes

	Year Ended December 31	
	2011	2010
	NIS in millions	
Long-term		
Deferred tax reserves	11,750	8,919
Less: Deferred tax assets	(6,141)	(4,664)
Advances for non deductible expenses	(118)	(113)
	5,491	**4,142**

NOTE 23:- PERPETUAL DEBENTURES TO THE STATE OF ISRAEL

Pursuant to the Company's arrangement with the Ministry of Finance, perpetual debentures in a nominal amount of about NIS 15 million (the adjusted amount as of the balance sheet date is approximately NIS 2,453 million) were issued in previous years. The principal in respect of these debentures is unlinked and they bear annual interest at a rate of 5% and 5.75%, fully linked to the known CPI as of balance sheet date. Other than a pledge in a nominal amount, the perpetual debentures have no preference over any other loans extended to the Company.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES

a. Agreements

1) Agreement Of Intention to Supply Gas from the Tamar Field

After the statement of financial position date and under the gas procurement process, which started in 2007, and pursuant to the approval of the terms of the agreement by the Board of Directors on February 19, 2012, the Company entered an agreement for the supply of natural gas from the Tamar field, located about 90 km west of Haifa, with the holding partners in the Tamar Field. The total contractual quantity is about 77 BCM with an option to the Company, which can be exercised up to April 2013, to increase the quantity to about 99 BM.

According to the decision of the Company's Board of Directors two Price Re-Opener points were included in the agreement, after 8 years and after 11 years, from the gas supply date from the Tamar project. The range of the change in the first adjustment point (after 8 years) will be an addition or a reduction of 25% and on the second adjustment date the price adjustment range will be an addition or a deduction of 10%.

The gas price was determined in the agreement according to a base price and linkage formula based mainly on the U.S. Consumer Price Index.

The agreement is for gas purchases for 15 years, from mid 2013. The agreement is subject to the approval of the following: The Electricity Authority, the Restraint of Trade Authority in the Ministry of Finance and the Government Companies Authority.

2) Thetis Sea Group

In June 2002 the Company entered a gas supply agreement with the "Yam Thetis" Group, for the supply of natural gas for about 11 years from the gas delivery date, namely, from February 2004 to December 2014, or up to the consumption of a total natural gas quantity of 19 billion cubic meters (BCM), according to the earliest. The total financial volume of the agreement with the "Yam Thetis" amounts to approximately U.S.$ 1.8 billion, as of the agreement entering date in 2002 (gas price is fixed in U.S. Dollars). In July 2009, the Company entered into a binding memorandum of principles with the "Yam Thetis" Group on purchasing additional quantities of natural gas, in an annual quantity of 1 BCM for five (5) years, up to December 2014, amounting to a total addition of 4 BCM. The estimated financial volume of the agreement as on the signing date of the memorandum of principles in 2009, is approximately U.S.$ 1 billion. The gas quantity available to the Company on December 31, 2011, under the two gas agreements with the "Yam Thetis" Group amounted to 3.6 BCM, of which 2.15 BCM remaining from the first agreement in 2002.

In the fourth quarter of 2011, the daily and hourly gas delivery rate from the "MARI B" reservoir of the Yam Thetis Group was decreased due to its depletion and the collapse of several wells. The Yam Thetis Group announced in October 2011 that the daily and hourly quantity that will be available to the Company decreased, thereby forcing the Company to consume increasing quantities of liquid fuels. Moreover, instructions issued by the Manager of the Electricity Administration at the Ministry of Energy and Water specify monthly and annual limitations on the use of gas from this source. According to these instructions, the Company is limited to an annual consumption of 2.5 BCM, to ensure continuity of gas supply between the depletion of "MARI B" and the beginning of the supply from "Tamar".

3) E.M.G.

On July 21, 2005, the Company's Board of Directors approved the agreement that was reached by the Company with E.M.G. for the supply of natural gas. According to the agreement, the amount of gas to be purchased (about 25 billion cubic meters), will be at an average annual pace of 1.7 billion cubic meters over 15 years, with an option for the Company to extend it by five additional years at the same terms and annual amounts. The exercise of the option is conditioned on the advance notice by the Company 36 months prior to the end of the base period. On July 31, 2005, the Government approved the above decision of the Board of Directors, in accordance with section 11(a) 9a to the Government Companies Law. Gas delivery started on May 1, 2008 and the contract period started on July 1, 2008, after a running-in period of two months.

Since the beginning of the gas delivery from E.M.G. in May 2008 and the beginning of the contractual delivery in July 2008, and until the middle of June 2009, E.M.G. has not fulfilled their contractual commitments. In their notifications, E.M.G. claim that there is a general gas shortage in Egypt, due to delays in operating new gas production sites that limit the delivery volume; increased demands for gas that exceed forecasts and failures in the delivery system, caused by on overload on the gas delivery and handling systems.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

a. Agreements (continued)

3) E.M.G. (continued)

Starting on the second half of June, the supplier fulfilled the delivery obligations. Following the amendment of the gas sales agreement between the Egyptian Government and E.M.G., the parties concluded in 2009 the terms for updating the original agreement signed in 2005, adapting it to the developments since then.
The main updates to the agreement are:

a) Change in the price of natural gas and defining a periodic price update mechanism.
b) Reduction in quantities that the Company is committed to purchase under the agreement.
c) Defining means to ensure reliable gas supply.

The update was approved by the related parties in the Company in August 2009.
In the beginning of 2011, the gas supply from Egypt has been disrupted by recurring attacks on the natural gas pipeline in Egypt, severely affecting the supply of gas from Egypt. The actual quantity supplied in 2011 was 40% less than the contractual quantity.

The gas supply from Egypt in the future is uncertain. The long term assumption is that the gas supply from this source is uncertain, but the Company cannot rule out the possibility that the gas supply will be allowed in the future. As the gas supply was stopped, EMG notified the Company about a force majeure event, since the attacks on the gas pipeline were acts of terror. The Company's Board of Directors decided in September 2011, that the Company will enter an arbitration process versus the national Egyptian gas supply companies and EMG, following the damages incurred by the Company by non-delivery of the gas from Egypt.

4) Agreements of the subsidiary

The subsidiary, The National Coal Supply Company Ltd. ("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 long term agreements with coal suppliers, where the price of the major quantity of coal is negotiated every six months and the price of the remaining quantity is linked to international indices of coal price.
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 publication date of the Financial Statements, shipping prices in the market are lower than the prices of shipping agreements at fixed prices entered into by the Company and all coal purchasing agreements entered by the Company are linked to international coal price indices, therefore, current market prices of coal are the same as prices of the aforementioned coal purchasing agreements and there are no differences between the market prices and the agreements prices. See details of agreements of the Coal Company with shipping companies for shipping coal in section 5 c below.

5) As of December 31, 2011, the Company has entered into commitments to procure fuels, purchase and ship raw materials, purchase equipment and services and construct facilities, which are not expressed in the Financial Statements, 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 $1,273 million, € 449 million, 91 million Yen and £2 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 2,468 million.
c) The Coal Company entered agreements with shipping companies to ship coal and for long term leasing of ships, up to 2017, in a total approximate amount of $ 253.3 million. The Coal Company also entered long term agreements to purchase coal up to 2017, in a total quantity of 20,640 thousand tons.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES

b. Contingent Claims and Liabilities

The contingent claims, including class actions, filed against the Company in the ordinary course of its business include mainly: financial claims (with respect to the electricity rate, among others), labor relations and bodily injury, amounting as on December 31, 2011, to approximately NIS 22,918 million, of which NIS 22,060 million with respect to claims requiring recognition as class actions. A net provision (less income due from insurance companies with respect to insured claims) with respect to part of these contingent claims was recorded in the Financial Statements as on December 31, 2011, amounting to approximately NIS 412.7 million (the net provision as on December 31, 2010 amounted to approximately NIS 410.4 million) as follows:

1) A provision of approximately NIS 52.2 million was recorded with respect to insured claims for which the insurance indemnification is virtually certain up to the amount of the deductible component.
2) Approximately NIS 311.6 million with respect to uninsured claims (that do not include claims for bodily injury) and as to which no provision was recorded at all, or for which only a partial provision was recorded.
3) Approximately NIS 41.4 million with respect to uninsured claims for which a full provision was recorded.
4) Approximately NIS 7.5 million with respect to uninsured claims for bodily injury that, as is customary, are not specified by amount.

The Company' Management is of the opinion, based on the opinion of its legal and professional advisors, that the Company will not incur other expenses, exceeding the aforementioned provision, which was recorded in the Financial Statements**.**

1) Claims requested to be recognized as class actions

a) On August 30, 2000, a request was filed with the Tel Aviv District Court against the Company and the State, to approve a claim as a class action ("The Request for Approval"), later amended after the Class Actions Law – 2006 ("Class Actions Law") came into force. The request for approval dealt with the collection of the special surcharge to the electricity rate. This special addition is an addition to the electricity rate fully collected from consumers, from 1997 to 2005 inclusive (by force of the pension agreement in June 1996 between the Government and the Company and by force of section 62(e) to the Electricity Sector Law). The special addition was intended to finance the Company's liability for pension of active employees and pensioners who started working in the Company up to March 31, 1975 and accumulated up to March 5, 1996. The claimant claims, inter alia, as detailed in the claim, that the special surcharge is a "hidden tax" that is being unlawfully collected, and that the Company must return it, together with interest and linkage, in the amount of approximately NIS 2,847 million in values of the date on which the claim was filed.
The Company had collected up to the end of 2005, a nominal sum of NIS 8,831 million on account of the special surcharge.
According to a procedural accord between the parties that received the force of a decision, the parties waived conducting cross examinations of the declarers in the case and filed written complementary pleas. The parties completed filing their complementary pleas during 2010.
At this stage, the parties are awaiting the decision of the court on the request for approval (that will relate to either the threshold claims only or the actual request for approval).
The Company's legal advisors believe that the Company has good defense arguments against the class action motion and believe that it is more likely than not that it will be rejected

b) On July 8, 2009, a request was filed with the Tel Aviv District Court against the Company, in accordance with the Class Action Law ("Request for Approval on the subject of salary payments"), to approve a claim as a class action. The claimant claims that the Company collects illegal amounts from electricity consumers, as part of the price of the electricity it supplies, since the Company allegedly collects through electricity bills the excessive, illegal and invalid salary (all allegedly according to the claimant's claim) of Company employees. The claimant claims that the accrued amount of the allegedly illegal salary payments amounts to NIS 5 billion over the last seven years.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities (continued)

1) Claims requested to be recognized as class actions (continued)

In addition, on August 30, 2009, a request to approve a class action against the Company was filed with the Petach Tikva District Court, in accordance with the Class Action Law ("The Request for Approval on the subject of pension"). The claimants claim that the Company collects alleged excessive payments for electricity consumption due to setting higher than required electricity rates, which are allegedly illegal, since an error in the actuarial calculations of the pension to which Company employees are entitled led to the increase of the Company's pension liabilities. The claimants claim that the cost of the increased pension liability was allegedly passed on to the consumers. The claimants estimate the excessive collection at approximately NIS 6 billion during the seven years preceding the filing date of the claim and during the proceedings of the claim.

After several preliminary proceedings related to both of the aforementioned requests for approval, the Tel Aviv District court decided, that these two requests will be joined. In May 17, 2010, all the claimants filed jointly a joint request for approval ("The Joint Request"). On October 28, 2010, the claimants filed their response to the Company's response. During 2011 the court heard evidence presented by the joint request and on December 7, 2011 an order was issued for written summarized claims. The Claimants filed their summary in the joint request on January 22, 2012 and the Company will file its summary up to April 15, 2012. The legal advisors estimate that the Company has good defense arguments for both dismissing in limine the request for approval and the actual claim and that it is more likely than not that the joint request will be dismissed.

c) On July 6, 2009, a claim and a request was filed with the Tel Aviv District Court against the Company, in accordance with the Class Action Law, ("The Request for Approval") to approve a claim as a class action.

This claim was filed by a group of 512 claimants, residing in Gush Etzion dealing in granting adequate compensation to group members for alleged pecuniary and non-pecuniary damages caused by repeated disruptions and faulty electricity supply to villages in the Gush Etzion district.

The claimants claim that the average electricity disconnections in the Gush Etzion area are 10 to 15 times higher than the national average of high voltage lines failures. The claimants claim that the faults in electricity supply are caused by faulty maintenance of the electricity grids that supplies electricity to Gush Etzion. The claim requests an enforcement relief, namely to oblige the Company to execute within a reasonable time, all maintenance works required to prevent exceptional failures in electricity supply and also compensation relief, for pecuniary damage amounting to approximately NIS 5 million and for non-pecuniary damage (suffering and mental anguish) approximately NIS 34 million.

Consequently, the amount of the claim which the court is requested to approve as a class action is approximately NIS 39 million.

On June 19, 2011, the hearing of evidence in the request for approval was conducted and on November 29, 2011, an order was issued for written summarized claims. The Claimants filed their summary in the request for approval on January 15, 2012 and the Company will file its up to the April 24, 2012.

In the opinion of the legal advisors of the Company, the Company has good defense claims for both dismissing in limine the request for approval and the claim and it is more likely than not that the request for approval will be dismissed**.**

d) On November 10, 2009, a request to approve a class action against the Company and ten other respondents was filed with the Petach Tikva District Court, in accordance with the Class Action Law ("The Request for Approval").

The claimants claim that each of the respondents violated their obligation to provide free of charge telephone services to the customers to be used for calls on matters of faults, defective goods or faults in services provided by the respondents to their customers, according to section 18 b of the Consumer Protection Law – 1981.

Regarding the Company, the claimants claim that a consumer that calls the 103 call center from a mobile phone pays the full charge for this call and also a consumer who calls one of the direct telephone numbers of the Company from any telephone (both mobile and land-line) pays the regular price for a call.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities (continued)

1) Claims requested to be recognized as class actions (continued)

The claimants claim that the accumulated amount of the aggregate damage allegedly incurred by the members of the group, arising from the said conduct of the Company amounts to NIS 24 million over the last three and a half years.
On June 16, 2010, the claimants filed an amended request to approve the claim as a class action (to which another claimant was added) and, the Company filed its amended response to the request for approval on October 31, 2010. According to an agreement between the parties in the hearing, which received the force of a decision, the parties waived interrogation of witnesses in the request for approval process. It was also concluded and stated, that the claimants will file their summaries up to March 1, 2012 and the defendants, including the Company, are entitled to file response summaries up to May 31, 2012 and then the claimants will file response summaries up to June 15, 2012. The decision on the request for approval will be issued after the parties will file their summaries.
In the opinion of the legal advisors of the Company, the Company has good defense arguments for both the dismissal of the request for approval and the claim itself and estimates that it is more likely than not that the claim will be dismissed.

e) On February 15, 2011, a request to approve a class action against the Company was filed at the Petach Tikva District Court, according to the Class Actions Law ("The Request for Approval). The request for approval claims that the Company collects two separate fees, one for disconnecting a consumer from the electricity supply (for any reason) and the other for reconnecting the consumer.
The applicant claims that this "double charge" is contrary to the law. Alternately, the applicant claims that the Company was prevented from collecting the said "double" fees up to March 1, 2006. The applicant filed additional claims for which he requests declaratory relief and mandatory injunctions only. According to the claims the calculation of the interest that the Company charges its customers for payment in arrears is erroneous and contrary to the law. Another claim relates to the correct interpretation of the phrase "invoice generation date", mentioned in the criteria book, according to the claimant's claim.
The amount which the court is requested to approve as a class action is NIS 166 million. The Company filed its response to the request for approval on August 10, 2011. A preliminary hearing of the request for approval is scheduled for April 4, 2012. In the opinion of the legal advisors of the Company, the Company has good defense arguments for dismissing the request for approval in limine and for dismissing the claim and estimate that it is more likely than not that the claim will be dismissed.

f) On April 10, 2011, a request to approve a class action against the Company was filed at the Haifa District Court, according to the Class Actions Law ("The Request for Approval”). The request for approval claims that the Company allegedly violates its legal obligation, enforced by clause 18 b to the Consumer Protection Law – 1981, to provide its customers with a toll free telephone service to report faults or failures in the service ("Toll Free Number"), since it does not provide such a toll free number to customers who call from mobile telephones.
On August 10, 2011, the court issued a decision on the withdrawal of the request for approval without an expenses order, pursuant to joining it with a corresponding request for approval (see paragraph d above).

g) On September 15, 2011, the Israeli Consumer Council filed a request to approve a class action against the Company at the Central District Court, according to the Class Actions Law ("The Request for Approval”). The request for approval claims that the Company allegedly violates its legal obligation, enforced by Section 3(b) of the Electricity Sector Regulations (Ways of Proving Eligibility for a Reduced Payment) – 2007, Section 4(b) of the Electricity Sector Regulations payment for electricity consumption according to the law (Reduced Payments for Entitled Disabled Holocaust Survivors) – 2010, Section 4(b) of the Electricity Sector Regulations (Reduced Payment to Disabled Receiving Old Age Pension for the Disabled) - 2011, to periodically publish general information in the media on rights for decreased payment for electricity consumption, according to the law.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities (continued)

1) Claims requested to be recognized as class actions (continued)

This claim requests the court to oblige the Company to include concrete content in the aforesaid publication obligation according to the law, by detailing the specifics of this publication (location, frequency, language, contents) to ensure that this information reaches all the families that are entitled to reduced payment.

The court was also requested to order the Company to return to those among the group members that are entitled to the benefit of the reduced payment that are entitled to receive the difference with respect to the reduced payment with linkage differences and the interest according to the Accountant General, from the entitlement date up to the actual refund date.

The Company filed its response to the request for approval on January 17, 2012. A preliminary hearing was conducted on February 20, 2012 and another preliminary hearing was scheduled for May 13, 2012. In the opinion of the legal advisors of the Company, the approval of the request cannot be assessed at this preliminary stage. However, it was found that any person who is entitled to consume electricity at the reduced rate is credited retroactively with payment differences to which he is entitled according to the law, starting from the date on which the law applied to him came into force. At the same time, the Company is credited with respect to the reduced rates. Therefore, as things stand, no significant financial exposure is expected to the Company from the demand for the refund remedy.

2) Claims for the pollution of the Kishon River

In the framework of a claim filed against Haifa Chemicals Ltd., Oil Refineries Ltd., the Association of Municipalities (Haifa region - Sewage) and the municipality of Haifa by 95 soldiers of the IDF and soldiers' estates claiming that the soldiers allegedly became ill with various types of cancer as a result of their exposure to the water of the Kishon during their military service, in 2005, a joint notice was filed on behalf of the defendants against multiple third parties, among whom is the Company. As of the date of signing the Financial Statements, the number of claimants in this case is 74. Expert evidence on behalf of the defendants and third parties is being heard at this stage of the hearing of these claims.

In 2007, another claim was filed, consolidating 17 claims by soldiers and estates against the same defendants in the existing claims and against their insurers. In these claims also, a joint notice was filed by the defendants, Haifa Chemicals Ltd., Oil Refineries Ltd., the Association of Municipalities (Haifa region - Sewage) and the municipality of Haifa against multiple third parties, among them the Company. As of the date of signing the Financial Statements, the number of claimants in this case is 16.

Since the case involves bodily injury claims, in the framework of which no defined aggregate cash amount was asserted on the date that the claims were filed, as the different parameters of which are the basis for the calculation of the damage for each plaintiff are determined in a clarification procedure of the claim, and since these are complex claims that raise complex scientific and legal issues, it is not possible to know at this initial stage what the damage that was caused to each of them is, all the more so what the relative part of each defendant and third party being sued in this claim is.

It follows that, in the assessment of the Company's attorneys, the aggregate amount for the claim, for both claims of estates and claims of living claimants, is in the range of between NIS 650 million and NIS 800 million, including legal fees and court expenses. The Company's attorneys point out in their opinion that the reference is only to a general estimate, based on the assumptions that they make in the absence of data at this stage.

In addition, this estimate disregards the various benefits that the plaintiffs are receiving and/or will receive in the future from third parties. It should be pointed out that the reference is to an assessment of the amount of the claims and not to the assessment of the risk of defendants and third parties in general and the Company in particular, since at this stage data is unavailable that would enable making such an assessment.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities (continued)

2) Claims for the pollution of the Kishon River (continued)

These are complex and unique claims, discussing scientific issues questioning the existence of a causal connection between materials claimed to be found in the waters of the Kishon and each of the claimed diseases of the plaintiffs, especially when considering the fact that the claim mentions numerous materials that create a chemical reaction. Moreover, when it comes to the variety of different claimed diseases of the plaintiffs and the medical problems involved in the question of the causal relationship between each disease and the Kishon river's waters and its surrounding, the Company's attorneys will be able to update their assessment only in the future when they obtain additional data in the course of clarification of the case. In the Company's opinion, based on the opinion of its attorneys, data that would enable evaluating the Company's risk is unavailable at this stage. Yet it may be said that it is highly unlikely that the Company will incur a material sum.

3) Claim on Pollution from the "Ramat Hovav" Industrial Zone

Three actions (in which the hearing was enjoined) were lodged in the Beer Sheva District Court in 2007, amounting to NIS 250 million, against the Ramat Hovav Local Industrial Council (The "Council") and the State of Israel ("The State"). The action was originally included 82 claimants, whose number as of the Financial Statements date is 68, was lodged by Bedouin inhabitants of the northern Negev, who live near the council and inhabitants of Omer and southern neighborhoods of Beer Sheva, residing near Ramat Hovav site, because of different diseases, including respiratory diseases (including asthma) and cancer, allegedly caused by their prolonged exposure to hazardous materials emitted from Ramat Hovav site and/or from high voltage lines of the Company.

On May 21, 2008, the Council filed a statement of defense against the actions and a notice to a third party, inter alia against twelve plants operating at Ramat Hovav site, including the Company, against which the Council claims that insofar as the plaintiffs sustained damages, these were caused pursuant to their direct or indirect exposure to electrical equipments owned and/or controlled by the Company and are under the responsibility of the Company, e.g., high voltage lines, transformers, etc.

On March 30, 2009 the Company filed a statement of defense, in which it denied the claims against it and refuted any responsibility for the diseases of the claimants.

On April 6, 2010 and on April 11, 2010, the Company, together with the defendants and some of the third parties filed its evidence in response to the claim for the purpose of the initial clarification stage of the claim (the narrow causal link).

The hearing of evidence on the narrow causal relation ended on December 13, 2011 and the court ordered the claimants to file their summaries within 90 days and then the Company is expected to file its summary together with the other defendants and third parties within a similar time span.

It should be noted that an appeal was filed to the supreme court by five claimants whose claim was rejected in December 2010. This appeal in scheduled for a hearing on December 24, 2012.

These are complex and unique claims that raise highly complicated scientific questions about the existence of a causal connection between the materials and disease. The extreme complexity of the causal relation between material and disease increases in light of the interaction among the materials, especially in view of the fact that the plaintiffs allegedly suffer from a wide range of different diseases, other possible causes of disease and the contribution, if any, of each defendant/third party to the alleged pollution that allegedly caused the diseases of the plaintiffs.

In view of such complexity, the legal consultants of the Company can only update their estimates later after additional details come to light during the legal process. In the Company's opinion, based on the opinion of its attorneys, data that would enable evaluating the Company's risk is unavailable at this stage, yet it may be said that the likelihood that the Company will be charged with a material amount is very low.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities (continued)

4) Derivative Claims

On September 10, 2009, a letter was sent to the chairman of the Board of Directors from the representatives of Mr. Dov Zelinger, who claims to hold several shares in the Company. Mr. Zelinger refers in this letter to two offerings of debentures issued by the Company abroad, in May 2008 and in January 2009 ("The Debentures"). Mr. Zelinger claims that the Company announced in August and September 2009 that an error was found in the actuarial calculation of the pension funds to which Company employees are entitled, leading to an increase in the pension liabilities of the Company. Mr. Zelinger claims that due to the said error in the actuarial calculation, the interest rate paid by the Company on the debentures is higher than the rate it would have paid were it not for the said error, thereby causing damages to the Company.

In light of the aforementioned, Mr. Zelinger requests the Chairman of the Board of Directors to ensure that the Company will file a claim with respect to these damages against the members of the Board of Directors related to each of the debenture offerings and against the Actuary of the Company, who according to Mr. Zelinger, violated their duties to the Company and are responsible, according to his claim, for the damages incurred by the Company with respect to this error.

Mr. Zelinger notified that the said letter is a preliminary appeal according to the Companies Law, prior to filing a request to the court to permit him to file a derivative claim on behalf of the Company against the members of the Board of Directors and the Company's Actuary.

On October 28, 2009, the Company sent a written response to Mr. Zelinger. In its letter, the Company dismissed Mr. Zelinger's claims, both the claim against the members of the Board of Directors and the Company's Actuary for violating their duties to the Company and the claim that the Company incurred damages arising from the error in the provision for pension calculation.

On September 5, 2010 (about one year after the response of the Company) the representative of Mr. Zelinger addressed the representative of the Company and claimed, in a general manner, that in his opinion, claims that were detailed in his first letter are well founded. In addition, Mr. Zelinger requested different details related to the dismissal of his appeal by the Company. The Company did not issue a response to the claim of Mr. Zelinger.

It is impossible to estimate, at this stage, the risk to the Company from the aforementioned, since no request was filed to approve filing of a derivative claim (which is not a claim against the Company, but a claim by the Company), therefore, it is impossible to know what arguments will be included in the claim (if any) and against whom will the derivative claim be directed, or its scope, and since the full relevant facts have not crystallized at this stage.

5) Claim on the Subject of a Collective Sale Rate

On February 3, 2010 the Company received a claim filed against it on February 1, 2010, by Kibbutz Or Haner and 130 other collective settlements ("The Original Claim" and "The Claimants", respectively).

The original claim requests declaratory relief, since they are entitled to be billed as high voltage Load and Time Rate ("LTR") consumers, according to the "Collective Sale Rate", as of September 1, 2005 and as long as the Electricity Authority will set a decreased rate of high voltage LTR consumers in a collective sale compared to all high voltage LTR consumers.

Alternately, the court is requested to grant declaratory relief that will entitle the claimants to be billed as high voltage LTR consumers according to the "collective sale rate", as of September 1, 2005 and up to September 1, 2009 (the date on which the outline for regulating the activity of historical electricity distributors as determined).

Pursuant to the requests to dismiss the request ad limine, filed by the Company, the claimants had to amend the claim and filed a "claim amended a second time" ("The Amended Claim"). The amended claim claimed in addition to the declarative relief claimed in the original claim, financial relief for the period from September 1, 2005 to September 1, 2011, in the total amount of NIS 96 million (plus interest and linkage). On October 31, 2011, the Company filed an amended defense document on its behalf. No date was scheduled as yet for a preliminary hearing of the claim.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities (continued)

5) Claim on the Subject of a Collective Sale Rate (continued)

It should be noted that the possible implications of the claim depend, inter alia, on the position of the Electricity Authority. The Company believes that if the claim will be accepted, the Electricity Authority will recognize the costs arising from it.

In light of the arguments of the Company, as detailed in the amended statement of defense and after confronting these arguments with the claims of the claimants alone, as detailed in their second amended claim, the legal advisors of the Company believe, as of this date, that the Company has good defense arguments against the claim and it is more likely than not that the claim will be dismissed.

6) Claims for payment of municipal taxes from the Municipality of Yavne, Givat Shmuel and Rosh Ha'ayin

The Company started legal proceedings against three local municipalities (Yavne, Rosh Ha'ayin and Givat Shmuel) after these municipalities charged the Company with property tax with respect to land located under high voltage and primary power lines. The Company disputed these demands during these proceedings and argued that the power lines cannot be charged with property tax. The Attorney General of the Company joined the proceedings and supported the position of the Company.

The verdict of the Court for Procedural Affairs in Tel Aviv was announced on April 14, 2008, which accepted the claims of the Company and stated that land under power lines cannot be charged with property tax.

On December 1, 2011, the Supreme Court announced its verdict, dismissing the appeals filed by the local municipalities on the verdict of the first instance.

7) Other claims for payment of municipal taxes, levies and fees

As on the statement of financial position date, demands from the Company for municipal taxes in amounts exceeding the relevant provision that was recorded in the Financial Statements by about NIS 242 million. These demands derive from the changes in classification of the land held by the Company, the demand to increase the areas being billed and the demand with respect to municipal tax rates.

The Company estimates (based in part on the opinion of its legal advisors), that due to a low probability it will be required to pay these amounts, for which the Company did not make a provision in its Financial Statements.

In addition, as of the statement of financial position date, the Company has demands with respect to levies and fees in amounts exceeding the provision recorded in the financial statements by approximately NIS 241 million. In the opinion of the legal advisors of the Company, as on the date of the report, the Company does not have the ability to estimate the exposure to these demands.

8) The Planning and Building Law

The Planning and Building Law prescribes that the holders of rights in land who were adversely affected by a zoning plan are entitled to indemnification from the local committees for the sectors to which this zoning plan applies. In order to set up 400 kilovolt lines, zoning plans are required. The Company undertook to indemnify the local committees for the sectors to which these zoning plans apply for the full amounts that the committees will be obliged to pay to the landowners who will be adversely affected, as stated above (aside from one plan, in which the burden of indemnification will be divided among the institutional bodies that are involved in the plan). These undertakings for indemnification were delivered after it was made clear to the Company that not providing them would result in the failure to approve the plans or their suspension.

The National Board approved an outline plan in the area of the southern district of the Ministry of Interior which states that the relocation of the 161 kV lines will be approved under an outline plan rather than under an authorization process plan (where the Company authorizes transfer of the 161 kV lines as of this date).

As of the statement of financial position date, claims are pending against several local committees in an amount of about NIS 631 million, in excess of the provisions that were recorded in the Company's Financial Statements. In the Company's opinion, based on the opinion of its attorneys, which takes into consideration the opinion of the real estate assessor advising the Company with regard to the above claims, if all of its arguments shall be rejected and the Company shall be forced to expend funds for these claims, then the Company's exposure for these claims will not exceed the provision that was recorded in the Financial Statements.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

b. Contingent Claims and Liabilities (continued)

8) The Planning and Building Law (continued)

The Company is of the opinion that should any amounts whatsoever be paid, they will be part of the cost for setting up the relevant transmission lines, and due to the indispensability of the transmission lines, and based on the opinion of its attorneys, if and when the Company pays indemnification with respect to the indemnity letters, the Electricity Authority will be obligated to recognize them in the electricity rate.

9) Other Contingent Liabilities

a) The Israel Lands Administration

The Company held and is holding discussions and clarifications with the Israel Lands Administration from time to time, as needed, with respect to the lease fees for certain real estate properties at different sites.
As of the statement of financial position date, the Company is unable to estimate if it will be required to pay the said usage fees for these sites and, if required, what amounts will be demanded. The Company did not record any provision with respect to these demands in its Financial Statements.

b) Project D

According to the development plan assigned to the Company by the Minister of Energy and Water in 2001, the Company is required to construct and operate a coal operated power station comprised of two generation units of 630 megawatts each, at the Rutenberg site in Ashkelon. An investigator, appointed by the National Infrastructures Committee, conducted a hearing process during August 2009, of comments from district committees and public objections. The report of the investigator was not published and the planning processes in the committee were suspended by an instruction from the Office of the Prime Minister.
In December 2010, the Minister of Energy and Water amended the development plan. According to the amended plan, the Company is required to build and operate a power station with a capacity of 630 MW, in a gas – coal configuration. Based on understandings between the Ministry of Energy and Water , the Ministry of the Interior and the Ministry for Environmental Protection, coal will be used only in an emergency. In June 2011, the National Planning and Building Committee started new planning procedures for a power station that will operate on natural gas as the primary fuel and use coal for backup only. In July 2011, the National Planning and Building Committee issued orders to prepare a national planning scheme and approved the guidelines for preparing a survey on the environmental effects.

10) Guarantees

Regarding guarantees provided by the Company, see Note 27e.

11) Indemnification Letters

a) Indemnification Letter to the Company's Actuary
On March 29, 2011, the new actuary of the Company from Ernst Young (Israel) Ltd., who provides actuarial services to the Company starting from the first quarter of 2010, received an indemnification letter from the Company. The main points of the letter are: The Company undertakes to indemnify the consultant with respect to any sum, liability or expense which the consultant pays or will be required to pay with respect to a claim, demand, complaint or other proceedings brought against him (including civil or criminal, in or outside the courts, arbitration and mediation processes) as detailed in the indemnification letter.
The indemnification of the Company is limited to a total sum of NIS 30 million.

b) For other indemnification letters issued by the Company, see Note 13, sections h, l, m and n.

c. Labor disputes

A notice with respect to a strike was submitted on December 29, 2011, according to the Settlements of Labor Disputes Law. The disputed matters are:

1) One-sided actions of the Company's Management in many issues related to reducing work conditions and benefits granted to the employees up to now, all without negotiations with the employees organization.
2) Implications of the refusal of the Management to place new employees in un-manned budgeted positions on the volume and tasks of existing employees.

NOTE 24:- AGREEMENTS, CLAIMS, CONTINGENT LIABILITIES AND LABOR DISPUTES (continued)

c. Labor disputes (continued)

3) Implications of the refusal of the Management to place new employees in un-manned budgeted positions including failure to grant permanent status to entitled employees, with the purpose of outsourcing the work of Company employees, while affecting the organizational power of the employees and their representative organization.
4) Implications of the Company's decision to dismiss 400 permanent employees without entering a collective agreement and without manning the budgeted positions with employees employed at present by the Company without a permanent employee status.
5) Failure of the Management to address the requirement of the employees organization on reducing work through contractors, while determining mechanisms for protecting and improving the rights of contractor employees in the Company.
6) The employer is not acting in good faith and acts in ways that are unaccepted in labor relations in general and specifically in labor relations in the public sector. The employer impacts the status of the employee's organization by ignoring it and making one-sided decision which may affect the work conditions and rights of the employees.
7) The employer does not conduct a collective negotiation on all the aforementioned arguments and ignores repeated demands of the employee's representatives.

According to the Settlements of Labor Disputes Law, a notice stated that a strike may begin on January 15, 2012. On January 22, 2012, Company employees started different sanctions, according to the instructions of the employee's organization. However, these sanctions stopped on January 25, 2012, following agreements reached between the Company's Management and the employee's organization regarding subjects of granting permanent status for 2012, overtime budget implementation, promotion, implementation of the conclusion on the subject of funds in the trust account and changing the status of temporary employees in the Company.

Following the decision of the Company's Board of Directors on March 23, 2012, to act to transfer the actuarial excess from the trust account to the Central Provident Fund for Pension, the employees organization opened sanctions on March 25, 2012, expressed mainly by stopping coal and other fuels off loading at the Orot Rabin and Rutenberg power stations, stopping work on the prospectus, preventing work required in the reduction of contaminants emission project and refraining from connecting private electricity producers. On March 26, 2012, the Company addressed an urgent appeal to the Haifa District Labor Court, requesting temporary remedies and interim remedies in the presence of one party, under a collective dispute. On March 27, 2012, the Court issued a decision stating that the Company employees must stop the sanctions immediately and return to regular work. On March 29, 2012, the Company received a reasoned decision of the Haifa District Labor Court that enables the Company to act according to the decision of the Board of Directors and release the amount of NIS 600 million from the dedicated trust account for covering non-pension components.

NOTE 25:- COMPENSATION TO KEY MANAGEMENT PERSONNEL

Key management personnel in the Company include: members of Company Management, CEO, Chairman of the Board of Directors and the supervisor in charge of the load, a total of 34 persons.

	For the year ended December 31	
	2011	2010
	NIS in millions	
Total salaries cost	34.00	33.00
Of which, costs due to the pension plan	3.40	3.90
Two key Management personnel retired during the year, for which:		
Payment of compensations and retirement grants for them	0.24	4.60
Balance of pension liability	115.70	107.30
Balance of vacation reserve	2.30	2.30

NOTE 26:- CAPITAL RESERVES

	For the year ended December 31	
	2011	2010
	NIS in millions	
Capital reserve according to the Securities Regulations - transactions with controlling shareholders:		
From the sale of land to the Ports and Railway Authority	69	69
From the purchase of the Coal Company	(2)	(2)
Company's assets renewal reserve (1)	815	815
Capital redemption reserve fund	50	50
Premium on shares	29	29
Reserves from realization of assets	35	35
	996	996

(1) The assets renewal reserve represents profits in excess of amounts permitted for payment of dividends under the Concession for 1985 and 1986, which has been 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 27:- FINANCIAL INSTRUMENTS

a. Groups of Financial Instruments

	For the year ended December 31	
	2011	2010
	NIS in millions	
Financial Assets		
Cash and cash equivalents	1,152	3,278
Customers	3,864	3,211
Hedge transactions - fair value	1,037	81
Receivables	620	220
Long term debts – cost	950	1,176
Embedded derivatives – fair value	-	33
	7,623	7,999
Financial Liabilities		
Payables	3,583	2,592
Hedge transactions - fair value	181	1,092
Financial liabilities – depreciated cost	40,768	38,205
Embedded derivatives – fair value	17	-
Debentures to the State of Israel - Cost	2,453	2,444
Liabilities to the State of Israel - Cost	3,686	3,730
	50,688	48,063

b. Financial Risk Management Purposes and Policies

The operations of the Company expose it to different financial risks, e.g., market risk (including currency risk, fair value risk arising from interest rate), credit risk, liquidity risk and cash flow risk with respect to interest rate. The general risk management plan of the Company focuses on actions to minimize possible negative effects on the financial performance of the Company. The Company employs derivative financial instruments to hedge certain exposures to risks. Mr. Harel Zeev Blinde, Senior Vice-President of Finance and Economics, is responsible for managing the financial risks according to the policy, as approved by the Board of Directors. The Finance Department identifies, assesses and defines financial risks. The Board of Directors provides written principles for general risk management and also the specific policy for certain exposures to risks, such as exchange rate risk and interest rate risk.

c. Market Risk

The Company sells its products at prices determined by an external entity – the Electricity Authority. The price is based on the cost principle, as specified in Note 1 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 do not match sometimes, the actual costs of the Company. Consequently, the major part of Company activities is not exposed to market risks, except those detailed in following items:

1) Currency risk

The Company entered into foreign currency hedging transactions (mainly swap and forward transactions) in order to adjust the structure of expenses according to the composition of the determining basket defined by the Electricity Authority with respect to real exposure for linked liabilities denominated in foreign currency that have been assigned to the electricity consumers:

a) The swap transactions will be undertaken for a period of at least one year at least. As a rule, transactions will be entered into to cover at least 85% of the remaining exposure so that the exposure amount for each currency will not exceed a cumulative 15% of the balance of loans in same currency.
b) As for the balance of the Company's exposure for liabilities in foreign currency (after the adoption of section (a) above), the Company will enter hedging transactions (mainly swap and forward transactions) and, should the market conditions justify it, in order to reduce its foreign currency exposure.
c) The swap transactions will be performed for a period of at least one year while taking into consideration the inflation rates in Israel and the Western countries and the interest rates in the capital markets.

NOTE 27:- FINANCIAL INSTRUMENTS (continued)

c. Market Risk (continued)

1) Currency risk (continued)

d) In order to allow dynamic implementation of the policy discussed in sections a and b above, and in order to avoid random technical irregularities, the Vice President of Finance and Economics instructed on July 11, 2011, that the amount of exposure for each currency, will not be above or below 5% of the outstanding loan balance in same currency with the addition of 2% of the remaining loans for each 1% interest gap, even if it is negative, that is to the Company's debit.
An irregularity in excess of 15% will be allowed if the amount of the irregularity does not exceed $ 10 million or an equivalent sum in another foreign currency, each currency taken separately.

e) The instruction of the Vice President of Finance and Economics allows a deviation exceeding 15% if the exposure amount is not higher than $ 10 million or an equivalent in another foreign currency, in each currency separately.

f) The Company will consider entering hedging transactions to spread the exposure to interest in foreign currency (variable/ fixed interest), aiming to reduce exposure to increase in interest rates, if market conditions will indicate its feasibility.

The main principles of the accounting policy 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.

g) Analysis of foreign currency sensitivity

Starting from the September 2011 report, the Company implements the following method for revaluating the non-negotiable liabilities in NIS and in foreign currency:

(1) Debentures

(a) Debentures in NIS

The non-negotiable debentures issued by the Company are revaluated according to individual revaluations, calculated by Mirvach Hogen Ltd., which was chosen by the Ministry of Finance as the company that calculates the individual price quotes and the interest rates for institutional organizations, from March 20, 2011 (the “Transition Date").

(b) Debentures in Foreign Currency

Debentures quoted individually on the Bloomberg system are revaluated according to this quote.
Long term non-negotiable debentures in U.S. Dollars are revaluated through the interest rate scheme for the longest debenture for which an individual quote exists, together with the difference between the risk-free interest rate, according to the return on the Treasury Bill that corresponds to the life span of that debenture, and the risk-free interest according to the return on Treasury Bill according the life span of the debenture for which an individual quote exists.
Short term non-negotiable debentures in U.S. Dollars are revaluated according to the individual quote for the shortest debenture, less the difference between the CDS (Credit Default Swap) of the Company for the period according to the life span of that debenture and the CDS of the Company according to the life span of the non-negotiable debenture. Then the difference between the risk-free interests rate for the period is deducted according to the return on the Treasury Bill.
Debentures in Japanese Yen are revaluated at the return rate that is converted from a return in U.S. Dollars, using the YAX function in the Bloomberg system.

(2) Loans

The fair value of the loans is revaluated through discounted cash flows expected with respect to the loans. Discount rates are determined for the different liabilities as follows:

(a) Loans in NIS

Loans in NIS are revaluated according to an interest curve, built on the basis of individual quotes for the non-negotiable debentures, which are built according to their liability channels and guarantees given to the lenders.

(b) Loans in Foreign Currency

Loans in U.S. Dollar are revaluated on the basis of the interest on U.S.A. Treasury Bill with the addition of the CDS of the Company.

NOTE 27:- FINANCIAL INSTRUMENTS (continued)

c. Market Risk (continued)

1) Currency risk (continued)

g) Analysis of foreign currency sensitivity (continued)

Loans in other foreign currencies are revaluated by converting the interest on the aforementioned loans in U.S. Dollar through the SWPM function in Bloomberg system.

The change in the capitalization rates for obligations in NIS derives mainly from the use of individual price quotes of the non-negotiable debentures of the Company according to the model of Mirvach Hogen Ltd. which is based on dividing the negotiable market to tenths according to the yield to maturity on the loan and determining the place of the non-negotiable loan in those tenths according to the risk premium derived from the price of transactions/issuances in the non-negotiable market. This model expresses in a more up to date way the changes in the risk premium of the debt as reflected in the negotiable market, according to changes in the related tenth. These individual quotes come instead of the interest vector according to the Company rating, previously used by the Company, provided by Shaarey Ribit Ltd., which provided these quotes to institutional organizations up to the transition date, with the addition of the increment according to the results gained by the Company in the last issue.

The change in the discount rates for liabilities in foreign currency derives mainly from the use of individual price quotes provided by Bloomberg system of debentures issued by the Company abroad. These individual quotes come instead of rates of return on debentures issued by the Company with the addition of the initial issuance premium, previously used by the Company.

NOTE 27:- FINANCIAL INSTRUMENTS (continued)

c. Market Risk (continued)

1) Currency risk (continued)

g) Analysis of foreign currency sensitivity (continued)

Fair Value

a. As of December 31, 2011

	Loss (profit) from increase in market factor			Balance as of December 31, 2010		Loss (profit) from decrease in market factor	
Change in currency rate in %	**+10%**	**+5%**				**-5%**	**-10%**
	NIS in millions						
Loans and debentures per currency							
NIS	-	-		1,026		-	-
NIS linked	-	-		22,518		-	-
U.S. Dollar	1,580	790		15,796		(790)	(1,580)
Euro	272	136		2,721		(136)	(272)
Yen	291	145		2,906		(145)	(291)
Pounds Sterling	-	-		-		-	-
Swiss Franc	-	-		2		-	-
Total	**2,143**	**1,071**		**44,969**		**(1,071)**	**(2,143)**
Swap transactions							
NIS	-	-		802		-	-
NIS linked	-	-		11,582		-	-
U.S. Dollar	(850)	(425)		(8,498)		425	850
Euro	(149)	(75)		(1,494)		75	149
Yen	(324)	(162)		(3,237)		162	324
Pounds Sterling	-	-		3		-	-
Total	**(1,323)**	**(662)**		**(842)**		**662**	**1,323**
Forward transactions							
NIS	-	-		76		-	-
U.S. Dollar	(12)	(6)		(117)		6	12
Euro	3	1		27		(1)	(3)
Total	**(9)**	**(5)**		**(14)**		**5**	**9**

1. The Company is not exposed to the CPI due to an exception in accordance with the Government Companies regulations on rules for preparing financial statements of the Company (see Note 2 a above).
2. Part of the costs with respect to long term liabilities are capitalized to fixed assets.
3. Part of the costs with respect to exposure or linkage to foreign currency is covered in the current electricity rate (see Note 20 c above).

NOTE 27:- FINANCIAL INSTRUMENTS (continued)

c. Market Risk (continued)

1) Currency risk (continued)

g) Analysis of foreign currency sensitivity (continued)

(2) Fair Value

b. As of December 31, 2010

	Loss (profit) from increase in market factor			Balance as of December 31, 2009		Loss (profit) from decrease in market factor	
Change in currency rate in %	**+10%**	**+5%**				**-5%**	**-10%**
	NIS in millions						
Loans and debentures per currency							
NIS	-	-		1,046		-	-
NIS linked	-	-		19,340		-	-
U.S. Dollar	1,814	907		18,137		(907)	(1,814)
Euro	310	155		3,103		(155)	(310)
Yen	299	149		2,988		(149)	(299)
Pounds Sterling	-	-		4		-	-
Swiss Franc	1	-		9		-	(1)
Total	**2,424**	**1,211**		**44,627**		**(1,211)**	**(2,424)**
Swap transactions							
NIS	-	-		1,085		-	-
NIS linked	-	-		9,034		-	-
U.S. Dollar	(564)	(282)		(5,645)		282	564
Euro	(49)	(24)		(485)		24	49
Yen	(329)	(164)		(3,288)		164	329
Pounds Sterling	17	8		170		(8)	(17)
Total	**(925)**	**(462)**		**871**		**462**	**925**
Forward transactions							
NIS	-	-		2,143		-	-
U.S. Dollar	(159)	(80)		(1,594)		80	159
Euro	(24)	(12)		(241)		12	24
Pound Sterling	(17)	(8)		(168)		8	17
Total	**(200)**	**(100)**		**140**		**100**	**200**

1. The Company is not exposed to the CPI due to an exception in accordance with the Government Companies regulations on rules for preparing financial statements of the Company (see Note 2 a above).
2. Part of the costs with respect to long term liabilities are capitalized to fixed assets.
3. Part of the costs with respect to exposure or linkage to foreign currency is covered in the current electricity rate (see Note 20 c above).

2) Cash flow risk with respect to of interest rates

The Company is exposed to the difference between the interest recognized in the rate base (in foreign currency and in NIS) and on loans, which changes only once a year on the annual update of the rate and the actual interest rates (in foreign currency and in NIS) with respect to its financial liabilities. Therefore, the Company is also exposed to changes in the accepted interest rates in the market, mainly in connection to loans borrowed, which bear variable interest. The Company considers entering hedging transactions to spread the exposure to interest in foreign currency (variable/ fixed interest), used to reduce exposure to increase in interest rates, if market conditions will indicate its feasibility.

Change trends of the variable interest rates are monitored constantly and the Company decides to enter IRS transactions to reduce exposure to the risk of an increase in interest rates.

Interest rate risk of the Company is mainly derived from long term loans.

NOTE 27:- FINANCIAL INSTRUMENTS (continued)

c. Market Risk (continued)

3) Risk according to Fair Value with respect to interest rates

Loans bearing fixed interest rates expose the Company to interest rate risk from fair value.

Interest rates sensitivity analysis

Sensitivity analysis is determined on the basis of exposure to interest rates of derivative and non-derivative financial instruments as of the statement of financial position date. Sensitivity analysis of liabilities bearing variable interest is prepared under the assumption that the amount of the liability as of the statement of financial position date remained throughout the reported year.

Sensitivity Analysis according to Fair Value

a) As of December 31, 2011

	Profit (loss) from increase in market factor			**Fair Value**	**Profit (loss) from decrease in market factor**		
Change in interest rate in %	Increase of 200 base points*	+10%	+5%		-5%	-10%	Decrease of 200 base points*
	NIS in millions						
Long term loans at fixed interest rate	(493)	(133)	(67)	5,901	69	139	574
Long term loans at variable interest rate	-	-	-	4,201	-	-	-
Marketable debentures	(967)	(271)	(139)	14,078	133	274	969
Non-negotiable debentures	(2,119)	(688)	(352)	20,789	361	274	969
Swap transactions	309	(161)	(82)	(842)	84	738	2,645
Forward transactions	-		-	(14)	-	-	-
Total	(3,270)	(1,253)	(640)	44,113	647	1,322	4,560

b) As of December 31, 2010

	Profit (loss) from increase in market factor			**Fair Value**	**Profit (loss) from decrease in market factor**		
Change in interest rate in %	Increase of 200 base points*	+10%	+5%		-5%	-10%	Decrease of 200 base points*
	NIS in millions						
Long term loans at fixed interest rate	(431)	(149)	(76)	4,758	79	158	510
Long term loans at variable interest rate	-	-	-	4,636	-	-	-
Marketable debentures	(1,109)	(255)	(133)	14,725	124	255	1,161
Non-negotiable debentures	(1,916)	(517)	(263)	20,508	274	560	2,429
Swap transactions	(13)	(104)	(52)	871	55	111	248
Forward transactions	-	-	-	140	-	-	-
Total	(3,469)	(1,025)	(524)	45,638	532	1,084	4,348

* The Company chose to present the extent of the change in interest for which it will conduct extremes tests for financial instruments that are sensitive to changes in interest rates at the rate of 200 base points (2%), after auditing and finding that there is no higher daily absolute change in the interest rate over the ten years prior to the report date and after estimating that a change of 200 base points is a change that may occur in a severe, yet probable scenario in the same interest.

- As of the September 2011 report, the revaluation method of non-negotiable liabilities in NIS and in foreign currency was changed (see above).

NOTE 27:- FINANCIAL INSTRUMENTS (continued)

c. Market Risk (continued)

d. Liquidity risk

Liquidity risk is the risk of the Company's inability to fulfill its financial commitments on the scheduled payment dates. 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 and stress conditions without incurring unnecessary loss or affecting its reputation.
The Company manages the liquidity risk by raising long-term financial resources in capital markets in order to be able to finance the development plans for the electricity sector and recycle the debt, while maintaining a current cash reserve and credit balances according to the decisions of the Board of Directors.

Regarding the financial condition of the Company, the expected gaps in cash flows of the Company in 2012-2013, Governments steps taken and expected to be taken shortly, as well as the actions that the Company intends to implement, including debt raising through the offering on the stock exchange, the private placement or receiving credit lines from banking corporations and also cost reductions, which will enable the Company to bridge over the expected gaps in the cash flows in 2012-2013, see Note 1 f above.

NOTE 27:- FINANCIAL INSTRUMENTS (continued)

d. Liquidity risk (continued)

1) Liquidity Risk as of December 31, 2011 (continued)

	First year	Second year	Third year	Fourth year	Fifth year	Sixth onwards	Total	Effective Interest rate
	NIS millions							%
Financial Assets								
Loans in Dollars	64	64	65	65	66	698	1,022	1.6-2.3
Loans in Linked NIS	0	8	0	0	0	0	8	4
Unlinked Loans	20	17	17	18	5	5	82	2.62-8
Total	84	89	82	83	71	703	1,112	
Derivative Financial Instruments, net								
Swap transactions Net:								
Loans in Euro	398	344	403	349	-	-	1,494	
Loans in US Dollars	516	336	251	222	1,182	5,991	8,498	
Loans in Yen	36	36	35	564	321	2,245	3,237	
Loans in other foreign currency	-	(3)	-	-	-	-	(3)	
Loans in indexed NIS	(829)	(722)	(632)	(1,012)	(1,382)	(7,005)	(11,582)	
Unlinked loans	-	-	-	-	-	(802)	(802)	
Total swap transactions:	121	(9)	57	123	121	429	842	
Forward transactions Net:								
Loans in Euro	(27)	-	-	-	-	-	(27)	
Loans in US Dollars	117	-	-	-	-	-	117	
Loans in other foreign currency	-	-	-	-	-	-	-	
Loans in non-indexed NIS	(76)	-	-	-	-	-	(76)	
Total forward transactions	14	-	-	-	-	-	14	
Embedded Derivative in U.S. Dollar	-	(17)	-	-	-	-	(17)	
Total derivatives	135	(26)	57	123	121	429	839	

NOTE 27:- FINANCIAL INSTRUMENTS (continued)

d. Liquidity Risk (continued)

1) Liquidity Risk as of December 31, 2011 (continued)

	First year	Second year	Third year	Fourth year	Fifth year	Sixth onwards	Total	Effective Interest rate
				NIS millions				%
Financial Liabilities								
Debentures								
Debentures in US Dollars	(7)	108	(7)	(8)	(8)	9,376	9,454	2.5-9.8
Debentures in Yen	(1)	(1)	(1)	(2)	(2)	3,676	3,669	3.7-4.3
Debentures in indexed NIS	3,029	3,521	3,021	2,463	1,593	6,871	20,498	4.6-7.1
Unlinked debentures	5	5	6	6	7	660	689	6.6-7.5
Total debentures	3,026	3,633	3,019	2,459	1,590	20,583	34,310	
Debentures to the State of Israel in Linked NIS	-	-	-	-	-	2,453	2,453	5.5-5.75
Liabilities to banking corporations:								
Loans in Euro	456	425	368	314	299	729	2,591	2.2-5.6
Loans in US Dollars	91	305	57	57	57	483	1,050	1.3-2.5
Loans in other foreign currency	2	-	-	-	-	-	2	1.3-7.2
Loans in indexed NIS	95	94	1,071	46	46	274	1,626	3.7-5.7
Unlinked loans	-	-	-	-	-	250	250	4.7
Total	644	824	1,496	417	402	1,736	5,519	
Loans from the State Of Israel in $	247	262	277	295	312	2,540	3,933	7.3-8.2
Other Liabilities								
Loans in Euro	5	-	-	-	-	1	6	2.2-2.8
Loans in indexed NIS	1	1	1	1	2	15	21	4.5
Total other liabilities	6	1	1	1	2	16	27	
Total Financial Liabilities	**3,923**	**4,720**	**4,793**	**3,172**	**2,306**	**27,328**	**46,242**	

NOTE 27:- FINANCIAL INSTRUMENTS (Continued)

d. Liquidity Risk (continued)

2) Liquidity Risk as of December 31, 2010

	First year	Second year	Third year	Fourth year	Fifth year	Sixth onwards	Total	Effective Interest rate
				NIS millions				%
Financial Assets								
Loans in Dollars	59	60	60	60	62	740	1,041	1.6-2.3
Loans in linked NIS	0	3	0	1	3	2	9	4
Unlinked Loans	18	16	22	12	8	0	76	2.42-8
	77	79	82	73	73	742	1,126	
Derivative Financial Instruments, net								
Embedded derivative	16	-	17	-	-	-	33	
Total	93	79	99	73	73	742	1,159	
Financial Liabilities								
Debentures								
Debentures in US Dollars	2,529	(7)	103	(7)	(8)	8,890	11,500	2.2-9.8
Debentures in Yen	178	(1)	(1)	(1)	(2)	3,317	3,490	3.3-4.3
Debentures in indexed NIS	237	2,984	3,472	2,973	2,415	4,594	16,675	4.6-7.1
Unlinked debentures	5	5	5	6	6	681	708	6.6-7.5
Total	2,949	2,981	3,579	2,971	2,411	17,482	32,373	
Debentures to the State of Israel in linked NIS	-	-	-	-	-	2,444	2,444	5.5-5.75
Liabilities to banking corporations:								
Loans in Euro	457	439	410	354	301	959	2,920	1.6-6.3
Loans in US Dollars	86	86	290	55	53	513	1,083	1.1-9.2
Loans in other foreign currency	11	1	-	-	-	-	12	1.3-7.2
Loans in indexed NIS	135	94	95	70	46	320	760	2.5-5.7
Unlinked loans	-	-	-	-	-	255	255	3
Total liabilities to banking corporations:	689	620	795	479	400	2,047	5,030	

NOTE 27:- FINANCIAL INSTRUMENTS (Continued)

d. Liquidity Risk (continued)

2) Liquidity Risk as of December 31, 2010

	First year	Second year	Third year	Fourth year	Fifth year	Sixth onwards	Total	Effective Interest rate
				NIS millions				%
Loans from the State of Israel in U.S. Dollar	222	234	248	264	279	2,705	3,952	7.1-8.1
Other Liabilities								
Loans in Euro	20	5	-	-	-	-	25	1.6-2.2
Loans in US Dollars	-	-	-	-	-	1	1	2
Loans in indexed NIS	1	1	1	1	1	16	21	4.5
Total other liabilities	21	6	1	1	1	17	47	
Total Financial Liabilities	**3,881**	**3,841**	**4,623**	**3,715**	**3,091**	**24,695**	**43,846**	
Swap transactions Net:								
Loans in Euro	232	(12)	(342)	(8)	(355)	-	(485)	
Loans in US Dollars	(1,727)	(95)	(199)	(93)	(90)	(3,443)	(5,647)	
Loans in Yen	(2,091)	(13)	(13)	(13)	(513)	(644)	(3,287)	
Loans in other foreign currency	258	(1)	(88)	-	-	-	169	
Loans in indexed NIS	3,333	80	696	72	926	3,929	9,036	
Unlinked loans	439	-	-	-	-	646	1,085	
Total swap transactions:	**444**	**(41)**	**54**	**(42)**	**(32)**	**488**	**871**	
Forward transactions Net:								
Loans in Euro	(241)	-	-	-	-	-	(241)	
Loans in Dollars	(1,594)	-	-	-	-	-	(1,594)	
Loans in other foreign currency	(168)	-	-	-	-	-	(168)	
Loans in indexed NIS	2,143	-	-	-	-	-	2,143	
Total forward transactions	**140**	**-**	**-**	**-**	**-**	**-**	**140**	
Total derivatives	**584**	**(41)**	**54**	**(42)**	**(32)**	**488**	**1,011**	

NOTE 27:- FINANCIAL INSTRUMENTS (continued)

e. Credit Risk Management

A credit risk is a risk of financial loss incurred by the Company if a customer or the other side 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 cash equivalents are deposited with banking institutions. The policy of the Company is to deposit funds according to the financial strength of the banks (credit rating and size).
Hedge transactions in financial instruments are entered 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 - Except as detailed in the table in Note 6 b, 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.
Provisions for doubtful accounts - are adequate according to estimates of the Company's.

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, 2011 are:

1) Local guarantees in Israel
   a) A guarantee in the amount of NIS 114 million provided to Inbal Insurance Company for an indemnification letter to the Company's actuary.
   b) A guarantee in the approximate amount of NIS 17 million is provided to Gas Lines Ltd., to guarantee payment for natural gas delivery according to the agreement.
   c) Other bank guarantees amounting to approximately NIS 20 million, provided during normal business operations to different authorities, e.g., courts, customs, Israel Lands Administration and local municipalities.

   Total local guarantees amount to approximately NIS 151 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 from abroad, as on December 31, 2011, amounts to approximately NIS 1,273 million.
   b) Total balance of guarantees to parties abroad in the form of conditional bank guarantees and letters of credit as on December 31, 2011, amounts to approximately NIS 113 million.

   Total letters of credit and guarantees as on December 31, 2011 amount to approximately NIS 1,386 million.

NOTE 27:- FINANCIAL INSTRUMENTS (Continued)

f. Report of linkage bases

	December 31, 2011								
	Linked to the U.S. Dollar	Linked to the Euro	Linked to Japanese Yen	Linked to other foreign currency	Linked to the CPI	Unlinked	Total	Non-monetary	Total
	NIS in millions								
Assets:									
Cash and cash equivalents	5	-				1,147	1,152		1,152
Trade receivables for sales of electricity	-	-				3,864	3,864		3,864
Other current assets	783	354	36	(3)	(717)	19	472	153	625
Long-term receivables	8,302	176	3,201	(5)	(9,754)	65	1,985	2	1,987
Total	**9,090**	**530**	**3,237**	**(8)**	**(10,471)**	**5,095**	**7,473**	**155**	**7,628**
Liabilities:									
Short-term credit from banks and other credit providers	1,031	474	-	(2)	3,140	5	4,648	(46)	4,602
Liabilities to suppliers and service providers	771	40	-	1	1,212	-	2,024	-	2,024
Other current liabilities	330	16	-	31	498	684	1,559	-	1,559
Debentures, liabilities to banking corporations and others	9,758	1,308	3,689	(1)	20,040	1,736	36,530	(166)	36,364
Liability to the State of Israel	3,717	-	-	-	-	-	3,717	(31)	3,686
Debentures to the State of Israel	-	-	-	-	2,453	-	2,453	-	2,453
Total	**15,607**	**1,838**	**3,689**	**29**	**27,343**	**2,425**	**50,931**	**(243)**	**50,688**
Net Total	**(6,517)**	**(1,308)**	**(452)**	**(37)**	**(37,814)**	**2,670**	**(43,458)**	**398**	**(43,060)**

(1) a. A portion of the costs for the exposure in or linked to foreign currency is covered by the current electricity rate.
b. A portion of the costs for long-term liabilities is capitalized to fixed assets under construction (see Note 32 below).

NOTE 27:- FINANCIAL INSTRUMENTS (Continued)

f. Report of linkage bases (continued)

	December 31, 2010								
	Linked to the U.S. Dollar	Linked to the Euro	Linked to Japanese Yen	Linked to other foreign currency	Linked to the CPI	Unlinked	Total	Non-monetary	Total
	NIS in millions								
Assets:									
Cash and cash equivalents	1	-	-	-	-	3,277	3,278	-	3,278
Trade receivables for sales of electricity	-	-	-	-	-	3,211	3,211	-	3,211
Other current assets	181	-	-	-	-	59	240	61	301
Funds in trust	1,210	8	1,196	(140)	(1,117)	50	1,207	2	1,209
Total	**1,392**	**8**	**1,196**	**(140)**	**(1,117)**	**6,597**	**7,936**	**63**	**7,999**
Liabilities:									
Short-term credit from banks and other credit providers, net	64	500	(1,913)	102	3,712	2,585	5,050	(52)	4,998
Liabilities to suppliers and service providers.....	752	104	-	3	399	1	1,259	-	1,259
Other current liabilities and provisions	347	9	-	31	449	497	1,333	-	1,333
Debentures, liabilities to banking corporations and others……..	6,246	1,884	3,333	228	21,115	1,605	33,955	(199)	33,756
Liability to the State of Israel	3,767	-	-	-	-	-	3,767	(37)	3,730
Debentures to the State of Israel……..	-	-	-	-	2,444	-	2,444	-	2,444
Total	**11,176**	**2,497**	**1,420**	**92**	**28,119**	**4,688**	**47,808**	**(288)**	**47,750**
Net Total	**(9,784)**	**(2,489)**	**(224)**	**(48)**	**(29,236)**	**1,909**	**(39,872)**	**351**	**(39,521)**

(1) a. A portion of the costs for the exposure in or linked to foreign currency is covered by the current electricity rate.

b. A portion of the costs for long-term liabilities is capitalized to fixed assets under construction (see Note 32 below).

NOTE 27:- FINANCIAL INSTRUMENTS (Continued)

g. The following are details of open commitments for carrying out foreign currency swap transactions in foreign currency, interest swap transactions and forward transactions designed to reduce exposure resulting from differences between linkage terms of the commitments and the structure of the electricity rate as of December 31, 2011 and 2010 respectively

	Swap Transactions (1)		Forward Transactions (2)	
	2011	2010	2011	2010
	NIS in millions			
Purchase of:				
Dollar	9,330	6,735	117	2,590
Euro	3,200	2,402	145	241
Japanese Yen	3,237	2,995	-	-
Pounds Sterling	241	383	-	168
NIS, linked	84	-	176	1,075
	16,092	12,515	438	4,074

	Swap Transactions (1)		Forward Transactions (2)	
	2011	2010	2011	2010
	NIS in millions			
In return for:				
Linked NIS	11,666	9,034	252	3,218
NIS	802	1,085	-	-
Euro	1,706	1,917	172	-
Pounds Sterling	244	553	-	-
Dollar	832	797	-	996
	15,250	**13,386**	**424**	**4,214**

(1) The majority of swap transactions are for a period of one up to 10 years.
(2) The forward transactions are for a period of up to one year.

Gains and losses from the financial instruments in this item:
In 2011,gains amount to NIS 1,150 million
In 2010, losses amount to NIS 256 million.
Transactions in financial instruments are carried out with banking institutions and the Company does not anticipate any losses resulting from credit risks from them. The Company does not hold or sell financial instruments for trading purposes.

NOTE 27:- FINANCIAL INSTRUMENTS (Continued)

h. Fair value of financial instruments

	Book Value		Fair Value	
	December 31		December 31	
	2011	2010	2011	2010
	NIS in millions			
Financial Assets				
Long term Debts				
Fixed Interest (2)	95	108	91	100
Variable interest	1,017	1,018	894	863
Financial liabilities				
Long-term loans				
At fixed interest (2)	5,401	4,292	5,901	4,758
At variable interest	4,078	4,737	4,201	4,636
Marketable debentures (in Israel and abroad) (1)	13,126	12,870	14,078	14,725
Non-marketable debentures in Israel and abroad (3)	21,184	19,503	20,789	20,508

(1) The fair value is based on quoted market prices in an active market as of the statement of financial position date.

(2) The fair value is based on fair interest rates as of the statement of financial position dates (the fair value of a long-term loan received, bearing fixed interest is based on the calculation of the present value of cash flows at an interest rate acceptable for a loan of similar characteristics).

(3) The fair value is based on individual prices, quoted by Mirvach Hogen Ltd., for non-negotiable debentures in Israel as on the statement of financial position date and on individual prices, calculated according to the aforementioned non-negotiable liabilities revaluation method, for non-negotiable debentures.

The carrying amount of cash and cash equivalents, short-term investments, receivables, other current assets, payables and accrued expenses is equivalent to or approximates their fair value.

i. Classification of financial instruments

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 and the embedded derivative, included in level 2, are calculated at fair value, based on expected interest curves (see Note 2 above).

	Year ended December 31	
	2011	2010
	Level 2	
	NIS in millions	
Financial Assets		
Swap and Forward transactions	1,037	81
Embedded derivative	-	33
Total	**1,037**	**144**
Financial Liabilities		
Swap and Forward transactions	181	1,092
Embedded derivative	17	-
Total	**198**	**1,092**

NOTE 28:- REVENUES

	For the year ended December 31,		
	2010	**2009**	**2008**
		NIS in millions	
Residential	7,065	7,014	7,574
Commercial	8,483	8,248	8,867
Agricultural	645	587	711
Industrial	3,875	3,646	4,130
Water pumping	940	919	832
Revenues from the sale of electricity, gross	**21,008**	**20,414**	**22,114**
Add (less):			
Consumers' participation in fixed assets	3	(1,142)	(997)
Collection and provision for regulatory assets	3,262	347	(1,623)
Revenues from the sale of electricity, net	**24,273**	**19,619**	**19,494**
Other income*	259	224	229
	24,532	**19,843**	**19,723**

* Including income arising from provision with respect to works on account of others for the years 2011, 2010, 2009, in an approximate total or NIS 40 million, NIS 69 million and NIS 62 million, respectively.

NOTE 29:- SALES AND MARKETING EXPENSES

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Wages	533	491	470
Consumer services	209	164	183
Depreciation	137	135	133
	879	**790**	**786**

NOTE 30:- ADMINISTRATIVE AND GENERAL EXPENSES

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Wages	385	371	351
Provision for doubtful accounts and bad debts (see Note 6)	32	41	50
Depreciation and amortization	126	138	141
Others	171	121	315
	714	**671**	**857**

NOTE 31:- WAGE COSTS

	For the Year ended December 31		
	2011	**2010**	**2009**
	NIS in millions		
Total wage costs	4,398	4,200	3,879
Less:			
Wages charged to works at expense of others	66	87	115
Wages charged to fixed assets	1,731	1,712	1,511
Total wage costs included in statement of operations items, net	**2,601**	**2,401**	**2,253**

NOTE 32:- FINANCIAL EXPENSES (INCOME), NET

a. Financial expenses (income), net

	For the Year ended December 31, 2011			For the Year ended December 31, 2010			For the Year ended December 31, 2009		
	Other financial expenses (income)	Erosion of liabilities	Total	Other financial expenses (income)	Erosion of liabilities	Total	Other financial expenses (income)	Erosion of liabilities	Total
	NIS in millions								
Financial expenses (income) on:									
Debentures	2,070	802	2,872	2,037	(1,005)	1,032	2,403	(942)	1,461
Loans	360	365	725	496	(889)	(393)	525	(173)	352
Hedge transactions	19	(1,169)	(1,150)	11	245	256	-	245	245
Loans and account receivables	120	86	206	(36)	189	153	12	180	192
	2,569	84	2,653	2,508	(1,460)	1,048	2,940	(690)	2,250
Capitalization of financing expenses, net	(200)	-	(200)	(160)	-	(160)	(251)	-	(251)
Transfer of financing (expenses) income to regulatory asset	(133)	(135)	(268)	(144)	963	819	-	513	513
Financial expenses, net	**2,236**	**(51)**	**2,185**	**2,204**	**(497)**	**1,707**	**2,689**	**(177)**	**2,512**

NOTE 32:- FINANCIAL EXPENSES (INCOME), NET (continued)

b. Gain (loss) from erosion of liabilities, net (1)

	For the Year ended December 31		
	2011	2010	2009
	NIS in millions		
Loss resulting from the change in the CPI for	60	85	80
Loss (gain) resulting from the change between the known CPI and the CPI for	85	(77)	(25)
Loss from real depreciation (Gain from the real appreciation) of foreign currency, net (2)	(147)	(1657)	(925)
Loans and receivables	86	189	180
	84	**(1460)**	**(690)**

(1) Before capitalization of financial expenses (income) and transfer of income to regulatory asset.
(2) Net of the effect of hedge transactions, after the offset of the effect of erosion of deposits and from other loans that were deposited in banks.

d Rating the Comprehensive Ability of the Company to Fulfill its Financial Commitments

Credit Rating

The general ability of the Company to meet its financial liabilities is rated by two local rating companies and two international rating companies. Credit rating of the Company in each of the rating companies is presented below:

	Rating Company	Rating Type	Last Update Date	Rating	Rating Outlook
Rating Abroad	S&P	1. Foreign currency rating of the Company 2. Rating of senior debentures secured by foreign currency	September 19, 2011	+BB	Stable
	Moody's	1. Issuer	November 2, 2011	Baa3	Negative
		2. GMTN plan	November 2, 2011	Baa3	Negative
Local Rating	S&P Maalot	1. Issuer rating 2. Rating of all debentures issued up to June 30, 2010, still in circulation	September 19, 2011	-ilAA	Stable
	Midroog	1. Series 22 2. Series 2022	October 27, 2011	Aa3	Stable

Rating in Israel:

1. S&P's Maalot: (ilAA-), with a stable outlook.
2. Midroog: Aa3 with a stable outlook.

International Rating:

1. Moody's: Baa3 with a negative outlook.
2. S&P's: BB+ with a stable outlook.

NOTE 33:- INFORMATION IN NOMINAL VALUES

a. Share Capital

Composed as follows:

	December 31	
	2011	2010
Authorized	Issued and paid-up	Issued and paid-up
	NIS	
80,167,387 Ordinary shares of NIS 0.1 par value each (issued and paid-up - 80,164,986 Ordinary shares)	8,016,739	8,016,499	8,016,499
40,053,252 Ordinary "B" shares of NIS 0.1 par value each	4,005,325	4,005,325	4,005,325
39,531 unclassified shares of NIS 0.1 par value each	3,953	-	-
Total	12,026,017	12,021,824	12,021,824

b. Shareholders' Rights

1) Upon distribution of dividends:

The first five percent to the Ordinary shareholders	-	Ordinary shareholders only.
The next five percent to the Ordinary shareholders	-	Ordinary and Ordinary "B" shareholders - equal percentages, until the cumulative sum of dividends paid to Ordinary shareholders reaches 10% and Ordinary "B" shareholders reaches 5% annually.
The next five percent to the Ordinary shareholders	-	Ordinary "B" shareholders - twice the percentage of Ordinary shareholders, until the cumulative sum of dividends paid to Ordinary shareholders reaches 15% and Ordinary "B" shareholders reaches 15% annually.
The following percentages	-	Ordinary and Ordinary "B" shareholders - equal percentages.

In the Company's opinion, shareholders' rights to dividends relate to the par value of the adjusted share capital.

2) Upon liquidation:

The surplus after refund of paid-up share capital to shareholders, first to Ordinary shareholders and then to Ordinary "B" shareholders, is to be allocated among shareholders on a proportional basis to the paid-up capital of shares held by each of them at the start of the liquidation.

3) On the date of the financial statements, the State of Israel held 120,033,262 Ordinary shares, which represent 99.85% of the paid-up capital of the Company.

NOTE 34:- SEGMENTAL REPORTING

a. General

The Company implements the International Financial Reporting Standard 8 ("IFRS 8") from January 1, 2009.
This international financial reporting standard replaced IAS 14 "Segmental Reporting". "IFRS 8" requires implementation of the "management's approach" that presents the segment's information according to the same basis used for internal reporting needs.
Operational segments report on the same basis used for internal reporting needs, presented to the Chief Operational Decision Maker (CODM) of the Company, for purposes of allocating resources and estimating performance of the operational segments. The CEO of the Company is the Chief Operational Decision Maker of the Company.

b. Detailed Reportable Operation Segments

The operations of the Company are comprised of three main operational segments making up the entire electricity chain. These activities are:

- Generation Segment - includes the operations at 17 sites of the electricity generating power stations, derives its revenues according to its share in the electricity rate, as determined by the regulator (Electricity Authority).
- Transmission Segment - includes the transmission and transformation system of the ultra-high, long distance electricity, generates its revenues according to its share in the electricity rate, as determined by the Electricity Authority.
- Distribution Segment – 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 high voltage electricity directly from the transmission systems, as well as the customers service and collection system of the Company, the segment generates its revenues according to its share in the electricity rate, as determined by the Electricity Authority.

c. Analysis of Income and Results according to Operational Segments

Segmental revenues are calculated on the basis of the electricity rate for the segment, published by the Electricity Authority, multiplied by the sold quantity (kW/h) of that segment. Segmental expenses that can be specifically identified are charged directly to the appropriate items. In addition, certain indirect expenses are recorded according to an allocation, which serves as a reasonable estimate for attributing these expenses, while adjusting to the electricity rate base. The CODM receives the operational results of each segment up to the net income (loss) level.

NOTE 34:- SEGMENTAL REPORTING (continued)

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

	For the Year ended December 31, 2011			
	Generation segment	Transmission segment	Distribution segment	Total Company
	NIS in millions			
	(unaudited)			
Revenues(*)	20,032	1,797	2,703	24,532
Operating income (loss)	2,260	508	(9)	2,759
Income (loss) before income tax	1,266	6	(698)	574
Income (loss) net for the period	382	(271)	(896)	(785)
Additional Details				
Depreciation and amortization	2,282	890	1,155	4,327
Financing expenses, net	994	502	689	2,185

	For the Year ended December 31, 2010			
	Generation segment	Transmission segment	Distribution segment	Total Company
	NIS in millions			
	(unaudited)			
Revenues(*)	15,219	1,771	2,853	19,843
Operating income	771	549	392	1,712
Income (loss) before income tax	(21)	155	(129)	5
Income (loss) for the period	(5)	40	(33)	2
Additional Details				
Depreciation and amortization	3,204	877	1,157	5,238
Financing expenses, net	792	394	521	1,707

	For the Year ended December 31, 2009			
	Generation segment	Transmission segment	Distribution segment	Total Company
	NIS in millions			
	(unaudited)			
Revenues(*)	15,052	1,777	2,894	19,723
Operating income	1,781	574	441	2,796
Income (loss) before income tax	587	(6)	(296)	284
Income for the period	970	279	175	1,424
Additional Details				
Depreciation and amortization	2,080	861	1,146	4,087
Financing expenses, net	1,195	580	737	2,512

(*) Revenues are attributed to the three segments according to their share in the electricity rate.

NOTE 34:- SEGMENTAL REPORTING (continued)

d. Analysis of Assets and Liabilities according to Operational Segments

The CODM monitors the tangible, intangible and financial assets of each segment for purposes of controlling the segments and resources allocation among the segments. All Company assets are allocated to the different segments. Investments for the period include investments in fixed assets and in intangible assets and exclude financial instruments and deferred taxes assets. The CODM also receives data of the total liabilities of the Company, divided into the three segments.

	As of December 31, 2011			
	Generation segment	Transmission segment	Distribution segment	Total Company
	NIS in millions			
	(unaudited)			
Assets	42,331	16,130	24,202	82,663
Investments in the period	2,082	617	1,124	3,823
Liabilities	34,504	12,205	18,689	65,398

(*) Including investments with respect to the emergency plan for the electricity sector, which includes construction of three CCTGs, less consumers' participation amounting to NIS 551 million (see also Note 3 b above)

	As of December 31, 2010			
	Generation segment	Transmission segment	Distribution segment	Total Company
	NIS in millions			
	(audited)			
Assets(**)	40,813	16,614	23,461	80,888
Investments in the period	2,490	605	1,074	4,169
Liabilities(**)	32,575	12,434	17,829	62,838

NOTE 35:- SUBSEQUENT EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE, IN ADDITION TO THE DETAILS IN THE AFOREMENTIONED NOTES

a. A real revaluation of the NIS occurred after the statement of financial position date, mainly in the rate of the US Dollar to which the Company is exposed in its obligations, which resulted in financing income for the period from the statement of financial position date and up to March 27, 2012, of approximately NIS 72 million.

b. On the subject of disruptions in the supply of gas from Egypt and from Yam Thetis and the resulting cash flow problem**,** see Note 1 f above.

c. On entering an agreement with the "Tamar" field partnership, see Note 24 a above.

d. On the publication of a prospectus for issuing negotiable debentures in Israel, see Note 1 f above

e. On the pension agreement entered on February 20, 2012, see Note 19 f2 above.

f. On issuing debentures to institutional buyers in the U.S.A., see Note 18 c above.

g. Appointment and Retirement of Directors:
   1) On January 12, 2012, Ms. Sarit Giladi-Dor announced her decision to end her term of employment as spokeswoman of the Company.
   2) On February 22, 2012, Mr. Ram Erlichman was appointed as a director in the Company.
   3) On January 22, 2012, Mr. Mordechai Ben-Ami was appointed as a director in the Company.
   4) On January 25, 2012, Mr. Igal Ben Arie ended his term as Deputy CEO of the Company.
   5) On February 29, 2012, Mr. Shimon Eckhaus ended his term as a director in the Company
   6) On March 1, 2012, Mr. Avraham Natan announced that he will end his term as a director in the Company in April 10, 2012.
   7) On March 6, 2012, Ms. Varda Samet was appointed as a director in the Company.

h. On employees sanctions, see Note 24 c above.

i. On the decision of the Electricity Authority on March 22, 2012, on spreading the increase in electricity rates for the years 2012-2014, see Note 1 f and Note 3 g above.

j. On March 25, 2012, the Knesset approved the extension of the licenses of the Company up to January 1, 2013.

k. On the recommendations issued on March 26, 2012, by the regulators team that was appointed by the Government of Israel on releasing funds from the dedicated trust account, see Note 19f.

l. On March 27, 2012, Midroog rated the debentures, secured by a State guarantee, which the Company plans to offer in April 2012, at an Aaa rating.

m. On March 29, 2012, the Company's Board of Directors approved the filing of a request with the Securities Authority for receiving permission for the publication of a prospectus for offering negotiable debentures to the public and also filed the first draft prospectus of the Company.
   The Board of Directors also approved the filing of a request with the Tel Aviv Stock Exchange for listing the debentures for trade.

n. On March 29, 2012, the Company's Board of Directors approved an addition to the budget of approximately NIS 3,510 million, subject to the completion of a private placement of non-negotiable debentures in Israel, as approved by the Audit Committee and the Board of Directors.

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE)

According to the provisions of the Companies Authority, whose principal points are published in the Circular of March 2, 2004, the Company is required by the Companies Authority, under its authority by the Government Companies Law, to include additional information (beyond the information included in the Financial Statements according to generally accepted accounting principles) regarding the attribution of the statement of operations and balance sheet to the generation, transmission and distribution activity segments.

a. **Statement of operations for the year ended December 31, 2011**:

	Total Company	Generation segment	Transmission segment	Distribution segment
	NIS in millions			
Required revenues	25,049	19,422	2,005	3,622
Adjustment for segment revenues	(776)	482	(213)	(1,045)
Revenues from electricity	**24,273**	**19,904**	**1,792**	**2,577**
Other revenues	259	128	5	126
Total revenues	**24,532**	**20,032**	**1,797**	**2,703**
Cost for operating electricity system	20,034	17,347	1,169	1,518
Profit from operating electricity system	**4,498**	**2,685**	**628**	**1,185**
Sales and marketing expenses	879	-	-	879
Administrative and general expenses	714	348	108	258
Expenses from liabilities to pensioners, net	146	77	12	57
	1,739	425	120	1,194
Income (loss) from current operations	**2,759**	**2,260**	**508**	**(9)**
Financial expenses, net	2,185	994	502	689
Total Comprehensive Income (loss) before income taxes	**574**	**1,266**	**6**	**(698)**
Income taxes	1,359	884	277	198
Net income (loss)	**(785)**	**382**	**(271)**	**(896)**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

b. **Details of the generation sites statement of operations for the year ended December 31, 2011**:

	Total generation segment	PEP and others	Rutenberg	Orot Rabin
	NIS in millions			
Required revenues	19,422	469	4,467	4,983
Adjustment for segment revenues	482	-	114	127
Revenues from electricity	**19,904**	**469**	**4,581**	**5,110**
Other revenues	128	-	26	30
Total revenues	**20,032**	**469**	**4,607**	**5,140**
Cost for operating electricity system	17,347	469	3,845	4,600
Profit from operating electricity system	**2,685**	**-**	**762**	**540**
Sales and marketing expenses	-	-	-	-
Administrative and general expenses	348	-	67	81
Expenses from liabilities to pensioners, net	77	-	17	20
	425	-	84	101
Profit from current operations	**2,260**	**-**	**678**	**439**
Financial expenses, net	994	-	316	173
Operating income before income taxes	**1,266**	**-**	**362**	**266**
Income taxes	884	-	269	161
Net profit	**382**	**-**	**93**	**105**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

b. **Details of the generation sites statement of operations for the year ended December 31, 2011 (continued)**

	Haifa	Reading	Eshkol	Gezer
	NIS in millions			
Required revenues	394	406	2,108	1,626
Adjustment for segment revenues	10	10	54	41
Revenues from electricity	**404**	**416**	**2,162**	**1,667**
Other revenues	7	8	19	12
Total revenues	**411**	**424**	**2,181**	**1,679**
Cost for operating electricity system	301	355	1,926	1,364
Profit from operating electricity system	**110**	**69**	**255**	**315**
Sales and marketing expenses	-	-	-	-
Administrative and general expenses	16	23	53	28
Expenses from liabilities to pensioners, net	4	6	13	4
	20	29	66	32
Profit from current operations	**90**	**40**	**189**	**283**
Financial expenses, net	45	17	76	135
Operating profit before income taxes	**45**	**23**	**113**	**148**
Income taxes	45	15	71	112
Net profit	**-**	**8**	**42**	**36**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

b. **Details of the generation sites statement of operations for the year ended December 31, 2011 (continued)**

	Hagit	Alon Tavor	Ramat Hovav	Zafit	Other gas turbines
	NIS in millions				
Required revenues	1,736	943	1,423	633	234
Adjustment for segment revenues	44	24	36	16	6
Revenues from electricity	**1,780**	**967**	**1,459**	**649**	**240**
Other revenues	10	5	5	4	2
Total revenues	**1,790**	**972**	**1,464**	**653**	**242**
Cost for operating electricity system	1,539	844	1,340	587	177
Profit from operating electricity system	**251**	**128**	**124**	**66**	**65**
Sales and marketing expenses	-	-	-	-	-
Administrative and general expenses	28	14	20	12	6
Expenses from liabilities to pensioners, net	5	2	3	2	1
	33	16	23	14	7
Income from current operations	**218**	**112**	**101**	**52**	**58**
Financial expenses, net	97	49	37	20	29
Operating profit before income taxes	**121**	**63**	**64**	**32**	**29**
Income taxes	84	44	38	20	25
Net profit	**37**	**19**	**26**	**12**	**4**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

c. **Details of the distribution sites statement of operations for the year ended December 31, 2011**

	Total distribution segment	Northern District	Haifa District
		NIS in millions	
Required revenues	3,622	725	433
Adjustment for segment revenues	(1,045)	(209)	(125)
Revenues from electricity	**2,577**	**516**	**308**
Other revenues	126	28	13
Total revenues	**2,703**	**544**	**321**
Cost for operating electricity system	1,518	285	190
Profit from operating electricity system	**1,185**	**259**	**131**
Sales and marketing expenses	879	188	99
Administrative and general expenses	258	50	32
Expenses from liabilities to pensioners, net	57	11	7
	1,194	249	138
Profit (loss) from current operations	**(9)**	**10**	**(7)**
Financial expenses, net	689	145	78
Operating loss before income taxes	**(698)**	**(135)**	**(85)**
Income taxes	198	45	20
Net loss	**(896)**	**(180)**	**(105)**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

c. **Details of the distribution sites statement of operations for the year ended December 31, 2011 (continued)**

	Jerusalem District	Dan District	Southern District
	NIS in millions		
Required revenues	493	738	1,233
Adjustment for segment revenues	(142)	(213)	(356)
Revenues from electricity	**351**	**525**	**877**
Other revenues	16	19	50
Total revenues	**367**	**544**	**927**
Cost for operating electricity system	213	320	510
Profit from operating electricity system	**154**	**224**	**417**
Sales and marketing expenses	123	170	299
Administrative and general expenses	36	50	90
Expenses from liabilities to pensioners, net	8	12	19
	167	232	408
Profit (loss) from current operations	**(13)**	**(8)**	**9**
Financial expenses, net	87	137	242
Operating loss before income taxes	**(100)**	**(145)**	**(233)**
Income taxes	22	38	73
Net loss	**(122)**	**(183)**	**(306)**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

d. **Balance sheet as of December 31, 2011:**

	Total Company	Generation segment	Transmission segment	Distribution segment
	NIS in millions			
Current assets	10,942	7,685	1,070	2,187
Long-term receivables	9,735	5,649	774	3,312
Fixed assets, net	61,139	28,613	14,094	18,432
Intangible assets, net	847	384	192	271
	82,663	**42,331**	**16,130**	**24,202**
Current liabilities	9,372	5,310	1,453	2,609
Long-term and extended-term liabilities, net	50,535	26,704	9,504	14,327
Deferred taxes, net	5,491	2,490	1,248	1,753
Shareholders' equity	17,265	7,827	3,925	5,513
	82,663	**42,331**	**16,130**	**24,202**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

e. **Details of the generation segment balance sheet as of December 31, 2011:**

	Total generation segment	PEP and others	Rutenberg	Orot Rabin
	NIS in millions			
Current assets	7,685	82	1,785	1,892
Long-term receivables	5,649	972	1,006	1,274
Fixed assets, net	28,613	33	8,227	4,699
Intangible assets, net	384	-	120	64
	42,331	**1,087**	**11,138**	**7,929**
Current liabilities	5,310	127	1,341	1,245
Long-term and extended-term liabilities, net	26,704	960	6,578	4,960
Deferred taxes, net	2,490	-	777	416
Shareholders' equity	7,827	-	2,442	1,308
	42,331	**1,087**	**11,138**	**7,929**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

e. Details of the generation segment balance sheet as of December 31, 2011 (continued):

	Haifa	Reading	Eshkol	Gezer
	NIS in millions			
Current assets	240	204	874	682
Long-term receivables	254	319	721	267
Fixed assets, net	2,743	442	2,002	3,408
Intangible assets, net	23	7	29	51
	3,260	**972**	**3,626**	**4,408**
Current liabilities	445	113	438	402
Long-term and extended-term liabilities, net	2,189	681	2,416	2,631
Deferred taxes, net	151	43	186	331
Shareholders' equity	475	135	586	1,044
	3,260	**972**	**3,626**	**4,408**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

e. **Details of the generation segment balance sheet as of December 31, 2011 (continued):**

	Hagit	Alon Tavor	Ramat Hovav	Zafit	Other gas turbines
	NIS in millions				
Current assets	674	365	523	247	117
Long-term receivables	309	135	197	111	84
Fixed assets, net	2,637	1,277	1,022	959	1,164
Intangible assets, net	37	19	15	7	12
	3,657	**1,796**	**1,757**	**1,324**	**1,377**
Current liabilities	387	201	233	208	170
Long-term and extended-term liabilities, net	2,280	1,088	1,127	910	884
Deferred taxes, net	240	122	96	50	78
Shareholders' equity	750	385	301	156	245
	3,657	**1,796**	**1,757**	**1,324**	**1,377**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

f. **Details of the distribution segment balance sheet as of December 31, 2011:**

	Total distribution segment	Northern District	Haifa District
		NIS in millions	
Current assets	2,187	426	259
Long-term receivables	3,312	658	429
Fixed assets, net	18,432	4,004	2,038
Intangible assets, net	271	57	30
	24,202	**5,145**	**2,756**
Current liabilities	2,609	586	288
Long-term and extended-term liabilities, net	14,327	3,027	1,655
Deferred taxes, net	1,753	370	196
Shareholders' equity	5,513	1,162	617
	24,202	**5,145**	**2,756**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

f. **Details of the distribution segment balance sheet as of December 31, 2011 (continued):**

	Jerusalem District	Dan District	Southern District
		NIS in millions	
Current assets	301	437	764
Long-term receivables	435	667	1,123
Fixed assets, net	2,290	3,596	6,504
Intangible assets, net	34	54	96
	3,060	**4,754**	**8,487**
Current liabilities	328	497	910
Long-term and extended-term liabilities, net	1,819	2,817	5,009
Deferred taxes, net	220	347	620
Shareholders' equity	693	1,093	1,948
	3,060	**4,754**	**8,487**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

g. **Statement of operations for the year ended December 31, 2010:**

	Total Company	Generation segment	Transmission segment	Distribution segment
	NIS in millions			
Required revenues	21,634	16,228	1,987	3,419
Adjustment for segment revenues	(2,015)	(1,132)	(219)	(664)
Revenues from electricity	**19,619**	**15,096**	**1,768**	**2,755**
Other revenues	224	123	3	98
Total revenues	**19,843**	**15,219**	**1,771**	**2,853**
Cost for operating electricity system	16,689	14,118	1,116	1,455
Profit from operating electricity system	**3,154**	**1,101**	**655**	**1,398**
Sales and marketing expenses	790	-	-	790
Administrative and general expenses	671	340	107	224
Expenses from liabilities to pensioners, net	(19)	(10)	(1)	(8)
	1,442	330	106	1,006
Income from current operations	**1,712**	**771**	**549**	**392**
Financial expenses, net	1,707	792	394	521
Operating profit (loss) before income taxes	**5**	**(21)**	**155**	**(129)**
Income taxes	3	(16)	115	(96)
Net profit (loss)	**2**	**(5)**	**40**	**(33)**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

h. **Details of the generation segment statement of income for the year ended December 31, 2010:**

	Total generation segment	PEP and others	Rutenberg	Orot Rabin
	NIS in millions			
Required revenues	16,228	277	3,649	4,084
Adjustment for segment revenues	(1,132)	-	(259)	(289)
Revenues from electricity	**15,096**	**277**	**3,390**	**3,795**
Other revenues	123	-	28	31
Total revenues	**15,219**	**277**	**3,418**	**3,826**
Cost for operating electricity system	14,118	277	2,988	3,676
Profit from operating electricity system	**1,101**	**-**	**430**	**150**
Sales and marketing expenses	-	-	-	-
Administrative and general expenses	340	-	70	84
Expenses from liabilities to pensioners, net	(10)	-	(2)	(3)
	330	-	68	81
Profit from current operations	**771**	**-**	**362**	**69**
Financial expenses, net	792	-	259	149
Operating profit (loss) before income taxes	**(21)**	**-**	**103**	**(80)**
Income taxes	(16)	-	78	(61)
Net profit (loss)	**(5)**	**-**	**25**	**(19)**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

h. **Details of the generation segment statement of income for the year ended December 31, 2010 (continued):**

	Haifa	Reading	Eshkol	Gezer
	NIS in millions			
Required revenues	575	1,157	1,747	1,911
Adjustment for segment revenues	(41)	(82)	(124)	(136)
Revenues from electricity	**534**	**1,075**	**1,623**	**1,775**
Other revenues	5	8	17	16
Total revenues	**539**	**1,083**	**1,640**	**1,791**
Cost for operating electricity system	524	1,105	1,566	1,628
Profit (loss) from operating electricity system	**15**	**(22)**	**74**	**163**
Sales and marketing expenses	-	-	-	-
Administrative and general expenses	16	25	50	34
Expenses from liabilities to pensioners, net	(1)	(1)	(2)	(1)
	15	24	48	33
Profit (Loss) from current operations	**-**	**(46)**	**26**	**130**
Financial expenses, net	17	15	63	110
Operating profit (loss) before income taxes	**(17)**	**(61)**	**(37)**	**20**
Income taxes	(13)	(46)	(27)	14
Net profit (loss)	**(4)**	**(15)**	**(10)**	**6**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

h. **Details of the generation segment statement of income for the year ended December 31, 2010 (continued):**

	Hagit	Alon Tavor	Ramat Hovav	Zafit	Other gas turbines
	NIS in millions				
Required revenues	707	1,152	506	297	166
Adjustment for segment revenues	(50)	(82)	(36)	(21)	(12)
Revenues from electricity	**657**	**1,070**	**470**	**276**	**154**
Other revenues	5	4	3	3	3
Total revenues	**662**	**1,074**	**473**	**279**	**157**
Cost for operating electricity system	512	1,041	433	250	118
Profit from operating electricity system	**150**	**33**	**40**	**29**	**39**
Sales and marketing expenses	-	-	-	-	-
Administrative and general expenses	18	14	13	10	6
Expenses from liabilities to pensioners, net	-	-	-	-	-
	18	14	13	10	6
Income from current operations	**132**	**19**	**27**	**19**	**33**
Financial expenses, net	76	42	26	17	18
Operating profit (loss) before income taxes	**56**	**(23)**	**1**	**2**	**15**
Income taxes	42	(17)	1	2	11
Net profit (loss)	**14**	**(6)**	**-**	**-**	**4**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

i. **Details of the distribution segment statement of operations for the year ended December 31, 2010:**

	Total distribution segment	Northern District	Haifa District
		NIS in millions	
Required revenues	3,419	695	418
Adjustment for segment revenues	(664)	(135)	(81)
Revenues from electricity	**2,755**	**560**	**337**
Other revenues	98	22	10
Total revenues	**2,853**	**582**	**347**
Cost for operating electricity system	1,455	272	187
Profit from operating electricity system	**1,398**	**310**	**160**
Sales and marketing expenses	790	180	93
Administrative and general expenses	224	44	28
Expenses from liabilities to pensioners, net	(8)	(1)	(1)
	1,006	223	120
Profit from current operations	**392**	**87**	**40**
Financial expenses, net	521	110	59
Operating loss before income taxes	**(129)**	**(23)**	**(19)**
Income taxes	(96)	(17)	(15)
Net loss	**(33)**	**(6)**	**(4)**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

i. **Details of the distribution segment statement of operations for the year ended December 31, 2010 (continued):**

	Jerusalem District	Dan District	Southern District
	NIS in millions		
Required revenues	451	687	1,168
Adjustment for segment revenues	(88)	(133)	(227)
Revenues from electricity	**363**	**554**	**941**
Other revenues	9	15	42
Total revenues	**372**	**569**	**983**
Cost for operating electricity system	210	295	491
Profit from operating electricity system	**162**	**274**	**492**
Sales and marketing expenses	89	152	276
Administrative and general expenses	30	42	80
Expenses from liabilities to pensioners, net	(1)	(2)	(3)
	118	192	353
Profit from current operations	**44**	**82**	**139**
Financial expenses, net	66	106	180
Operating loss before income taxes	**(22)**	**(24)**	**(41)**
Income taxes	(15)	(18)	(31)
Net loss	**(7)**	**(6)**	**(10)**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

j. **Statement of operations for the year ended December 31, 2009:**

	Total Company	Generation segment	Transmission segment	Distribution segment
	NIS in millions			
Required revenues	20,278	14,955	1,974	3,349
Adjustment for segment revenues	(784)	(4)	(197)	(583)
Revenues from electricity	**19,494**	**14,951**	**1,777**	**2,766**
Other revenues	229	101	-	128
Total revenues	**19,723**	**15,052**	**1,777**	**2,894**
Cost for operating electricity system	15,510	12,966	1,090	1,454
Profit from operating electricity system	**4,213**	**2,086**	**687**	**1,440**
Sales and marketing expenses	786	-	-	786
Administrative and general expenses	857	425	129	303
Income from liabilities to pensioners, net	(226)	(120)	(16)	(90)
	1,417	305	113	999
Income from current operations	**2,796**	**1,781**	**574**	**441**
Financial expenses, net	2,512	1,195	580	737
Operating income (loss) before income taxes	**284**	**586**	**(6)**	**(296)**
Income taxes	(1,140)	(384)	(285)	(471)
Net income	**1,424**	**970**	**279**	**175**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

k. **Details of the generation segment statement of income for the year ended December 31, 2009:**

	Total generation segment	PEP and others	Rutenberg	Orot Rabin
	NIS in millions			
Required revenues	14,955	142	4,131	4,153
Adjustment for segment revenues	(4)	-	(1)	(1)
Revenues from electricity	**14,951**	**142**	**4,130**	**4,152**
Other revenues	101	-	22	25
Total revenues	**15,052**	**142**	**4,152**	**4,177**
Cost for operating electricity system	12,966	142	3,501	3,749
Profit from operating electricity system	**2,086**	**-**	**651**	**428**
Sales and marketing expenses	-	-	-	-
Administrative and general expenses	425	-	93	104
Income from liabilities to pensioners, net	(120)	-	(27)	(33)
	305	-	66	71
Income from current operations	**1,781**	**-**	**585**	**357**
Financial expenses, net	1,195	-	397	235
Operating income before income taxes	**586**	**-**	**188**	**122**
Income taxes	(384)	-	(127)	(74)
Net income	**970**	**-**	**315**	**196**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

k. **Details of the generation segment statement of income for the year ended December 31, 2009 (continued):**

	Haifa	Reading	Eshkol	Gezer
	NIS in millions			
Required revenues	389	725	1,508	1,523
Adjustment for segment revenues	(1)	(1)	-	-
Revenues from electricity	**388**	**724**	**1,508**	**1,523**
Other revenues	6	8	17	7
Total revenues	**394**	**732**	**1,525**	**1,530**
Cost for operating electricity system	358	676	1,332	1,253
Profit from operating electricity system	**36**	**56**	**193**	**277**
Sales and marketing expenses	-	-	-	-
Administrative and general expenses	25	33	69	31
Income from liabilities to pensioners, net	(9)	(11)	(20)	(6)
	16	22	49	25
Income from current operations	**20**	**34**	**144**	**252**
Financial expenses, net	14	22	95	170
Operating income before income taxes	**6**	**12**	**49**	**82**
Income taxes	(5)	(8)	(30)	(54)
Net income	**11**	**20**	**79**	**136**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

k. **Details of the generation segment statement of income for the year ended December 31, 2009 (continued):**

	Hagit	Alon Tavor	Ramat Hovav	Zafit	Other gas turbines
	NIS in millions				
Required revenues	663	606	471	257	387
Adjustment for segment revenues	-	-	-	-	-
Revenues from electricity	**663**	**606**	**471**	**257**	**387**
Other revenues	7	3	2	2	2
Total revenues	**670**	**609**	**473**	**259**	**389**
Cost for operating electricity system	480	495	413	210	357
Profit from operating electricity system	**190**	**114**	**60**	**49**	**32**
Sales and marketing expenses	-	-	-	-	-
Administrative and general expenses	26	12	14	10	8
Expenses from liabilities to pensioners, net	(5)	(2)	(3)	(2)	(2)
	21	10	11	8	6
Income from current operations	**169**	**104**	**49**	**41**	**26**
Financial expenses, net	116	69	33	27	17
Operating income before income taxes	**53**	**35**	**16**	**14**	**9**
Income taxes	(35)	(23)	(12)	(8)	(8)
Net income	**88**	**58**	**28**	**22**	**17**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

l. **Details of the distribution segment statement of operations for the year ended December 31, 2009:**

	Total distribution segment	Northern District	Haifa District
		NIS in millions	
Required revenues	3,349	678	401
Adjustment for segment revenues	(583)	(119)	(70)
Revenues from electricity	**2,766**	**559**	**331**
Other revenues	128	20	9
Total revenues	**2,894**	**579**	**340**
Cost for operating electricity system	1,454	275	179
Profit from operating electricity system	**1,440**	**304**	**161**
Sales and marketing expenses	786	169	88
Administrative and general expenses	303	58	37
Income from liabilities to pensioners, net	(90)	(17)	(11)
	999	210	114
Income from current operations	**441**	**94**	**47**
Financial expenses, net	737	153	84
Operating loss before income taxes	**(296)**	**(59)**	**(37)**
Income taxes	(471)	(97)	(55)
Net profit	**175**	**38**	**18**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE) (Continued)

l. **Details of the distribution segment statement of operations for the year ended December 31, 2009 (continued):**

	Jerusalem District	Dan District	Southern District
		NIS in millions	
Required revenues	410	698	1,162
Adjustment for segment revenues	(71)	(121)	(202)
Revenues from electricity	**339**	**577**	**960**
Other revenues	53	14	32
Total revenues	**392**	**591**	**992**
Cost for operating electricity system	206	298	496
Profit from operating electricity system	**186**	**293**	**496**
Sales and marketing expenses	98	160	271
Administrative and general expenses	41	59	108
Income from liabilities to pensioners, net	(12)	(18)	(32)
	127	201	347
Income from current operations	**59**	**92**	**149**
Financial expenses, net	93	154	253
Operating loss before income taxes	**(34)**	**(62)**	**(104)**
Income taxes	(58)	(97)	(164)
Net profit	**24**	**35**	**60**

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE)

m. According to the Government's decision of August 5, 2004, the general accounting standards for Government companies are the same as for the private sector. The unique standards for Government companies aim to supplement the private sector's standards or to elaborate or highlight certain issues regarding Government companies as detailed in the Government Companies Authority's circulars. The unique standards for Government companies will be executed in accordance with the law.

In January 2005, the Company decided to make the preparations necessary to enable preparation of separate Financial Statements of each activity, as required by the stipulation of the Government Companies Authority, ("Separate Financial Statements"), where the work plan includes, inter alia, preparation of methodology, work procedures, internal audit procedures and a computerized solution. Implementation of these preparations was postponed due to sanctions opened by the employees, who prevented the implementation of the decision.

On March 26, 2006, the Company received a letter from the manager of the Government Companies Authority, announcing that implementation of the first milestones, required to be completed by March 26, 2006, was postponed by one quarter at least. There was no development in this issue up to the signing date of the Financial Statements.

Implementation of the Government Companies Authority stipulations on disclosure of Company activities is a condition in the Government Companies Regulations (Rules for Preparing Financial Statements of Israel Electric Corporation Ltd.) (Temporary Order) – 2004 ("The Regulations") adopted by the Minister of Finance on the subject of preparing adjusted Financial Statements starting from January 1, 2004 and up to December 31, 2007, including an amendment to the Government Companies Regulations dated June 30, 2008, which are in force (after several extensions) up to December 31, 2011 (see Note 2 a.4 above). In addition, failure to include information required by law in the Financial Statements may impair the ability of the Company to publish Financial Statements.

The Company alone is responsible for the representations included in the financial statements and the accompanying information and these do not oblige the State of Israel.

General

1) As previously stated, based on section 33.b. of the Government Companies Law, and in accordance with the provisions of the Companies Authority circular dated March 2, 2004 (see Note 1c above), the Company is required to provide disclosure in the form of a note to the primary financial statements. It will include statements of operations, condensed balance sheets related to the various activities segments and details of assumptions and the principal details that were used in their preparation. Disclosure will also be provided of the financial targets, including targets to meet normative recognized costs in the various activities segments that were (or will be) determined by the Electricity Authority, and the differences between them and the effective costs, as stated in the Companies Authority's circular on financial statements (see Note 1 above).
2) The Company's activities are composed of three principal segments:
   a) Generation - activities of the power plants producing electricity.
   b) Transmission - the transmission and transformation system for high-voltage electricity over long distances.
   c) Distribution - the electricity grid and the transformer stations system that brings electricity to the end consumer (except for a small number of customers who purchase high-voltage electricity and are directly connected to the transmission system), as well as the customer service and collection system of the Company. These segments are called the electricity chain ("the electricity chain").
3) The rate base that came into force in July 2002 initially included various rates for four segments in the electricity chain: generation, transmission, distribution and supply. The different rates were intended to enable the private producers and customers to trade in electricity through a partial usage of the Company's system.
4) The Company manages one accounting system that includes all of the activities of the electricity chain.
   The internal controls principles that exist for everything concerning the internal trade between the activities of the electricity chain are not compatible with those required for separate audited financial statements.

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE)

n. **The principles used in attributing the statements of income are as follows**

1) General

a) The principles that the Electricity Authority used for determining the rate for the aforesaid activities segments, will be implemented in these statements of operations.

b) Since the Company is one legal entity, complete separate entries are not actually recorded for the segments of the electricity chain. The attribution of the expenses and income of the statement of operations to the level of the segments is performed as applicable, as will be described below.
The statements of operations as they are presented in this note do not necessarily reflect the results of operations of the various segments if they had been managed as separate economic entities, as signified by generally accepted accounting principles.

2) Below are the principles for attributing the income between the various segments

a) **Revenues from the sale of electricity**
The gross revenues for the segment are calculated based on the rate for the segment published by the Electricity Authority, multiplied by the quantity sold (kWh) for that segment.

(1) Amount sold per segment
The amount sold by each segment is calculated based on data of the amount of sales to the end customers according to the type of the customer (quantity measured in a systematic way for each segment), with the addition of the quantity purchased from private producers (known quantity for each segment) and their adjustment to the generation data, net (continuous measured quantity), by adding the quantity of normative loss for each segment and standardizing it according to the actual amount of loss.
Adjustment of the quantities between the segments is required since there is a gap between the quantity sold and the quantity generated and purchased. The gap derives from losses in the systems that are primarily caused by weather conditions, system load and the distance of transmission.
Since there is no continuous quantitative measurement of KWhs transferred between the transmission segments and the distribution segment, it is not possible to estimate the scope of losses in each segment.
For that purpose, they are aided by normative loss coefficients that the Electricity Authority determined for calculating the quantity of sales between the segments.
The total losses in the system are added to segments according the ratio of normative losses that were determined by the Electricity Authority.

(2) Rate for the segment
The electricity rates that were determined by the Electricity Authority are divided into two main categories:

(a) Rates according to load and time ("LTR") - rate that varies according to the season of the year and the time of day, where it is split to each of the segments of the electricity chain (a total of nine rates at the segment level).

(b) A uniform rate according to type of consumer that is supposed to reflect over an entire year, the LTR rate according to the expected level of demand by those paying that same rate during the various seasons and time of day (a total of five types of uniform rates at the segment level).
The uniform rate, in accordance with the various types of consumers, is calculated for the various segments, in accordance with the model that was used by the Electricity Authority in determining the rates for the Company.

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE)

n. **The principles used in preparing these statements of income are as follows (continued)**

(3) Calculation of the income for the electricity chain segments

The income for the segment is calculated by multiplying the amount of sales calculated for each segment by the various types of consumers at the appropriate rates.
The difference, which derives from the Company's actual income and the calculated income obtained, is distributed among the segments according to the amount of their calculated income.

(4) In addition, in view of the matter discussed in m.4 above, as of July 1, 2006, revenues from usage fees are calculated for substations and connections. These revenues are collected through the generation and distribution segment rates and transferred to the transmission segment for the usage fees for the segment's properties. Revenues from usage fees of substations are calculated at a rate per kWh multiplied by the quantity transmitted by the segment. Revenues from usage fees for connections are calculated at a rate per kWh multiplied by the installed transformation capacity.

b) **Other income** - is attributed to the appropriate segment, according to its nature.

3. **Below are the principles for attributing the expenses to the various segments**

The specifically identifiable expenses are charged directly to the appropriate items. Certain indirect expenses are recorded for those items according to distribution bases that, in the Company's assessment, constitute a reasonable estimate for the attribution of those expenses.

a) **Cost for operating the electricity system** - reflects in the Company's financial statements the operating expenses for the generation, transmission and distribution segments. Fuels costs and provisions for non-recognition of fixed assets construction costs are fully attributed to the generation segment.

b) **Selling and marketing expenses** - include the expenses for services to consumers that are attributed to the distribution segment.

c) **General and administrative expenses** (includes salary, depreciation and other expenses)

The basis for attributing the general and administrative expenses items to segments was determined in accordance with the nature of the activities of the Company's various units, whose costs are attributed to general and administrative expenses; see the following details:

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE)

n. **The principles used in preparing these statements of income are as follows (continued)**

3. **Below are the principles for attributing the expenses to the various segments (continued)**

c) **General and administrative expenses** (includes salary, depreciation and other expenses) (continued)

(1) The general administrative expenses, the accounting and economic division and asset maintenance expenses - are presented according to the ratio of the division of the operating expenses in the electricity chain during the reported period.

(2) The expenses for the human resources department are presented according to the ratio of the division of the salary expenses to the electricity chain during the reported period.

(3) Doubtful accounts and bad debts - are presented according to the ratio of the gross revenues from electricity sales of the electricity chain during the reported period.

(4) Communications, electronics and quality control, planning and technological development expenses - are presented according to the activities of the relevant unit.

d) **Expenses (income) from liabilities, net, to pensioners** - These expenses (income) are presented according to the ratio for allocating the salary expenses to the electricity chain during the reported period.

e) **Financial expenses (income), net** - Primarily derive from the operated fixed assets and, therefore, they were attributed according to the average ratio of the operated fixed assets, net, as presented in the Company's books in the electricity chain during the reported period.

4) **Taxes on income - deferred**

The deferred taxes are presented according to the ratio of the income before tax for all of the various segments, out of the total pre-tax income of all of the segments.

Income from taxes- and deriving from the effect of the change in tax rates on deferred taxes are allocated to the various segments according to the net operated fixed assets.

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE)

o. **The principles used in attributing the aforesaid statement of financial position items are as follows**

1) The Company is one legal entity and, in effect, the statement of financial position balances are not separated according to the Company's activities segments in its accounts (except for direct fixed assets). Therefore, the Company is reallocating the balance sheet balances for purpose of this note, in every reporting period, based on allocation keys, as described below.

2) The balance sheets as they are presented in this note do not necessarily reflect the financial position of the various segments, if they would have been managed as separate economic entities, as signified by generally accepted accounting principles.

3) **Below are the principles for attributing the statement of financial position balances to the various segments**:

a) Working capital items:

The working capital items were attributed to the segments in accordance with those principles that the Electricity Authority used in determining the electricity rates (principally for the purpose of determining the coverage of the working capital's financial expenses) where the principal allocation keys are:

Fuel inventories and balance for fuel suppliers - were fully attributed to the generation segment. The trade receivables balance allocated according to the ratio for distributing revenues. Trade payables and other items were allocated primarily according to the ratio of the operating expenses and salary for the segments.

b) Fixed assets:

Fixed assets that are specifically identifiable are included in the appropriate segment. Joint assets (about 3% of the entire assets) were distributed according to distribution keys that, in management's opinion, constitute a reasonable estimate for attributing these assets.

c) Shareholders' equity and deferred taxes:

Shareholders' equity and deferred taxes are allocated according to the ratio of the active fixed assets, net.

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE)

o. **The principles used in attributing the aforesaid statement of financial position items are as follows: (continued)**

3) **Below are the principles for attributing the balance sheet balances to the various segments**: (continued)

d) Loans and debentures:

The loans and debentures were allocated to the segments in accordance with the other statement of financial position items, and principally according to the distribution ratio of fixed assets to segments, pursuant to the nature of the financing for the Company's assets under the rate principles.

e) The remaining statement of financial position items were distributed according to distribution keys that, in the Company's estimation, constitute a reasonable estimate for attributing these items.

p. **Information regarding the attribution of the income statement and statement of financial position according to 18 reporting units**

1) **General**

In addition to the aforesaid in section m.1 above, the Company was required to provide disclosure in the form of a note that is to include condensed statements of operations and a statement of financial position, in reference to 18 activities that are included in the three electricity chain segments, as follows:

Generation segment	11 generation sites: Rutenberg, Orot Rabin, Haifa, Reading, Eshkol, Gezer, Hagit, Alon Tavor, Ramat Hovav, Zafit and the other gas turbines. In addition, it also reports on activities for acquiring electricity from private producers.
Transmission segment	The electricity transmission and transformation system.
Distribution segment	The Company's five districts: Northern, Haifa, Jerusalem, Dan, Southern.

Below, the 18 operations segments will be called: "reporting units".

2) **Below are the primary principles for attributing the income**

The income at the level of the reporting unit is calculated by stages since presently there is no electricity rate at the reporting unit level, and the Authority's current rates, at the level of the electricity chain's segments, do not allow for their attribution to a level that is lower than the segment level.

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE)

p. **Information regarding the attribution of the income statement and statement of financial position according to 18 reporting units (continued)**

2) **Below are the primary principles for attributing the income (continued)**

The income is calculated based on the following principles:

a) Calculation of the income from electricity at the level of the electricity chain segments, which is based on the electricity rates and agrees with the total of all revenues from electricity at the total Company level.

b) Determination of the required revenues at the reporting unit level for each reporting period.

Required income - cover for the actual costs during the reported period (operating costs including fuel and depreciation) neutralized by the various other income and expenses, and with the addition of normative financing costs of assets recorded in the books and the normative rate of return on capital.
The required revenues are structured based on the principal elements of the rules and principles that served the Electricity Authority for determining the electricity rate for the various segments.

c) The difference between the total required revenues for the reporting unit in the segment and the revenues of the appropriate segment was distributed among the reporting units according to the ratio of required revenue of the segment.

d) The revenues from electricity at the reporting unit level were not designated in order to estimate the revenues that will be obtained from the electricity if and when electricity rates are determined at the reporting unit level and, therefore, statements of operations according to the 18 reporting units do not necessarily reflect the results of their operations if they were managed as separate economic entities, as signified by generally accepted accounting principles.

3) **The principles for the attribution of expenses are as follows**:

The principles for attributing the expenses at the level of the reporting units agree with the principles that were applied in the reporting according to the three electricity chain segments (see section n. above).
Joint expenses for a segment (such as management of the segment) were attributed to the reporting units, generally on the basis of the direct operating costs for each reporting unit.
Other expenses that are not allocated in the Company's books of account (such as general and administrative and financial) were attributed to the reporting units in accordance with the loading bases used in the reporting according to the electricity chain segments.

NOTE 36:- INFORMATION REGARDING THE ATTRIBUTION OF THE STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION ACCORDING TO ACTIVITY SEGMENTS: GENERATION, TRANSMISSION AND DISTRIBUTION (SEE NOTES 3.b AND 3.c ABOVE)

p. **Information regarding the attribution of the income statement and statement of financial position according to 18 reporting units (continued)**

4) **Principles that were used in attributing the statement of financial position items according to 18 reporting units**

According to what is stated in section o. above, the Company is one legal entity and, in effect, the statement of financial position balances are not segregated in the Company's books according to the segments of the Company's activities. Therefore, the Company re-attributes the statement of financial position balances for the purpose of this note for each reported period based on allocation keys, as described above in section o., while providing additional details for the 18 reporting units.

NOTE 37:- ADDITIONAL INFORMATION REQUIRED UNDER THE PROVISIONS OF THE GOVERNMENT COMPANIES AUTHORITY

a. For information about attributing the statement of operation and comprehensive income according to the generation transmission and distribution segments, see not 36 above.

b. Disclosure about Reports on the Internal Audit
According to Government Companies Regulations (additional report on actions taken and representations given to assure additional reports on the effectiveness of the internal control over the financial reporting) – 2007, all Government companies, among which the Company, were obligated to attach to their annual and Interim Financial Statements an additional report of the actions taken in order to assure effectiveness of the Internal Audit's control of the Financial Statements, including setting up an entire array of internal controls, with the following main purposes: examining the processes affecting the Company's records of transactions, in order to assure the existence of controls and their effectiveness and in order to ascertain with a reasonable degree of certainty that the Company's receipts and expenditures are only performed in accordance with the authorization of the qualified persons in the Company.
The Company established Administration, Control and Work units and elected a consultant to assist in the implementation of the said regulations. A steering committee, comprised of senior management functionaries and experienced consultants in the field was established and also a Control Committee and a work team.
A dedicated computerized system was integrated for management and current on-going maintenance of the controls. Upon completion of the project, the system allows documentation of risks and controls in any process, documentation of the performed tests and results thereof. The system also provides the ability to monitor faults corrections and to generate various control and administration reports

c. Government companies are required to verify that the Financial Statements and accompanying information submitted by them do not include any misstatement, including information that might mislead a reasonable reader of the Financial Statements and related information.

d. A company will provide proper disclosure in the Financial Statements of significant assets for which it believes there is a material gap between their fair value and their carrying amount in the Financial Statements, which are not recorded at their full amounts as above in the Company's books, including on the basis of appraisals or evaluations performed, or insurance appraisals, if performed.
The Company reviews the value of its assets periodically according to IAS 36, and if needed performs a valuation of all its assets, attached as an annex to the financial statements.

e. It will be explicitly stated in the financial statements that, the Company alone is responsible for the representations included in the financial statements and the accompanying information and these do not oblige the State of Israel.
   - The Company asserts that, to the best of its knowledge, the disclosures in the Financial Statements, other than disclosures of the positions of the various Government authorities, are the sole responsibility of the Company's Management and Board of Directors and are not binding on the State of Israel.

f.
   1) The Finance Committee of the Board of Directors of the Company and the Government Companies Authority discussed the need to review all the assumptions at the basis of the liabilities arising from employee - employer relations. Consequently, the committee decided, to establish a sub-committee to implement the aforementioned ("The Actuary Committee"). This sub-committee reviewed, inter alia, the connection between the assumptions that serve as the basis for calculating the actuary liabilities of the pension funds, guidelines of the Capital Market Department and the actuarial calculation method, as presented in the records of the Company.
   2) On August 24, 2008, the Deputy Manager of the Companies Authority notified the Company that "pursuant to the audit conducted by the Committee of the Board of Directors of the Israel Electric Corporation Limited ("The Company") and to meetings we held with the Management of the Company on the subject of actuarial liabilities, in which we studied data and documents, submitted to us, related to the calculation method and the accounting presentation of the liability for pension of the Company, I wish to inform you that the Government Companies Authority ("The Authority") is reviewing all matters related to issues pertaining to liability for pension in the Financial Statements of the Company.
   To this purpose the Companies Authority appointed, inter alia, the firm of Barlev & Co., Auditors, as an auditor on its behalf, according to Section 55 of the Government Companies Law – 1975 and to Government Companies regulations (Rules on Authorization of an Auditor by the Authority) – 2005. The auditor will contact you to decide on details of the issues to be reviewed for every period."

NOTE 37:- ADDITIONAL INFORMATION REQUIRED UNDER THE PROVISIONS OF THE GOVERNMENT COMPANIES AUTHORITY (continued)

The Board of Directors of the Company instructed the CEO and all related parties in the Company to cooperate with the auditor, to the extent required to accomplish the task efficiently.

3) As of the statement of financial position date, several subjects are still being reviewed and the subject of actuary liabilities is examined.

4) Pursuant to the appointment of an auditor on behalf of the Government Companies Authority, the Company addressed the Managing Director of the Government Companies Authority on September 16, 2008 and clarified that the Company will cooperate with the auditor and whoever acts on his behalf. The Company appealed concurrently to the Electricity Authority to appoint an auditor on its behalf (or rely on the findings of the auditor appointed by the Government Companies Authority), in view of the announcement of the Electricity Authority that it intends to conduct its own audit of the pension liability of the Company. No response was received, as yet, to this appeal. The Company believes that a comprehensive audit, performed jointly by the Board of Directors of the Company (with participation of the Company's Management, Actuary and external auditor) together with the Government Companies Authority and the Electricity Authority will finally clarify all the various issues in question in this subject.
The Company expressed the hope that the work of the auditor will be completed soon. As on the signing date of the financial statements, the Company did not receive any response regarding the said audit report.

5) On December 10, 2009, following previous requests on the subject, the Chairman of the Board of Directors addressed the Managing Director of the Government Companies Authority, requesting information on the findings of the audit conducted by the auditor, acting on behalf of the Government Companies Authority. The Chairman noted that despite previous requests of the Company to receive a draft report of the auditor and although many months elapsed since the auditor commenced his audit, the Company has not received a draft report and main findings of the auditor. The Chairman of the Board of Directors claims that in preparation for publishing updated Financial Statements of the Company, including material changes in the actuarial liabilities and in light of the long time that elapsed, it seems that the time has come to receive the findings related to these liabilities in an orderly and urgent manner. The fact that no audit report was published on the subject and not even a non-binding draft, leads to the conclusion that the report submitted by the auditor does not contain any new information in addition to results of audits conducted by the Company, which the Company delivered to the representatives of the Government Companies Authority. If the aforementioned conclusion is not well-grounded, the actual facts should be presented without any further delay.

On June 29, 2008, the Government Companies Authority Director addressed the Securities Authority Chairman for consultation, under Section 33a of the Government Companies Law, on the matter of regulating the attribution of employees' pension liabilities to their service periods.
In this address, the Authority Director explained, inter alia, that as long as there is a need to change the manner of attributing pension liabilities, the matter will be evaluated concurrently with other actuary issues requiring clarification by the reporting date in June of 2008.
The Government Companies Authority proposed that the Government Companies Regulations be amended to include reference to the said matter as above.
As stated, the amendment was included in the regulations signed by the Finance Minister on June 29, 2008

On November 23, 2008, the Government Companies Authority requested to disclose its position as follows: "The policy of maintaining real wages for pensioners is the current correct accepted policy and should be implemented by the Company. The pensioners' promotion in rank mechanism in the Company is intended, in theory, to maintain the real wages of the pensioners, but actually creates an increase in the real wages, due, inter alia to the fact that the inflation environment in Israel changed materially to a low inflation environment. Considerations should include the fact that a low inflation environment and accelerated promotion in rank of pensioners cannot co-exist for prolonged periods of time and are not in the best interest of the Company, since these generate high costs and deficits to the Company." (regarding the change of the pensions update mechanism, see Note 19 above).

The Israel Electric Corporation Ltd.

Chapter D

Additional Particulars about the Corporation

For the Year Ended
December 31, 2011

Prominent Disclaimer

This English translation of the **"Additional Particulars about the Corporation"** for the year ended December 31, 2011 ("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, 2011
Date of the Report: March 29, 2012

Regulation 8a: Description of the Business of the Corporation and the Development of the Business
A report describing the Corporation and the development of its business during 2011 and up to the date of the report is attached as Chapter A to the periodic report of the Company for the year ended on December 31, 2011, ("The Description of the Company's Business Affairs Report" and "The Periodic Report", respectively).

Regulation 9: Annual Financial Statements of the Corporation
The audited financial statements of the Company for the year ended on December 31, 2011m with the addition of the opinion of the external auditor of the Company are attached as Chapter C to the periodic report ("The Financial Statements").

Report on the effectiveness of the internal controls over financial reporting of the Company and on the disclosure
The annual report on the assessment of the Company's Board of Directors and Management of effectiveness of the internal controls over financial reporting for the year ended on December 31, 2011, with an attached opinion of the external auditor of the Company and statements required in accordance with Regulation 9b of the Securities Regulations (Periodic and Immediate Reports) – 1970, are attached as Chapter F to the periodic report.

Regulation 9d: Report of the Liabilities Schedule According to Payment Dates
For the report on the liabilities schedule of the Company, see immediate report published by the Company concurrently with this periodic report (Regulation 126).

Regulation 10: Board of Directors' Report on the Status of the Corporation's Affairs, Report on the Internal Control over the financial reporting
The Board of Director's report for the year ended on December 31, 2011, together with the report of the Board of Directors and the Management on the internal control over the financial reporting in accordance with the Government Companies Regulations (Additional Reports on the Effectiveness of the Internal Control over the Financial Reporting) - 2007, is attached as Chapter B to the periodic report ("The Board of Directors' Report").

Regulation 10a: Summary of reports on the comprehensive income of the Company for each of the Quarters The summary of reports on the comprehensive income of the Company for each of the quarters in 2011 (in NIS million), see section 1 l1 in the Board of Directors' Report.

Regulation 10c: Use in exchange for securities with respect to the targets for proceeds under the prospectus

The Company did not offer its securities according to a prospectus published before the date of this report, during the report period.

Regulation 11: A list of investments in subsidiaries and related companies, as of the statement of financial position date

Subsidiaries and related companies held by the Company[1] and on December 31, 2011, 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 managers held by the Company:

Name of Subsidiary	Share Type	Number of Held Shares and Nominal Value	Proportion of the Company's Holding				Thousands of NIS	
			In Securities	In Capital	In Voting Rights	In Appointment of Directors	Adjusted Cost	Adjusted Balance Sheet Value
Subsidiaries								
1) Jordan Investment Company Ltd.	Deferred	300,000 of NIS 0.0005 each	100.00	12.00	73.17	73.17	-	-
	Ordinary A	110,000* of NIS 0.0001 each	99.98	87.99	26.82	26.82		
2) Migrashei Hakablanim Ltd.	Preferred Deferred	2,000 630** of NIS 0.0001 each	100.00 100.00 100.00	76.05 23.95 100.00	100.00 0.00 100.00	100.00 0.00 100.00	-	-
3) National Coal Supply Company Ltd.	Ordinary A	909,999 of NIS 1 each	100.00	100.00	100.00	100.00	47,537	47,537
4) Advanced Training Fund of Israel Electric Corporation Ltd.***	Management A	12 of NIS 1 each	50.00	50.00	50.00	50.00		
Affiliated company PAMA Energy Resources Development Company Ltd.	Ordinary	3,467,790 of NIS 0.10 each	49.99	49.99	49.99	30.77		

*Including 66 shares held by officeholders in trusteeship for the company

**Held by officeholders in trusteeship for the company

*** The Company holds 50% of the Management shares and the rights to appoint directors, without rights to a share in the profit.

- See "Investments in Held Companies" section in the Statement of Financial Position.
- See Note 1 j and 2 e of the Financial Statements relating to "Investments in Held and Included Companies."
- See Note 13 of the Financial Statements relating to "Related Parties and stakeholders.

Balance of loans to held companies: None.

Regulation 12: Changes in investments in subsidiaries and related companies during the period of the report

No changes in investments in subsidiaries and other related companies occurred during the period of the report.

[1] All the subsidiaries and related companies detailed in this regulation are not traded in the stock exchange.

Regulation 13: Revenues of subsidiaries and related companies and the corporation's revenues from them as of the statement of financial position date (December 31, 2011), based on their value in the statement of financial position (millions of NIS)

The following table details the comprehensive income (loss) of the subsidiaries and related companies and the income of the Company from them as on December 31, 2011:

Name of Company	Pre-tax Profit	Profit Net of Tax	Dividend	Management Fees	Interest
National Coal Supply Company Ltd.	25	19	12	-	

Regulation 14: A list of groups of loan balances given for the statement of financial position date, if granting loans was one of the corporation's main fields of business

Granting loans is not one of the company's main fields of business.

Regulation 20: Trading on the stock exchange - listed securities - dates on which trading was discontinued and the reasons why

No bond securities of the company were listed for trading during the period of the report in the Tel Aviv Stock Exchange ("The Stock Exchange"). Never the less, bond securities of debentures series 2022 (stock exchange No. 6000129) of the Company were listed in continuous institutions trading during the report period, with respect to issuance of debentures on the following dates.

January 2011 NIS 2,195,840,000, Nominal value.

June 2011 NIS 970,165,000, Nominal value.

July 2011 NIS 347,660,788, Nominal value.

Total series 2022 NIS 3,513,665,788, Nominal value.

Debentures listed for trading on the stock exchange are detailed in the following list:

Series Name	**Debenture No.**	**Nominal Value**	**Listed for**
Series 22	6000020	6,000,000,000	Continuous trading
Series 11	6000038	1,240,105,000	Institutions trading
Series 12	6000046	1,202,205,199	Institutions trading
Series 13	6000053	590,992,620	Institutions trading
Linked 2018	6000079	831,473,000	Institutions trading
NIS 2018	6000061	66,000,000	Institutions trading
Linked 2012	6000087	826,384,000	Institutions trading
Linked 2015	6000095	62,750,000	Institutions trading
Linked 2014	6000103	169,680,000	Institutions trading
Linked 2020	6000111	505,051,000	Institutions trading
Series 2022	6000129	3,513,665,788	Institutions trading

There was no suspension of trading in the securities of the Company, listed for trading in the Stock Exchange during the report period.

Regulation 21: Rewards to Stakeholders and Officers

Regulation 21a 1: Rewards to Officers

Compensation paid by the Company and the commitments to pay that 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 in relation to the service they provided as officers in the Company or in a corporation it holds with respect to 2011 as recognized in the financial statements for 2011 (adjusted to the December 2011 Consumer Price Index) is detailed below:

Regulation 21a 1: Rewards to Officers

Compensation paid by the Company and the commitments to pay that 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 in relation to the service they provided as officers in the Company or in a corporation it holds with respect to 2011 as recognized in the financial statements for 2011 (adjusted to the December 2011 Consumer Price Index) is detailed below:

2011														
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
Asher Dahan (1)	Senior VP Customers	100%	-	1,026,042	-	-	-	-	-	-	-	-	-	1,026,042
Igal Ben Arie (2)	Senior VP Marketing Communication	100%	-	988,804	-	-	-	-	-	-	-	-	-	988,804
Moshe Bahar (3)	Deputy CEO & Senior VP Generation & Transmission	100%	-	1,057,332	-	-	-	-	-	-	-	-	-	1,057,332
Adrian Bianu (4)	Senior V.P., Strategic Resources	100%	-	1,055,262	-	-	-	-	-	-	-	-	-	1,055,262
Yaakov Hain (5)	Senior VP Engineering Projects	100%	-	998,528	-	-	-	-	-	-	-	-	-	998,528

* 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, 2011 (adjusted to the CPI of December 2011).

** The amount includes expenses refund with respect to subsistence allowance, telephone, vehicle and payments to professional societies ("Expenses Refund") and charging tax with respect to vehicle, insurance, electricity, advanced studies, fixed and mobile phone, gift and meals ("Charged to Tax")

Notes to the Table

(1) Asher Dahan – started work on November 30, 1964. The salary is paid according to collective agreements and arrangements applied to the majority of Company employees. The salary is updated according to collective agreements entered for all other employees. The amount presented in the "Salary" column includes an annual salary of NIS 384,122, expenses refund in the amount of NIS 76,282 and Charges to tax of NIS 134,999. Employment termination by the employee is subject to the law and Company procedures, or upon reaching retirement age. Employment termination by the Company is subject to the collective agreements and arrangements of the Company.

(2) Igal Ben Arie - started work on September 16, 1968. The position holders ceased acting as the Senior VP Marketing Communication on December 31, 2011. The salary is paid according to collective agreements and arrangements applied to the majority of Company employees. The salary is updated according to collective agreements entered for all other employees. The amount presented in the "Salary" column includes an annual salary of NIS 384,175, expenses refund in the amount of NIS 33,492 and Charges to tax of NIS 133,578. Employment termination by the employee is subject to the law and Company procedures, or upon reaching retirement age. Employment termination by the Company is subject to the collective agreements and arrangements of the Company.

(3) Moshe Bahar - started work on March 1, 1978. The salary is paid according to collective agreements and arrangements applied to the majority of Company employees. The salary is updated according to collective agreements entered for all other employees. The amount presented in the "Salary" column includes an annual salary of NIS 384,140, expenses refund in the amount of NIS 85,010 and Charges to tax of NIS 140,324. Employment termination by the employee is subject to the law and Company procedures, or upon reaching retirement age. Employment termination by the Company is subject to the collective agreements and arrangements of the Company.

(4) Adrian Bianu - started work on August 8, 1978. The salary is paid according to collective agreements and arrangements applied to the majority of Company employees. The salary is updated according to collective agreements entered for all other employees. The amount presented in the "Salary" column includes an annual salary of NIS 394,873, expenses refund in the amount of NIS 66,213 and Charges to tax of NIS 138,151. Employment termination by the employee is subject to the law and Company procedures, or upon reaching retirement age. Employment termination by the Company is subject to the collective agreements and arrangements of the Company.

(5) Yaakov Hain - started work on August 6, 1980. The salary is paid according to collective agreements and arrangements applied to the majority of Company employees. The salary is updated according to collective agreements entered for all other employees. The amount presented in the "Salary" column includes an annual salary of NIS 354,304, expenses refund in the amount of NIS 89,547 and Charges to tax of NIS 134,327. Employment termination by the employee is subject to the law and Company procedures, or upon reaching retirement age. Employment termination by the Company is subject to the collective agreements and arrangements of the Company.

See section 14 in the Description of the Business of the Corporation report for details on the collective agreements and arrangements applied to Company employees.

Regulation 21a2: Compensation paid by the Company and the commitments to pay that it assumed (including employers' costs) for each of the three senior officeholders who received the highest compensation from the corporation, paid in relation to their service in the Company itself with respect to 2011, if not included in Regulation 21 a1.

There are no three senior office holders in the Company itself who receive the highest compensation that are not included in the list under Regulation 21a1.

Regulation 21a3: Compensation paid by the Company to all stakeholders in the reported years who were not listed in regulation 21a1 with respect to 2011 (in current prices, excluding VAT).

There are no stakeholders in the Company who receive rewards that are not directors and are not the CEO (as detailed below) and are not included in the list of regulation 21a1, who receive a reward in connection with services they provided as office holders in the Company or a company it controls.

2011														
Details of the Rewards Recipient				**Rewards* for Services**							**Other Rewards**			
Name	**Role**	**Position scope**	**Holding rate in company's equity**	**Salary**	**Bonus**	**Shares based payment**	**Management fees**	**Consulting fees**	**Commission**	**Other**	**Interest**	**Rent**	**Other**	**Total**
Eliyahu Glickman	CEO	100%	-	623,972	-	-	-	-	-	-	-	-	-	623,972
Yifah Ron-Tal	Chairman of the Board of Directors	100%	-	862,171	-	-	-	-	-	-	-	-	-	862,171

* 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, 2011 (adjusted to the CPI of December 2011).

** The amount includes expenses refund and charges to tax.

(1) Eliyahu Glickman – Acts as a CEO from April 14, 2011. The salary is paid according to an agreement from April 2011 for an undefined period. The employment agreement of the CEO is a personal employment agreement, in a uniform version, dictated and required by the Companies Authority, in accordance with Government Companies Authority's circular No. 2001/1, of November 7, 2001 (The Authority's Circular on the Subject of Senior Employees"). The Salary of the CEO is determined according to the classification of the Company, as determined in the Government Companies Classification Committee, established by force of a Government decision (The Committee for Classifying Government Companies") and updated once a year, according to the increase of the CPI and subject to the approval of the Company's Board of Directors. In addition, up to the end of December 2011, the employment terms of the CEO included a personal reward mechanism. The personal reward is limited according to the guidelines of the Companies Authority to an amount that shall not exceed 10% of the annual pension salary, subject to the decision of the Board of Directors. Following the aforementioned change in the classification of the company and the subsequent increase in the salary, the personal reward mechanism was canceled, from December 27, 2011, effective as of that date. The reward with respect to 2011 was not determined as yet and was not approved as yet by the Company's Board of Directors. According to the circular of the Companies Authority on the subject of 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 amount presented in the "Salary" column includes an annual salary of NIS 396,739, expenses refund in the amount of NIS 30,598 and Charges to tax of NIS 35,103. As required by his position and according to his employment agreement, approval of the Company's Board of Directors and the Companies Authority, the CEO is entitled to a vehicle for performing his duties and the Company incurs the usage cost thereof. The CEO is also entitled to line and cellular telephone expenses, subsistence expenses, a cloths allowance, advanced studies fund, annual leave and convalescence fees. The agreement includes commitment to non-competition and refraining from a conflict of interests for one year from the end of the employment by the Company date, except in the case where the Company granted its consent. Mr. Glickman also undertook to maintain confidentiality.

(2) Yiftah Ron-Tal - Acts as the Chairman of the Board of Directors from October 7, 2010. The salary is paid according to an agreement from October 2010 for an undefined period. The employment agreement of the Chairmen is a personal employment agreement, in a uniform version, dictated and required by the Companies Authority, in accordance with the Authority's circular on the subject of senior employees. The Salary of the CEO is determined according to the classification of the Company, as determined in the Government Companies Classification Committee and updated once a year, according to the increase of the CPI and subject to the approval of the

Company's Board of Directors. In addition, up to the end of December 2011, the employment terms of the CEO included a personal reward mechanism. The personal reward is limited according to the guidelines of the Companies Authority to an amount that shall not exceed 10% of the annual pension salary, subject to the decision of the Board of Directors. Following the aforementioned change in the classification of the company and the subsequent increase in the salary, the personal reward mechanism was canceled, from December 27, 2011, effective as of that date. The reward with respect to 2011 was not determined as yet and was not approved as yet by the Company's Board of Directors. The period of acting as the Chairman expires according to the Law. The amount presented in the "Salary" column includes an annual salary of NIS 574,272, expenses refund in the amount of NIS 27,836 and Charges to tax of NIS 132,523. As required by his position and according to his employment agreement, approval of the Company's Board of Directors and the Companies Authority, the CEO is entitled to a vehicle for performing his duties and the Company incurs the usage cost thereof. The CEO is also entitled to line and cellular telephone expenses, subsistence expenses, a cloths allowance, advanced studies fund, annual leave and convalescence fees. The agreement includes commitment to non-competition and refraining from a conflict of interests for one year from the end of the employment by the Company date, except in the case where the Company granted its consent. Mr. Ron-Tal also undertook to maintain confidentiality. .

(3) Compensation to directors, that does not exceed the accepted norm (namely, does not exceed the maximum amount in accordance with regulations 4 and 5 of the Companies Regulations (Rules for Compensation and Expenses to an External Director) – 2000, and does not exceed the amount stated according to regulation 7 of those regulations) paid to directors in 2011 (except the Chairman of the Board of Directors as aforesaid) amounted to NIS 1,091,156.75 (the amount does not include VAT). The salary 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). The salaries 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.

Regulation 21 b: Compensation paid to the five recipients of the highest compensation out of the senior office holders who served in the Company itself or in a corporation it holds, with respect to 2011, after the end of the reported year and before the report publication date, related to their position or employment during the reported year, which were not recognized in the Financial Statements for the reported year.

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.

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 99.846% of the shares of the Company and it the stakeholder in it. Therefore, other corporations and parties controlled by and/or related to the State of Israel, including but not limited to other Government Companies, authorities, Government Ministries and corporations fully or partially controlled by the Government of Israel may be included in the definition of "stakeholders" in the Company.

Since the Company generates almost all the electricity consumed in Israel and since it is the only corporation that deals in the generation, transmission and distribution of electricity, and since it is on the large corporations in the State of Israel, the Company enters during its normal course of business transactions with different stakeholders, which are mostly minor transactions related to sale of electricity, electrical connections and works according to execution contracts. Moreover, in its normal course of business the Company purchases from time to time, from the State of Israel and from related parties, different types of goods and services, e.g., delivery of natural gas and water and leasing properties for the operation of the Company. Payments to the State and its authorities as a sovereign, namely payments according to the law, such as taxes and fees, are not defined, in the Company's opinion as transactions with stakeholders.

For more details about the said transactions see the Description of the Business of the Corporation.

In addition, Regulation 2 of the Companies Regulations (relief in transactions with stakeholders) – 2000 ("Relief Regulations"), under the title "Irregular Transaction of a Public Company Controlled by the Government", states that the instructions of section 275 to the Companies Law, will not apply to entering an irregular transaction between the Company and the State, or a corporation incorporated according to the law, if the Ministers Committee (as defined in the Government Companies Law) determined that for the purpose of preparing the Company for privatization or for performed a decision of the said committee, the Company is required to enter a transaction, or if the Government decided that entering the transaction is required by the Government to protect the security of the State, its foreign relations, or another vital matter of the State. In addition, according to Regulation 2 to the Relief Regulations, the Company is not required to present to its general meeting transactions included in section 270(4) to the Companies Law between the Company and another company that is controlled by the Government ("**The Other Company**"), provided that the Other Company does not control the Company and that no other company that controls both the Company and the Other Company.

Moreover, the first part of Sections 1 and 1(6) to the Relief Regulations determine, that an irregular transaction of a public company, as stated in section 270(4) to the Companies Law will not require the approval of the general meeting where the Audit Committee and the Board of Directors of the public company approved, that on its approval date in the Audit Committee and the Company's Board of Directors, the holding rate in the voting rights of the Company of shareholders that do not have a personal interest in approving the transaction does not exceed two (2%) percent of the total voting rights of the Company. It should also be noted, that in practice, the ability to object to the reliefs within fourteen (14) days by force of section 1c to the Relief Regulations[2], is also not applicable in the case of the Company, since the holding rate of the stakeholder in the Company exceeds ninety one (99%) percent and the holding of the public is only 0.15%.

Minor Transactions Procedure

As aforementioned, the Company and its consolidated companies enter or may enter transactions and/or commitments to enter transactions with a stakeholder or in which the stakeholder has a personal interest ("**Stakeholder Transaction**").

This related mainly to transactions that are not material for the Company or its consolidated companies from both the quantitative and the qualitative aspects and are conducted as a rule under conditions similar to conditions of transactions entered with third parties. Moreover, from the Company's point of view, these transactions are mostly integral to its current activity, since on the one hand, the Company is a Government Company, controlled by the State and on the other hand, a supplier of a vital and central service in the Israeli economy.

On March 29, 2012, the Company's Board of Directors adopted guidelines and rules for classifying a Stakeholder transaction as a minor transaction, as specified in Regulation 41(a)(6) to the Securities Regulations (Annual Financial Statements) – 2010. These guidelines and rules will also be used to examine the scope of the required disclosure in the periodic and quarterly reports in connection with a stakeholder transaction, as specified in Regulation 22 to the Securities Regulations (Periodic and Immediate Reports) – 1970 ("**Reports Regulations**") and in Regulation 54 to the Securities Regulations (Details and Draft of the Prospectus – Structure and Shape) – 1969, respectively and also to examine the need to file an immediate report with respect to such a transaction, as specified in Regulation 37(a)(6) to the Reports Regulations.

These guidelines and rules were determined, inter alia, after weighing the types and characteristics of the transactions entered with a stakeholder in the Company, with due consideration of the volume of the Company's activity, as one of the largest companies in the economy, the volume of

[2] Section 1 c to the Relief Regulations states as follows: "The relief according to regulations 1a to 1b will not apply to a public company, when one or more shareholders, holding one percent at least of the issued equity, or the voting rights in the company, announced its objection to grant the said relief, Provided that the objection was submitted to the company in writing, no later than fourteen days from the day on which the public company filed a report according to the Securities Law, on the decision made, or from the day on which it filed an amended report to the said report; in the matter of a company that is not a reporting corporation as defined in the Securities Law, from the day on which the company reported to its shareholders on the decision related to the transaction, as detailed in regulations 1 to 1b.

the Company's assets, its liabilities and income. 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 stakeholder transaction will be regarded as a minor transaction if it will meet the following two-stage test:

(1) Qualitative Test:

The transaction is part of the normal course of the Company's business and is inherent to its routine activity. It is entered under market conditions and from its character, materiality and impact on the Company it is not material to the Company and there are no special considerations arising from all the circumstances that indicate the materiality of the transaction.

(2) Quantitative Test:

The transaction fulfills one of the following criteria, according to the type of the transaction:

(a) In a transaction for buying/ leasing/ renting a fixed asset, if the ratio between the volume of the transaction and the total assets of the Company (according to the last consolidated financial Statement of the Company) is less than 0.1%.

(b) In a transaction for purchasing/ selling services or products, if the ratio between the volume of the transaction and the total income of the Company (according to the last consolidated financial Statement of the Company) is less than 0.35%.

(c) In another transaction, if the ratio between the volume of the transaction and the income of the Company from regular activities (according to the last consolidated financial Statement of the Company) is less than 0.5%.

In cases where according to the discretion of the Company, all the aforementioned quantitative criteria are irrelevant to examine whether the stakeholder transaction is minor, the transaction will be regards as minor according to another relevant criteria, to be determined by the Company, provided that the relevant criteria calculated for the transaction will be at the rate of less than 0.25%.

In multi-annual transactions (e.g., an agreement for a period of several years), the transaction will be examined on an annual bases (namely, does the annual financial amount deriving from the agreement exceeds the amounts determined in the aforementioned rules.

Each transaction will be examined separately, however, combined or conditional transactions (which are actually part of the same agreement) will be examined in a cumulative manner. Following are details of any transaction entered by the Company, to the best of its knowledge, with a stakeholder, or in the approval of which a stakeholder has a personal interest in the two years before the publication date of the report or that is still effective at the date of the report, in a transaction in which the Company or its subsidiary or its related company is a party, except transactions conducted in the normal business of the said corporations and/or transactions which are not defined in the opinion of the Company as transactions with stakeholders:

1. **Transaction Specified in Section 270(4) of the Companies Law**

Following are details to the best knowledge of the Company, of irregular transactions with a stakeholder or in which the stakeholder has a personal interest according to section 270(4) to the Companies Law, which the Company entered in the two years before the publication date of the report and also transactions with a stakeholder or in which the stakeholder has a personal interest according to section 270(4) to the Companies Law, effective on the date of the report.

1.1 **Agreements regarding Supply/ Delivery of Natural Gas**

The Company entered several agreements with the State and with other Government Companies on the supply of natural gas:

a. Agreement for Building a Natural Gas Delivery System – The Company was charged by the Israeli Government with funding, ordering and managing the work to set up part of

the natural gas transportation system in Israel. For this purpose, an agreement signed in November 10, 2004 between the Israel National Gas Lines Company Ltd. (a company fully owned by the State) (hereinafter "INGL"), the Government of Israel and the Company. Four annexes constituting an integral part of this agreement were prepared ("The Tripartite Agreement"). See section 7.10.9.2 (e) in the Description of the Business of the Corporation for details on the tripartite agreement.

b. Agreement to transport Natural Gas – a renewed agreement was entered between the Company and INGL in January 2009, replacing the previous agreement of June 2006. It should be noted that the agreement was approved according to the Relief Regulations. See section 7.10.9.2 (f) in the Description of the Business of the Corporation for details of the agreement.

c. Indemnification Letters to the State of Israel - The Company furnished a letter of indemnification to the State of Israel (the Ministry of Defense), in July 2003, the end of 2004 and March 2007, in connection with the damages likely to be caused to the State due to passage of the gas transmission line (see sub-section (a) above) through security areas that belong to the State, and the Company's liability for indemnification to the Ministry of Defense for any damage, expense, payment or loss that will be borne by the Ministry as a result of the positioning of a gas pipe that is not in accordance with the provisions of the coordination agreement that was signed with the Ministry of Defense in this matter. See details of the letters of indemnification in section 7.14.1 (b) in the Description of the Business of the Corporation.

1.2 **An Agreement with EMG on the Supply of Natural Gas** - in July 2005, the Company entered an agreement with E.M.G. for the supply of natural gas. For details on the agreement and the amendment to the agreement, entered in 2009, see section 7.10.9.2 (b) in the Description of the Business of the Corporation.

1.3 **Construction of a Desalination Facility at "Orot Rabin" Site**

On September 7, 2004, an agreement was signed between the State and the Company, pursuant to which the Company will grant the State, or a developer on its behalf, the right to use land with an area of about 71 thousand sq. m. in the proximity of the Hadera power station, for the purpose of constructing a sea water desalination facility. The right of use of the land will commence on the date determined by the Government ("the record date") and will extend for 24 years and 11 months. On December 2007, the State announced that this date is the "Record Date" and will therefore end in November 2032. The Desalination facility will be built in the B.O.T. method (Build, Operate, Transfer the facility to the Government). The facility is intended to supply about 127 million cubic meters of desalinated water a year.

The agreements involved in the construction of the desalination facility are bound by three (3) agreements: (a) an agreement between the State of Israel and the Company on the conditions for using the land (entered in September 2004); (b) an agreement between the Company and the chosen operator, in which the Company undertakes to grant services to the operator to remove concentration water and envelope services and which regulates the reciprocity relations between the Company and the operator during the construction and operation period of the facility; and (c) a BOT between the Government of Israel and the operator. The Company is not a party to the contractual arrangements between the Government and the chosen operator.

In May 2004 and September 2009, the Company and the state entered two accompanying agreements to the project: one agreement on planning the fencing and clearing the area of the site and the second agreement on conducting an environmental land survey on behalf of the State.

In consideration for granting the aforesaid use of the land, the Company was paid in April 2008, a non-recurring sum of NIS 6 million for covering the costs of evacuating the buildings on the designated plot designated to be assigned to the concessionaire and relocating them to another place at the power station. The Company also received in April 2008 a non-recurring sum of NIS 0.762 million for coordination planning and supervision. Furthermore, from thirty (30) days after the record date (namely from January 9, 2008) to the end of license, the Company will be entitled to an amount of NIS million per year (linked to the CPI of July 2004). For details on the other conditions of the agreement,

including obligations of the operator to the Company, see section 23.1 in the Description of the Business of the Company. As of the date of generating desalinated water in the facility, the Company will be entitled to a payment of 0.24 cents for each one cubic meter of desalinated water that the operator will sell to the State (the facility is intended to supply about 129 million cubic meters of desalinated water a year) in respect of additional services provided to the operator. The facility commenced operations at the end of 2009. The aforementioned amount is linked to the CPI of July 2004.

1.4 **Private Placement of Non-Negotiable Debentures in Israel in the Amount of up to NIS 1.5 Billion, Secured by a Guarantee of the State of Israel; Assumption of a Loan in the Amount of up to NIS 1.5 Billion from Banks in Israel and/or Abroad, to be Secured by a Guaranty of the State of Israel – Together in a Cumulative Amount of up to NIS 1.5 Billion**

On March 29, 2012, the Company's Audit Committee and Board of Directors approved, in accordance with the directives of section 275 of the Companies Law and regulation 1(6) of the Companies Regulations (Relief in Transactions with Stakeholders) – 2000, the entering of an agreement by the Company for the provision of a guarantee by the State. According to this agreement, the State of Israel undertook to provide a guarantee letter to the Company, for repayment of the obligation of the Company to pay the unpaid balance of the principal and interest of the debentures, including interest for delay, if applied, up to the actual repayment date of debentures to be offered by the Company by way of a private placement, according to their conditions and trustee expenses, in an amount that will be determined in the approval of the Finance Committee of the Knesset.

In addition, n March 29, 2012, the Company's Audit Committee and Board of Directors approved, in accordance with the directives of section 275 of the Companies Law and regulation 1(6) of the Relief Regulations, the assumption of a loan in the amount of up to NIS 1.5 billion from banks in Israel and/or aboard, to be secured by a State Guaranty ("**The Loan**").

The total debt to be secured by a State guarantee, raised either through the private placement or through a loan, will not exceed the cumulative amount of NIS 1.5 billion.

As on the date of the report, the Company did not issue the private placement or assumed the loan. The performance of this actions is subject to the approval of regulators, which were not received up to the date of this report (including the approval of the Finance Committee of the Knesset to provide a guarantee by the State of Israel). As on the date of this report, the performance, timing, final conditions and volume of the private placement and/or the loan are uncertain.

See more details in the immediate report published by the Company on March 29, 2012, according to the Relief Regulations, Ref. No. 2012-01-087174, presented by way of a reference.

2. **Transactions that are not Included in Section 270(4) to the Companies Law**

2.1 **Loans and Guarantees**

The Company received several loans directly from the State of Israel. In addition, the Company has received the State of Israel's guarantee for certain of its borrowings:

a. **Loans Guaranteed by the State of Israel**

The State has provided guarantees to the benefit of third parties for the obligations of the Company. The total balance of these obligations as on December 31, 2011, amounted to approximately NIS 1,141.6 million, as detailed below:

(1) A State guarantee to the benefit of Discount Bank Ltd., in June 1996 with respect to an amount of up to NIS 500 million, according to the loan agreement entered in May 1996 between the Company and Israel Discount Bank Ltd., the Company received a credit line in five payments, of NIS 100 million each, in July and August

1996. The balance of the loan as on December 31, 2011, is approximately NIS 121.8 million.

(2) A State guarantee to the benefit of Bank Hapoalim Ltd., in September 1996 with respect to an amount of up to NIS 600 million, according to the loan agreement entered in September 1996 between the Company and Bank Hapoalim Ltd., the Company received a credit line in six payments, during September through November 1996. The balance of the loan as on December 31, 2011, is approximately NIS 231.3 million.

(3) A State guarantee to the benefit of Export Development Corporation (The export financing institute of the Canadian Government) with respect to an amount of up to U.S. Dollar 37 million, according to the loan agreement entered in December 1996 between the Company and the Export Development Corporation for financing equipment purchased in Canada for the facility of the Company. The Company utilized approximately U.S. Dollar 35 million out of this amount during 1997 through 2002. The balance of the loan as on December 31, 2011, is approximately NIS 22.3 million.

(4) A State guarantee to the benefit of CITIBANK in December 2005 with respect to an amount of U.S. Dollar 250 million, according to the loan 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 U.S. Dollar 250 million. The Company utilized approximately U.S. Dollar 222.8 million out of this amount during 2006 through 2007. The balance of the loan as on December 31, 2011, is approximately NIS 766.2 million

The aforementioned loans guaranteed by State guaranty are presented in the following list:

Serial No.	**Guarantee provided to**	**Guarantee issue date**	**Guarantee amount on issue date**	**Guarantee terms**	**Guarantee outstanding balance on December 31, 2011**
(1)	Israel Discount bank Ltd.	June 1996	NIS 500,000,000	The guarantee is with respect to the outstanding balance. The Company pays a commission of a 0.2% annual rate, paid according to a amortization schedule	NIS 121,852,170.46
(2)	Bank Hapoalim Ltd.	September 1996	NIS 600,000,000	The guarantee is with respect to the outstanding balance. The Company pays a commission of a 0.2% annual rate, paid according to a amortization schedule	NIS 231,296,176.74
(3)	Export Development Corporation	December 1996	$37,000,000	The guarantee is with respect to the outstanding balance. The Company pays a commission of a 0.2% annual rate, paid according to a amortization schedule	U.S. Dollar 5,841,563
(4)	IEC Gas Pipeline Financing Trust	December 2005	$250,000,000	The guarantee is with respect to the outstanding balance. The Company paid a guarantee commission in advance of approximately U.S. Dollar 4.5 million	U.S. Dollar 200,516,400.01

For more details, see section 19 [financing] in the Description of the Business of the Corporation

Bank	Loan	Loan Currency	Repayment Period		Outstanding Balance as of December 31, 2011	
			First repayment	Last repayment	$	NIS
Export Development Canada	$ 37 mil.	USD	01/10/2002	07/10/2013	$ 5,841,563.95	22,320,612.03
Citibank NY	$ 250 mil.	USD	12/21/2010	06/21/2025	$ 200,516,400.01	766.173,164.44
Israel Discount Bank Ltd.	NIS 500 mil.	NIS	10/25/1998	04/25/2014		NIS 121,852,170.46
Bank Hapoalim	NIS 600 mil.	NIS	01/25/1997	07/25/2016		231,296,176.74
Total						**1,141,642,123.6 NIS 7**

b. Loans borrowed directly from the State of Israel

Bank	Loan	Loan Currency	Repayment Period		Outstanding Balance as of December 31, 2011	
			First repayment	Last repayment	U.S. Dollars	ILS
State of Israel[3]	$800 mil.	USD	05/25/2002	05/25/2023	563,947,483.28	2,154,843,333.61
	$ 250 mil.	USD	09/10/2000	09/10/2020	152,779,883.18	583,771,933.63
	$ 180 mil.	USD	09/10/2003	09/10/2024	137,975,391.90	527,203,972.45
	$ 270 mil.	USD	08/10/2005	08/10/2025	184,390,243.80	704,555,121.56
					1,039,093,002.16	3,970,374,361.25

The Company fulfills the payment terms of the aforementioned loans.

c. **Perpetual debentures issued to the State of Israel**

Pursuant to an arrangement with the Ministry of Finance, during the period from 1983 through 1985, the Company issued perpetual debentures to the State of Israel for an aggregate consideration of NIS 15.5 million, which as on December 31, 2011 (nominal value plus linkage to the CPI differences up to December 31, 2011), amounts to approximately NIS 2,453.3 million, as detailed in the following table ("Perpetual Debentures"). The perpetual debentures bear interest at a rate of 5% and 5.75% per annum, fully linked to the CPI. The principal amount of the perpetual debentures is not linked to the CPI. The perpetual debentures are secured by fixed charges on certain deposits of the Company, at a total nominal value of NIS 92 million, payable to the State of Israel. The perpetual debentures have priority only over non-guaranteed loans or loans guaranteed by a floating lien only in the amounts deposited in those charged deposits of the Company. As a result of their terms, the perpetual debentures were treated until December 31, 2005 as equity. On December 31, 2005, the adjusted value of the perpetual debentures amounted to approximately NIS 2.1 billion, for which interest and linkage differences on the interest were paid with respect to 2005, in the approximate amount of NIS 100 million. Following the implementation of the IAS 22, commencing January 1, 2006, the classification of the perpetual debentures was changed to extended-term liability and the interest with respect to these perpetual debentures is charged as financing expenses in the statement of operations. For details, see Note 23 in the financial statements.

[3] These loans were granted to the Company through the Israel Industrial Bank Ltd. In the 1990th the loans were endorsed to the benefit of the State through a signature on the check between the bank and the State in October 2009.

	Issued amount (in NIS)	Coupon	Outstanding Balance as of December 31, 2011
Series 1	342,940.69	5%	213,536,597.63
Series 2	2,348,640.00	5.75%	144,873,379.99
Series 3	702,538.71	5%	335,068,048.48
Series 4	558,981.66	5%	225,632,023.67
Series 5	834,185.81	5%	336,718,243.38
Series 6	710,312.09	5%	190,092,426.80
Series 7	759,335.64	5%	203,212,019.89
Series 8	1,146,203.97	5%	306,745,017.20
Series 9	8,064,000.00	5.75%	497,419,330.47
Total	15,467,138.57		2,454,297,087.47

2.2 **State of Israel - Chartering of Tugboats**

In 1997, the Company chartered two (2) tugboats that it had purchased from the Israel Shipyards Ltd., according to a contract signed in the past between it and the Ministry of Transportation, to the Hadera Port Authority for periods of twenty (20) years each, pursuant to the charter agreement entered into between the Company and the Hadera Port Authority in 1995, in return for $ 150,000 per month. The charter period will end in January 2017. No terms for renewing the agreement were determined as on the date of this report.

2.3 **The Eilat Ashkelon Pipeline Company Ltd. ("EAPC")**

Pursuant to an agreement, entered between the Company and EAPC in September 1997, EAPC allocated an area that it owns to the Company for the purpose of building a pier for the unloading of coal for the Rutenberg power plant. In the context of this agreement, the Company entered into an agreement for the building of two (2) tugboats by the Israel Shipping Ltd. In 2000, the tugboats were chartered to the Ashkelon port for periods of 240 months each, from the date of their delivery, in accordance with the charter agreement entered in September 1997 between the Company and EAPC. The balance of the amount of the charter fees as of December 31, 2011 amounts to approximately $ 12.4 million. The charter fees were calculated at the beginning of the charter period according to the LIBOR interest rate for a period of ten (10) years, effective on that date.

2.4 **Oil Infrastructures Ltd. ("Oil Infrastructures ")**

Pursuant to an agreement signed in January 1997 between the Company and Oil Infrastructures, Oil Infrastructures constructed an oil distillate line ("the oil distillate line") to the Gezer site and, through which oil distillates are pumped for fifty (50) years from the beginning of the regular supply through the oil distillate line, namely up to May 2048. In exchange for Oil Infrastructures' commitment to pump oil distillates through the line during the aforesaid period, the Company bears 64% of the value of the investment in the oil distillate line by way of the payment of 25 annual installments linked to the CPI for the month on which the payment was actually effected compared to the last CPI used to calculate the linkage. At the end of fifty (50) from the beginning of the regular through the line, Oil Infrastructures will be obliged to transfer 64% of the ownership of the line to the Company in return for NIS 1, or pay the Company 64% of the residual value of the line. Since June 2001, the Company recorded this transaction in its financial statements as a financial lease of approximately NIS 21 million as compared with NIS 23 million as of December 31, 2007. The outstanding balance of the lease as of December 31, 2011 is approximately NIS 20.9 million.

2.5 **The Israel Lands Administration**

In June 2001, the Company reached an agreement with the Ministry of Energy and Water (the Ministry of National Infrastructures at the time) and the Israel Lands Administration, pursuant to which, the Israel Lands Administration will allocate alternative land to the Company in place of the land the Company vacated at the Reading C site for the purpose

of a switching station, a substation, etc., in an identical area of land, one hectare for each hectare, at no cost, at a location required by the Company at its discretion, this without accepting the Company's claim regarding its rights to the Reading C site. (The land at the Reading C site was depreciated in full).
It was further determined that a negotiating team would be set up with the participation of representatives of the Company, the Israel Lands Administration, the Prime Minister's Office and the budget division of the Ministry of Finance in order to determine the amount of compensation for the Company with respect to structures at the site being vacated.
As of the date on which the financial statements were signed, no progress was made on this issue. For details on the proceedings regarding the land in Reading, see Note ___ to the financial statements.

The Company held and is holding discussions and clarifications with the Israel Lands Administration from time to time, as needed, with respect to the lease fees for certain real estate properties at different sites that it uses. For details on land leased from the State for its current activity. See sections 7.6, 8.5, 9.6 and 15 in the Description of the Business of the Corporation.

2.6 Commitments to Indemnify Local Municipalities

The Company undertook to indemnify the local committees in whose boundaries the zoning plans for building 400 kW lines apply, regarding compensations which will be required according to Section 197 of the Planning and Building Law. As on the date of the report, the Company issued commitments to local municipalities in whose boundaries the said zoning plans apply, regarding three zoning plans for building 400 kW lines and another commitment was included in the instructions of zoning plan TMM6/3/a. In addition, the Company issues from time to time commitments to indemnify local municipalities regarding the construction of specific projects, e.g., building sub-stations or switching stations. The commitments to indemnify are not limited by amount or time.

3. Indemnification and Insurance of Members of the Board of Directors and Officers

3.1 Insurance of Members of the Board of Directors and Officers

The (separate) decisions of the Company's Audit Committee and Board of Directors on December 29, 2011, as approved by the general meeting in January 10, 2012, approved the terms for entering a Directors and Officers Liability insurance policy between the Company and Harel Insurance Company Ltd. ("The Insurer") for a period of one year, starting on January 16, 2012 and ending on January 15 2013 inclusive. The terms of the policy are:

a. **Base**: Insurer's liability limits are up to $300,000,000 and $ 60, 000,000 for covering legal expenses.

b. **Deductible limits will be as follows**: No deductible for an officer. The deductible limit for the Company will be U.S. Dollar 50,000 per claim, a total of U.S. Dollar 350,000 for a claim with respect to offering in the U.S.A. or Canada, U.S. Dollar 250,000 for a claim with respect to offering outside the U.S.A. or Canada and U.S. Dollar 150,000 for a claim with respect to EPL[4] against the Company.

c. **Annual premium**: The annual premium for the entire insurance period will not exceed U.S. Dollar 396,000, including coverage for debentures offering in Israel or abroad, except debentures listed for trade in the U.S.A. in an amount exceeding U.S. Dollar 500,000,000. The charge for coverage of an offering of debentures in an amount exceeding U.S. Dollar 500,000,000, if listed for trade in the U.S.A., will be an additional premium at a 15% rate of the pro-rata annual premium for the actual insurance period, multiplied by the ratio between the actual offering amount and U.S. Dollar 500,000,000.

[4] EPL - Employment Practice Liability.

d. The insurance policy includes and exception against claims of the State of Israel as a shareholder.

e. **Changes required by law and Government decisions** – the insurer agrees and confirms that the Company will be entitled to implement the directives of the Electricity Sector Law and/or Government Companies Law and any amendments to these laws, if any and/or any other law and/or Government decision relating to chances required by these laws, without being required or requesting an advance approval of the insurer, while maintaining the insurance coverage framework according to the policy. The company will send a written advance notification to the insurer on any such action.

f. **New subsidiaries** – the insurance coverage will be in force regarding new subsidiaries in the event of a structural change, regardless of the volume of their assets.

See details of the policy terms in the immediate report of the Company on January 11, 2012 (Ref. No. 2012-01-012864).

The Company also insures the members of the Board of Directors in the following insurance plans:

Personal Accident Insurance: Insurer's liability limit is up to NIS 400,000 without a deductible. The Company pays an annual premium of NIS 250 for each director.

Third party liability insurance: Insurer's liability limit is up to $ 100 million, the deductible is $ 500,000. Annual premium $ 715,000 (after deducting a discount in the amount of $ 45,000 if the Company will purchase insurance from the insurer for the next year as well) and also a premium in the amount of $160,000 to cover professional liability insurance for projects outside the Company, which will be adjusted at the end of the insurance period according to the actual commission received from these projects, at the rate of 1.59%.

3.2 **Indemnification of Members of the Board of Directors and Officers**

For details on issuing indemnification letters to officers who served in the Company on the publication date of the financial statements as on June 30, 2009, regarding a liability or expense related to the restatement of these financial statements, see Note 13 n to the financial statements. As on the date of the report, and except the indemnification provided, as aforementioned for the restatement, the State did not grant approval to the Company for providing an obligation to indemnify directors and officers in the Company.

Regulation 24: Convertible shares and securities held by parties at interest in the corporation, in a subsidiary, and a related company, as close as possible to the date of the report

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		40,053,252	100.00	100.00	100.00
	Adv. David Yahav	Ordinary		1	0	0	0
		Ordinary		1	0	0	0
	Yiftah Ron-Tal	Ordinary		1	0	0	0
National Coal Supply Company Ltd.	Israel Electric Corporation	Ordinary A		909,999	100	100	100

The Company has several other subsidiaries and second-tier subsidiaries in which office holders in the Company hold shares, 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

	Registered Share Capital	Issued Share Capital
Conferring voting rights	80,167,387 ordinary shares	80,164,986 ordinary shares
	40,053,252 ordinary shares B	40,053,252 ordinary shares B
Not conferring voting rights	39,531 special shares	

The company has no convertible securities

Regulation 24B: Register of Shareholders of the Company

The list of share holders of the Company, updated to the date of the report is presented below:

Shareholders - Israel

Name of Shareholder	I.D. #	Address	Ordinary Shares of NIS 0.10 each
Barlev Yehuda	64837123	3a Tolkovski St., Tel Aviv 69358	95
Barats Ze'ev	294605	5 Dov Hoz St., Rishon Le'zion, 75208	95
Birkenheim Alwxander		Unknown address	8
Braker Yair	226583	14 Rachel St., Haifa 34401	8
Goldstein Ben-Zion	713800	39 Krinizi St., Ramat Gan 52100	112
Goldstein Zvi Ran		5 Shderot Ben Gurion , # 3, Tel Aviv	1
Gorodish Baruch		P.O.B 29, Sha'arei Tikva, Efraim 44810	1
Munny Eliyahu		3 Ha'Rimon St., Tel Aviv	95
DR. Yakov Razon	8201873	34 Shneor Zalman St., Herzliya 46364	1
Dr. Sharam Menachem		6 Freud St., Haifa 34753 (outdated address, deceased per returned post date)	116
Dvir Yosef		8 Giborei Gehtto Varsha St., Haifa	1
David Rutenberg	24328510	P.O.B 922 Ashdod 77109	4,768
Davidzon - Gotter Sarah		Ahuzat Poleg, Building 621, Kibbutz Tel Itzhak 45805.	1
Giorah Dekel		63 Ha'Botnim St., Pardes Hanah - Karkur, 37013	15
Hershter Yakov Itzhak	57743759	57 Jabotinski St., #4 Tel Aviv 62748	572
Zelinger Dov	2180719	2 Ori St., Tel Aviv	95
Bank Leumi Listing Company Ltd.	Company No. 51-009806-4	2-4 Lilinblum St., Tel Aviv	68,569
Hazan Dov		4a Narkis St., Kiryat Yam A, 29500	95
Shapirah Hanah		16 Bat Yiftah, Zahalah, Tel Aviv 69932 (outdated address)	4
Adv. David Yahav	50258946	19 Kinarot St., Kohav Yair,	1
Yifrah Ziporah		Moshav Eitan 79580	954
Cohen Elza		5 Gotlib St., Tel Aviv (outdated address)	79
Gideon Katz		13 Shoham St., Tel Aviv, 69359	668
Leon Lahav	6576474	1 hahsharat ha'yishuv St., Haifa 34985	8
Eli Landau		63 Wingate St., Hezliyah Pituah 46752	1
Lazovski Gila (senior) Horev Ziporah	Gila 346455 Zipora 346456	Gila - Palmah Zova, Yehuda Mountains 90870 Ziporah - 6 Golomb St., Hod Ha'Sharon 45303	31
Meir David		Lonz St., Jerusalem (outdated address)	40
Holder of shares derived from bearer 6% preferred		Unknown address	801

stock			
Miara Pinhas		P.O.B 6967, Haifa 31068	8
Noiman David		14 David Shimoni St., Jerusalem	95
The Estate of the late Avraham Rutenberg		c/o Alexander Rutenberg, 13 Yeffe Nof St., Haifa, 34372	801
The Estate of the late Yakov Hushi		c/o Ruth Lynn, 1 Keller St., Haifa	8
The Estate of the late Yakov Spivakovski		c/o Tali Sharon, 2 Andersen St., Tel Aviv, 69107	477
The Estate of the late Yakov Peled		4 Maabarot St., Haifa 34461	8
The Estate of the late Lipshits Shmuel		c/o Marit Taub, 7 Neve Sh'anan St., Jerusalem (outdated address)	8
The Estate of the late Narkis Zuckerman		c/o Niza Shelef, 5 Rachel St., Haifa 34401	4
The Estate of the late Adv. Moritz Yithak		c/o Yael Moritz, 10 Berkovich St., Tel Aviv	887
The Estate of the late Rogover Arie		c/o Naomi Hernik, 69 Shderot Ben Gurion, Tel Aviv	8
The Estate of the late Figenbaum Rivka		18 Pevzner St., Haifa (outdated address)	601
Pnini Israel		53 Eshel St., Herzliyah	3,810
Panzer Natan		P.O.B 4241, Haifa 31042	92
Aminoff Perjulah and Latfula, by Ajajan Palti		4 Havazelet street, Jerusalem 94224 (outdated address)	1,650
Friedman Mordechai		26 Oscar Schiendler St, Tel Aviv	1
Rozenbaum M.		P.O.B 51 Rehovot (outdated address)	8
Shasha Avraham	70319934	8/7 Ha'tishim Veshalosh St., Petah Tikva	11,132
Shasha Amnon		32 Yahalom St., Neve Savion, Or Yehuda, 60405	4,768
Shasha Efraim Shai	34181511	8/7 Ha'tishim Veshalosh street, Petah Tikva	4,007
Shor Natan		1 Barak, Zahalah, Tel Aviv, 69933	64
Shamai Haim		11 Borochov St., Givataim	1
Zarfati Shlomi		9 Ha'oren St., Moshav Magshimin	1
Goldstein Nir		8 Peretz St., Givat Shmuel	1
Zarfati David		7a Nurit St., Nes Ziona	1
Lasker Amos		13 Shechterman St., Ramat Efal	1
Ron-Tal Yifta		22/3 Asher St., Modein, 71724	1
Shasha Elad		8/7 Ha'tishim Veshalosh street, Petah Tikva	4,005
Zeibert Efrat		11 Borochov St., Givataim	4,006
Total ordinary shares in Israel (private shareholders)			113,689
The State of Israel		Ministry of Finance, Jerusalem 91000	79,980,010
Total ordinary shares in Israel			80,093,699
The State of Israel Ordinary shares B			40,053,252
Total shares in Israel			120,146,951

Shareholders – Abroad (excluding GB)

Name of Shareholder	I.D. #	Address	Ordinary Shares of NIS 0.10 each
Estate of Simon and Matilda Budenstein		c/o Mr. Richard Budenstein, 1925 Welsh Road Box 3, Philadelphia, Pennsylvania 19115, U.S.A.	200
C&R Fund Inc.		45 East End Ave, N.Y., N.Y 10028 Apt 14G (Invalid address)	5340
Estate of Samuel Fireman dec'd		c/o Mrs. Ruth Fireman, 59 Kittredge Terrace, San Francisco, California 94118, U.S.A.	801
Mrs. Shari Friedman		c/o Stanley J. Friedman of Shereff Friedman, Hoffman & Goodman, 919 Third Avenue, New York 10022, U.S.A. (Invalid address)	384
Mr. Harry and Mrs. Fajga Gejerman		16461 40th St. Flushing, Long Island, New York 11365, U.S.A.	3204
Mrs. Morris and Mrs. Jenny Gejerman		16461 40th St. Flushing, Long Island, New York 11365, U.S.A.	1602
Mr. Harvey Goldberg		1041 Chestnut St. Valley Stream, N.Y., U.S.A (Invalid address)	801
Jacob Nachum Gutwirth		580 Fifth Avenue New York, N.Y., U.S.A. (Invalid address)	921
Mr. Martin and Mrs. Kay Harrison		2725 Malcolm Ave., Los Angeles, CA. 90064, U.S.A. (Invalid address)	1907
Mrs. Kay Harrison		2725 Malcolm Ave., Los Angeles, CA. 90064, U.S.A.	1907
Mr. Jeffrey K., Israel		3357 NW 101 Ave. Sunrise, Florida 33351, U.S.A.	858
Mr. Fred and Mrs. Sara Levi		639 East Moore Blvd. Columbos 9, Ohio, U.S.A.	401
Mr. Elliot H. Lipschults		816 Cedar Lane, Northbrook, Illinois 60062, U.S.A.	601
Mr. Benjamin Feld		P.O. Box 272124, Houston, Texas, TX 77277-2124, U.S.A. (Invalid address)	801
Mr. I. Meltzer		4682 408th Street, W. Quartz, Hill Calif. 93536-2120, U.S.A.	954
Namen Namenson		1674 Mac Combs Road, Bronx N.Y.C., U.S.A. (Invalid address)	801
Mrs. Anne Oksenberg Fridman		993 Park Ave., Apt. 10S, New York, NY 10028, U.S.A.	921
Shimon Piaskowsky and Ruth Piaskowsky		42 Verde Vistra Drive, Thousand Oaks, Calif. 91360, U.S.A.	401
Prudential – Bache Securities Inc.		c/o Prudential Securities Inc - One New York Plaza, 9th Floor, New York, N.Y. 10292, U.S.A., Attn: Dan Monaco FVP	5722
Chaim Schitlowsky		c/o Amalgamated Bank of New York, 11-15 Union Square, N.Y., U.S.A.	8
Miss Liza Tausig		46 Arleigh Road, Great Neck, N.Y. 11021, U.S.A. (Invalid address)	401
Mr. Nochim Torczyner		c/o Harry Torczyner, 146 W 57, St. New York, N.Y. 10019-3301, U.S.A.	1065

Edward Weinstein		Kefar Adumim, D.N. Mizrach Binyamin 90618, Israel	8869
Jacques Buchenhultz		634 Esmeralda, Buenos Aires, ARGENTINE	88
Simon Dattner		60 Vestingstraat, Antwerp, BELGIUM (Invalid address)	344
Gregoire Karlin		86 Rue Due Pelican, Antwerp, BELGIUM (Invalid address)	512
Michel Karlin		86 Rue Due Pelican, Antwerp, BELGIUM (Invalid address)	512
Stanislas Van Mierlo		44 Stefanie St. Antwerp, BELGIUM (Invalid address)	144
Max Rosshandler		20 Rue Van Lerious, Antwerp, BELGIUM	88
Miss Judith Stern		22 Avenue Helene, Antwerp, BELGIUM	88
Mrs. Maryze Juster		72 Blvd. Exelmans, Paris 75016, FRANCE	115
Isaac Naiditch		30 Avenue Marceau, Paris, FRANCE	432
Total abroad (Excluding GB)			41,193

Shareholders – Abroad (GB)

Name of Shareholder	I.D. #	Address	Ordinary Shares of NIS 0.10 each
Ohad Egoz, Adv.		1a Pinhas Rosen St., Tel Aviv 69512 (Amnon Egoz) For dividends: Flat 82, Maida Vale 33, London W9 1AJ, UK	15,807
Barclays Nominees (Branches) Ltd.		1 Churchill palace, London E14 5HP	1162
John William Watkinson Buckley, Esq.		4A Upper Park Road, Hampstead, London NW3 2UD	402
Arturo Dolcetta		c/o National Westminster Bank Ltd., 64 Knightsbridge, London SW1	801
Carlo Dolcetta		c/o General Manager Aircosse Ltd., Park Road, Waterford, Ireland	801
Roger Goodison. Esq.		36 Deer Park place, Sheffield S6 5ND	50
Thomas Hale, Esq.		37 Thrupps Lane Hersham Walton on Thames KT12 4LX	50
Mr. Jeremy Philip Hayes, and Mr. John Allan Hayes		19 Goodwyn Avenue, London NW7 3RJ	95
Robert Lebozer, Esq.		23 Park View, Winchmore Hill, London N.21.1QS, England	296
Dr. Israel Lifshitz		Barclays Bank International Ltd., P.O.ox 115, 168 Fenchurch Street, London EC3P 3HP	256
Rev. R. Nevin Lyons and William G. Wilson. Esq.		1. 813 Lisburn Road, Balmoral, Belfast. 2. 29 Wellkington Place, Belfast	1,049
Midland Bank (Ooverseas) Nominees Limited		60 Gracechurch Street, London E.C.3	2,099
Vera Elizbeth Mire		116 Walm Lane, London NW2 4RT	344
Namen Namenson, Esq.		c/o White Weld & Co. Winchester, House, London Wall, London EC2	401
Natwest Nominees Ltd		For Dividends – C/o National Westminster Bank Crawley The Boulevard, 16 The Boulevard Crawley, West Sussex RH10. For letters – National Westminster Bank PLC, 41 Lothbury, London EC2P 2BP	128
Kenneth Martin Nicol, Esq.		1 Shepparn Way, Minchinhampton, , Stroud, Glouchestershire	801
Mr. Shirleyh Horacio Phillips		1 Fayland Avenue Streatham Park, London SW16 1TB	128
Rensburg Client Nominees Ltd.		100 Old Hall St., Liverpool L3 9AB	250
Antea Deryn Ennion		Four Walls, Dunstan Lane,Burton, South Wirral Cheshire L64 8TG	2,098
George Rex Shaw-Twilley, Esq.		4 Buckland Walk, Newport, Shropshire TF10 7NQ	50
Sale and District Hebrew Congregation		Hesketh Road, Sale, Cheshire	401
Gordon Taylor, Esq.		17 Colney Lane, Cringleford, Norwich Norfolk NR4 7RF	521

Shelagh M. Thomlinson		27 Drayson Mews, London W8 4LY, UK	144
Mrs. Sybil Treig		22 Denbigh Road, London W13	601
James Wilson, L.R.A.M.		25 Bourenmouth Korn, Blackpool South, Lancs.	801
Estate of Miss Rosemary Patricia Wingfield dec'd		102 Tachbrook Street, London SW1V 2ND	300
Miss Susan Linda Holingsworth		142 Wilkinson Street, Whitemoor, Nottingham	10
Dr. Thomas Trefor Jones		Dolydd, Ruthin, North Wales (Invalid address)	80
Thomas Andrew Maguire		Munville House, Lisnaskea, Co., Fermanagh, North Ireland (Invalid address)	40
Mrs. M.I. Maton, Executrix for Lady M.B. Onslow, dec'd		Grovely, Northampton, Nr. Reading, Berks (Invalid address)	48
Miss Marie Diana Rogers		35 Anhalt Road, Battensea London S.W.11 (Invalid address)	80
Total GB			30,094
Total Shares			120,218,238

Regulation 25 A: Registered Address

Address:	:	1 Netiv Ha'Or Street, P.O. Box 10, Haifa 31000
Telephone	:	04-8184470
Fax	:	04-8186078
Company's website	:	www.israel-electric.co.il
e-mail	:	

Regulation 26: Board members of corporation

The following are particulars of the board members :

1. **Yiftah Ron-Tal**

Name: Yiftah Ron-Tal

Identity card no.: 054067939

Date of birth: April 15, 1956

Address: 22/3 Asher St., Modiin

Citizenship: Israel

Membership on board committees: Chairman of the Board of Directors, Chairman of the Strategy, Structural Change and Image Committee, Business Development, Marketing and Service Committee, Human Resources and Organization Committee, Budget, Financial and Risks Management Committee, Agreements and Assets Committee, Corporate Liability Committee, Regulation Committee.

External director: No. Has no accounting and financial expertise.

Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No

Date of appointment: Appointed as a director on September 15, 2010 and appointed as the Chairman of the Board of Directors on October 7, 2010.

Education: L.L.B Law from the Hebrew University, E.M.B.A. from Bar Ilan University.

Other Education and Professional Certificates: Graduate of I.D.F. Companies, Divisions, Battalions Brigades and Groups Commanders Courses; Graduate of an advances Systems Course in the National Security College.

Is he a relative of another stakeholder in the company? No

The company does not 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.

His employment over the past five (5) years: CEO and Chairman, R-Ticam Ltd - Investment and Consultancy Management, providing strategic consulting to Elbit Systems on business development abroad. From August 2007 to September 2010, Chairman of the Board of Israel Ports Development and Assets Company. Up to 2005, Commander of the IDF Ground Forces at the rank of a Major General.

List of corporations in which he serves as a director: From March 2007, member of the board of directors of Maccabi-Dent Ltd., of Maccabi Health Services, Director in Israel Ports Development and Assets Ltd., since 2007.

2. <u>Shlomit Barnea Farago</u>

Name: Shlomit Barnea Farago

Identity card no.: 055088991

Date of birth: March 23, 1958

Address: 18/39 HaCarmel St., Ganei Tikva 55900

Citizenship: Israel

Membership on board committees: Chairperson of Audit Committee[5], Chairwoman of Corporate Governance Committee; member of the Business Development, Marketing and Services Committee Organization; Human Resources Committee and Regulatory Committee.

External director: No. Has no accounting or financial expertise.

Is she an employee of the company, of a subsidiary, of an Affiliated Company, or of a stakeholder? No. Is an employee of a stakeholder in the Company by being an employee of the State of Israel, which is a stakeholder in the Company.

Date of appointment: Initially appointed in April 4, 2002 (reappointed in March 15, 2011).

Education: LLB and LLM in law from Bar Ilan University.

Other Education and Professional Certificates: Certificate of Financial Statements Analysis and Companies Valuation Course from Tel Aviv University – LAHAV; B.C. from Vancouver School Board, majoring in Business communications.

Is she a relative of another party at interest in the Company? No.

The company does not regards her 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.

Her employment over the past five (5) years: Legal counsel to the Prime Minister's Office.

List of corporations in which she serves as a director: Director and member of the general meeting of The Western Wall Heritage Foundation; member of the EMET (for science, art and culture) award Committee.

3. <u>Rochelle Don-Yechiya</u>

Name: Rochelle Don-Yechiya

Identity card no.: 12603403

Date of birth: February 4, 1952

Address: 24 Yoni Netanyahu Street, Givat Shmuel

Citizenship: Israel, U.S.A.

[5] Until an internal auditor will be appointed in the Company, then, Itzhak Lax will be appointed as the chairman of the committee.

Membership on board committees: Chairperson of Agreements and Assets, Strategy Organizational Restructuring and Image; Human Resources and Organization, Regulation.

External director: No. Has no accounting or financial expertise.

Is she an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No.

Date of appointment: January 6, 2010, (also served as a director from October 1998 to October 2001, from January 2002 to January 2005 and from January 2005 to January 2008).

Education: B.A. Linguistics, B.A. Economics, L.L.B Law, L.L.M Law, Tel Aviv University. Holds a Mediator's certificate from the National Mediation Institute of the Israel Bar Association; graduate of the Reorganization of a Failing Company Course, Bar Ilan University.

Is she a relative of another party at interest in the company? No.

The company does not regards her 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.

Her employment over the past five (5) years: Owns a law and mediation office; acted as a Director in the Company intermittently since 1998, member of sub-committees of the Israel Bar Association and member of the management team of the women's lobby in Israel.

List of corporations in which she serves as a director: Ayalon Highways Ltd., Channel 2 News Company of the Israeli Television.

4. **Yaffa Vigodsky**

Name: Yaffa Vigodsky

Identity card no.: 007428253

Year of birth: June 17, 1946

Address: 3 Sinai St., Ramat Hasharon

Citizenship: Israel

Membership on board committees: Chairperson Human Resources and Organization committee; Business Development Marketing and Services committee; Agreements and Assets committee; Regulation committee.

External director: No. Has no accounting and financial expertise.

Is she an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No.

Date of appointment: February 18, 2007, (reappointed on February 21, 2010 and on September 15, 2011).

Education: BA General and Educational Administration, MA Educational Administration, Tel Aviv University.

Is she a relative of another party at interest in the company? No.

The company does not regards her 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.

Her employment over the past five years: General Manager of Educational Television, Chairperson of the Fund for Persons with Eroding Professions and member of the National Technology Committee.

List of corporations in which she serves as a director: AMAL network.

5. Michael Lazer

Name: Michael Lazer

Identity card no.: 008709123

Date of birth: October 13, 1945

Address: 17 Itzhak Sade St., Tel Aviv

Citizenship: Israel

Membership on board committees: Human Resources and Organization; Review of the financial statements; Budget; Financial Management and Risks Management; Agreements and Assets.

External director: No. Has accounting and financial expertise.

Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No.

Date of appointment: May 3, 2011. (Served also from December 5, 2001 to December 4, 2004, from December 26, 2004 to December 25, 2007 and from December 27, 2007 to December 26, 2010.

Education: B.A. Auditing The Hebrew University – Tel Aviv Branch.

Is he a relative of another party at interest in the company? No.

The company regards 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.

His employment over the past five (5) years: Owner of Straus, Lazer & Co. Auditing firm.

List of corporations in which he serves as a director: Straus Lazer Trust Company, TAA Tax services, Elital Consulting and Investments, Ofakim Mal Ltd.

6. Raiek Abu-Rish

Name: Raiek Abu-Rish

Identity card no.: 024784225

Date of birth: February 23, 1970

Address: P.O. Box 804 Yarka

Citizenship: Israel

Membership on board committees: Strategy Organizational Restructuring and Image; Human Resources and Organization; Budget; Financial Management and Risk Management; Regulation.

External director: No. Has accounting and financial expertise.

Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No.

Date of appointment: May 3, 2010.

Education: BA in Economics and Accounting from Hebrew University, L.L.B. Law, Shaarey Mishpat College.

Is he a relative of another party at interest in the company? No.

The company regards 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.

His employment over the past five (5) years: Owns an accounting firm.

List of corporations in which he serves as a director: None.

7. Yossef Vadana

Name: Yossef Vadana

Identity card no.: 065426223

Date of birth: October 2, 1956

Address: 10 Paamonei Yosef St. Tel Aviv

Citizenship: Israel

Membership on board committees: Business Development Marketing and Service; Human Resources and Organization; Budget; Financial Management and Risk Management; Regulation; Strategy Structural Change.

External director: No. Has no accounting or financial expertise.

Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No.

Date of appointment: First appointed in September 22, 2009, also served as a director from August 9, 2006 to August 7, 2009.

Education: BA statistics and social sciences from Haifa University.

Is he a relative of another party at interest in the company? No.

The company does not 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.

His employment over the past five years: General Manager of Shvakim-Panorama Consultation and Research Company Ltd.

List of corporations in which he serves as a director: None.

8. Dvorah Chen

Name: Dvorah Chen

Identity card no.: 50704196

Date of birth: July 3, 1951

Address: 13 Imber St., Kfar Saba 44451

Citizenship: Israel

Membership on board committees: Chairperson of Regulation; Corporate Responsibility.

External director: No. Has no accounting and financial expertise.

Is she an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No.

Date of appointment: April 25, 2010.

Education: L.L.B Law from Tel Aviv University, MA in Public Administration and Policy from the Haifa University .

Is she a relative of another party at interest in the company? No.

The company does not regard her 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.

Her employment over the past five (5) years: Owns a private Law Firm, member of the plenum of the Israel Securities Authority (2007 to 2009); host of a TV program on the Knesset Channel which deals with legal issues; Research Fellow at the Institute for Counter-Terrorism (ICT) at the Interdisciplinary Center (IDC) in Herzliya (2005-2008); Member of the Prime Minister's Advisory Committee on the Protection of Public Figures.

List of corporations in which he serves as a director: Institute of Continuing Legal Studies of the Israel Bar Association.

9. Avrahan Natan

Name: Avraham Natan

Identity card no.: 04855391

Date of birth: January 6, 1948

Address: 42 Ben Gurion St., Hertzelia

Citizenship: Israel

Membership on board committees: Audit committee.

External director: No. Has accounting and financial expertise.

Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No

Date of appointment: January 14, 2010.

Education: BA Economics, MA Public Administration from Bar Ilan University, L.L.B., Kiryat Ono Academic Center.

Is he a relative of another party at interest in the company? No

The company regards 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.

His employment over the past five (5) years: Chairman of the Audit Committee of United Mizrahi Bank.

List of corporations in which he serves as a director: Central Soft Drinks Co.; Beer Breweries Ltd.; Keshet Broadcasts Ltd., Kamur Ltd. (up to September 2011), Aloni Hetz Assets and Investments Ltd. and CBC Ltd.

10. <u>Gideon Frank</u>

Name: Gideon Frank

Identity card no.: 07570237

Date of birth: November 13, 1943

Address: Beit Itzhak Sha'ar Hefer

Citizenship: Israel

Membership on board committees: Strategy Organizational Restructuring and Image; Business Development Marketing and Service; Corporate Responsibility.

External director: No. Has no accounting and financial expertise.

Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? Yes (public **officer)**

Date of appointment: January 6, 2010.

Education: B.Sc. Mechanical Engineering, M.Sc. Nuclear Sciences from The Technion, Israel Institute of Technology.

Is he a relative of another party at interest in the company? No

The company does not 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.

His employment over the past five (5) years: Deputy Chairman of the Atomic Energy Committee (from 2008 to date), Served as the General Director of the Israeli Atomic Energy Commission from 1992 up to September 2007. Chairman and the advisory committee to the prime minister in the atomic energy committee (from September 2007); Chairman of the Board of Crecor (wholly-owned by Van Leer Group Foundation) (from January 2010), Lecturer in the MBA Course of the Interdisciplinary Center Herzelia from 2011.

List of corporations in which he serves as a director: Van Leer Group Foundation, Netherlands; The Managing Committee of the Board of Directors of the Technion, since 2011; Director in the Supervisory Council of the Van-Leer group Foundation Netherlands, since 2008 Director in CRECOR (Subsidiary of Van-Leer Fund).

11. <u>Vered Itzhaki</u>

Name: Vered Itzhaki

Identity card no.: 025437542

Date of birth: June 13, 1973

Address: Neve Zoof, Mobile Post Modein Halamish 71945

Citizenship: Israel

Membership on board committees: Business Development Marketing and Service; Budget; Financial Management and Risk Management; Agreements and Assets; Corporate Responsibility.

External director: No. Has accounting or financial expertise.

Is she an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No. Consultant to a subsidiary (Coal Company).

Date of appointment: May 3, 2011.

Education: B.A. Economics and Business Management, Bar Ilan University, M.A. Business Management and Economics, Bar Ilan University.

Is he a relative of another party at interest in the company? No.

The company regards her 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.

Her employment over the past five (5) years: CEO Prico Management, specializing in financial consulting.

List of corporations in which he serves as a director: None

12. <u>Vered Vivi Ziv</u>

Name: Vered (Vivi) Ziv

Identity card no.: 069641793

Date of birth: August 25, 1962

Address: 30a Sigalit Street, Mazkeret Batia.

Citizenship: Israel and American

Membership on board committees: Business Development Marketing and Service.

External director: No. Has no accounting and financial expertise.

Is she an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No.

Date of appointment: August 15, 2011.

Education: B.Sc., Food Engineering and Biotechnology, Technion, M.Sc., Chemistry, Weitzman Institute. Ph.D, Chemistry, Weitzman Institute, MBA Business Management, Bar Ilan.

Is she a relative of another party at interest in the company? No.

The company does not regard her 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.

Her employment over the past five (5) years: Deputy CEO, Development, Regulation and Clinical Experiments, Micromedic Technologies Ltd., Deputy CEO, Radio-Pharmaceutics, Nuclear Research Center Nahal Sorek (2008-2009), CEO Intellect Neurosciences (2005-2007).

List of corporations in which she serves as a director: Mekorot Water Company.

13. <u>Mooki Ben Ami</u>

Name: Mooki Ben Ami

Identity card no.: 058832329

Date of birth: July 27, 1964

Address: 42, Gilboa Street, Nofit, P.O. Box 5100

Citizenship: Israel

Membership on board committees: none.

External director: No. Has accounting and financial expertise.

Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? Yes Leader of the inventory and fuels operation budget of the Company and leader of the work team on the subject of management of budgetary control and command in the Company.

D**ate of appointment:** February 21, 2012.

Education: B.A., Economics, majoring in Business Management, Haifa University; Knowledge Rich Plants Business Management Course, External Studies, Haifa University.

Is he a relative of another party at interest in the company? No

The company does not 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.

His employment over the past five (5) years: Leader of the Operation Budget of the Company and Leader of the work team on the subject of management of budgetary control and command in the Company, member of the Zvuloon Regional Council (Chairman of Tenders Committee and Management member for about 4 years).

List of corporations in which he serves as a director: Mahog - Pension Administration of the Israel Electric Corporation Ltd., employees.

14. Ram Erlchiman

Name: Ram Erlichman

Identity card no.: 022521553

Date of birth: July 14, 1966

Address: 24/4, Shevet Halevi Street, Ashdod

Citizenship: Israel

Membership on board committees: none.

External director: No. Has no accounting and financial expertise.

Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? Yes Manager of the Electricity sector at Rutenberg power station.

Date of appointment: February 21, 2012.

Education: B.Sc., Mechanical Engineering, Technion, M.Sc., Electricity and Electronics Engineering; Tel Aviv University; Graduate, Directors Course of the Management and Administration School of the Company; Graduate, Mediation Course of the Management and Administration School of the Company; Graduate, Emergencies Management in the Generation and Transmission School of the Company; Graduate, Projects Planning in the Operation Profession School of the Company.

Is he a relative of another party at interest in the company? No

The company does not 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.

His employment over the past five (5) years: Electricity Sector Manager at the Rutenberg power station

List of corporations in which he serves as a director: None.

15. Varda Samet

Name: Varda Samet

Identity card no.: 004317376

Date of birth: February 11, 1948

Address: 1 Hasadot Street, Neve Gan, Ramat Hasharon.

Citizenship: Israel

Membership on board committees: None.

External director: No. .

Is she an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No.

Date of appointment: March 5, 2012.

Education: B.Sc., Chemistry, Tel Aviv University; M.Sc., Biochemistry, Tel Aviv University; B.A., Law, Tel Aviv University; Mediator Certificate from Gome Institute.

Is she a relative of another party at interest in the company? No.

The company does not regard her 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.

Her employment over the past five (5) years: Judge in the Tel Aviv District Labor Court.

List of corporations in which she serves as a director: None.

16. Dr. Ziv Reich

Name: Dr. Ziv Reich

Identity card no.: 25078544

Date of birth: December 4, 1972

Address: 1 Eliyahu Berlin, Tel Aviv

Citizenship: Israel

Membership on board committees: Chairman of Reviewing Financial Statements; Audit; Budget; Financial Management and Risk Management; Agreements and Assets.

External director: Yes. Has accounting or financial expertise.

Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No

Date of appointment: December 2, 2009.

Education: B.A. in Business Management specializing in Financing from the College of Management, Tel Aviv; M.B.A in Management and Internal Auditing, Bar Ilan University; Ph.D. in Business Management, Warborough University, London.

Is he a relative of another party at interest in the corporation? No.

The company regards 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.

His employment over the past five (5) years: Dean of School of Insurance in Netanya Academic College; Academic lecturer, staff member and leader of the Auditing Program in Netanya Academic College; member of the Advisory Committee for Supervision of Financial Institutions in the Ministry of Finance; Chairman of the National Training and Advanced Studies Committee of the Institute of Internal Auditors; CEO of The Ramle Foundation for Education, Culture and Development; member of the managing committee in the enterprise promotion center; member of the advisory committee on regulation to the Securities Authority and President of the Internal Auditing Institution.

List of corporations in which he serves as a director: Chairman, Investments Committee at Tamir Fishman & Co.; Filat Technologies International Ltd.; External Director in A. B Trans Ltd;. Chairman of the Board of Directors of the Government Tourism Company; Holy Sites Development Company.

17. Itzhak Lax

Name: Itshak Lax

Identity card no.: 059757708

Date of birth: July 21, 1965

Address: 75a Maccabim, Shoham

Citizenship: Israel

Membership on board committees: Strategy Organizational Restructuring and Image; Audit[6]; Financial Statements Review; Agreements and Assets; Corporate Responsibility.

External director: Yes. Has accounting and financial expertise.

Is he an employee of the company,of a subsidiary, of an Affiliated Company, of a stakeholder? No.

Date of appointment: May 12, 2011.

Education: L.L.B Bar Ilan University; M.B.A. Business Management, Ph.D. Economics, International University of Business & Law (England).

Other Education and Public Certificates: Member of the Israeli Bar Association, Certificate of a Senior Authorized Teacher; Graduate, Mediation Course.

Is he a relative of another party at interest in the company? No.

[6] Will be appointed as the Chairman of the Audit Committee in place of Ms. Shlomit Barnea Farago, after the appointment of an internal auditor in the Company.

The company regards 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.

His employment over the past five (5) years: Joint Founder of Biomedical "Investments", Seed Fund; CEO Shalem Center (2008-2010); CEO Shaarey Hamishpat College (2005-2007); Lecturer at Bar Ilan University, Management Department, Legal Aspects in Management Course; Owner of "Ishon" Consulting and Holdings Ltd. (from 2010).

List of corporations in which he serves as a director: Chairman Maccabi Fund; Chairman Maccabident Ltd.,.dental clinics chain of Maccabi Health Services; Liberty Properties, External Director; MASA – a project for encouraging long term plans in Israel for Jewish Youth Ltd.; Member of the Public Committee for determining appropriation of legacies bequeathed to the State; Orda Print Ltd., External Director; Ishon Consultation, Management and Holding Ltd., since 2010; Chairman Weitz Center Ltd.; Management member of Gehser, educational projects society; Director, Maccabi Holdings Ltd.; External Director I.T.V Medical Ltd.

18. <u>Arie Yehuda Rapoport</u>

Name: Arie Rapoport

Identity card no.: 052603081

Date of birth: June 29, 1954

Address: 17, Yitzhak Sade St., Tel Aviv

Citizenship: Israel

Membership on board committees: Strategy Organizational Restructuring and Image; Audit; Review of Financial Statements; Budget; Financial Management and Risk Management; Regulation.

External director: Yes. Has accounting and financial expertise.

Is he an employee of the company, of a subsidiary, of an Affiliated Company, of a stakeholder? No.

Date of appointment: August 2, 2011.

Education: B.A. in Economics and Accounting, Tel Aviv University.

Is he a relative of another party at interest in the company? No.

The company regards 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.

His employment over the past five (5) years: Owner and Manager of Rapoport & Co., Auditors, Auditing and Accompanying Services firm.

List of corporations in which he serves as a director: Rapoport & Co., Auditors, Arie Rapoport Investments and Management Ltd., Arie Rapoport Trust Company Ltd., The Company for Betterment Tax Refund Ltd., D.S.I.R. Management Ltd., TMG Trade Finance (2008) Ltd., ATP Trade Finance Ltd., First Global Finance (2008) Ltd., Ragua VeYafe Ltd., Allium Medical Inc. (American Company), Newgrand Properties Ltd., (British Company), Patrice Services Limited (Cyprus), KSR Properties Ltd., (Cyprus), AYR Simple Investments Ltd., (Cyprus), Variety Jerusalem Club Fund Ltd., Variety Israel (registered society), Chairman of Moadon Yaakov Society (registered society).

Regulation 26A: Senior position holders in the corporation

The following is a list of the current senior officeholders:

1. Eliyahu Glickman

Name: Eliyahu Glickman

Identity card no. : 057154478.

Date of birth: August 7, 1961.

Date on which he began his term: April 14, 2011.

Position in the company: CEO.

Is he a relative of another senior officeholder or a party at interest? No.

Education: MBA Georgetown University, M.Sc., Financial Management, Graduate School of the American Navy.

Business experience over the past five (5) years: Deputy CEO Customers and Vice CEO "Partner Communication Ltd.".

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: None.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the CEO is a stakeholder in the Company, by force of his position as the CEO.

2. Yakov Hain

Name: Yakov Hain

Identity card no. : 011373461

Date of birth: December 8, 1955.

Date on which he began his term: January 15, 2007.

Position in the corporation: VP Engineering Projects.

Is he a relative of another senior officeholder or a party at interest ? No.

Education: BA in electrical engineering from Riga Polytechnic, MBA Business Management from University of Derby.

Business experience over the past five (5) years: Manager of the Generation Division in the Company (from September 2004 to January 2007).

Position in a subsidiary of the corporation, its affiliated company, or in a Stakeholder in the company: Chairman of the Board of Directors of the National Coal Supply Company.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

3. Asher Dahan

Name: Asher Dahan

Identity card no. 068541143

Date of birth: July 17, 1945.

Date on which he began his term: October 19, 2008.

Position in the corporation: VP Customers.

Is he a relative of another senior officeholder or a party at interest ? No.

Education: BA in business administration, Open University and Newport University.

Other Education and Professional Certificates: Practical Engineers, Electricity major, Practical Engineers School, Beer Sheva.

Business experience over the past five (5) years: VP Organization, Logistics, Security and Emergency Economy.

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: None.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

4. Adrian Bianu

Name: Adrian Bianu

Identity card no. 016830648

Date of birth: August 29, 1948.

Date on which he began his term: April 10, 2003.

Position in the company: VP strategic resources.

Is he a relative of another senior officeholder or a party at interest ? No.

Education: BA in electrical engineering from Bucharest Polytechnic (Romania), M.Sc. and DSc. in electrical engineering and DSC, Technion - Israel Institute of Technology.

Business experience over the past five (5) years: Deputy CEO, Strategic Resources.

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: Director in enterprises of the Company as part of the Technological Hothouse (see details in section 10.5.2 in the Description of the Business of the Company report): Burning Solar Ltd., P.V. NanoCell Ltd., Metricom Communication Ltd., Bright Led Ltd., Bird Vision.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

5. Moshe Bachar

Name: Moshe Bachar

Identity card no. 050036979

Date of birth: May 15, 1950.

Date on which he began his term: December 7, 2007.

Position in the corporation: Deputy CEO and VP Generation and Transmission.

Is he a relative of another senior officeholder or a party at interest ? No.

Education: B.Sc., mechanical engineering, Technion - Israel Institute of Technology, MA, Business Management University of Derby Branch in Israel.

Business experience over the past five years: VP Generation and Transmission (from September 2004 to July 2007); Vice CEO and VP Generation and Transmission (from July 2007 to August 2007), Acting CEO (from August 2007 to December 2007), Deputy CEO from March 31, 2011 to April 14, 2011.

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: None.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

6. David Yahav

Name: David Yahav

Identity card no. 050258946

Date of birth: October 12, 1950.

Date on which he began his term: August 1, 1996.

Position in the corporation: Legal advisor and secretary of the company and its subsidiaries.

Is he a relative of another senior officeholder or a party at interest ? No.

Education: L.L.B, Tel Aviv University, MA from military prosecutor's school of the US Armed Forces at the University of Virginia.

Business experience over the past five (5) years: General Counsel and Company Secretary of the company and a General Councel to its subsidiaries, Jordan Investment Company Ltd., Migrashei Hakablanim Ltd.

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: Company Secretary and General Counsel of Jordan Investment Company Ltd., and Migrashei Hakablanim Ltd., shareholder in Jordan Investment Company Ltd., Land of Israel Construction Ltd., and Ma'abarot HaYarden Ltd.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

7. Harel Zeev Blinde

Name: Harel Zeev Blinde

Identity card no. 024399634

Date of birth: September 30, 1969.

Date on which he began his term: February 28, 2008.

Position in the corporation: VP Finance and Economics.

Is he a relative of another senior officeholder or a party at interest? No.

Education: BA in Economics and Mathematics, Tel Aviv University, M.A., Economics and Business Management, Hebrew University, Jerusalem.

Business experience over the past five (5) years: Deputy Budgets Commissioner, The Ministry of Finance.

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: None.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

8. Zvi Harpak

Name: Zvi Harpak

Identity card no. 006642243

Date of birth: February 17, 1948.

Date on which he began his term: January 8, 2009.

Position in the corporation: VP Organization, Logistics, Security and Emergency.

Is he a relative of another senior officeholder or a party at interest? No.

Education: B.Sc., Nature Sciences, the Hebrew University, Jerusalem; M.Sc., Technology and Information Systems Management, Tel Aviv University.

Business experience over the past five (5) years: Manager, Information and Telecommunication Division.

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: None.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

9. Eitzhak "Ika" Yakin

Name: Eitzhak Yakin

Identity card no.: 951384

Date of birth: December 15, 1946

Date on which he began his term: January 1, 2010

Position in the corporation: Senior Vice President of Human Resources

Is he a relative of another senior officeholder or a party at interest? No.

Education: BA in Business Management, Champlain University, M.Sc. in Behavioral Sciences, Polytechnico University.

Business experience over the past five (5) years: Manager of Jerusalem District (September 2006 – December 2009).

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: None.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

10. Oren Helman

Name: Oren Helman

Identity card no. 024163875

Date of birth: November 3, 1968.

Date on which he began his term: December 15, 2011.

Position in the corporation: VP Regulation

Is he a relative of another senior officeholder or a party at interest? No.

Education: BA in Political Science, and MA in Public Policy, Tel Aviv University.

Business experience over the past five (5) years: Manager, Government Press Office, the Prime Minister's Office; Strategy Consultant, "Goren Amir"; Self employed Consultant.

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: None.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

11. Amir Livne

Name: Amir Livne

Identity card no.: 023725740

Date of birth: April 19, 1968

Date on which he began his term: April 14, 2011

Position in the corporation: Head of the Organizational Restructuring Administration (in the status of a division manager) and member of the Company's Management (reports directly to the CEO).

Is he a relative of another senior officeholder or a party at interest? No.

Education: L.L.B Law, L.L.M Law, Haifa University.

Business experience over the past five (5) years: Assistant to the CEO of IEC, legal consultant to the Pension Fund of Company employees (Mahog).

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: None.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

12. Igal Harel

Name: Igal Harel

Identity card no.: 053245536.

Date of birth: May 25, 1955.

Date on which he began his term: November 17, 2011

Position in the corporation: Internal Auditor and Public Complaints Commissioner.

Is he a relative of another senior officeholder or a party at interest? No.

Education: B.Sc. Economics and Management, M.Sc. Economics, Technion, Internal Audit studies certificate, Bar Ilan University.

Business experience over the past five (5) years: Acting Internal Auditor; Vice Internal Auditor (from March 2011 to November 2011); Deputy and Vice Internal Auditor (from October 2007 to March 2011).

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: None.

Pursuant to the definition of a stakeholder as stated in section 1 of the Securities Law, the officer is not a stakeholder in the Company.

13. Sarit Giladi-Dor

Name: Sarit Giladi-Dor

Identity card no.: 058711839

Date of birth: May 14, 1964

Date on which she began her term: July 11, 2010

Position in the company: Spokeswoman.

Is she a relative of another senior officeholder or a party at interest? No.

Education: BA, Arts Faculty, Tel Aviv University; MA, Political Science, Bar Ilan University, Press and Public Communication Certificate, Political Science Faculty, Bar Ilan University, Senior Business Management, LAHAV Management Faculty, Tel Aviv University.

Business experience over the past five years: Spokeswoman, Bank Hamizrahi 2002-2005, Communication and Branding Consultant of international and local companies.

Position in a subsidiary of the company, its affiliated company, or in a stakeholder in the company: None.

The senior position holder notified her resignation on January 12, 2012, and will remain until a replacing spokesman will be appointed and following a proper overlapping period.

Regarding Regulations 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

Brightman, Almagor, Zohar and Co., CPAs - 5 Maalei HaShichrur St., Haifa.

Regulation 28: Changes in memorandum or articles of association

No changes in the Articles of the Company during 2010 (the general meeting, convened on January 6, 2011, approved a change in the articles of the Company on the legal quorum for opening a general meeting of the shareholders of the Company. The main principles of the change are that, the general meeting of the Company will not conduct any discussion unless a legal quorum is present at the opening of the discussion. The legal quorum will materialize when presence of shareholders either in person or through representatives, entitled by force of the shares they hold or represent is 50% of the total votes in the Company).

Regulation 29(A) (1): In 2011 the Company's Board of Directors did not make any decision on the distribution of a dividend, effecting a distribution, as defined in the Companies Law – 1999, in another way or distribution of bonus shares.

Regulation 29(A) (2): In 2011, the Company's Board of Directors did not make any decision that requires a change in the registered or issued equity of the Company.

Regulation 29(A) (3): The general meeting, convened on January 6, 2011, approved a change in the articles of the Company on the legal quorum for opening a general meeting of the shareholders of the Company. The main principles of the change are that the general meeting of the Company will not conduct any discussion unless a legal quorum is present at the opening of the discussion. The legal quorum will materialize when presence of shareholders either in person or through representatives, entitled by force of the shares they hold or represent is 50% of the total votes in the Company.

Regulation 29(A) (4): The Company's Board of Directors did not make any decision that requires the approval of the general meeting and it did not present a recommendation to the general meeting to redeem redeemable securities, in their meaning in section 312 of the Companies Law – 1999..

Regulation 29(A) (5): The Company's Board of Directors did not make any decision that requires the approval of the general meeting and it did not present a recommendation to the general meeting on early redemption of debentures.

Regulation 29(A) (6): The Company's Board of Directors did not make any decision that requires the approval of the general meeting and it did not present a recommendation to the general meeting to a transaction between the Company and a stakeholder in the Company that deviated from market conditions.

Regulation 29(B): The General Meeting did not make any decisions on subjects specified in Regulation 29(A) above that did not conform to the recommendation of the Board of Directors.

Regulation 29(C): Decisions of a special shareholders meeting

Regarding decisions taken at the special shareholders meeting on January 6, 2011, see the immediate report dated January 6, 2011 (reference no. 2011-01-009006), presented by way of a reference.

For decisions made by the special shareholders meeting on May 12, 2011, see immediate report on May 12, 2011 (reference No. 2011-01-146886) presented by way of a reference..

For decisions made by the special shareholders meeting on January 10, 2012, see immediate report on January 11, 2012 (reference No. 2012-01-012864) presented by way of a reference..

Regulation 29A(1): During the report year and up to the report date, the Company did not approve an action according to section 255 of the Companies Law.

Regulation 29A (2): During the report year and up to the report date, no event specified in section 254 of the Companies Law has occurred which was not approved (and no decision related to such an event was submitted for approval).

Regulation 29A (3): Exceptional transactions requiring special approval under Section 270(1) of the Companies Law

None

Regulation 29A (4): Exemption, insurance, or liability for indemnity in respect of officeholders in effect on the report date

Particulars of the exemption, insurance, or liability for indemnity in respect of officeholders: the company contracted an agreement for liability insurance for directors and other company officeholders. The limits of liability are $300 million per claim and per period, and up to $60 million for legal expenses per event and total for the period. The deductible for the company varies from $50,000 to $350,000, depending on the type of event. Directors and officeholders are not required to pay a deductible sum. The company is obligated to pay an annual premium of $396,000 in this context (additional premium for cover of debentures floating registered for trading in the U.S.A., exceeding $ 500 million, will be charged at the rate of 15% of the annual premium, pro-rata for the actual insurance period). The company also insures its directors in the following insurance policies:

Personal accident. The limit of liability is NIS 400,000 with no deductible. The Company pays an annual premium of NIS 250 per each director.

Third Party liability insurance. The limit of liability is $100 million, deductible $ 500,000, annual premium $ 715,500 (after deducting a discount of $45,000 if the Company will buy insurance from the insurer for the next year as well) and also a premium of $ 160,000 to cover professional liability for projects outside the Company, to be adjusted at the end of the insurance period according to the commission received from the actual projects at the rate of 1.59%.

For details on providing indemnification letters to office holders who served in the Company on the publication date of the Company's financial statements as of June 30, 2009, in connection with a liability or an expense arising from the restatements of the said financial statements, see Note 13 n to the financial statements attached as Chapter C to the periodic report.

Name of Signatory	**Position**	**Signature**
Eliyahu Glickman	Chief Executive Officer	
Dr. Ziv Reich	Chairman of the Committee to Review the Financial Statements	
Yiftah Ron-Tal	Chairman of the Board of Directors	

ANNEX 1

Actuarial Liabilities of the Israel Electric Corporation At December 31, 2011

Ernst & Young (Israel) Ltd
3 Aminadav St.
Tel-Aviv 67067, Israel
Tel: 972 (3)6232525
Fax: 972 (3)5622555
www.ey.com/il

March 29, 2012

To
Mr Harel Belinda, CFO
Israel Electric Corporation Ltd.
P.O. Box 10
Haifa 31000, Israel

Dear Sir,

Re: **Actuarial liability as of December 31, 2011 in respect of employee benefits pursuant to IAS 19**

1. General

1.1 This report consists of the following chapters and appendices:

1. General
2. The benefits included in the valuation
3. Methodology and actuarial and accounting principles underlying the valuation
4. The data based on which the report has been prepared
5. The assumptions based on which the report has been prepared
6. Valuation changes in the current reporting year
7. Results of valued liabilities
8. Uncertainties and risks

Appendix A – Additional reports for disclosure in the financial statements
Appendix B – Presentation of expected benefit cashflows
Appendix C – Additional details of financial assumptions
Appendix D – Additional details of data
Appendix E – Valuation changes made prior to the current year
Appendix F – Details of benefits

1.2 We have been requested by the Israel Electric Corporation Ltd. ("the Company" or "IEC") to prepare this actuarial valuation relating to the value of the Company's employee benefit liabilities for the purpose of reporting in the financial statements pursuant to International Financial Reporting Standard 19, "Employee Benefits" ("IAS 19"). The valuation was requested by Mr Harel Belinda, the Company's CFO. The starting date of the engagement was 1.4.2010, and the date of signing the engagement agreement was 30.5.2010. We agree to publish this report with the Company's financial statements. The Company agreed to grant us indemnity for this work to an amount of up to $ 30 million (US Dollar).

1.3 The valuation was performed solely for the purpose mentioned above and this report is not to be used, or to reach conclusions, for any other purpose such as determining the provisions required for funding the benefits, valuations of the Company etc. The actuarial results appropriate for any other purpose may materially differ from the results reported in this document.

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1.4 This report is intended to present results and provide explanations relating to the valuation. This report is prepared for the purpose of its inclusion in the Company's financial statements. It does not comprise a recommendation for the actuarial assumptions, which, in accordance with IAS 19, were determined by the Company.

1.5 The amounts reported herein were calculated according to the Company's interpretations of IAS 19 and its accounting policies regarding its implementation (see section 3 below). The Company is fully and exclusively responsible for these interpretations and policies.

1.6 On January 31, 2011, a collective agreement was signed between the Company, the general trade union of workers (Histadrut) and the Company employees' committee, which, among other things, modifies the manner of updating the pension (by linking the pension to the Israeli Consumer Price Index ("CPI") instead of updates based on rank promotion and salary agreements). On February 27, 2012, the Knesset approved a law that allows the implementation of this agreement. This agreement has significant implications for the amounts of projected benefit payments in this valuation, and therefore the liabilities will increase considerably following this agreement (see paragraph 8.3). According to the accounting instructions that were provided to us by the Company, we did not take this agreement into consideration in this valuation.

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 Fund, in specific situations where there is a surplus, it is returned to the Company, where the surplus is determined according to the actuarial valuation of the Fund. The actuarial valuation of the Fund is different from the Company’s valuation contained in this report, primarily due to different assumptions regarding salary increases and future updates to the pension. According to the most recent actuarial valuation of the Fund (as of 31.12.2011), the liabilities were higher than those calculated in this valuation, and there were no surplus assets over liabilities.

1.8 In order to calculate the amounts included in this report, we relied on information concerning the employee benefit 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 full responsibility for the completeness and reliability of the information and data as provided to us lies with the Company.

1.9 The valuation results are highly sensitive to the actuarial assumptions. The actual demographic and economic experiences are likely to differ from the assumptions, and assumptions are likely to change in future, which will impact on the valuation of the accrued benefits liability. Paragraph 8 below provides additional information.

1.10 The valuation was performed by Mr Emanuel Berzack, a qualified actuary, and his actuarial team at Ernst & Young (Israel) Ltd. Mr Berzack has a B.Econ.Sc (Statistics and Actuarial Science) from the University of the Witwatersrand in South Africa and is a Fellow of the Israel Association of Actuaries (FILAA) and a Fellow of the Institute of Actuaries (FIA) in the UK. Our professional experience of the last 12 years includes actuarial valuations of employee benefits of a similar kind to those of the Company, of pension liabilities of pension funds and insurance liabilities of insurance companies, in the role of a valuation actuary or reviewing or audit actuary.

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1.11 This report has been prepared in accordance[1] with the relevant standards in "Technical Actuarial Standard R – Reporting Actuarial Information" published in November 2009 and in the " Pensions Technical Actuarial Standard" published in October 2010 by the Board for Actuarial Standards of the Financial Reporting Council in the UK. We did not refer to "Technical Actuarial Standard D - Data" of said Board since in view of the agreement entered into between Ernst & Young and the Company, the responsibility for validating the completeness, reliability and suitability of the data lies with the Company.

1.12 Definitions:

- "salary" – Pensionable Salary
- "the Fund" – the Central Pension Fund of the employees of the Israel Electric Corporation Ltd.
- "pension plan" – the set of benefits paid by the Fund
- "date of valuation" – December 31, 2011

2. The benefits included in the valuation

2.1 Our calculations are based on the details of the benefits and their terms, as obtained in a document from the Company, dated December 20, 2011, attached to this report as Appendix F. The information in this document, upon which we relied for the purpose of preparing this report, was not verified by us.

2.2 The valuation relates to the benefits in respect of permanent employees, pensioners (including disability retirement) and survivors (for convenience purposes, the pensioners and survivors shall hereinafter be referred to as "pensioners"), who are divided into generations A and B (for whom the benefits are identical) and generation C. Generation A and B employees commenced their employment at the Company up to and including June 10, 1996, and generation C employees are permanent employees who commenced their employment at the Company after this date. In addition, the valuation relates to the supplemental severance pay benefit in respect of employees employed under a special agreement.

2.3 The benefits to which the valuation refers are as follows (see details in Appendix F):

2.3.1 In respect of generation A and B employees and pensioners, a defined benefit pension plan and supplementary benefits consisting of the following:

- post-retirement pension in respect of pensionable salary, comprised of the following components, subject to each employee/pensioner's individual entitlement to each one: regular salary[2], shift work, home service, Arava additions, convalescence pay (one 12^{th} of salary), 13^{th} salary (one 12^{th} of salary) and 14^{th} salary (one 12^{th} of salary);
- disability pension;
- survivors' pension for employees who die during service[3] or following retirement (including employees who died after retirement on account of disability);

[1] excluding paragraph C.5.20 which requires providing forecasted results for the next report date (we did not calculate the next quarter's expected liabilities).

[2] includes combined salary, management increment, seniority, personal addition, continual education addition and physical effort addition.

[3] a lump sum which is paid upon the employee's death as a result of a work-related accident (see section 7.2 of Appendix F, in section "Rights of Employees Entitled to Pension from the Pension Fund of Company Employees and Rights of Pensioners") was not taken into consideration in the valuation.

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- retirement grant for service above 35 years' service and to survivors on the death of the spouse as above ("additional years grant");
- "up to 35 years" grant paid upon retirement and to survivors in the event of the employee's death;
- disability retirement grant;
- grant for unutilized days of sick leave;
- severance pay at 8.33% of salary received when leaving employment without entitlement to pension;
- discounted electricity for pensioners (including VAT and tax grossing up);
- holiday gifts for pensioners (including tax grossing up);
- grant at 20 years of service; and
- social welfare activities (worth 0.49% of grants and pension excluding convalescence pay, discounted electricity and holiday gifts).

2.3.2 In respect of generation C employees, benefits consisting of:

- supplementation of severance pay at 2.33% of regular salary (including 13th salary) for each year of service, and in respect of 14th salary for employees who started work at the Company before January 1, 2004, supplementation of severance pay for years of work above 35 years will be calculated;
- "up to 35 years" grant paid upon retirement and to survivors in the event of the employee's death;
- grant for unutilized sick leave;
- discounted electricity for pensioners (including VAT and tax grossing up);
- holiday gifts for pensioners (including tax grossing up);
- grant at 20 years of service; and
- social welfare activities (valued at 0.49% of the other benefits).

2.3.3 In respect of non-permanent employees employed by a special agreement: supplementation of severance pay upon leaving or retiring or upon the termination of the maximum work period for this type of employee (5 or 10 years), whichever is soonest.

2.4 The pensions are updated in relation to the salary scale (according to advances in rank), general salary agreements applicable to all of the Company's employees and cost-of-living allowance agreements (see Appendix F for details).

2.5 Our valuation does not take into consideration the payment of other possible benefits or increase to existing benefits at the Company's discretion, other than the assumption of pension updates according to salary agreements (see 5.2 below) and the allowance for early retirements, which require Company approval, based on the assumed early retirement rates (see 5.4 below).

3. The valuation methodology and actuarial and accounting principles underlying the report

3.1 In accordance with IAS 19, the 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

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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 the 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 guidelines as detailed in paragraphs 3.3-3.10 below.

3.3 Accrued rights are calculated for each benefit in the following way[4]:

The benefit	Method of calculating the past liability
Post-employment pension (including disability pension) and social welfare activities	Based on the benefit formula in the pension plan, namely, at the rate of accruing the plan's pension percentages.
Grant of post employment discounted electricity rates and holiday gifts, including tax grossing up (and VAT on the electricity benefit)	The liability is fully recognized for anyone who has at least 10 years of service and has reached the age of 40 (60 for generation C employees). If those criteria are not met, the past liability is based on the ratio of accrued service to accumulated service until said service and age, multiplied by the full liability.
Death in service survivors' pension	The liability is recognized in full.
Severance pay upon leaving without entitlement to pension, and grant of "up to 35 years"	Based on eligibility on the valuation date. Eligibility is accrued based on accrued service. For the "up to 35 years of employment" grant, there is a 35-year accumulation maximum.
Grant for additional years	This liability is not recognized prior to 35 years of service. As for employees with over 35 years of service, the past liability is calculated according to the actual benefit terms, namely the number of additional years' (over 35 years) service as at the valuation date.
Grant for unutilized sick leave	According to the number of unutilized sick leave days as of the valuation date
Grant for disability retirement	According to eligibility on the valuation date. Eligibility is accrued according to service, subject to a maximum of 30 years (up to 15 times salary).
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 already received the grant).
Increased severance pay for non-permanent employees employed under special agreement	Using the straight-line method from commencement of work through the end of the maximum work period or retirement age (67), whichever is sooner.

3.4 All actuarial losses and gains are spread over 15 years, without any corridor. The spread is done annually – in other words, a portion of the retained actuarial losses and gains from the end of the previous year is recognized in the current year, and the actuarial losses and gains from the current year will not be recognized at all until the following year.

3.5 The results presented in Appendix A are on a real (index-linked) basis. Thus the opening balances have been linked to the CPI of the valuation month, and the calculation of the

[4] Namely, the manner of attributing the benefits to the period of employment

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expected return on assets, the interest cost and all other results displayed in Appendix A are on a real (index-linked) basis.

3.6 The service cost was calculated in respect of rights accrued during the reporting period using the method described in paragraph 3.3. For example, for the main pension benefits, until 35 years of service the cost reflects the added percentage to the pension rate. After 35 years of service the cost reflects the added grant for additional years. After full recognition of the liability, the service cost does not include any cost in respect of this benefit. The annual service cost is calculated once a year, based on the assumptions that applied at the end of the previous year, and in each quarter the proportion that relates to that quarter is presented. Differences between this service cost and the actual service cost are represented in actuarial gains and losses.

3.7 The interest cost and expected asset return are calculated at a real annual interest rate of 2.88% (the uniform discount rate inherent in the liability as of December 31, 2010).

3.8 The liability and service cost presented in this report have not been reduced by employee participation in the cost of pension (that is, the employees' pension contributions were not taken into consideration in the liability or service cost). We have been informed that the Company is handling this issue through appropriate adjustments to the data displayed in this report, when recording the relevant amounts in its financial statements.

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

3.10 The "termination benefits" displayed in Appendix A are defined as payments to existing pensioners until the forecasted average retirement age on the basis of this valuation (including consideration of early retirement). The actuarial gain / loss because of "termination benefits" is not included in the actuarial gain / loss displayed in Appendix A. These amounts are not deferred, but are recognized directly in the Company's profit and loss statement.

4. The data based on which the report has been prepared

The valuation is based on data received from the Company, correct to December 20, 2011. We have relied on this data and did not check it in a detailed manner or validate it in relation to the data source. We have only checked the general reasonability of the data in relation to the data from the prior quarter. The main data we received was as follows (see Appendix D for more detail):

4.1 Employee and pensioner[5] data – we received files on January 5, 2012 containing data for each employee and pensioner entitled to their relevant benefits. The data includes details of age, gender, pension or salary components, rank, service etc. as of the valuation date. In addition, these files include data for the average monthly value of the holiday gift and discounted electricity rate (according to the full price) including grossing up for tax (and VAT on the electricity benefit).

[5] The possibility that pensioners died without the Company's knowledge was not taken into consideration in the valuation.

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4.2 We made the following adjustments to said data based on the Company's instructions[6]:

4.2.1 Increase of salary and pension for cost of social welfare activities by 0.49%. This increase was done for all salary / pension components except convalescence pay, Arava addition, home service, holiday gifts and discounted electricity rates.

4.2.2 Increase of salary and pension (excluding convalescence pay, holiday gifts and discounted electricity rates) by 2.68% to reflect the effect of the new salary agreement that was signed at the start of 2011. This rate relates to the increase in salary and pension, as a result of the new agreement, for the period up to the valuation date.

4.2.3 We received a file containing a list of employees who, according to the Company, retired near the date of the valuation and whose status needed to be changed from "employee" to "pensioner" along with the calculation of their liability accordingly.

[6] To remove all doubt, the rates and manner of adjustment represent part of the Company's instructions and were not determined or examined by us.

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4.3 Below is a summary of the aforementioned data, before and after the adjustments mentioned in section 4.2:

Before the adjustments in paragraph 4.2 above				
Group	Number	Monthly salary/pension in NIS – regular salary, taken from data	Average age	Average service (years)
Generations A and B*				
Employees	**8,300**	**111,741,474**	**51.9**	**25.1**
Pensioners – former employees	**3,487**	**41,461,453**	**72.8**	
Pensioners – survivors (including children)	**1,880**	**12,739,962**	**72.4**	
Generation C**				
Employees	**1,560**	**12,252,804**	**40.8**	**11.5**
Pensioners – former employees	**-**	**-**	**-**	
Pensioners – survivors (including children)	**9**	**6,579**	**49.1**	
Employees under special agreements (non-permanent employees) ***				
Employees	**749**	**3,792,818**	**42**	**4.0**

After the adjustments in paragraph 4.2 above				
Group	Number	Monthly salary/pension in NIS – regular salary, calculated by formula based on salary components	Average age	Average service (years)
Generations A and B*				
Employees	**8,290**	**114,911,201**	**51.9**	**25.1**
Pensioners – former employees	**3,497**	**42,832,750**	**72.8**	
Pensioners – survivors (including children)	**1,880**	**13,162,042**	**72.4**	
Generation C**				
Employees	**1,560**	**12,607,404**	**40.8**	**11.5**
Pensioners – former employees	**-**	**-**	**-**	
Pensioners – survivors (including children)	**9**	**6,579**	**49.1**	
Employees under special agreements (non-permanent employees) ***				
Employees	**749**	**3,913,494**	**42**	**4.0**

* The generation A and B salary and pension include all the components to which the employee/pensioner is entitled, including regular salary[7], shift work, home service, Arava additions, convalescence pay (the 12th portion), 13th salary (the 12th portion), 14th salary (the 12th portion), value of holiday gifts (grossed up for tax) and discounted electricity rates (including VAT). The amounts of the 13th and 14th salaries were calculated by dividing the regular salary by 12 in respect of all those qualifying based on service data.

[7] includes combined salary, management increment, service addition, personal addition, continual education addition and physical effort addition.

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** The generation C salary and pension (electricity and holiday gift) include all the components to which the employee/pensioner is entitled, including regular salary, 13th salary (the 12th portion) and grossed up value of holiday gifts and discounted electricity rates (including VAT). The amount of the 13th salary was calculated by dividing the regular salary by 12.

*** The displayed salary for non-permanent employees under special agreements 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 severance pay.)

4.4 Data obtained for assets, payments and contributions consisted of the following (at nominal value):

	Data item	NIS '000
	Assets as at the valuation date	
4.4.1	Balance of plan assets for post-employment benefits	21,250,422
4.4.2	Balance of assets according to clause104A (of IAS 19) benefits	2,046,709
	Payments during the reporting period	
4.4.3	Increased severance pay to employees under special agreements	3,103
4.4.4	Supplemented severance pay (2.33%) to generation C employees	–
4.4.5	"20-year grant"	4,836
4.4.6	Termination benefits[8]	86,533
4.4.7	Unutilized sick leave grant	6,624
4.4.8	Post-employment benefits (excluding termination benefits)	581,250
4.4.9	"up to 35 years" grant	2,099
4.4.10	Discounted electricity benefit and holiday gifts	35,345
4.4.11	Withdrawals from plan assets for payment of benefits	694,077
	Contributions during the reporting period	
4.4.12	Company's contributions to plan assets or assets according to Clause 104A (of **IAS 19**)	660,110
4.4.13	Employees' contributions to plan assets or assets according to Section 104A (of **IAS 19**)	–

[8] includes NIS 82,964,000 for paid benefits by the fund, and the remainder for benefits not paid by the Fund (electricity, holiday gift).

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5. Actuarial assumptions

The assumptions represent the Company's assumptions – the Company being the entity that is responsible, according to IAS 19, for determining the assumptions.

In principle, changes may be expected to assumptions as a result of investigations relating to employees and pensioners demographic experience or other relevant information, that are carried out from time to time, and/or after publications of new mortality and disability tables by the Israeli Ministry of Finance or other parties, to the extent that it is decided that these tables apply to the Company.

5.1 Financial assumptions

5.1.1 Inflation rate – the difference between the nominal interest rate (on non-indexed Government bonds) and the real interest rate (on indexed 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 rate for discounting is based on the Government bond rate tied to inflation, and since the assumptions for salary and pension increases are set in real terms. The rate of inflation is relevant for calculating the erosion of real value of the convalescence and holiday gift components of salary, since they are linked to CPI on a yearly basis (and not monthly).

Furthermore, from a technical perspective, the cash flows that we calculated for the valuation are future pension and other benefit payments, projected without the influence of future inflation. Therefore, the real discount rates mentioned below (based on the Government bond rate tied to inflation) are appropriate for discounting these cash flows. The use of nominal discount rates (based on market data for non-indexed Government bonds) and adding inflation (the difference between the nominal and real interest rates) to the projected cash flows, leads to the same result.

5.1.2 Discount rates – according to the accounting policy of the Company, the discount rates used in the valuation are taken from the "risk-free" yield curve based on market data for Government bonds tied to inflation as of December 29, 2011, as established 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 absence of a deep market in high quality corporate bonds in Israel (see Section 78 of IAS 19).

The valuation discount rates reflect the returns that can be achieved, according to "market" expectations, on risk-free assets (excluding the risk of the country's insolvency). If the plan assets yield lower real returns than the discount rates, based on their fair value, the net liabilities (total liabilities net of plan assets) will increase and vice versa. See Appendix B for details of the projected cash flows of benefits. See Appendix C for information on the values of the interest rates.

5.1.3 The interest cost rate and expected return on assets for the reporting period were determined by the Company at 2.88% pa, as described in paragraph 3.7 above.

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5.2 Salary and pension increases

5.2.1 As was communicated to us, the salary and pension increase assumptions (as detailed in section 5.2.2) were determined by the Company based on, among other things, the analysis of the past increases in the various salary components, subject to the principles of IAS 19. We did not review this analysis or examine the reasonability of these assumptions.

5.2.2 It is assumed that each individual generation A, B and C employee's salary or pension components will increase according to the framework of salary increases and rank progression included in the Company's existing labor agreements and policies (as specified in Appendix F). The supplementary assumptions applied to this framework are as follows:

5.2.2.1 The future annual increase in respect of general salary and cost-of-living allowance agreements (the general update in the salary scale) is the rate of the actual increase in the CPI less 1.54% per year (a 1.54% erosion each year in real terms). This increase affects all of the salary and pension components except for discounted electricity, holiday gifts and convalescence (it is assumed that the Arava and home service components will be included in future salary agreements).

5.2.2.2 As stated in paragraph 4.2.2 above, it is assumed that the salaries and pensions (that were in force in December 2011) will increase due to the effect of the new salary agreement, which was signed in the beginning of 2011, in relation to the period up to the valuation date, by 2.68%, in addition to the assumption described in paragraph 5.2.2.1.

5.2.2.3 Regarding the job classification increment for employees, which comprises a rate of base salary, it is assumed to increase each year at a rate of 0.04% of base salary. The job classification increment shall be no more than 21% of base salary (for senior employees, it is assumed that the job classification increment shall remain unchanged). This assumption is also in effect for employees who at the valuation date were not receiving the job classification increment.

5.2.2.4 In respect of non-senior employees, a cumulative salary growth of 0.60% is assumed up to reaching age 60, which represents promotion to senior ranks.

5.2.2.5 It is assumed that the value of holiday gifts (including tax grossing up) and convalescence pay will increase by the actual rate of increase in the CPI, and that the update (for CPI) of convalescence takes effect at the end of June each year, and of holiday gifts takes effect at the end of December each year.

5.2.2.6 It is assumed that the discounted electricity rate will increase at a real rate of increase of 21% in April 2012, then decrease at a real

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rate of 16.5% in June 2013 (relative to the current rate - that is, the cumulative real increase from the valuation date to June 2013 will be 4.5%) and then, from the start of 2014 will grow at a real rate of 0.25% per year.

It is assumed that 8.12% of pensioners will not receive discounted electricity.

It is assumed that for the payment of discounted electricity and holiday gifts before retirement age, the cost in respect of grossed up tax at a rate of 18.31% will be added.

It is assumed that the average power consumption per pensioner will remain constant.

5.2.2.7 For the purpose of the actuarial valuation prepared according to IAS 19, it is assumed that the Company will not create new ranks or execute other changes to employment terms and the existing system for rank promotion and salary increases (apart from the general upgrading of the salary scale from time to time due to future salary agreements).

5.2.2.8 It is assumed that there were no changes, and will not be any changes, to employees' rate of part-time employment, and that the current rate of part-time employment reflects the average rate of part-time employment from the past and that will be in future.

5.2.2.9 For employees who are not entitled to continuing education payment A, it is assumed that half of them will be entitled to the payment in another 10 years' time from the valuation date (if they have not left beforehand).

5.2.2.10 For employees who are not entitled to continuing education payment B, it is assumed that they will not be entitled to this payment in the future.

5.2.2.11 It is assumed that the ceiling for continuing education payment B for employees at professional grade 44 (nominal) and up will be linked to salary and cost-of-living allowance agreements. The amount of the ceiling, correct to the valuation date, was NIS 891.49.

5.2.2.12 It is assumed that employees without a master's degree will not receive one in future (the service increment for those with a master's degree is higher).

5.2.2.13 It is assumed that employees who are entitled to Arava, home service and shift work salary additions will be entitled to these additions to pensions, and employees who are not entitled to these salary additions, at the valuation date, will not be entitled to these additions to pensions. There is a group of employees who were previously entitled to shift work additions, and who are classified as entitled to this addition in pension; for them it is assumed that they will be entitled to this addition to pension.

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5.2.2.14 It is assumed that, except for employees who at the valuation date were entitled to an additional grade at Eilat (including employees who left Eilat after 7 years and transferred their grade), there are no employees who will in future receive the additional grade at Eilat.

5.2.3 The average uniform annual real salary[9] growth rate for all employees and pensioners that results in the same liabilities as presented in this report is approximately 0.8% per year, assuming that the extra rank at retirement will be granted (or approximately 1.2% per year, assuming that the extra rank at retirement will not be granted).

5.2.4 In respect of non-permanent employees under special agreements, a real annual salary growth of 2.0% is assumed, including the general salary updates and individual employee salary increases.

5.3 Mortality and disability rates

5.3.1 As stated above, in this valuation we use the same demographic assumptions that were used in the 31.12.2010 valuation.

5.3.2 Life expectancy improvement (decline in mortality rates)

The value of the actuarial liability is highly sensitive to the mortality assumption. It is known that medical developments and lifestyle improvements have helped to increase life expectancy in general. The actuarial assumptions take into account the continued increase in life expectancy.

The mortality rates detailed below are in effect as of December 31, 2001. We assumed a decline in mortality rates (leading to prolonged lifespan) from December 31, 2001 and on, based on the Table P7 of the Circular issued by the Capital Markets, Insurance and Savings Division of the Israeli Ministry of Finance on May 17, 2007 ("the Circular") and the model presented in Section 8 of the Circular Appendix[10].

It should be emphasized that there is a great deal of uncertainty regarding this assumption, and an alternative assumption may be just as reasonable (see paragraph 8.4 below).

5.3.3 Pensioner mortality tables

- Table P3 of the Circular

In 2009, the former actuary analyzed the mortality records of the Company's pensioners from 1997 through July 2008 and established that the pensioners' mortality rates do not differ significantly from the mortality rates Table P3. Therefore the former actuary and the Company decided to use this table. It is noted that this table is based on the experience of Israeli pension funds where the number of pensioners is larger than the number of pensioners in the Company. Thus it is statistically more reliable than the table that would have

[9] all salary components except convalescence pay, discounted electricity and holiday gifts, which are assumed to be tied to CPI.

[10] According to this model, the average annual decline in mortality rates from 2001 to 2031 for ages 70, 80 and 90, for example, is 1.6%, 1.3% and 0.5% for men (born after 1949), respectively and 2.3%, 1.7% and 0.7% for women, respectively.

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been built specifically for the Company, as long as there is no material difference (related to mortality) in the populations' characteristics.

Below is a sample of the remaining life expectancy of pensioners, based on Table P3 and combined with the assumed improvement in life expectancy.

Age and year	**Female**	**Male**
67 at the end of 2010	22.2	19.6
67 at the end of 2020	22.9	19.9
67 at the end of 2030	23.5	20.5

5.3.4 Survivors' mortality
– based on Table P5 of the Circular. Table P5 only provides mortality rates from age 60 for men and 55 for women. Consequently, for ages up to 60 (men) and 55 (women), we used the previously published mortality rates (Table 1A4 of the Ministry of Finance's Circular of January 2000).

5.3.5 Mortality for active employees
– based on Table P1 of the Circular[11].

5.3.6 Mortality for disabled pensioners
– at 2% per year up to age 60, and based on Table P3 of the Circular after age 60.

5.3.7 Disability incidence
– based on Table P8 of the Circular.

5.3.8 Disability recovery
– no recovery is possible as the liability is in respect of permanent disability.

5.4 Retirement age, leaving and early retirement

5.4.1 As stated in section 5, these assumptions were determined by the Company and were not assessed by us.

5.4.2 It is assumed that normal retirement will occur at the mandatory retirement age (67 for men and women). Therefore employees over age 67 are assumed to retire immediately.

5.4.3 Leaving and early retirement rates (prior to normal retirement age), for generation C:

It is assumed that there will not be any leavers (by resignation) that do not receive any benefits.

The assumed rates of leaving (with eligibility) and early retirement, by age and sex, are detailed in the table below:

[11] women at ages 63-67 according to Table P3.

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For generation C	**Early retirement rates** (entitled to all benefits detailed in paragraph 2.3.2 except for supplementation of severance pay (2.33%))		**Leaving rates** (entitled to all benefits detailed in paragraph 2.3.2 except for discounted electricity and holiday gifts)	
Age	**Women**	**Men**	**Women**	**Men**
up to 30	–	–	0.411%	0.660%
31	–	–	0.472%	0.603%
32	–	–	0.521%	0.549%
33	–	–	0.557%	0.498%
34	–	–	0.582%	0.450%
35	–	–	0.594%	0.404%
36	–	–	0.594%	0.361%
37	–	–	0.583%	0.321%
38	–	–	0.559%	0.283%
39	–	–	0.523%	0.248%
40	–	0.017%	0.475%	0.216%
41	–	0.017%	0.414%	0.187%
42	–	0.017%	0.342%	0.160%
43	–	0.017%	0.258%	0.136%
44	–	0.017%	0.161%	0.115%
45	0.037%	0.017%	0.053%	0.096%
46	0.037%	0.017%	–	0.080%
47	0.037%	0.017%	–	0.067%
48	0.037%	0.017%	–	0.056%
49	0.037%	0.017%	–	0.049%
50	0.193%	0.021%	–	0.043%
51	0.164%	0.052%	–	0.041%
52	0.172%	0.046%	–	0.041%
53	0.223%	0.058%	–	0.044%
54	0.325%	0.121%	–	0.050%
55	0.488%	0.240%	–	–
56	0.720%	0.393%	–	–
57	1.028%	0.552%	–	–
58	1.420%	0.703%	–	–
59	1.906%	0.886%	–	–
60	0.831%	1.241%	–	–
61	1.900%	2.068%	–	–
62	2.471%	3.892%	–	–
63	2.100%	1.400%	–	–
64	2.100%	1.400%	–	–
65	2.100%	1.400%	–	–
66	2.100%	1.400%	–	–

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5.4.4 Leaving and early retirement rates (prior to normal retirement age), for generations A and B:

It is assumed that there will be no leavers at all, besides for early retirements.

The early retirement rates represent the assumption regarding early retirements that are not defined as "termination benefits" pursuant to IAS 19 since, according to IAS 19, the cost of terminations is not to be recognized in advance except under certain conditions. In practice, this assumption is difficult to make as it is very difficult to distinguish between early retirements that should be defined as termination benefits and others. It is even more difficult to make this assumption because employees' behavior in regard to terminations is highly affected by various past and future special retirement programs.

The early retirement rate assumption was determined by the Company on the basis of past experience, from the years 2002 to 2010, of the rate of early retirements, excluding retirements within a special retirement program. This assumption has been updated since the valuation at December 31, 2010 (see paragraph 6.3 below). The early retirement rate assumption, by age and sex, is detailed in the table below:

For generations A and B	**Early retirement rates**	
Age	**Female**	**Male**
Up to 40		
40	0.04%	0.08%
41	0.04%	0.08%
42	0.04%	0.08%
43	0.04%	0.08%
44	0.04%	0.08%
45	0.13%	0.10%
46	0.13%	0.10%
47	0.13%	0.10%
48	0.13%	0.10%
49	0.13%	0.10%
50	0.14%	0.14%
51	0.14%	0.14%
52	0.14%	0.14%
53	0.14%	0.14%
54	0.14%	0.14%
55	0.34%	0.31%
56	0.34%	0.31%
57	0.34%	0.31%
58	0.34%	0.31%
59	0.34%	0.31%
60	0.34%	0.31%
61	0.34%	0.31%
62	5.56%	2.54%
63	5.56%	2.79%
64	0.79%	2.83%
65	0.79%	3.58%
66	0.00%	0.00%

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5.4.5 Leaving in respect of non-permanent employees under special agreements:

The assumed rates of leaving with eligibility for benefits included in this valuation, by service, are detailed in the following table:

Service	**Leaving rates (terminations)** (eligible for benefits)
0	3.0%
1	1.5%
2+	0.0%

* For non-permanent employees under special agreements, in addition to these rates, it is assumed that they will leave at the end of the maximum work period based on the special agreements, which is 5 or 10 years from commencement (whether it is 5 or 10 depends on the date of commencement of work), and will receive increased severance pay upon leaving.

5.5 Marriage rates and age difference between spouses

– according to Tables P9 and P10 of the Circular, with an adjustment to Table P10, for male employees and pensioners, in order that the expected age difference between spouses for an employee or pensioner will be according to the table for an employee until age 35, 2 years for an employee aged 36 until 46, and 1 year less than the table for an employee / pensioner older than 46 (widow/ers are not expected to remarry so the payment of a survivor's pension to the widow/er is not assumed to discontinue due to remarriage). This assumption was made by the Company.

5.6 Orphans

– the number of children and their ages are determined according to Table P11 of the Circular. These assumptions were made by the Company.

5.7 Utilization of sick leave days (for calculating the unused sick leave benefit)

– it is assumed that every employee's proportion of unutilized sick leave days will be identical to the proportion of unutilized sick leave for the working period until the valuation date. This assumption was made by the Company.

5.8 It is assumed that all non-permanent employees under special agreements will receive increased severance pay.

5.9 Future Company expenditure in respect of the operation of the pension plan was not taken into account.

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5.10 Below are certain issues that were not taken into consideration in the valuation. We believe the overall effect of these issues is immaterial:

- pensions for "dependent orphans" over age 21 for future orphans;
- possible future pensions for "dependent parents" of deceased employees or pensioners;
- increases in pensions to future orphans in the absence of widow/ers (not taken into account);
- the actual dates on which pension is paid for 13th and 14th salaries (we assumed that the 12th portion of the annual allowance is paid monthly);
- possible increases in pensions based on the minimum pension rate;
- possible grant of discounted electricity and holiday gifts to orphans (we assume that all orphans have a parent receiving these benefits);
- cancellation of the right of pensioners to receive rank promotions for various reasons such as disciplinary infractions;
- a few pensioners who received a capitalized amount of future pensions for a period of 6 years. The valuation is not based on the decreased pension during the remaining capitalization period but rather on the full pension; and
- additional severance pay or grants in respect of the difference between the salary reported in the data file and the minimum salary, to be paid to a small number of generation C employees who retire or leave with salary lower than the minimum salary.

6. Valuation changes in the current valuation

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

In the year of this report, there were no changes to the assumptions or methodology used, except for changes to the discount rate (occurring every quarter) and to the assumed increase in the rate of discounted electricity (see details below). However, it should be noted that for this valuation the yield curve that the Company chose for us to use for discounting the actuarial liabilities is as quoted by Mervach Hogen Ltd, in light of it having been chosen as the company to quote prices and interest rates, when previously the Company used a quote of the yield curve from Shaarey Ribit Ltd. Accordingly, the move led to an increase in liabilities, as at September 30, 2011, of NIS 320 million, which is attributed to actuarial losses which have not been recognized.

For this valuation, there was a change to the assumed increase in the price of discounted electricity. Up to the third quarter of 2011, the cost of electricity was assumed to be linked to CPI. For this valuation, the price of discounted electricity was assumed to increase at a real rate of 21% in April 2012, then decrease at a real rate of 16.5% in June 2013 (relative to the current rate - that is, the cumulative real increase from the valuation date to June 2013 will be 4.5%) and then, from the start of 2014 will grow at a real rate of 0.25% per year.
In parallel with this change, it is assumed that 8.12% of pensioners will not receive discounted electricity. This new assumption offset most of the impact of the stated change to the assumed increase in cost.
In addition, another change was made since the previous valuation with regards to the payment of discounted electricity and holiday gifts for pensioners before retirement age in order to more accurately reflect the grossed up tax. The impact of this change was negligible.
Overall, these changes have increased the liability by approximately NIS 10 million.

At the start of 2011 a new salary agreement was signed, which influenced the results of this valuation. This influence relates to the difference between the salary and pension increases, in respect of this new

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agreement, until the date of valuation (see paragraph 4.2.2 above) compared to the salary and pension increase assumption used for the previous valuations. This issue does not represent a change to this assumption or methodology, but reflects a variance between the actual salary increase compared to expected.

Additional influences of the salary agreement are expressed in the cancellation of the Commissioner's position regarding:

(a) eligibility to the 14th salary:
– starting from the 1st quarter of 2011, eligibility to the 14th salary is after 25 or 20 years' service for males and females respectively, in place of 30 or 25 years.

(b) rank promotion for pensioners:
– starting from the valuation date until the 1st quarter of 2011, there is no adjustment of rank granted until the valuation date (every two years), whereas, previously, rank promotion until the valuation date was adjusted every 3 years.

This change is defined by the Company as a "plan change", and its influence is charged as pension expenses for the period (see section "Prior service cost – changes in plan conditions due to decisions by MOF" in section 4 of Appendix D below).

7. Valuation results

The values of the liabilities (in million NIS) as at December 31, 2011, without offsetting against plan assets or adjustments in respect of unrecognized actuarial gains / losses, are as follows:

7.1 The liabilities, for all the benefits included in this valuation, except for the liability for special agreements on early retirement, for "20 year grant" and for increased severance payments for (non-permanent) employees under special agreement:

Active employees	**11,019.2**
Pensioners and survivors	**7,828.6**
Total	**18,847.8**

7.2 Liability for special agreements on early retirement – in respect of the past:

Pensioners and survivors	**223.2**

7.3 Liability for 20 year grant:

Active employees	**24.5**

7.4 Liability for increased severance payments for (non-permanent) employees under special agreement – in respect of the past:

Active employees	**26.8**

In Appendix A, additional information is provided which is required for the financial statement disclosures according to IAS 19.

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8. Uncertainties and risks

8.1 Due to the nature of the benefits and the long term of the valuation, the future payments of benefits are uncertain and may materially differ in practice from this valuation despite the efforts made to assess them as accurately as possible. For this reason, the Company is exposed to a risk that the estimated liability does not properly represent future payments and, consequently, additional costs will be incurred in the future for past accrued rights that are under-estimated and/or additional revenues will be derived from past accrued rights that are over-estimated. Below are the main issues that we believe result in said uncertainties and risks.

8.2 Interest, inflation and returns

Future fluctuations in market interest rates used to estimate the liabilities (using discounted expected cash flows) will change the gross value of the liabilities. Higher or lower plan asset returns compared to these interest rates will result in the decrease or increase of the net liabilities, respectively. At times, these two changes are offset one against the other to a certain extent based on the level of matching between the assets and liabilities.

Sensitivity analysis:

a) If the discount rate falls by 1%, the liability will increase by NIS 3,400 million (17.8%).
b) If the discount rate falls by 0.1%, the liability will increase by NIS 303 million.
c) If the discount rate increases by 0.1%, the liability will decrease by NIS 296 million.

Actual inflationary changes affect the value of the liability (indirectly due to the connection between salary / pension and inflation) and the value of the assets (due to index-linked assets) and in this case, the two changes are offset one against the other to a certain extent.

Anticipated inflationary changes affect the value of the liability and the value of the assets based on the anticipated inflationary influence on market interest rates and the value of unlinked assets.

8.3 Future salary and pension increases

As discussed in paragraph 1.6 above, according to the principles prescribed in IAS 19, as interpreted by the Company, this valuation does not take into consideration the changes stipulated in the agreement and the law that was approved following this, . According to this agreement, amongst other provisions, the pensions will be linked to the CPI.

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This agreement is expected to increase the liabilities by approximately NIS 2,667 million – NIS 2,867 million (14.0% - 15.0%)[12].

The assumption of general salary increases (in respect of salary and cost-of-living allowance agreements) considerably affects future cash flows. This assumption is currently -1.54% (on a real basis, namely, that the pensionable salary will erode for employees who reached the maximum rank).

Sensitivity analysis:

a) If the actual change (in respect of salary and cost-of-living allowance agreements) to the overall salary scale is at the actual inflation rate (linked to the CPI), the liability will be deficient by approximately NIS 2,083 million (10.9%), this after taking into consideration said agreement (namely, this sensitivity analysis represents the effect on the rate of salary increases on salary before retirement only and not the effect on the update of post-retirement pensions).
b) Similarly, if the actual change of salary will be higher than what is assumed, by 0.5% per year, without any change to the rate of pension increases, the liability will be deficient by approximately NIS 573 million. If the actual change of salary will be lower than what is assumed, by 0.5% per year, without an change to the rate of pension increases, the liability will be higher than required by approximately NIS 532 million.
c) If the actual change in pensions will be higher than what is assumed, by 0.5% per year, the liability will be deficient by approximately NIS 767 million. If the actual change of pensions will be lower than what is assumed, by 0.5% per year, the liability will be higher than required by approximately NIS 710 million.

8.4 Life expectancy

Although the actual mortality rates are relatively stable, and the mortality assumption corresponds with current experience relatively well, the mortality factor contains considerable uncertainty regarding the distant future owing to the increase in life expectancy, whose rate is extremely difficult to assess and may significantly differ from the assumption. The life expectancy increase rate is affected by behavioral and social changes and by medical developments, both past and future, and these factors are liable to affect life expectancy significantly and unexpectedly, in addition to the fact that, even without these new developments, the changes in future life expectancy cannot be clearly foreseen.

[12] The effect of this agreement is calculated based on the agreement's expected terms as communicated to us by the Company, as follows:

1. Changing the pension update mechanism, to one where the pension will be indexed to the CPI on the 1st of January each year.
2. To reflect the erosion due to annual inflation updates, the liability is reduced by half the expected annual inflation rate.
3. An extra increase to pensions for all existing pensioners who retired from the Company before January 1, 2011 (including survivors and disabled), as follows:
    a. 8% for pensioners at the senior level or at the maximum rank (27/46 and above)
    b. 12% for other pensioners
    c. For pensioners whose rank is 23/44 and lower, and extra 6% increase starting from year 2016.
4. An additional annual payment on behalf of current and future pensioners (excluding survivors) of NIS 444.65 (NIS 393 at December 2007 prices) for welfare activities, where only half this payment will be made until the additional 6% pension mentioned above is financed (by the reduction to this payment). This amount will be updated according to the CPI every 1st of January.

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Sensitivity analysis: if the annual rates of decline in mortality are double what was assumed[13], the life expectancy of a 67 year-old male at the end of 2020 (for example) will rise from 19.9 to 22.2 years (for women – from 22.9 to 25.4 years) and the total liability will have been understated by approximately NIS 914 million (4.8%).

For comparison sake: if the actual mortality rates will be 20% lower than assumed, the life expectancy of a 67 year-old male at the end of 2020 (for example) will rise from 19.9 to 21.7 years (for women – from 22.9 to 24.5 years) and the total liability will have been understated by approximately NIS 788 million (4.1%).

8.5 Early retirements

As stated in paragraph 5.4.3 above, the early retirement pattern is relatively unstable and the determination of the assumption is highly challenging both due to the applicable accounting standards and since it is naturally difficult to anticipate employee behavior in an unstable environment. This phenomenon materially affects the payment of benefits and the valuation of the liability since under early retirement the employee will begin receiving the fully accrued pension immediately without any pension reduction that would have offset the added cost of pension payments in the years prior to normal retirement age.

Sensitivity analysis: if the actual early retirement rates are double the assumed rates (see paragraph 5.4.3 above), the total liability will have been understated by approximately NIS 274 million (1.4%).

Yours truly,

Ernst & Young (Israel) Ltd.

[13] See paragraph 5.3.2 above.

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Appendix A – additional reports for disclosure in the financial statements

Introduction

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

  1. Amounts relating to all post-employment benefits which are paid by the Fund, and assets of the Fund. See Tables 1, 4, 6, 8 & 11 below.

  2. Amounts relating to other post-employment benefits (including severance pay, all grants after the termination of employment, discounted electricity, and holiday gifts to pensioners) and assets not in the Fund but designated for the coverage of actuarial obligations. See Tables 2, 3, 5, 7, 9 & 12 below.

  3. Amounts relating to other long-term benefits, including the "20 year benefit". See Table 14 below.

  (Table 10 relates to all pension and other post-employment benefits.)

- This report is presented on a real (index-linked) basis.
- All amounts are in NIS millions.

1. Surplus assets at end of the period

	31.12.2011	31.12.2010
Fair value of plan assets	21,250	21,033
Present value of the obligation - gross	(16,427)	(15,732)
Unrecognized actuarial gains (losses)	1,088	252
Surplus assets	5,911	5,553

2. Funds in trust – designated for actuarial obligations (104A assets)

	31.12.2011	31.12.2010
Funds in trust to cover actuarial obligations (assets per paragraph 104A)	2,047	1,980

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3. Liability at the end of the period for other post-employment benefits (including special agreements for early retirement)

	31.12.2011	31.12.2010
Present value of obligation for other post-employment benefits	2,460	2,209
Unrecognized actuarial gains (losses)	180	392
Obligation for other post-employment benefits	2,640	2,601

4. Movement in the present value of the obligation

	Year ending 31.12.2011	Year ending 31.12.2010	Year ending 31.12.2009
Present value of the obligation –beginning of period	15,732	14,326	14,093
Interest cost	450	470	501
Current service cost	200	187	185
Prior service cost – changes in plan conditions due to decisions by MOF and implementation of the salary agreement	78	-	(130)
Benefits paid	(536)	(554)	(521)
Actuarial losses (gains)	503	1,303	198
Present value of the obligation – end of period	16,427	15,732	14,326

5. Movement in the present value of the obligation for post-employment benefits

	Year ending 31.12.2011	Year ending 31.12.2010	Year ending 31.12.2009
Present value of the obligation – beginning of period	2,209	2,219	2,286
Interest cost	64	78	84
Current service cost	45	39	18
Cost of new retirements – early retirement	-	2	2
Prior service cost – changes in plan conditions due to decisions by MOF and implementation of the salary agreement	-	-	(12)
Change in liability due to special agreements for early retirement	-	(4)	(1)
Benefits paid	(51)	(51)	(65)
Actuarial losses (gains)	193	(74)	(93)
Present value of the obligation – end of period	2,460	2,209	2,219

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6. Movement in the fair value of plan assets

	Year ending 31.12.2011	Year ending 31.12.2010	Year ending 31.12.2009
Fair value of plan assets – beginning of period	21,033	19,960	18,261
Expected return on plan assets	605	647	745
Company contributions	662	101	2
Employee contributions	-	-	-
Benefits paid	(698)	(621)	(629)
Actuarial gains (losses)	(352)	946	1,581
Fair value of plan assets – end of period	21,250	21,033	19,960

7. Movement in the fair value of the funds in trust to cover actuarial obligation (104A assets)

	Year ending 31.12.2011	Year ending 31.12.2010	Year ending 31.12.2009
Fair value of plan assets – beginning of period	1,980	1,821	1,668
Expected return on plan assets	57	59	58
Company contributions	-	-	43
Benefits paid	-	-	-
Actuarial gains	10	100	52
Fair value of plan assets – end of period	2,047	1,980	1,821

8. Movement in unrecognized actuarial gains (losses)

	Year ending 31.12.2011	Year ending 31.12.2010	Year ending 31.12.2009
Unrecognized actuarial gains – beginning of period	(252)	112	(1,361)
Actuarial gains (losses) for the period	-	-	-
From obligation	(503)	(1,303)	(198)
From plan assets	(352)	946	1,581
Actuarial gains recognized in period (*)	19	(7)	90
Unrecognized actuarial gains (losses) – end of period	(1,088)	(252)	112

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9. Movement in unrecognized actuarial gains (losses) for other actuarial obligations & trust assets (104A assets)

	Year ending 31.12.2011	Year ending 31.12.2010	Year ending 31.12.2009
Unrecognized actuarial gains – beginning of period	392	233	95
Actuarial gains (losses) for the period	-	-	-
From obligations for other post-employment benefits	(193)	74	93
From trust assets (104(A))	10	100	52
Actuarial gains recognized in period (*)	(29)	(15)	(7)
Unrecognized actuarial gains (losses) – end of period	180	392	233

(*)
1) The Company recognizes actuarial gains and losses according to the Corridor option. The corridor is 0% of the obligation and the period of recognition is 15 years.
2) The actuarial gains and losses are calculated as real amounts. Hence changes due to inflation do not appear in the actuarial gain and loss.

10. Components of the expenses for the period

	Year ending 31.12.2011	Year ending 31.12.2010	Year ending 31.12.2009
Current service cost	323	226	204
Prior service cost – changes in plan conditions due to decisions by MOF and implementation of salary agreement	78	-	(142)
Interest cost	515	548	583
Recognized actuarial gains	(9)	(23)	84
Expected return on plan assets	(605)	(647)	(745)
Expected return on funds in trust (104A assets)	(57)	(60)	(57)
Total expenses for the period	245	44	(73)

11. Actual return on assets

	Year ending 31.12.2011	Year ending 31.12.2010	Year ending 31.12.2009
Expected return on plan assets	605	647	745
Actuarial losses on plan assets	(352)	946	1,581
Actual return on plan assets	253	1,593	2,326

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12. Actual return on assets in trust to cover actuarial obligation (104A assets)

	Year ending 31.12.2011	Year ending 31.12.2010	Year ending 31.12.2009
Expected return on trust assets	57	59	58
Actuarial losses on trust assets	10	100	52
Actual return on trust assets	67	159	110

13. Obligation for special agreements for early retirement (termination benefits)

	31.12.2011	**31.12.2010**
Obligation at end of period - pensions	210	277
Obligation at end of period – other benefits**	13	17
Obligation at end of period – total	223	294

(**) These obligations are included in Tables 3 & 5 above.

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

	31.12.2011	**31.12.2010**
Obligation at end of period	25	27

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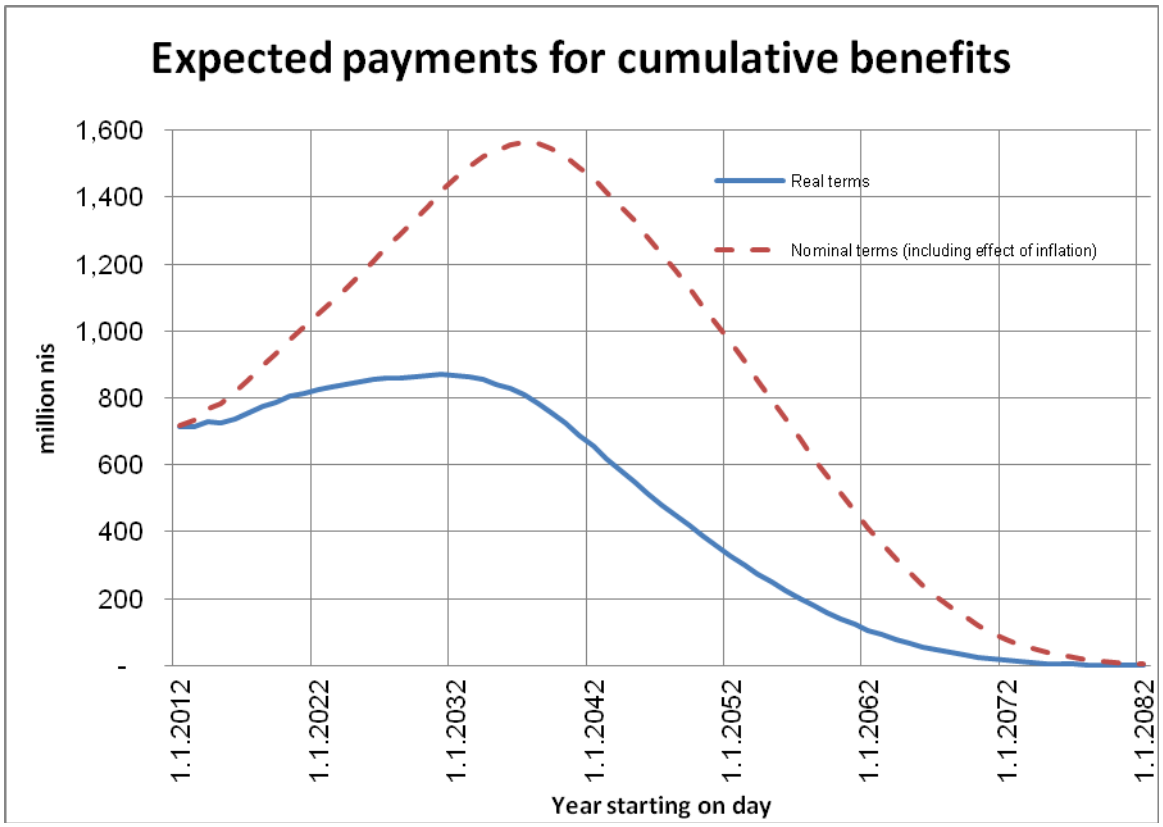
Appendix B – forecasted benefit payments

Below is a graph of the expected cash flows included in the valuation (including all benefits for all employees and pensioners), in real terms and in nominal terms (including the future expected influence of inflation).

The payments are annual.



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Appendix C – additional detail regarding the financial assumptions (annual rates shown)

	Period ending		
	31.12.2009	31.12.2010	31.12.2011
Weighted average real discount rate used to compute liabilities *	3.34%	2.88%	2.77%
Real interest rate used to compute the interest cost on pension liabilities *	3.51%	3.30%	2.88%
Real interest rate used to compute the interest cost on other post-employment liabilities	3.51%	3.30%	2.88%
Expected real return on plan assets	4.16%	3.30%	2.88%
Expected real return on trust assets (104A assets)	3.35%	3.30%	2.88%

* In practice the valuation was performed according to a vector of interest rates (a yield curve) which was determined by Mervach Hogen Ltd and which we received from the Company (see section 5.1.2). The above rate represents the vector of interest rates in consideration of the expected liability cashflow at each point in time. A valuation according to this constant interest rate leads to the same results as presented in this report.

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Appendix D – additional detail regarding the assumptions

List of data files received from the Company:

1. " ong1211" – 15,236 records – data including all employees / retirees / survivors (permanent workers only).
2. ״קובץ אקטואר מיוחד בכירים דצמבר 2011״ – 194 records – detail of wage components for active senior employees only.
3. "נתונים לבדיקת גידול השכר הרגיל האישי לעובדים ולגמלאים ושאירים המופיעים בקובץ האקטוארי של דצמבר 2011 - לאקטואר" – 14,681 records – detail of wage components for non-senior employees / retirees / survivors (permanent workers only).
4. " actuarpizuisug13411211" - 749 records – data including all non-permanent workers (special agreement).
5. ״ פורשי דצמבר 2011 מעודכן ״ – 10 records.
6. "change102011", "change112011", "change122011" – files that describe status changes of employees / retirees in the months September to December 2011.

The files listed above were received on January 5, 2012.

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Appendix E – changes to the valuation that took effect before the current year due to the implementation date of International Financial Reporting Standards (January 1, 2007)

Changes that took effect in the course of 2010

Section	New Assumptions	Old Assumptions
Marriage rate and age difference between spouses	According to Tables P9 and P10 of the Circular, with an adjustment to Table P10, for male employees and pensioners, in order that the expected age difference between spouses for an employee or pensioner will be according to the table for an employee until age 35, 2 years for an employee aged 36 until 46, and 1 year less than the table for an employee / pensioner older than 46.	According to Tables P9 and P10 of the Circular
Leaving assumption for generations A and B, and for employees under special agreements	It is assumed that there will be no leavers, besides for early retirements.	See the table in the actuarial report at 31.12.2009
Leaving assumption for employees under special agreements	See section 5.4.5 of this report. The rates were fixed according to an up-to-date study.	See the table in the actuarial report at 31.12.2009
Early retirement assumption for generations A and B	See section 5.4.4 of this report. The rates were fixed according to an up-to-date study.	See the table in the actuarial report at 31.12.2009
Grant for increased severance pay at early retirement	At early retirement entitlement to this grant does not exist.	At early retirement entitlement to this grant exists.

The section that follows was written by the former actuary and has not been checked by us. It was copied, without changes, from the valuation report as of December 31, 2009.

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Changes that took effect in June 2007

Section	New Assumptions	Old Assumptions
Mortality rate for pensioners	According to Table 3P, in the Finance Ministry circular of May 17, 2007	On the basis of 90% of Table 4.A.1. in the Finance Ministry circular of February 29, 2000.
Mortality rate for survivors	From age 60 for men and age 55 for women, according to Table 5P in the Finance Ministry circular of May 17, 2007. Until age 60 (55) according to Table 4.A.1. in the Finance Ministry circular of February 29, 2000.	According to Table 4.A.1. in the Finance Ministry circular of February 29, 2000.
Mortality rate for active employees	According to Table 1P in the Finance Ministry circular of May 17, 2007.	On the basis of 60% of Table 4.A.1. in the Finance Ministry circular of May 17, 2007.
Disability rate	According to Table 8P in the Finance Ministry circular of May 17, 2007.	According to Table 2B in the Finance Ministry circular of February 29, 2000.
Mortality rate for the disabled	2% until age 60. After age 60, according to Table 3P in the Finance Ministry circular of May 17, 2007.	2% until age 60. After age 60, according to Table 4.A.1. in the Finance Ministry circular of February 29, 2000.
Marriage rate	According to Table 9P in the Finance Ministry circular of May 17, 2007.	According to Table 3 in the Finance Ministry circular of February 29, 2000.

Reasons for the changes:

In light of the publication of the final Finance Ministry circular letter of May 17, 2007, concerning the updated actuarial assumptions for computing the actuarial obligation of the pension funds, examinations were conducted for computing the effect of adopting the actuarial tables as per the instructions of the circular, compared with the tables according to which the computations of the Company's actuarial obligation had been made until that time, which had been based on specific studies of the Company.

The effect of the adoption of the actuarial tables, according to the instructions of the aforementioned Finance Ministry circular, on the actuarial obligation of the Company in respect of the past as of June 30, 2007, was an increase in the obligation of the sum of about NIS 265 million (NIS 289 million when adjusted for inflation to December 31, 2009).

The adoption of the actuarial tables according to the instructions of the aforementioned Finance Ministry circular, starting with the financial reports of June 30, 2007 is necessary due to the mortality tables set in the circular being based on studies that were conducted on pension funds in the arrangement, these being more credible than the study that was conducted on the smaller population of the Company.

The marriage rates according to which the actuarial obligation had been computed until that time were based on tables that appeared in the Finance Ministry circular of 2000/1. With the change in the table of marriage rates in the new circular, adjustment of these rates was required.

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The rates of leaving work because of disability according to which the actuarial obligation had been computed until that time were based on the table that appeared in the Finance Ministry circular of 2000/1 and related to the definition, 'He is not able to do any work'. In the new circular of the Finance Ministry, a single table is given, which relates to the definition, 'He is not able to do his work or any other work appropriate to his level of education, training, or abilities'. The changed table for the rate of leaving work because of disability had virtually no effect on the actuarial obligation and therefore the computation of the obligation from that time onwards is based on the table that appears in the current Finance Ministry circular, despite the fact that this table is geared to a definition of disability that does not match precisely the definition of disability used by the Company.

Other assumptions that are taken into account in the determination of the actuarial obligation and that are not mentioned in the Finance Ministry circular (e.g. rates of early retirement, rates of resignation, salary increase table etc.) are according to forecasts or specific studies conducted in the Company.

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Changes that took effect in June 2008

Section	New Calculation Methods and Assumptions	Old Calculation Methods and Assumptions
Past obligation for pension payments after ending employment (because of old-age, because of disability or because of death while employed), including convalescence	**The past service obligation is calculated according to the plan's benefit formula, i.e. according to the accumulation of percentage pension rights in the pension plan.**	**The new methods and assumptions were applied retroactively with the transition to full application of IAS19.**
Early retirement rates	**25 workers a year according to the existing mix of the relevant population (this number of workers is equivalent to the Early Retirement table in Appendix F).**	
Discounted electricity and holiday presents, grossed-up for income tax	**Full obligation is recognized for workers who have at least 10 years service and have reached age 40.** **For those workers who have not yet served for 10 years or have not yet reached age 40, the past service obligation is calculated as the past service divided by the service required until both conditions will be fulfilled.**	
Additional Years Benefit	**This obligation is not recognized until 35 years of service in the Company. The obligation is computed only for employees with service in excess of 35 years, according to the accumulated additional years of service (in excess of 35 years) at the valuation date.**	
Past service obligation for: **Disability benefit**	**According to the service accumulated at valuation date.**	
Past service obligation for: **Early retirement benefit**	**According to the service accumulated at valuation date.**	
Past service obligation for: **Severance payments for employment termination without pension rights**	**According to the service accumulated at valuation date.**	
Past service obligation for: **Up To 35 Years Benefit**	**According to the service accumulated at valuation date.** **Upon 35 years of service, the benefit is fully recognized.**	

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The reasons for the changes:

All of the above changes result from full application of the methodology of IAS19.

The updated assumptions for the early retirement rate are according to the best estimate of the number of early retirees in the future (not including early retirees in special early retirement programs and ignoring the influence of such programs on early retirement rates) which was set by the Board of Directors at its meeting on September 1, 2008 and also at its meeting of April 30, 2009.

The estimate which was set by the Board of Directors is 25 retirees a year given the mix of the relevant population. This estimate is reflected in the early retirement table in section 5.4.3.

Changes that took effect in June 2009

The changes that apply to this report regarding salary and pension increases result from changes in accounting practice (according to the letter from the Company dated December 20, 2009). Therefore it is not relevant to this Appendix.

Changes that took effect in December 2009

1. Specific calculation for discounted electricity and holiday gifts: the obligation is recognized for whoever completes 10 years of service and has reached age 40 (age 60 for generation C). For whoever has not reached age 40 (age 60 for generation C) or has not accumulated 10 years of service, the obligation is based on the years worked relative to the amount of time left until the fulfillment of the 2 conditions above. In the past, the obligation was recognized for generation C in the same vein as for generations A and B. This change resulted in a decrease in the obligation of NIS 26.6 million.
2. Assumption of increased salaries for employees with special agreements – 1.5% per year on a real basis. In December 2009, I conducted an investigation to determine an assumption for these employees. It was found that the salary increase for these employees was lower than the salary increase in wages for permanent employees. This change had an impact of NIS 2.5 million.

חברת החשמל

Description of the Main Rights which Should be Taken into Consideration in Determining the Actuarial Obligation with respect to Benefits After Termination of Employment as at December 31, 2011

The Determining Salary Components for Calculating the Pension:

1. **Normal Salary** - including combined salary, service increment (up to a 40 years maximum), extra effort increment, continuing education payments, job classification increment, personal extra, cost of living allowance.

Normal Salary Calculation Formula:

$$\text{Normal salary} = \left[\text{Extra Effort} + \text{Continuing Education} + \text{Personal Extra}\right] + (1.01)^{N} \times \left[\text{Job classification Increment} + 1\right] \times \left[(\text{Cost of Living Allowance Rate} + 1) \times \text{Salary Grade}\right]$$

N – number of years of service for calculating the service increment for payment

Normal Salary Components:

(a) **The Combined Salary** according to accepted salary tables in the Company.

The salary agreement for the period up to June 30, 2012 (signed on January 31, 2011) states that salary increments will be paid (updated basic salary tables and salary increments in NIS) at the following rates and dates:

Starting from January 1, 2011 – 2.25%.

Starting from January 1, 2012 (in the salary of January 2012) – completion up to 3.75%.

Starting from January 1, 2013 (in the salary of January 2013) – completion up to 5.75%.

The combined salary of Management level members includes global payment for overtime.

In his letter on October 2, 2011, the Supervisor of Wages and Work Agreements announced that he intends to conduct a hearing process on the subject of paying pensionable global overtime hours to Management members in Grade B.

(b) **Service increment**:

1. The annual service increment rate is 1% for each year of service.

2. The Service Increment Calculation Formula:

   Service Increment Amount for Payment = $[(1.01)^N - 1]$ 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. Masters Degree Service:

   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 an increment of 1.5 years for each year from the Master's studies completion date onwards).

   Service Increment/ Pension Percentage with respect to Security Service prior to Establishing the State of Israel/ Prisoners of Zion:

   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 with each cost of living allowance and each work agreement, unless a law amendment will be completed up to January 2, 2012, that will bind linkage to the CPI of the pensions for employees entitled to budgetary pension in the Company.

2. The Main Entitlement Groups are:
   - Group A – Maintenance employees.
   - Group B – Other workers, meters 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. Rates Update:
   Managerial continuing education payments rate is updated according to each cost of living allowance. Rate update derived from a wages agreement – if specified in the agreement, unless a law amendment will be completed up to January 2, 2012, that will bind linkage to the CPI of the pensions for employees entitled to budgetary pension in the Company.

(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 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. Rates Update:
   - Rates of payment for professional continuing education A + B are published and updated from time to time 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, unless a law amendment will be completed up to January 2, 2012, that will bind linkage to the CPI of the pensions for employees entitled to budgetary pension in the Company.
   - 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, up to the ceiling specified in the related HR procedure or according to the standard rate, the higher of the two.

(f) Job Classification Increment:

1. Employees defined as managers are entitled to Job Classification Increment according to the defined group to which they belong:
   - M – Professional group: 2.5% (*)
   - P – 1 Unit leaders, deputy unit leaders, group leaders and their equivalent: 5.5%
   - P – 2 "Large" units leaders, foremen and their equivalent: 6.5%
   - P – 3 Deputy Department Managers, Senior unit leaders
     Senior foremen and their equivalent, special roles and senior experts: 7.5%
   - P – 4 Department Managers, Special roles and senior experts
     at peak rank: 10.0%
     Note: Defined as Equivalent 5960, 1960, 5521, 3861 will receive an 18% job classification increment after serving two years at peak grade.
   - P – 5 Standard Department Managers at peak grade: 21.0%
   - Senior Managers (salary groups C, D, E): 23.5%
   - Senior Managers (salary groups A, B): 26.0%

   (*) Including employees employed by the Company for 20 years at least who were not entitled to any Job Classification Increment.

2. Calculation of Job Classification Increment:
   (Job classification factor rate x salary grade).

(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 wages 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 with every cost of living allowance and wages agreement, unless a law amendment will be completed up to January 2, 2012, that will bind linkage to the CPI of the pensions for employees entitled to budgetary pension in the Company.

2. Payment of 13th Salary

1. Employees from their 2nd year of employment and pensioners/survivors are entitled to 13th salary payment.

2. The 13th salary consists of a normal salary for the payment month, divided by 12 and multiplied by 6 months, payable in two parts: the 1st part before Passover and the 2nd part before the Jewish New Year (Rosh Hashana).

3. 20/25 years Salary Payment (14th Salary Bonus)

An addition at the rate of one normal salary, payable once a year, 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. 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.

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 Days Quota (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

4. Convalescence Day Rate:
   The rate per one convalescence day will be updated once a year on June 15, according to the cumulative changes in the CPI from the CPI of May to the CPI in May on the following year.

5. Payment Date:

   An advance on account of convalescence payment is paid in the salary for April and the balance is paid with the salary for July.

6. Convalescence payments are paid to pensioners/survivors according to the pension rate.

5. Arava Addition

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.

3. The Arava addition rate is updated after each cost of living allowance. Rate update derived from a wages agreement – if specified in the agreement, unless a law amendment will be completed up to January 2, 2012, that will bind linkage to the CPI of the pensions for employees entitled to budgetary pension in the Company.

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.

  The increment will be determined upon the employee's retirement to pension and will be updated according to rates applied to employees.

- Home service rate is updated with every cost of living allowance. Rate update derived from a wages agreement – if specified in the agreement, unless a law amendment will be completed up to January 2, 2012, that will bind linkage to the CPI of the pensions for employees entitled to budgetary pension in the Company.

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%.

Proper Description of all 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 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 the employees' electricity rate in each of the following cases:
   - An active generation C employee.
   - Upon retiring from work in the Company due to a disability which is recognized as an entitling event by the pension insurer of the employee, as long as the employee is recognized as a disabled person by the insurer.
   - Upon retiring from work at the Company at the age of 60 or later, provided that the employee has 10 years of work at least.
   - Survivors are entitled to pension from the pension insurer of an entitled generation C employee.
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 two entitled persons reside together in the same residence, only one of them is entitled to the electricity rate for Company employees.
5. Pensioners/survivors are entitled to electricity at the rate of Company employees without doubling the pension rate.
6. Pension recipients are entitled to electricity on condition that the pension from the Company is their main source of subsistence.

Holiday Presents

1. The Company grants holiday presents to its employees, pensioners and their 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.
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 due to a disability which is recognized as an entitling event by the pension insurer of the employee, as long as the employee is recognized as a disabled person by the insurer.
   - Upon retiring from work at the Company at the age of 60 years or later, provided that the employee has 10 years of work at least.
   - Survivors are entitled to pension from the pension insurer of an entitled generation C employee.
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. Pensioners/survivors are entitled to holiday presents without doubling the pension rate.

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 15 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 in salary grade for employees in senior status usually occurs only after promotion to a higher position (division deputy manager/division manager). There are no automatic promotions in grades.

Star Grade

A male employee who has 25 years of service and a female employee who had 20 years of service are entitled to a payment equivalent to one additional salary grade to their grade, without changing the nominal grade, provided they began work at the Company before January 1, 2004.

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 at the end of seven years of work or more, will carry over the additional salary grade.

Promotion in Grade upon Retirement

1. An employee who retires to pension, under all retirement plans, is promoted by one salary grade immediately after retiring, if his tenure in the rank is one year at least.
   If the employee does not have tenure of one year in the current salary grade for retirement, the salary grade for retirement will be granted on the completion date of one year's tenure for the salary grade at which he retired.

2. If the law amendment that binds linkage to the CPI of pensions of employees entitled to budgetary pension in the Company will be completed up to January 1, 2012, the entitlement to a retirement grade from that date will be on the employee's retirement date from the Company.

3. The following table details the granting mode of retirement salary grades to retiring employees:

Grade before retirement date	Granting retirement grade on the retirement date (after 12 months at least in the former grade)
+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) 46 / + *(f) 27

   Subject to the amendment of the law, as of January 2, 2012, an employee entitled to budgetary pension, who is entitled according to work agreements with the Company to a grade promotion as an active employee of the eve of his/her retirement, will be entitled to a retirement grade on the retirement to pension date. For instance, if an active employee is entitled on April 1, 2012 to a grade according to the work agreement and is scheduled to retire to pension on April 1, 2012, the employee will be entitled on that date to both a grade according to work agreements and to a retirement grade.

   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 CEO of the Company has the authority to approve or refrain from approving a retirement grade of an employee entitled to budgetary pension who is included in the senior employees' grade scale, with due consideration, inter alia to the seniority of the employee in the grade. Nevertheless, an employee graded at grade B of the senior employees grades scale is not entitled to a retirement grade (except a closed list which was approved by the authorized entities).

1. **Pension Updating Mechanism.** An employee who retires to pension is entitled to salary grades during his retirement. The grade will be awarded to the pensioner/survivor at the end of three years from the receipt date of the current grade. Pensioners/survivors at managerial grade 27/professional grade 46 will not be promoted.

2. Pensioners/survivors at a senior status are not promoted in salary grade.

3. Grading in 2011 - Grade promotion of pensioners/survivors will continue in 2011 as follows:
   a) Grade promotion will be every three years from the promotion date to the previous grade (except the retirement grade). However, a pensioner/survivor who reached managerial grade 27/professional grade 46 and up, or an employee/survivor with a grade of the senior employees' grade scale, will not be promoted.
   b) The grade promotion will apply to whoever is at the grade to which he would have been entitled if he/she would have been promoted to a higher grade every three years during the period from January 1, 2004 and December 31, 2011.

4. If the law amendment that binds linkage to the CPI of pensions of employees entitled to budgetary pension in the Company will be completed up to January 2, 2012, then from this date, the pensions update mechanism of employees entitled to budgetary pension from the Company will change as follows: The determining salary for calculating the pension of a pensioner/survivor entitled to budgetary pension (normal salary, shift percentage increment, 1/12 of the 13th salary, home service, 1/12 of the 14th salary, Arava increment) will be updated in January of each year with respect to January salary onwards, at the rate of the increase of the CPI in December of the year preceding the update month, compared to the CPI of December of the year before the previous update month. To remove any doubt, it is clarified that the first update for the entitled, according to the specified in this section, will occur in the pension for January 2013.

5. In the event that 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.

6. CPI Calculation Increment – in the event that law amendment that binds linkage to the CPI of pensions of employees entitled to budgetary pension in the Company will be completed up to January 2, 2012, then from this date, a monthly increment to the pension will be paid to the aforementioned pensioner/employee, who retired from the Company before January 1, 2011, as follows:

   An 8% monthly increment to the pension: 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/will receive 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.

   An 12% monthly increment to the pension: 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, or alternately, whoever did not receive/will not receive a retirement grade of 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, as aforementioned in section 3 above, will receive 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.

   It should be noted that a pensioner/survivor who retired from the Company after December 31, 2011, will not be entitled to a CPI calculation increment at all.

7. Payment of a one-time only award to pensioners/survivors: A pensioner/survivor entitled to budgetary pension who retired from the Company before January 1, 2011, was entitled to a one-time only award, paid on the following two dates:

   a) On February 20, 2011, a payment of 83% of the monthly rate (including normal salary, shift percentage increment, 1/12 of the 13th salary, home service, 1/12 of the 14th salary, Arava increment) due to an employee/survivor on December 20, 2010 (excluding the salary increment at the rate of 2.25% according to the salary agreement), less the one-time award of NIS 2,000 times the pension rate (as paid according to the specifications of the salary agreement)..
   b) On July 20, 2011, a one time award was paid that was calculated as follows: 96% of the monthly pension to a pensioner/survivor whose grade before January 1, 2011 was managerial 27 and up (or professional grade 46 and up), or alternately, an employee who received a retirement grade of managerial grade 27 and up (or professional grade 46 and up), or alternately, was promoted to a grade in the senior employees' grade scale before January 1, 2011 (8% times 12 months).

      Or alternately: 144% of the monthly pension to a pensioner/survivor who did not receive a grade of managerial 27 and up (or professional grade 46 and up) before January 1, 2011, or alternately, an employee who did not receive a retirement grade of managerial grade 27 and up (or professional grade 46 and up), or alternately, was not promoted to a grade in the senior employees' grade scale before January 1, 2011 (12% times 12 months).

      Calculation of the one-time award to a pensioner/survivor who was promoted to a grade in 2011, according to section 3 above, was as follows: multiplying the monthly pension by the difference between 144% and the rate that results from multiplying the monthly rate of change in the pension deriving from receiving a grade in 2011 by the number of months on which the grade for 2011 will be paid.

The Determining Salary for Pension Payment

The last salary paid to an employee prior to retirement, updated after retirement according to salary grade, while promoting to higher grades according to work agreements.
If the law amendment that binds linkage to the CPI of pensions of employees entitled to budgetary pension in the Company will be completed up to January 2, 2012, then from this date, all instructions to update the determining salary for calculating the pension will be cancelled, including all components of the salary deriving from an agreement of an arrangement. Therefore, the determining components of the salary for calculating the monthly pension of a pensioner/survivor entitled to budgetary pension will not be updated according to changes that will be made in the salary of an active employee of the Company, at any time, such as: salary agreement, increment for increased CPI, changes in the rate of advanced studies compensation/extra effort increment etc., or through any grades, except the retirement grade.
The determining salary includes the following components: normal salary, shift work payment, home service, Arava addition and a fraction (equal to 1/12) of the following components: convalescence, 13th salary and 14th salary.

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, fraction of 13^{th} salary and 14^{th} 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, the Company has an obligation to incur costs of welfare activities of 0.49% of the salary of each employee, or of the pension to which each pensioner is entitled.

b. Starting on January 2, 2012, provided that the regulation amendment that binds linkage to the CPI of pensions of employees entitled to budgetary pension in the Company will be completed, the Company will allocate once a year, for the welfare of pensioners entitled to budgetary pension, a total sum of NIS 393 (in December 2007 prices) with respect to each pensioner who is entitled to budgetary pension (receiving old age or disability pension). If the pensioner was entitled to a pension for part of the year for which the aforesaid total sum is paid, the sum paid with respect to that pensioner will be proportional to the part of the year in which he is entitled to pension.

   This sum will be updated according to the change rate between the CPI for December of the year before the update month and the CPI of December of the year that preceded the previous update month. This sum is designated to the welfare of pensioners entitled to budgetary pension (e.g., in the cultural, health, recreation and leisure fields).

Details of Grants Paid upon Termination of Employer-Employee relations:

1. **Excess years grant**

   The grant is calculated as one monthly salary for each 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.

   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. **Disability retirement grant**

   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.

3. **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.

4. **20 Year grant (**including Generation C employees**)**

   Permanent employees who have completed 20 years of employment with the Company are entitled to a one-time grant equal to the normal monthly salary.

5. **Grant for Up To 35 Years (**including Generation C employees**)**

   A monetary grant given to an employee retiring to pension, 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. In the event of the employee's death, the grant will be paid to the survivors.

6. **Unused sick days benefit (**including Generation C employees**)**

   A sum of money paid to an employee upon retirement to pension (including 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.

The salary per sick day for purposes of calculation of the grant is 1/25 of the normal monthly salary, including the 13th salary. The salary per sick day after 35 years of service and after age 60 (55 for women) includes the 25/20 years salary.

7. **Supplement of Company obligation for severance payments to Generation C employees**

According to the relevant collective agreement, the Company provides a sum each month equal to 6% of employees' monthly insurable salary for the severance pay obligation to Generation C employees (permanent employees who began work after June 10, 1996) who are insured by an external cumulative pension fund. This provision is under the conditions of Section 14 of the Severance Pay Law ("in place of supplement") and therefore, the Company has no obligation to supplement it.

In addition, these employees will receive a severance benefit of 28% of their last salary only if they are entitled to severance pay (an employee who voluntarily terminates his employment does not receive severance pay). The supplementary severance payments for these employees are as follows: last normal salary (including the 13th salary fraction) multiplied by the years of employment with the Company and multiplied by 28% (an employee who started work before January 1, 2004 and will be entitled to a 14th salary, the 14th salary will be calculated for him even for years exceeding 35 years). The supplementary severance payment will be also paid in the event of death (to survivors), disability and compulsory retirement.

8. **Increased severance payments for employees under special agreement**

According to the relevant collective agreement, Company employees under special agreement (non-permanent staff) are eligible for increased severance payments beyond those covered by monthly contributions of 8.33% of salary deposited in an external cumulative pension fund. This provision conforms to the directives of Section 14 of the Severance Payments Law. These employees are entitled to additional severance pay from Company funds equal to one monthly salary for each of the first two years of employment; from the 3rd year onwards, two additional monthly salaries. An employee who resigns from work voluntarily is not eligible for this extra severance benefit in excess of that provided for him in the pension plan.

The maximum term of employment for these employees is ten years for those who began work before or on December 31, 2004 and five years for those who began work from January 1, 2005 and onwards.

Increased severance payments will also be paid in the event of death (employee survivors), disability and at the end of the employment period according to the agreement.

Note: Company procedures include extended details of the rights specified in this document.

Rights of Employees Entitled to Pension from the Pension Fund of Company Employees and Rights of Pensioners

1. **Retirement Pension**

1.1 Upon 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 **Advance Notice**

An entitled employee due to retire receives at last three months advance notice from the Electric Company about reaching the compulsory retirement age, with a corresponding notice to the managing company.

A female employee due to retire receives at least six months advance notice before reaching the retirement age. A female employee who chooses to retire after the retirement age and before the compulsory retirement age will notify the Company in advance about her intention and will indicate her retirement age, three months in advance at least.

1.3 **Entitlement to Retirement Pension**

An active entitled 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 until age 21 if and as long as he/she does compulsory service in the army/national service, 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.

4.2 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).

5. **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, 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 **Supplements to the Disability Pension with respect to Dependants**

5.3.1 A dependant for the purpose of this section:

- 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 dependant 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 dependant 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 dependants will be paid for each dependant at any time and as long as the definition of a dependant applies to the dependant, 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, after the retirement date, **do not** 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. Pension – General Instructions:

6.1 Pension Payment Dates

Pensions of eligible pensioners/survivors will be paid on the same dates as salaries to active permanent employees in the Company.

6.2 Work up to age 18

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 Breaks from Work

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. According to work agreements, as applied upon joining, 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 The law requires an employer to employ a widow/widower or a parent of soldier that was killed in action, 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 until they turn 70 years old.

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 Former Employers

Pension rates are calculated only according to work years in the Company.

Additional Right Not Taken Into Consideration in Determining the Actuarial Obligation with respect to Benefits After Termination of Employment

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.

Valuation & Strategy

Israel Electric Corporation Ltd.

Assets Impairment Test as of December 31, 2011 Per International Accounting Standard No. 36, *Impairment of Assets*

March 29, 2012

Strictly Private and Confidential

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March 29, 2012

Mr. Moshe Bachman, Head of Accounting and Economics Department
Israel Electric Corporation Ltd.

Dear Mr. Bachman,

Re: Asset impairment test of Israel Electric Corporation Ltd as of December 31, 2011

Pursuant to your request, Kesselman Finance PricewaterhouseCoopers Ltd. ("**PwC Israel**") has performed an asset impairment test ("**Asset Impairment Test**" or the "**Analysis**") with respect to the assets of the three activity segments of Israel Electric Corporation Ltd. ("**IEC**" or the "**Company**"). This Analysis was performed under the provisions of International Accounting Standard 36, *Impairment of Assets* ("**IAS 36**") as of December 31, 2011 (the "**Analysis Date**").

Our engagement is limited to assisting the management of IEC ("**Management**") in performing the Asset Impairment Test as aforesaid. Our Analysis has been performed under the terms and conditions included in our engagement letter dated November 6, 2011.

The objective of this work accompanying this letter is to assist the management of IEC ("**Management**") in performing the Asset Impairment Test ("**Asset Impairment Test**" or the "**Analysis**"). Our Analysis was performed under the terms and conditions included in our letter to you dated November 6, 2011.

Please find below additional details, as required under the Israeli Securities Law Regulations (Periodic and Immediate Reports)- 1970.

Engagement details

The engagement was commissioned by IEC, through Moshe Bachman, Head of Accounting and Economics Department.

The date of our engagement letter is November 6, 2011.

Details of the Valuers and their professional experience

The Analysis was performed by Dr. Tzur Fenigstein, CPA (Isr.). Further details regarding Dr. Fenigstein's education and experience are presented in Appendix 1.

Previous valuations

PwC Israel has performed a valuation of company assets as of September 30, 2011, March 31, 2011, and December 31, 2010.

Following is information required in accordance with Regulation 8B(d) to the Israel Securities Regulations (Periodic and Immediate Reports), 1970, in relation to previous valuations of IEC by PwC Israel:

Work performed	Date of valuation	Relevant standard	Methodology	Value in use (million NIS)	Discount rate
Impairment of assets test	September 30, 2011	IAS 36 "Impairment of Assets"	Discounted Cash Flows (DCF)	65,977 (NIS, September 2011)	generation segment – 6.30% Transmission and transformation segment– 5.75%
	March 31, 2011			64,396 (NIS, March 2011)	generation segment – 5.34% Transmission and transformation segment– 4.99%
	December 31, 2010			64,128 (NIS, December 2010)	generation segment – 5.31% Transmission and transformation segment– 4.98%

Limitation of liability

This Report has been prepared solely for Management for the purposes of financial reporting, and should not be relied upon for any other purpose. It is agreed that IEC can append this report to its filings under the Israeli Securities Law – 1968, or its regulations, and to any other filing under Israeli securities laws.

In the course of our analysis, we used financial and other information, including financial projections, provided to us by Management. We assume such information to be reliable. The more significant sources of this information are identified in the accompanying report. Our conclusions are dependent on such information being complete and accurate in all material respects; however, we have not examined such information and, accordingly, do not express an opinion or any other form of assurance thereon.

While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the existing business records of IEC. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of IEC.

In accordance with our engagement letter , except to the extent finally determined to have resulted from our gross negligence or intentional misconduct, our liability to pay damages for any losses incurred by you as a result of breach of contract, negligence or other tort committed by us, regardless of the theory of liability asserted, is limited to no more than five times the total amount of fees paid to us under the Engagement Letter before such losses were incurred.

By their vey nature, projections relate to future events and are based on assumptions, which may not remain valid for the whole of the relevant period. Consequently, this information cannot be relied upon to the same extent as that derived from audited accounts for completed accounting periods. We express no opinion as to how closely the actual results will correspond to those projected by the Company.

The valuation of companies and businesses is not a precise science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. While we consider our conclusion to be both reasonable and defensible based on the information available to us, others may place a different value on the business and arrive at a different conclusion.

Finally, the results of our valuation do not constitute a Solvency Opinion or a Fairness Opinion, and should not be relied upon as such. Furthermore, the analysis we perform should not be taken to supplant any procedures that you should undertake in your consideration of a transaction.

If you require any clarification or further information, please contact either Dr. Tzur Fenigstein +972-3-7954588 or Ronen Rotstein +972-54-3251890.

Yours faithfully,

Kesselman Finance PricewaterhouseCoopers Ltd.

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Table of Contents

		Page
1	Executive Summary	1
2	Introduction	4
3	Company Background and the Israeli Electricity Sector	6
4	Historical Financial Performance and Position	29
5	Methodology	32
6	Weighted Average Cost of Capital (WACC)	36
7	Main assumptions and estimates	39
8	Value in Use estimate - DCF Method	49

Appendices

1	Detailed experience and formal education of the head of the valuation team	56
2	Data Sources	58

Glossary of Terms and Abbreviations

Term	Definition
Activity segments	The generation, transmission and distribution segments
Analysis Date	December 31,2011
CAPEX	Capital Expenditure
CGU	Cash Generating Unit
FCF	Free Cash Flows
Grid Segments	The Transmission and Distribution segments
The Authority/ The Electricity Authority	The Public Utility Authority – Electricity
WACC	Weighted Average Cost of Capital
IPP	Independent Power Producer

Section 1
Executive Summary

Executive Summary

- IEC is a government-owned corporation providing electricity to consumers, from electricity generation through transmission, transformation and distribution, supply and trade. The Company is also engaged in construction of the infrastructures required for the aforementioned activities. The Company is owned by the State of Israel, which holds 99.85% of its shares, and therefore the Company and its activities are subject to the Government Companies Law - 1975 (the "**Government Companies Law**"). Since March 1996, the Company is subject to the Electricity Sector Law 1996 and the regulations enacted thereunder (the "**Electricity Sector Law**").
- The objective of our work was to assist Management in performing an impairment test by estimating the value in use of the company's assets. The valuation was performed under the provisions of IAS 36 for inclusion in the company's financial statements as of December 31, 2011.
- The impairment test was based on information and projections provided to us by Management. We take no responsibility or express any opinion on the correctness, completeness or accuracy of the information.

General

- For the purpose of the Asset Impairment Test we estimated the value in use, which is defined in IAS 36 as "*the present value of the future cash flows expected to be derived from an asset or cash-generating unit*" ("**Value in Use**").
- According to paragraph 22 of IAS 36, *"Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless either:*
  - *the asset's fair value less costs to sell is higher than its carrying amount; or*
  - *the asset's value in use can be estimated to be close to its fair value less costs to sell and fair value less costs to sell can be determined."*

Cash Generating Unit

- Paragraph 6 of IAS 36 defines a cash generating unit ("**CGU**") as *"the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets".*
- The Company examined its cash generating units, and came to the conclusion that the production, transmission and transformation segments are a single CGU. For the purpose of the valuation, the free cash flows from the operation of the cash generating unit was estimated, based on estimating the useful life of the assets in the cash generating unit.
- The cost of capital used for discounting the free cash flows, reflecting the business risk involved in the operation of the segments comprising the cash generating unit, were estimated at 6.73% for the generation segment and 6.46% for the grid segments.
- For the purpose of performing our work, we estimated the value in use using the Discounted Cash Flows (DCF) method.

Executive Summary (Cont'd)

Estimation of Value in Use

- After estimating the Value in Use for the CGU, in accordance with IAS 36, we compared the Value in Use to the carrying amount in the Company's financial statements as of the Analysis Date, as presented in the table below.

NIS Millions adjusted of December 2011	
Minimal Value in Use	64,654
Carrying amount	64,454

* The carrying amount was provided by the Company

- The minimum value in use of the CGU is not lower than the carrying amount in the unaudited financial statements of the company as of the Analysis Date.

Section 2
Introduction

Introduction

- Kesselman Finance was asked by the Company to assist with the implementation of IAS 36, in connection with the Asset Impairment Test. We have therefore estimated the Value In Use of the assets of the Company's activity assets and compared them to the carrying amount in the Company's unaudited financial statements, as of the Analysis Date. This exercise has been performed under the terms of our engagement letter dated November 6, 2011.
- As part of our work we have principally relied upon the Company's 2012 updated budget and upon the long-term financial forecast prepared by the Company with respect to 2012-2016. Our work did not include any validation of the information provided to us by management, including the long-term financial forecast.
- Our sources of information are set out in Appendix 2.
- As in any valuation, this Analysis is not aimed at establishing the exact value of the relevant assets. Rather, it is aimed at indicating a range for a plausible valuation, based on the information provided to us. Any changes in this information would obviously impact the results of our work.
- Furthermore, financial projections relate to future events, and are based on reasonableness assumptions on Analysis Date. These assumptions might change over time, and therefore projections prepared as at the Analysis Date might differ from actual results or later projections. Accordingly, these projections should not be regarded in the same level of assurance as audited financial statements, and we do not express any opinion regarding the alignment of these projections with actual financial results.
- This report should not be used, distributed, quoted or regarded in any way (including any share registrations or sales). However, we consent that this report will be attached to the Company's financial statements and will be mentioned therein.

Section 3
Company Background and the Israeli Electricity Sector

Company Overview

- The Company was incorporated on March 29, 1923 with its principal object being the production, distribution, supply and sale of electricity to consumers. 99.85% of the Company's shares are held by the state of Israel, and consequently the Company is subject to the Israeli Government Companies Law.
- Soon after its establishment, the British Mandatory Government in Palestine gave the Company a concession known as the Jordan Concession, and assigned to it a concession known as the Yarkon Concession (which was originally granted to Pinchas Rutenberg). By virtue of these concessions the exclusive right to generate, supply, distribute and sell electricity all over Mandatory Palestine, excluding Jerusalem and its surroundings was bestowed upon the Company.
- The validity of the concessions granted by the Electricity Concessions Order ended on March 4, 1996, and since March 5, 1996 the Company has been subject, among others, to the provisions of the Electricity Sector Law, which has been amended several times, since its enactment.
- The purpose of the Electricity Sector Law is to regulate activity in the electricity sector for the public benefit, while ensuring reliability, availability, quality and efficiency, and creating the conditions for competition and minimizing costs, , while providing for structural changes in the electricity market, including future restructuring of the company. The electricity authority ("**Electricity Authority**") was set up to act pursuant to the purposes of the Electricity Sector Law and the policies of the Government. The duties of the Electricity Authority shall include: setting and updating rates, setting criteria for the standard of service provided by the holder of an essential service provider's license, and granting licenses and supervising compliance with their provisions.
- The rules for granting licenses by the Electricity Authority, pursuant to the Electricity Sector Law, include a number of restrictions. Under these restrictions, different activities in the electricity sector will be separated, and in general, it is prohibited for one entity to hold a license for more than one activity, with maximum thresholds set for generation capacity held by a person, and for the extent of distribution covered by distribution licenses held by a person, and also imposes other restrictions on the licenses held by a cluster of companies.
- As of the Analysis Date, the Company holds licenses for 100% of its transmission, distribution, supply and generation capacity. Pursuant to the Electricity Sector Order, Dates Postponement – 2012, licenses of the Company for all its operations were extended up to January 1, 2013.

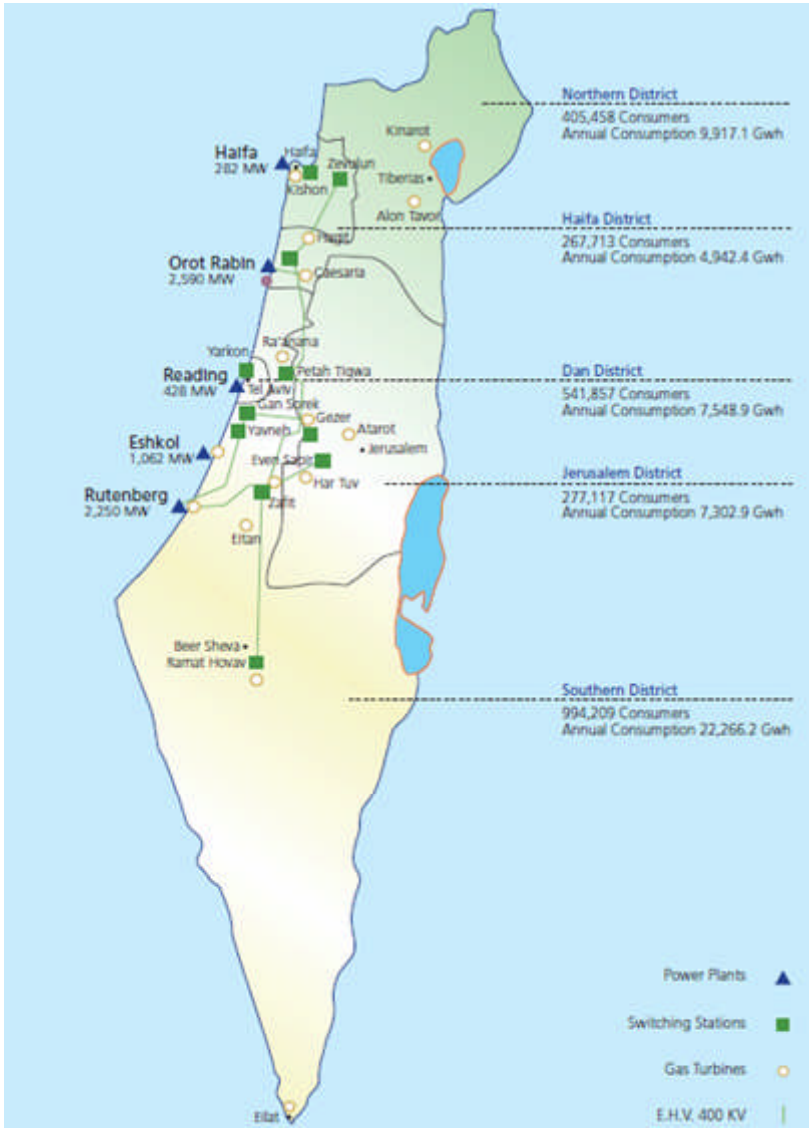
Activity segments

- The Company operates as one coordinated and integrated system engaged in the provision of electricity, from the electricity generation stage through transmission, distribution, supply and trade. The Company is also engaged in construction of the infrastructures required for the aforementioned activities. The Company's activity covers three main segments of activity :
  - Electricity generation, including all activities involved in the generation of electricity at the Company's sites;
  - Electricity transmission and transformation, including transmitting electricity from generation sites along ultra high and high voltage cables to switching stations, and between switching stations and sub stations, over high and ultra high voltage lines using transformers;
  - Distribution of electricity, including sending electricity from sub stations to consumers over high voltage lines and low voltage lines, and supplying and selling electricity to consumers.
- In addition to the power supply segment, the Company is on a preliminary stage of establishing, together with a partner, a company which will provide infrastructure for communication services on the electricity grid.
- The Company's headcount amounts to 12,500 FTEs. 40% of payroll costs are allocated to the development of the electricity market.

IEC Activity segments

The Generation Segment

- This segment is responsible for generating electricity and providing it to the national grid. Electricity is generated in power production plants located in numerous sites throughout Israel and operated using different energy sources. Generation plants are owned and operated by the company. In addition, a number of private producers provide electricity to the national grid in negligible amounts relative to overall power generation in Israel.
- Generation sites of the company are:
  - Rutenberg Site
  - Orot Rabin Site
  - Haifa Site
  - Reading Site
  - Eshkol Site
  - Gezer Site
  - Hagit Site
  - Alon Tavor Site
  - Ramat Hovav Site
  - Tzafit Site
  - Other sites.



IEC Organization Structure

The Generation Segment (cont'd)

- The Company maintains and operates 17 power station sites (including five sites for steam driven power stations) with installed generating capacity of 12,759 megawatts. Each Company power station site has one or more separate units to generate electricity. The Company had 62 generating units, of which 18 were steam powered and 44 gas turbines (of which 15 industrial gas turbines, 16 jet gas turbines, 9 combined cycle gas turbines and 4 industrial gas turbines for future operation in the combined cycle format).
- The Company's steam driven generating units produce electricity with steam turbines and include carbonic units powered by coal and/or fuel oil, steam units driven by fuel oil and/or natural gas, jet gas turbines driven by diesel only and industrial gas turbines driven by diesel and/or natural gas.
- Power stations in the natural gas era retain the ability to use two fuels (except Reading power station), and can operate with both natural gas and liquid gasoline. This is to maintain their ability to generate electricity even when there is a shortage of natural gas or a problem with its supply.
- In addition to the electricity generated at its power stations, the Company purchases small amounts of electricity from private electricity producers, some of whom sell all their output to the Company, while others generate electricity for their own use and only sell to the Company their surplus production.
- **Steam driven generating units:** The Company has 4 power stations with 18 steam driven generating units, and a cumulative installed generating capacity of 6,462 megawatts. These electricity generating units included 10 dual purpose units (that can run on both fuel oil and coal, and currently run on coal) with a cumulative installed generating capacity of 4,840 megawatts, 2 units operating on fuel oil with a cumulative installed generating capacity of 282 megawatts, and 6 generating units currently operating on natural gas, of which 4 units are capable of operation with either natural gas or fuel oil, with a cumulative installed generating capacity of 1,340 megawatts. Dual purpose power stations, which currently run on coal, require large investment and take a long time to set up, but when they are running on coal, the cost per kWh produced by them is low. The generators running on fuel oil were used to generate electricity for basic loads until the energy crisis in the 1970s, following which it was decided to diversify fuel use by setting up the dual purpose power stations, which can also use coal. When larger quantities of natural gas become available, more of the fuel oil generators that were converted to run on natural gas will be operated.

IEC Organization Structure

The Generation Segment (Cont'd)

- **Combined cycle generating units:** The Company has 9 combined cycle gas turbine generating units, with total installed generating capacity of the eight combined cycle units is 3,222 megawatts. In addition, three industrial gas turbines which, in the future, will receive steam additions, will operate in the combined cycle format. The total installed generating capacity of these gas turbine is 751 megawatts. The combined cycle gas turbines ("CCGT") improve burn utilization rates considerably. The combined cycle is a combination of industrial gas turbines and steam turbines. This technology exploits the residual heat emitted from the industrial gas turbines to run an additional (steam) turbine, with no extra fuel. Instead of emitting the gases to the air, its heat is exploited for further re-use.
- **Gas turbines:** The Company has 32 gas turbine generating units of which 16 were industrial gas turbines and 16 jet gas turbines with cumulative installed generating capacity of 2,324 megawatts. Industrial gas turbines and jet gas turbines can be set up with a relatively low investment and in a short time. However, generating electricity with gas turbines that use diesel is more expensive than with steam driven units, and the operation of jet gas turbines is more expensive than industrial gas turbines. On the other hand, gas turbines can be started and stopped more quickly. Therefore, the Company uses its gas turbines in periods of peak demand. When natural gas is available at sites where gas turbines are located, the Company will run the industrial gas turbines with natural gas.
- The Company's activities, including the generation segment, are subject to environmental laws and regulations regarding various matters such as air pollution, magnetic fields, water sources, noise, storage, transportation and disposal of toxic substances, hazardous materials and others (the "**Environmental Laws**").
- Environmental legislation stipulates permitted levels for air pollution, noise, contaminants in sewage and other waste from power stations and the Company's other facilities, as well as mechanisms for handling toxic substances (the Hazardous Materials Law), restrictions and procedures for erecting facilities (the Planning and Construction Law) and so on.
- The Company implements measures in order to comply with the existing environmental laws, including the installment of devices for reducing emissions, using low sulfur fuel oil and coal, and the operation of systems that monitor and control emissions .

IEC Organization Structure

The Transmission and Transformation Segment

- The transmission and transformation segment is responsible for the transmission of electricity, generated in power stations, to different geographical areas throughout the country, according to actual demand in each area and other parameters set by the Company.
- The transmission and transformation of electricity is undertaken in the framework of a license that the Company received for the transmission, distribution, supply, sale of electricity and trade in it ("**the combined license**"). This license, with all the activities it includes, was extended by amendment No. 8 to the Electricity Sector Law up to January 1, 2013. It should be noted that the Company has not received a new, separate license for the transmission activity, and therefore this activity is carried out according to the format of the aforesaid combined license (which as stated referred to a number of activities).
- The Company's transmission grid covers the whole of the State of Israel and territories under the rule of the State of Israel since June 1967. The transmission grid consists of ultra high voltage lines (400 kwh) over which electricity is sent from the generating units to the main switching stations, which transform the electricity using linkage transformers and transmit the electricity through high voltage lines, to substations located all over the country. From the substations the electricity, after being transformed to high voltage, is sent to end users through the distribution system.
- The transmission segment is also responsible for providing electricity to customers of ultra-high voltage. These customers are mainly large consumers like industry plants (mainly in the chemistry industry), Mekorot sites, etc.
- The installed national transmission system's circuit includes 737km of 400 kV lines, 4,295km of 161 kV lines, 124km of 115 kV lines and 101km of 161 kV lines. The installed capacity of a 400/161 kV connection transformer was 10,150 megavolts.
- the transformation system covers 197 substations (of which 40 were owned by consumers). The installed transformation capacity is 17,400 MVA (including 2,524 MVA for substations owned by consumers).

IEC Organization Structure

The Distribution Segment

- This segment is responsible for distribution of electricity through high voltage and low voltage to end consumers. Distribution is performed by a number of districts, based on geographic regions that manage the construction and maintenance of local electricity grid, connection of consumers to the grid, installing and maintaining meters, and billing and collection.
- The five districts of the company are:
  - Northern
  - Haifa
  - Jerusalem
  - Dan
  - Southern
- The Company's distribution system consists of lines with voltages of 33 KV, 22 KV and 12.6 KV (high voltage lines), low voltage lines and distribution transformers. The Company supplies most consumer with low voltage electricity, and large consumers with high voltage electricity. The electricity distribution activity is performed under the Combined License, which was extended for all activities until January 1, 2013. Note that the company received no new and separate license for the distribution activity, and therefore, this activity is performed based on the combined license.
- The **Northern District** covers all the northern regions of Israel, down to Alexander River in the south, excluding Haifa and its environs. The District's activity along the Lebanese, Syrian and Jordanian borders, and at the south eastern side along the boundaries of the Palestinian Authority, is conducted subject to security restrictions. This District is characterized by a scattered population, with a large number of small towns and villages, and long distribution lines.
- The **Dan District** boundaries are Road 5 and Glilot Junction in the north, Bar Ilan University and Or Yehuda in the east and Holon in the south. This is the most densely populated of all the Company's districts, because of its urban nature. Therefore, most of the distribution grid in the Dan District is underground.
- The **Jerusalem District** covers Greater Jerusalem, Beit Shemesh, Har Tuv, Har Hevron and its south, Samaria including the town of Ariel, the Jordan Valley between Ein Gedi and Mechula. Because of its location, this District bears the main burden of the Company's work in the Judea and Samaria areas on a daily basis. The activity is possible thanks to the fact that the electricity supply is excluded from dispute, and thanks to the cooperation with the East Jerusalem Electric Company.

IEC Organization Structure

The Distribution Segment (cont'd)

- The **Southern District** is the largest of the Company's Districts, stretching from Emek Hefer in the north to Eilat in the south, excluding the Dan District that covers greater Tel Aviv. Given its size, this District serves about 40% of the Company's customers.
- The **Haifa District** covers Haifa and its environs, from the South Acre Industrial Zone in the north, Shefaram and Mishmar Ha'emek in the east, Bat Shlomo in the south and the Carmel Beach communities in the west. This District is largely a densely populated urban area, and therefore about one half of the grid lines in it are under ground.

IEC Organization Structure

IEC's Communication activity

- On July 15, 2010, government decision number 2024 (the "**Decision**") was approved. According to the Decision, IEC is allowed to operate in the communication market subject to restrictions set forth in the Decision. The communication operation will be through a company to be established together with an external partner (the "**Communication Company**"). IEC is Limited to hold minority shares in the Communication Company.
- The planned operation of the Communication Company is providing telecommunications services using the electricity grid.
- In October 2011 the company started the tender process to select a partner to establish the Communication Company. According to the tender documents, the partner selection process is expected to be completed in May 2012.
- Since there is significant uncertainty regarding the timing of the cash flows and the extent of the cash flows arising from the communication operation, the impairment analysis did not take into account any implications of IEC's communication activity.

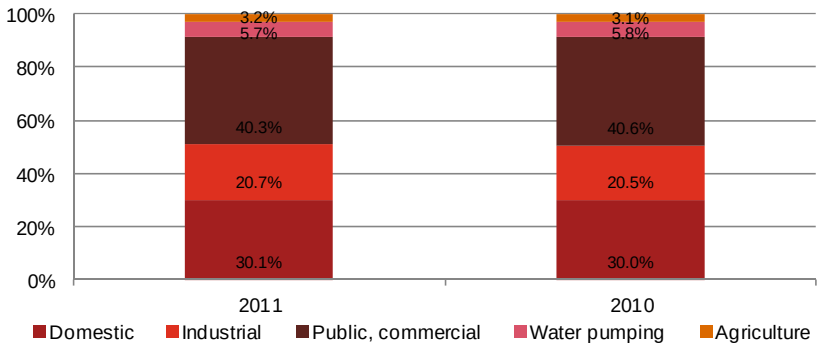
Competition

- IEC produces, distributes and transmits the absolute majority of the electricity in Israel. The government's pronounced policy promotes competition within the electricity sector. Accordingly, On May 12, 2009, the Government reached a decision on the subject of increasing competition in the electricity sector, setting targets to increase the installed electricity generating capacity of private producers to 20% of the country's installed generating capacity.
- The Company believes that the use of natural gas is likely to accelerate the competition in the electricity sector, since natural gas based generating units are significantly less expensive than ones based on liquid fuels or coal.
- The electricity sector law stipulates provisions aimed at promoting further competition in the Israeli electricity sector, including provisions concerning the establishment and operation of subsidiaries. These subsidiaries would work in the same segments as the Company works today and all to promote competition in the electricity sector.
- The Electricity Sector Law stipulates that the holder of an essential service provider's license shall:
  - purchase electricity from IPP,
  - provide infrastructure (distribution and transmission services) to IPPs, and
  - provide backup services to the holder of a self generation license, at its request.
- As of the Analysis Date , there is an uncertainty regarding the effect of regulations and criteria, as set by the Electricity Authority, concerning preferences for IPPs. The potential for competition increasing poses a financial risk on the Company, since there is uncertainty regarding the capacity needed to be generated in order to supplement IPPs insufficiency.
- During 2010 and 2011, the Company purchased about 300 and 344 million kWh from private producers, respectively. The electricity purchased from these producers in 2010 and 2011 represented about 0.3% and 0.7%, respectively, of the electricity supplied by the Company each year.
- As of December 31, 2011, the installed generating capacity of IPPs represents about 1.9% of the Company's total installed capacity. However conditional license for IPPs totaling 4,864 megawatts (or 35% of company's installed capacity) have been issued to this date.
- As of the Analysis Date, the Company has no competitors in the transmission segment and in the distribution and supply segment, except in relation to distributers who receive bulk electricity and distribute the electricity to end consumers.

Customers

- The Company has approximately 2.5 million customers. Consumption of electricity in 2011 was about 53,062 million kWh, an increase of 1,025 million kWh compared to 2010.
- The Company serves about 2.2 million households, representing nearly every household in Israel.
- Also, the company serves customers from the public commercial sector, the industrial sector, the agricultural sector and the Water sector.
- The public commercial sector includes electricity consumption by stores, shopping centers, various businesses and authorities in the public sector, such as local authorities, government ministries and schools.

Consumption of electricity by customer type

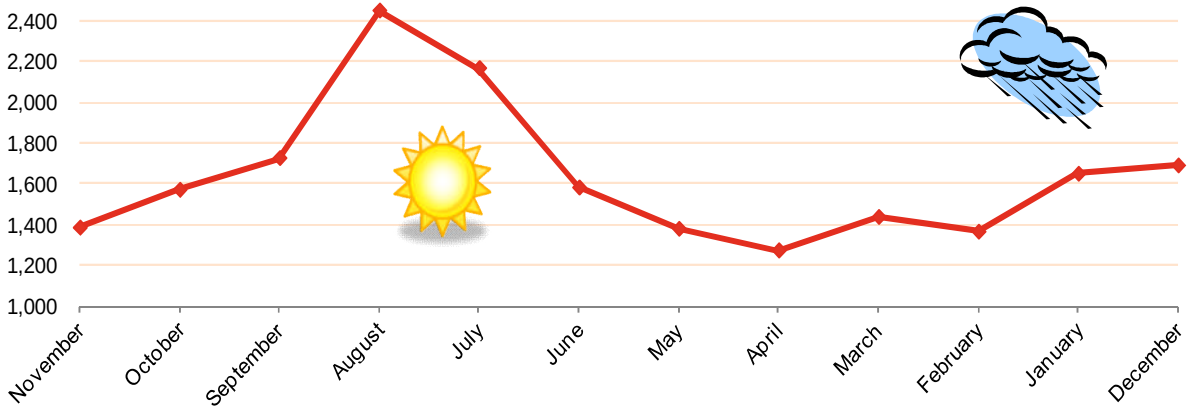


Seasonality

- Demand for electricity in Israel is seasonal. Seasons in this context are defined as summer (July-August), winter (December-February), spring (March-June) and autumn (September-November). The highest levels of demand are in summer (due to the use of air conditioners) and in winter (due to the use of heaters) compared to transitional seasons. Not only is average demand higher in winter and summer, but the days of extreme heat or cold are also responsible for periods of peak demand.
- Company income in the different seasons is also affected by changes in the rates for consumers who pay according to load and time (LTR), who represent about 60% of total consumption, since the LTR rates are higher on average in summer than in the transitional seasons and in winter. In this context, the four seasons are defined summer (July to September), winter (December to March), and the transitional seasons - spring (April to June) and fall (October to November).

Quarterly electricity consumption (in NIS millions)

Gross monthly revenues from electricity in 2010 (in NIS millions)



Source: 2010 ECI statistics report

Expected Developments in the Electricity Sector Structure

- Since March 5, 1996 the Company has been operating in accordance with the Electricity Sector Law and its regulations. In addition, the Company is subject to the provisions of the Government Companies Law and its regulations.
- The Electricity Sector Law replaced the Electricity Concessions Order and pursuant to it the Company is continuing its regular activities and provision of services, all subject to its provisions. The first licenses for the Company's activity in accordance with the Electricity Sector Law were received on September 4, 1997. The purpose of the Electricity Sector Law is to regulate activity in the electricity sector for the public benefit, while ensuring reliability, availability, quality and efficiency, and creating the conditions for competition and minimizing costs.
- The Law includes various rules and limitations around the provision of generation licenses. These rules include a general policy for the provision of licenses (including ownership structure, IPP ownership etc.)
- The Company has licenses for 100% of its transmission, distribution, supply and generation capacity. Pursuant to the Electricity Sector Order, Dates Postponement - 2012, licenses of the Company for all its operations were extended up to January 1, 2013.
- In the Company's opinion, implementing the amendment to the Electricity Sector Law makes it possible to change to a corporate structure on a gradual timetable, whereby the Company, as a parent company, will hold subsidiaries as follows:
  - at least four companies with generation licenses, operating with a similar mix of fuels, each of which will hold licenses for a maximum of 30% of generation capacity in the market;
  - at least four companies with distribution licenses, each holding licenses for a maximum of 25% of the distribution capacity in the market, where the costs for the electricity facilities used by each company will be as similar as possible;
  - a company with a transmission license, for which the Ministers will determine by January 1, 2013, whether it will remain in the framework of the Company concern; and
  - one or more companies to provide services.
- Until July 2013, the parent company may hold a maximum of 51% of the means of control of the generation or distribution companies. The system management activities are activities that require a license in accordance with the Electricity Sector Law and will be conducted in a separate corporation, outside the corporate structure of the Company.
- The interpretation given above is not the only possible interpretation of the Electricity Sector Law, which may also be construed as stipulating a different structure of license holding in the electricity sector, including absolute corporate separation between the holders of licenses for the different segments of activity.
- In accordance with paragraph 44(a) of IAS 36, "*possible future restructuring to which the entity is not yet committed"* were not included in the impairment test. For the puspose of the Asset Impairment Test, Management assumes that the Company's structure will remain as is in the foreseeable future.

New Rate Base for the Generation Segment

- On February 1, 2010, the Electricity Authority reached a decision on updating the new rate base for the generation segment for the years 2010-2014, and on updating the rate structure book relating to the demand classification groups and the consumption distribution, as well as a compensation formula with respect to the delayed update, which will apply to all electricity chain segments. This decision and the rates derived from it became valid on February 15, 2010 (the "**New Bas Rate**").
- Under this decision, the Electricity Authority updated the rate base for the generation segment for the years 2010 – 2014, which also updated rate components, including, inter alia, capital costs,, operating costs, fuels mixture and more. This update does not influence costs of pension to company employees. The recognized costs were determined after the Electricity Authority conducted a costs control of Company costs, as recorded in its records over the years.

  The main points arising from this decision, are as follows:

Recognized Assets and Depreciation

- Assets recognized in the new rate base for the generation segment were determined according a future outline for 2010-2014 and will be updated every year. Recognized cost with respect to generation units was determined according to the development plan that includes the list of recognized units and their dates of operation (and not according to the increase in sales as implemented in the previous rate). Generation units were divided into old and new units:

  "Old" units - generation units that commenced operation before December 31, 2002. Recognition of costs for the "old" units is mainly based on the costs in the accounts. Investment for conversion into gas are recognized only after starting using gas on the date of annual updates.

- **"New" units** - generation units that were operated and that will be operated after December 31, 2002. . Recognition of cost of "new" units is based on normative parameters such as dates of operations, construction times and normative interest.
- Recognition of the costs of the "old" units is mainly based on costs thereof in the Company's books.
- The "new" generation units were divided into two classes from aspects of rate recognition:
  - CCGTs outside of the emergency (units 1-10).
  - CCGTs defined as "emergency" and Tsafit Stage B (units 11-21).
- The recognized equipment costs of the "new" units, where construction has already started (units 1-10) are based on costs of contracts entered into by the Company.
- Equipment costs of CCGTs defined as "emergency" projects and of Stage B (units 11-21) were determined in a normative manner, using data from the Gas Turbine Handbook (GTH) (average costs in the global market) adjusted to the Company.
- Development and installation costs were determined in a normative manner. The development and installation costs of the "new" units will be recognized in a normative manner, based on an average of historical costs of building a gas turbine, a steam addition and CCGTs, in accordance with costs audit, performed by the Electricity Authority. In the event that units under construction incur costs, that are excessive in the opinion of the Company, the Company may request the Electricity Authority to recognize these costs.

New Rate Base for the Generation Segment

Recognized Assets and Depreciation (Cont'd)

- The normative development and installation costs were divided into two groups:
  - Costs of Company employees are linked to changes in the average monthly salary of an Israeli employee do not include, at this stage, pension costs of generation A and generation B employees and pension costs with respect to free electricity, holiday gifts and bonuses for generation C employees, until a final decision is reached on the pension issue.
  - Contractors costs, linked to the index of input in residential building. Financing cost during the construction period are based on normative construction duration and normative, recognized interest rates.
- Financing costs during the cunstruction period are based in normative building durations and normative interest rates.

Capital Costs

- The recognized capital costs are comprised of the following main components:
  - Depreciation based on recognized assets
  - Return on Capital.
- Financing costs are recognized in a normative manner, based on the recognized operating assets and not on the basis of the actual obligations. The recognized leverage is one third equity and two thirds foreign capital.
- The recognized return on foreign capital is derived from three components:
- The financing basket of the foreign capital will be divided into three components: The NIS financing basket component reflecting loans raised in the local market; a hedged financing basket component derived from a new hedging mechanism and NIS at higher interest rates financing basket component reflecting loans in foreign currency for which the Company is required to initiate hedging transactions.
  - The NIS financing basket - for which an average real NIS interest rate will be recognized.
  - The hedged financing basket - for which the following components will be recognized: an average, real NIS interest rate, the hedging obligation spreading rate for the Company or of the Company with respect to basket differences – index and with respect to interest differences between the average foreign currency interest rate and the average, real NIS interest rate. A decrease in the hedged financing basket was defined up to its cancellation within three years. The previous hedging mechanism was cancelled, the debt to consumers was packaged and will be returned to the consumers over five years.
  - NIS financing basket at higher interest for which an average, higher, real NIS interest rate will be recognized. Recognized yield rates on foreign capital linked to the CPI and to exchange rates were determined according to the Financial Statements for 2007, while using the rolling formula for 2008 (and every subsequent annual update).

New Rate Base for the Generation Segment

Capital Costs (Cont'd)

- According to the 2011 annual update the financing basket of the foreign capital was updated as follows:
  - The interest rate for the NIS financing basket and the hedged financing basket was set at 4.98%.
  - The interest rate for the NIS financing basket at higher interest was set at 5.95%.
- The return on equity in the generation segment will be 7.8% after tax (9.5% before tax) compared to 7% in the previous base.
- Total recognized financing costs will be the multiplication of the weighted recognized yield rate (equity and foreign capital) by the recognized assets basket, from which the reserve for deferred taxes at a rate of 9% will be deducted.

Fines on Failure to Meet Timetables

- In accordance with the decision of the Electricity Authority, if the Company fails to meet predetermined normative timetables for commencing operation of generation units, the recognized income of the Company will be decreased under a fines mechanism, calculated on a daily basis.
- The penalty rate for a delay in construction of a steam unit is 75% of the fine for a delay in construction of a gas turbine unit. Maximum fine may amount up to 25% of the unit cost.

The Hedging Mechanism

The new rate base book for the generation segment for the years 2010-2014 states that the hedging mechanism will be updated for all segments of the electricity chain. The main principles of the mechanism are as follows:

- The amount in the hedging fund will be updated at the annual update date according to the recognized assets and the decreasing outline as published by the Electricity Authority, until this mechanism is cancelled completely.
- Differences between the interest on foreign currency and the real interest rate on the NIS will also constitute a part of the hedged amount and will be spread until the end of the hedging mechanism.
- The exchange rate of the determining basket and the interest on foreign currency will be linked to the US$ and to the Euro at 75% and 25% rates.
- Amounts accumulated to the credit or debit of the Company will be spread up to the end of the hedging mechanism in April 2013. However, it should be noted that in light of the expected structural changes, the Electricity Authority freezes its plan up to March 31, 2011, or up to the initiation date of the structural change process, according to the earliest. The said freezing expired in March 2011, as set forth, as a result of which the shekel financing percentage increased
- The efficiency mechanism is not applied to the hedging component. Therefore, contrary to the past, no efficiency is computed for the hedging component.

New Rate Base for the Generation Segment

Operating Costs

- Recognition of operating costs in the new rate base were determined based on past costs (2002-2006), adjusted for an increase in sales. A 2% amortization factor is applied to these costs. Operating costs recognized include an adjustment of pension costs for revising the restatement of the financial statements in relation to pension costs. No final decision was made with respect to pension costs. Once the decision is reached, this component will be updated in the recognized operating costs. The following costs were reclassified in the rate as operating costs:
  - Investments in operational power stations.
  - Joint assets capital costs.
  - Spare parts inventory capital costs.
  - Adjustment for costs of free electricity (exceeding average household consumption).
  - Fuels accompanying costs loaded to fuel prices.
  - Coal ash treatment, crude bottoms depreciation, electricity consumption in Company facilities.
- Operational salary costs were linked to the salary of an Israeli employee position.
- According to the Electricity Authority's decision, only half of the spare parts inventory capital costs will recognized as calculated by the Electricity Authority in the LC method in 2002-2006. This component is recognized under the recognized operational costs and will therefore increase each year according to the increase in sales, less a 2% amortization factor, determined by the Electricity Authority. Management assumes that 100% of the spare parts inventory capital costs will recognized by the Electricity Authority, as discussed in Section 7.

Fuel Costs

- The fuel mixture will be calculated every year as an average of fuel mixtures according to a forecast of load curves related to different climates. The fuels basket will be retroactively updated every year, according to the actual demand curve and updates arising from new relevant professional information. The difference will be refunded to the consumers or to the Company with interest and linkage. In addition, starting from the new rate base, the fuel mixture will be calculated and applied on a calendar basis for that year (January – December).
- The Electricity Authority defined in advance the majority of the parameters to be used to calculate the fuel mixture throughout the test period, including operation dates of generation units.

Updates for the Transmission and Distribution Segments

- Pursuant to setting a new rate base for the generation segment, the Electricity Authority also updated some of the components for the transmission and distribution segments. Return rates on foreign capital were updated for the high voltage and low voltage transmission and distribution segments, similar to the updates in the generation segment. In addition, a new hedging mechanism was applied to these segments.

New Rate Base for the Generation Segment (Cont'd)

The effect of the new rate base on the Financial Statements of the Company:

- The new generation base rate holds material effects on the Company, since the Company's costs are not fully recognized and covered (operation and construction costs). Aiming to receive rate coverage for non-recognized costs from the Electricity Authority, the Company is acting on different levels. The Company examines the effects of the new base rate on its financial reports periodically, estimating and its exposure, and updating the necessary provisions.
- The disputes between the Company and the Electricity Authority's decisions relates to different matters. The Electricity Authority's unrecognition of the Company's full costs has caused and will continue to cause the Company a material revenue decrease and an asset reduction, resulting in losses and an erosion in the Company's capital.

Current Rate Base for the Transmission and Distribution Segments

- The Authority's decision on the "electricity rates and criteria for the years 2002-2005 and the methods of updating them" came into effect on July 5, 2002. That decision stated that if by December 31, 2005 no new rate bases for January 1, 2006 onwards had been decided, then the decisions of the Electricity Authority would be valid until such new rate bases were defined. As of the date of this report, the Electricity Authority has not set new rates for the transmission and distribution segments.
- The main components of the current rate base, are as follows:

Recognized Assets and Depreciation

- Equity costs were calculated on the basis of the recognized active assets of the company. Assets under construction were excluded from the equity cost calculations.
- The assets basis for the transmission and distribution segments was based on average assets in 2000.
- Recognized depreciation costs were based on depreciation costs recorded in the Company's books. Recognized depreciation costs for the transmission and distribution segments were determined on the basis of the year 2000.

Return on Capital

- Return on Capital is based on recognized assets in each segment, under a financing ratio of 1/3 equity and 2/3 debt.
- The annual rate of return on equity was determined at 5.5% for the transmission segment and 6.2% for the distribution segment.
- The Electricity Authority determined that interest rates will be updated when the new rates base for the generation segment will become effective, according to models determined in the new rates base.

Operating Costs

- The recognized operating costs are based on operating costs recorded in the Company's records, based on the Financial Statements for 2000.

Reduction factors

- The Company's revenues from the depreciation, rate on return and operation costs components increase annually by the growth rate of kWh sold in each segment.
- Amortization factors per kWh sold, representing the expected efficiency and intended to reflect economies of scale at cumulative annual rates. The annual reduction rates as of the Analysis Date are:
  - 1.3%, on inputs of the transmission and transformation segment;
  - 2.5%, on inputs of the high-voltage distribution segment;
  - 3.7% on inputs of the low-voltage distribution segment

Updates for the Transmission and Distribution Segments

- According to Electricity Authority decision (meeting number 367), dated March 22, 2012, recognized costs for the grid segments will not be subject to the amortization factor until new rate bases will be defined. In any case, the new rate bases will take effect from April 1, 2012. Therefore, Management assumes that starting April 1, 2012 the grid's segments' costs will be fully covered.

Significant events during 2011 - Natural Gas Supply

Gas supply from Egypt

- 2011 was characterized by a discontinuous supply of natural gas from Egypt, to the extent of complete cessation of gas supply for extended periods. As at the Analysis Date and of the signing of this document, there is uncertainty about the future supply of natural gas from Egypt.
- The company was set for generating electricity using a different fuel mix which is more expensive. This expensive mix is also required due to regulatory requirements by the Ministry of Environmental Protection, which requires the burning of diesel fuel before burning fuel oil. It should be noted that diesel fuel is significantly more expensive than fuel oil, but less polluting.

Gas supply from Israel

- **Yam Tethys gas field**: On October 5, 2011 the Company issued an immediate report on the stock exchange regarding a significant reduction in natural gas throughput from the Yam Tethys gas field, reflecting a decline in the daily capacity by more than 25%, and a concern from a greater decline in output in the future. As a result, the company anticipates to incur additional costs due to the use of more expensive fuels (mainly diesel). This incident further reduced the gas supply to the Company. Furthermore, On February 19, 2012 the Company issued an immediate report regarding another significant reduction in natural gas throughput from the Yam Tethys gas field, reflecting a decline in the hourly capacity by more than 67% from the maximum capacity that was mentioned in the contract between the company and Yam Tethys.

In addition, in October 2011, directives were issued by the Director of the Electricity Administration in the Ministry of Energy and Water, including monthly and annual restrictions on the extent of the use of gas from this field. According to these directives, the Company is limited to an annual consumption of 2.5 bn cubic meters, in order to ensure continuity in the supply of the gas between the depletion of the Yam Tethys field and the anticipated start of the extraction of gas from the Tamar field in 2013. The Company's assessment is that the depletion of the Tethys Sea gas reserve will not allow the Company to consume the quantities of gas that the Director of the Electricity Administration at the Ministry of Energy defined.

Tamar gas field: on December 2009, IEC and Tamar partnership (the "**Partnership**") signed a letter of intent to purchase 2.7 billion cubic meters of gas for 15 years totaling USD 9.5 billion. The price of gas was 4.5 to 5 dollars per million BTU. However, after six months in which the Partnership froze negotiations between the parties, inter alia, in light of the discussions of the Sheshinski committee – it demanded, two months ago, from IEC to raise the gas price by 35%-40% to a price of 6 to 6.5 dollars per million BTU.

Following the mentioned above, the Electricity Authority has announced in its decision from June 6, 2011 that it would not recognize IEC with higher gas cost than the current cost. That is, no public electricity tariff will be raised if IEC will agree with the Partnership on higher gas prices than those that determined in the negotiations between the parties.

In addition to the Electricity Authority announcement, the Israel Antitrust Authority's general director announced, according to press reports, that he is exploring the possibility that IEC's agreement with the Partnership would hurt competition in the gas and electricity markets.

In light of the above, there is significant uncertainty about the future supply of natural gas from Tamar gas field.

Significant events during 2011 - Natural Gas Supply

- Subject to the uncertainty mentioned above, In March 2011 the Company signed an agreement with the Tamar partnership, whereby the Company has undertaken to purchase a minimum amount of 42.5 bn cubic meters (BCM) of natural gas, which according to the agreement will be supplied starting mid-2013.
- **The importation of liquefied natural gas (LNG)**: In order to bridge the period of shortage in natural gas through to the beginning of extraction of gas from the Tamar fields (to the extent approved and taking effect), and as an solution for the peak demands and reliability of the gas supply after the extraction begins as well, the Israeli government gave approval in February 2011 for the Company to advance an infrastructure project for the purchase of liquefied natural gas (LNG). The expected timetable for the commencement of the delivery of LNG is the last quarter of 2012.

Significant events during 2011 – Cash flow difficulties and bond ratings

Cash flow difficulties

- On October 5, 2011, November 17, 2011 and February 19, 2012 the Company issued an immediate report on the Stock Exchange regarding cash flow difficulties arising from the events below:
  - The significant decline in natural gas Generation capacity from a Yam Tethys gas field and the Egyptian gas flow problems, as discussed above.
  - Decline in demand for electricity in Israel during last summer which was characterized by a relatively comfortable weather in comparison to corresponding periods in previous years. The decline effects are reflected in expectations for a decrease in revenues for 2011 in the amount of NIS 0.4 billion relative to the previous forecast.
  - We understand that this reflect a temporary cash difficulty, which will be resolved through public electricity tariff updating and debt issuance.
- As a result, the Company intends to raise debt in order to improve the Company's cash flow, and contact the Israeli government and the Electricity Authority in order to get their assistance with the cash flow difficulties.
- On March 21, 2012, the Company issued an immediate report on the Stock Exchange regarding an outline of principles which was formed with the aim of leading to a solution to the cash flow problem of the Company until the execution of an issue of negotiable debentures to the public in Israel that would be secured by a guarantee of the State.
- The principles that were formed are as follows: a state guarantee for loans that the Company would take trough a private issue of debentures of approximately NIS 1.5 billion, release of money that has been deposited by the Company for the surplus collection in the special accounts of the Electricity Authority (for the purpose of implementation of the emergency plan (stage B) of the Company), for a number of months to a volume of approximately NIS 600 million, deferral of tax payments (deduction payments) to a volume of approximately NIS 200 million, and additional steps that would be examined later, including internal steps inside the Company.
- The outline of principles that was formed is subject to the approval of governmental entities and the relevant authorities, and its final details shall be drafted in coordination between the parties.
- We understand that the company, as of the Analysis Date and the date of this report, is in the process of debt issuance in Israel and abroad, as well as ensuring natural gas supply from Tamar gas field.

Significant events during 2011 – Establishing the Communications Company

Bond ratings

- **Rating in Israel:**
  - **Midroog -** on Oct 27, 2011 Midroog announced that it removes series 2022 from the Watch List and lowers the rating one notch to Aa3 and changes the rating outlook from negative to stable outlook. In addition, Midroog announced that it specifies the Aa3 rating and steady outlook for series 22. According to Midroog, the downgrade was mainly due to the significant erosion in cash flow and low liquidity which expected to continue due to lack of regular supply and control of gas from Egypt and lack of clarity about economic developments of the Company over the next 12 months.
  - **Maalot** - on Sep 19, 2011 Maalot announced that it ratifies the rating 'ilAA-' of IEC and take IEC out from CreditWatch with negative implications. According to Maalot, the reason for the stable outlook is the support provided by the Israeli Government to IEC that has solved the immediate liquidity crisis of the Company.
- **International rating:**
  - **Moody's** - On November 2, 2011 Moody's, the international rating agency, announced on a downgrade to IEC's International rating from (Baa2) to (Baa3) with a negative outlook. According to Moody's announcement, The downgrade stems mainly from:
    - Significant erosion of the company's financial flexibility and decline in cash reserves due to lack of supply of gas in 2011 and the resulting cost increase;
    - Uncertainty about gas supply and the resulting costs later in 2011, in 2012 and perhaps the following years;
    - Lack of transparency regarding the cover of costs in rate;
    - High degree of leverage and low liquidity of the Company;
    - Moodys' worry about the Company's ability to deal with potential cash flow problems in connection with significant future debt repayments and development program of the company.
  - **Standard and Poor's** - on Sep 19, 2011 Standard and Poor's announced that it has ratified the international credit rating (BB +) of IEC while removing it from the CreditWatch Negative. According to the report, the reason for the stable outlook is the support provided by the Government of Israel to the Company that not only solved the immediate liquidity crisis of the Company, but also indicates a possible improvement in relations between the Company and government ministries.

Section 4
Historical Financial Performance and Position

Financial Performance

Company's Income Statement for 2010 and 2011 (million NIS, Adjusted to NIS of December 2011)

Adjusted to NIS of December 2011, in Millions	2010	2011
Revenues	19,843	24,532
Cost of operating the electricity system		
Wages	1,539	1,683
Fuel	8,981	12,707
Purchases of electricity	277	469
Operation of the generation system	627	753
Operation of the transmission and distribution system	301	359
Depreciation	4,011	4,188
FAS 90 Provision	953	(125)
	16,689	20,034
Profit from operating the electricity system	**3,154**	**4,498**
Sales and marketing expenses	790	879
Administrative and general expenses	671	714
Expenses (income) from liabilities to pensioners, net	(19)	146
	1,442	1,739
Income from current operations	**1,712**	**2,759**
Financial expenses, net		
Financial expenses	1,048	2,653
Capitalization of financial expenses	(160)	(200)
Transfer of financial income to a regulatory liability	819	(268)
	1,707	2,185
Income before income taxes	**5**	**574**
Income taxes		
Other deferred taxes	4	153
Income from adjustments of deferred tax balances arising from changes in future tax rate	(1)	1,206
	3	1,359
Net income	**2**	**(785)**

Historical Financial Position

Company's Balance Sheets as at December 31, 2010 and 2011 (million NIS, Adjusted to NIS of December 2011)

Adjusted to NIS of December 2011, in Millions	31/12/2010	31/12/2011
Current assets		
Cash and cash equivalents	3,278	1,152
Short-term investments	539	741
Trade receivables for sales of electricity	3,211	3,864
Other current assets	301	625
Inventory- fuel	1,808	1,987
Inventory- stores	154	124
Regulatory asset, net	-	2,449
	9,291	10,942
Non-current assets		
Long- term receivables	1,209	1,987
Assets with respect to benefits after employment termination		
Excess pension plan assets over pension liability	5,276	5,701
Funds in trust	1,980	2,047
	7,256	7,748
Fixed assets, net		
Fixed assets in use, net	57,621	56,370
Fixed assets under construction	4,665	4,769
	62,286	61,139
Intangible assets, net	846	847
Total assets	**80,888**	**82,663**

Adjusted to NIS of December 2011, in Millions	31/12/2010	31/12/2011
Current liabilities		
Credit from banks and other credit providers	4,998	4,602
Trade payables	1,259	2,024
Other current liabilities	1,333	1,559
Regulatory liabilities	2,824	-
Customer advances, net of work in progress	397	399
Provisions	754	788
	11,565	9,372
Non current liabilities		
Debentures	29,424	31,284
Liabilities to banks	4,849	5,042
Liabilities with respect to other benefits after employment termination	2,602	2,642
Regulatory liabilities, net	1,547	2,786
Provision for refunding amounts arising from restatement of the financial statements	2,150	2,257
Deferred taxes, net	4,142	5,491
Debentures to the state of Israel	2,444	2,453
Liabilities to the state of Israel	3,730	3,686
Other	385	385
	51,273	56,026
Shareholders' equity		
Share capital	1,099	1,099
Capital reserves	996	996
Retained earnings	15,955	15,170
	18,050	17,265
Total liabilities and shareholders' equity	**80,888**	**82,663**

Section 5
Methodology

Identifying cash generating units (CGUs)

- Paragraph 6 of IAS 36 states that: *"A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets".*
- According to paragraph 68 of IAS 36, *"Identification of an asset's cash-generating unit involves judgment. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows".*
- Paragraph 66-67 of IAS 36 stats that: *"If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash generating unit). The recoverable amount of an individual asset cannot be determined if:*
  - *the asset's value in use cannot be estimated to be close to its fair value less costs to sell (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and*
  - *the asset does not generate cash inflows that are largely independent of those from other assets.*

  In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash generating unit.
- Paragraph 70 of IAS 36 states that: *"If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity shall use management's best estimate of future price(s) that could be achieved in arm's length transactions".*
- Furthermore, paragraph 71 of IAS 36 states that: "*Even if part or all of the output produced by an asset or a group of assets is used by other units of the entity (for example, products at an intermediate stage of a production process), this asset or group of assets forms a separate cash-generating unit if the entity could sell the output on an active market".*
- The company performed a process for identifying its CGUs, and concluded that the generation, transmission and transformation represent a single CGU.

Recoverable Amount

Recoverable Amount

- According to Paragraph 18 in IAS 36, recoverable amount is defined as *"the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use."*
- Paragraph 19 states that *"it is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount."*
- Paragraph 20 states that "*it may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. However, sometimes it will not be possible to determine fair value less costs to sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the entity may use the asset's value in use as its Recoverable Amount.*"

Value in Use

- The value in use of the CGU is the present value of future cash flows that are projected to be generated by the asset or the cash generating unit.
- For the purpose of this work, we estimated the value in use of IEC. The standard requires to measure the value in use of an asset or a CGU.
- According to Paragraph 31 in IAS 36*: "Estimating the value in use of an asset involves the following steps:*
  - *Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and*
  - *Applying the appropriate discount rate to those future cash flows.*"
- Paragraph 33 in IAS 36 defines: *"In measuring value in use an entity shall:*
  - *Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence.*
  - *Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified."*
- Future cash flow projections include:
  - Projections of cash inflows from the continuing use of the assets of the Company's three Activity segments;
  - Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the three Activity segments' assets; and
  - Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.
- According to Paragraph 42 in IAS 36: *"When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed"*.
- The estimates of future cash flows do not include cash inflows or outflows from financing activities or income tax receipts or payments.

Selected methodology

- For the purposes of this Analysis, we have employed the Income Approach that is based on the DCF method. The DCF method is based upon a company's ability to generate cash flows. Accordingly, the company is valued based on the discounted cash flows it is expected to generate in the future. These future cash flows are discounted at a rate which reflect the inherent risk in the company, and reflect the yield an investor would have expected to receive from a business with similar risk levels.
- The DCF method is the most accepted and theoretically sound valuation method. To use this method, a financial model is required. This model projects revenues, operating costs and capital investments, to generate the projected cash flows.
- The main advantage in the DCF method is that it can be tailored to a specific business, while relating to the various unique attributes of this business. The characteristic assists in reaching a high level of precision. The method's disadvantages are in the difficulty to project revenues, costs and capital investments, while establishing the right cost of capital.

Valuation principles

- The main stages in applying the DCF method are:
  - Analyzing the different activities in the business
  - Projecting the revenues from the three Activity Segements
  - Analyzing the cost structure and projecting the relevant level of costs
  - Projecting the capital investments in the period
  - Preparing financial projections, including P&L and free cash flows.
  - Calculating the Value in Use of the Generation, Transmission and Distribution segments, was performed by discounting the free cash flows during the forecast period, while making use of a weighted cost of capital (which is adjusted to the company's business risk)

Section 6
Weighted Average Cost of Capital (WACC)

WACC

Required rate of return

- When applying the Income Approach, the cash flows expected to be generated by a business are discounted to their present value equivalent using a rate of return that reflects the relative risk of the investment, as well as the time value of money. This return, known as the weighted average cost of capital ("**WACC**"), is calculated by weighting the required returns on interest-bearing debt and common equity capital in proportion to their estimated percentages in an expected industry capital structure.
- The general formula for calculating the WACC is:

  WACC = Ke(e%) + Kd(d%)

  Where:

  WACC = Weighted average rate of return on invested capital;

  Ke = Rate of return on common equity capital;

  e% = Common equity capital as a percentage of total assets

  Kd = After-tax rate of return on debt capital;

  d% = Debt capital as a percentage of Total Invested Capital; and

- The required return on equity, or the cost of equity capital was determined using the Capital Asset Pricing Model ("**CAPM**"). The cost of capital under CAPM is composed of the risk free interest rate on long-term bonds issued by the Israeli Government, plus a capital market risk premium multiplied by the relative risk coefficient of the company (beta), reflecting the sensitivity of investment in the company to fluctuations in the overall capital market, based on the following formula:

  Ke = Rf +β× (Rm - Rf)

  Where:

- Rf - risk-free rate of return. For the purpose of the Valuation Analysis we used the yield on Israeli government CPI linked bonds, in accordance with the average duration for the segment's assets.
- β - relative risk coefficient. This coefficient reflects the relative risk involved in a given investment, and is based on the correlation between the return on investment and the return of the capital market in general. Generally, beta is considered to be indicative of the market's perception of the relative risk of the specific investment. For unlisted firms, practical application of the CAPM is dependent upon the ability to identify publicly traded companies that have similar risk characteristics as these firms, in order to derive meaningful measures of the subject firm's beta.

WACC

- For the purpose of the Valuation Analysis, we derived the beta for the Company's business from an industry-wide sample of listed companies that operate in the specialty chemical industry (the "**Sampled Companies**"). Beta was determined as 0.84 for the Generation and 0.5 for the Grid segments.
  The measured betas for the sampled companies are levered/equity betas, which also reflect the risk of shareholders as a function of how leverage is each sampled company. Therefore, in order to compute the operating beta (assets) for each of the sampled, the debt capital component is neutralized from the leveraged betas of the sampled companies. Based on the leverage rate of each company, the average operating beta was relevered.

  The Company's leverage rate was calculated using the fair value of its debt, with the addition/subtraction of net Regulatory assets/liabilities. This addition/subtraction is made because of the expected changes in such assets/liabilities balance in the following years, with the spreading of the Company's fuel revenues according to the expected consumer tariff update outline. The tariff will be updated in a manner that will cause the accumulation of significant Regulatory assets as a loan granted by the Company to its consumers.

  The relevered equity beta represent the relative risk as viewed by investors relative to the market as a whole. The betas estimated in this way are 1.16 for the generation segment and 0.86 for the grid segments.

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- Rm - Rf - equity market risk premium. Reflects the viewpoint of an investor whose portfolio is diversified globally. According to this approach, the country risk is embedded in the risk-free interest rate. This average risk premium in the market, as required by international investors, is estimated at 5.5%. It is based on the average risk premium in developed markets worldwide (the United States, Western Europe and Japan).
- Kd - The cost of debt. The figure for the company is estimated using the rates of return as of the date of valuation on bonds the company issued and loans it obtained both in Israeli currency and in foreign currencies. This return was adjusted to the average life of the assets in each relevant segment. Accordingly, the company's cost of debt is 5.93% for the generation segment and 6.14% for the grid segments.

WACC		
	Grid	Generation
Risk free rate of return	2.60%	2.46%
Equity Beta	0.86	1.16
Market risk premiun (Rm-Rf)	5.50%	5.50%
Cost of equity capital (Ke)	**7.31%**	**8.86%**
Capital/Assets	27.27%	27.27%
Cost of debt	6.14%	5.93%
Debt/Assets	72.73%	72.73%
WACC	**6.46%**	**6.73%**

Section 7
Main assumptions and estimates

Management's assumptions and estimates

- In producing the cash flow forecast for the Asset Impairment Test, Management used a number of assumptions on different aspect of Company activity. These assumptions were based among other things on discussions the Company made with the Electricity Authority as part of the impairment test.
- As part of this test, Management held several meetings with the staff of the Electricity Authority and discussed with them issues relating to rate base that result in only partial coverage of Company expenses. Wherever relevant, Management relied on the Authority staff's opinion to predict the policy that will govern future updates of generation segment base rates, and on the intention of the Authority to fully/partially cover costs in any future mechanism, despite the discussion on the present rate base.

Applying the full coverage assumption

- The Israel Electricity Economy Law, 1996 ("the Electricity Law") states in Section 31 that the "*Authority shall determine rates based on the cost principle*." The law further states that "*for the purpose of cost… the Authority will consider an adequate rate of return on capital*".
- In view of these provisions, and given the efficiency measures implemented by the Company in recent years, Management assume that the Authority will consider in the rate setting process the full cost incurred by IEC ("**Full-Coverage Assumption**"). Furthermore, we understand that the Company has no indication that the current rate structure for the generation segment (which does not fully cover Company costs) will continue to apply in the future, either in the generation segment or the transmission and distribution segments.
- The Full-Coverage Assumption means that on the future rate update, the Authority will take into account each segment's carrying amount on the date of such an update (except for the generation segment as is explained below), and also any future investments required for operating each of the segments until the end of the forecasted period. Additionally, the Authority will account for operating costs of the Company since the date of updating the rate base.

The projection period

- The projection period for the impairment test is the useful life of the assets currently in service (and/or those that will come into service in the projection period). The useful life of the cash generating unit was set, for the purpose of the forecast based on the useful life of assets in the generation segment. This period lasts until the retirement of the last production unit of the segment. For computing impairment, it is assumed that the grid segments will service the output of generation segment throughout the projected period.
- The forecasts in this report are for the years for which the full coverage assumption of management does not apply, as explained below:
  - For the generation segment: 2012-2014, where the new rate base in effective.
  - For the grid segments: the period starting in January 2012 and continuing until April 1, 2012.

Management's assumptions and estimates

- Furthermore, revenues from the capital cost component, related to operating assets, were added based on the asset balance on the rate base modification date**:**
  - Assets in the generation segment – based on the recognized asset balance, as set in the current rate base. Management assumes that in place that the Electricity Authority has determined in the current rate base regarding the recognized assets, it is unlikely to assume that the authority will change its position.
  - Other operating balances in the generation segment - Management assumes that the Electricity Authority will fully recognize the depreciated cost of such according to their carrying amount.
- Accordingly, the asset balances on the expected base rate modification date for each segment, as discussed above, represent the present value (as on the rate base modification date) of the cash flows stemming from the capital cost component. These balances are discounted to the Analysis Date, for the purpose of the impairment test.

Income taxes

- The Electricity Authority takes into account the Company's effective tax rate by adjusting the electricity rate base revenues. Accordingly, and in view of the fact that IAS 36 does not allow to include the Company's carry-forward tax losses, Management assumed under these circumstances, that the Company's free cash flows will not be affected by the nullification of such carry-forward tax losses.

Establishing a Communications Company

- Further to a government decision dated July 15, 2010 the Company is actively pursuing to establish a Communications Company ("**IEC Telecom**"). IEC Telecom will be established together with a strategic partner, who will hold at least 51% of its shares.
- IEC Telecom will provide communications infrastructure over fiber optic cables, by using both cables operated by IEC today as well as additional infrastructure to be deployed in the future.
- The partner will be joined through investing capital into IEC Telecom, while IEC will contribute its physical infrastructure as described above (for an adequate payment).
- On October 9, 2011 IEC issued a tender for choosing the partner. At the date of this report, this tender is still in its infancy stages, and it is expected to be finalized in mid 2012. No financial propositions have yet to be received.
- Nonetheless, we stress that the tender process for choosing the partner for establishing IEC Telecom is in its infancy, and there is no certainty that this process will be successful.
- Given the uncertainty of the tender process, it was decided not to include any potential cash flows arising from the tender process and establishing IEC Telecom.

General assumptions – the Activity segments

Generation segment

- As discussed earlier, the present rate base for the generation segment came into force on February 15, 2010 for 2010-2014. Management assumes that the rate base will be modified at the end of the present rate base period, i.e. January 1, 2015.
- As discussed previously, Management assumes that the capital cost component in the generation rate current rate base will not be updated with the publication of a new base rate. Accordingly, the segment's recognized asset balance as set in the current rate base is used to derive revenues from the capital cost component until the end of the Projection Period.
- Operating costs component of the rate base: Management assumes that until the modification of the rate base, the segment revenues from this component are not expected to fully cover the Company's operating costs, particularly regarding the following components: CCGT costs, spare parts and salary costs. Consistently with the Full-Coverage Assumption, Management assumes that all operating costs of the Company will be fully recognized commencing in 2015.
- Management assumes that the Electricity Authority will set backup services rates to indemnify the Company for services that it is required to provide to IPP's.
- The fuel component of the rate base: The current rate base structure already fully covers costs incurred in using a normative mix of fuels (which the Company is expected to meet given IEC meeting the normative unit roll out dates – see below). Management believes that covering the costs will continue into the future.
- Accordingly, the forecasted cash flows for the generation segment include a full forecast of free cash flows from January 2012 to 2014 year end only. In 2015 and thereafter, cash flows include capital cost component income (return on capital and depreciation) only.

Grid segments

- As discussed above, rates for the grid segments were last updated in 2002 and as of the Analysis Date (the date of this report), such rates have not been modified. Management assumes that the grid rates will be updated starting April 1, 2012 (according to Electricity Authority decision number 367, dated March 22, 2012).
- Capital service costs for active assets in the base rate: management assumes that net asset as of the date of update will be covered. The underlying assumption of the rate update mechanism is that the rate of return permitted by the Authority will equal the discount rate used in the model. Accordingly, the balance of assets as of the date of updating the base rate also represents the present value of cash flows from the asset component within the rate.
- The operating component is the base rate: consistently with the general assumption on full coverage as discussed above, management assumes that when the rate is updated, all operating costs of the company are fully covered.
- Accordingly, the forecasted cash flows of grid segments include a full forecast of free cash flows through the date of rate update, and the balance of assets (including working capital) as of that date.

Further assumptions - Generation

Income adjustments for pension obligation

- During the second quarter of 2009, a new salary research was launched in the Company. Initial results of the research show that the current mechanism used by the Company, which promotes pensioners once every several years to a higher rank, will actually cause a real erosion of the pension, contrary to the formerly prevailing pension development assumption of an annual pension development rate of 2%. In light of these findings, the 2009 financial statements included a restatement for previous reporting periods.
- On January 31, 2011, a collective agreement was signed which changes the pension update mechanism for employees entitled to existing budgetary pension in the Company, similar to the agreement signed by the State, which links the pensions to the Consumers Price Index ("**CPI**"), to maintain their real value (the "**New Salary Agreement**").
- In connection with the change in the actuarial policy of the Company (which was reflected, among other things, in a restatement of the Company's financial statements), the Authority examines the issue of Company employee pensions. The Authority postponed the resolution on the rate coverage of Company pension costs. We note that pension costs, as part of payroll costs, are included within both the operating and capital costs (as part of payroll costs that are capitalized in the construction process).
- Through the date of issuing the final decision by the Electricity Authority on the pension issue, pension costs recognized are as follows:
- "Old units" receive rate coverage based on the old actuarial estimations (prior to the restatement).
- With respect to "new" units, at his stage pension costs of generation A and generation B employees and pension costs with respect to free electricity, holiday gifts and bonuses for generation C employees are not covered until a final decision is reached on the pension issue by the Electricity Authority.
- Recognized salary costs, included in the operating costs component, are based on Company's costs in previous years, including normative pension cost coverage according to updated actuarial estimations (post restatement).
- Management believes that after the review is completed, the Electricity Authority will provide full coverage for the Company's pension costs based on the up-to-date actuarial assessments (post restatement). Accordingly, the Company applied the following adjustments, in comparison with the pension coverage as set by the Electricity Authority:
  - "Old" units: the effect of the pension restatement on the capital cost component will be deducted from "old" units.
  - "New" units: due to the lack of coverage of pension costs as discussed before, an adjustment was made between the book value of the "new units" (including forecasted future investments in fixed assets under construction) and the cost of recognized assets. Accordingly, the relevant component of uncovered pension costs was neutralized in order to take into account the relevant pension costs after the restatement.
- According to Company's estimates, no pension adjustments are required in income with respect to the operating component in the generation segment.

Further assumptions - Generation

Adjustments to the cost of recognized assets

- In computing Value in Use, Standard 36 (paragraph 44) states that *"Future cash flows shall be estimated for the asset in its current condition"*, including its current legal position (including regulatory rulings).
- Therefore, in developing cash flow forecasts, Management assumes that the present rate base will continue to be applied in its present form (subject to modifications as disseminated by the Electricity Authority). Management assumes additional recognition by the Electricity Authority only in circumstances in which the Authority allows the Company to demand additional recognition, as detailed below:
  - The Electricity Authority recognizes that exceptional costs, i.e. costs not accounted for in the normative cost as set by the Authority, are expected in constructing new generation units. Management assumes a certain mean amount it is expecting to be added to the cost of recognized assets due to recognition of exceptional costs by the Authority.
  - The Company assumes that costs associated with converting generation units to natural gas and connecting the units to gas pipelines will be recognized when such units go into operation.
- Beyond that, Management assumes that liabilities due to future costs that the Company expects to pay for old units in Haifa and Reading, will be recognized by the Electricity Authority since this is a statutory requirement of the planning and construction oversight authorities.

Investment in environmental projects

- The Company is subject to many, diverse environmental legislation, as was presented earlier in this report. Management assumes that, similarly to past rate regimen, costs associated with Company investments in environmental issues will be fully recognized by the Electricity Authority, because this is a statutory requirement where incompliance can lead to shut down of Company systems.

Further assumptions - Generation

A gap in demand forecast for capital costs calculations

- The Electricity Authority determined in the present rate base that the cost of recognized capital services per generated kilowatt is computed by dividing the total recognized annual capital cost s by the amount of annual KWh, as derived from net generation (net of losses during the generation process) forecasts the Company used in emergency programs ("**Denominator**"). Then, the cost per generated KWh is multiplied by the actual amount of net generated kilowatts ("**Numerator**"), a measure that according to updated forecasts should be lower than the quantity of kilowatts in computing the Denominator.
- Demand forecast for the period between January 2012 and the end of 2014 is based on:
  - Most recent data on expected demand for electricity in Israel, which the Company holds, including consumption by desalination plants which are constructed these days, and expected to be activated in 2013-2014.
  - Projections on the entry of IPPs in the years 2013-2014.
- The forecasts used by the Electricity Authority in rate base are forecasts of overall consumption in Israel in the relevant years and do not take into account any substantial introduction of IPPs in 2013-2014, as included in the Company's productions. The current rate base does not take into account the existence of IPP and/or the introduction of IPP's in the market, and the allocation of the total electricity demand to those IPPs. Since the KWh included in the Denominator include the total national net generation, while the Numerator KWh include only the net KWh generated by the Company, in case of an increase in the IPPs' generation volume (as is indeed expected to happen in 2013-2014), the Company's generating volume decreases, i.e. the Denominator, without a parallel modification in the Numerator.
- Accordingly, Management assumes that in the calculation of capital cost per generated kWh, the kWh quantity expected to be generated by IPPs will be added to the Company's net generated kWh as included in the Numerator, but will not exceed the Denominator kWh.

Operating activity coverage – generation segment

- The Electricity Authority determined in the present rate base that the covered cost of operations is to grow each year by the annual rate of growth in sold kilowatts, less a 2% annual efficiency factor. The revenue forecast used for computing the operating rate is also based on the most up-to-date Company forecast.
- The current rate document does not account for the expected significant introduction of IPPs in 2013-2014, which will likely cause a reduction in kWh quantity sold by the Company, and applies any change to the operating costs computation (an increase or decrease in sales). In addition, the current rate base does not suspend the amortization (efficiency) factor in years with reduced sales. Consequently, the Company's income from the operating costs component decrease in the years 2013-2014.
- Management base its forecasts on the existing legal situation, which leads to a reduction in rate-based coverage in 2013-2014 due to the reduction in Company sales and the implementation of the efficiency factor in these years too.

Further assumptions - Generation

- On the other hand, Management assumed that the Electricity Authority will account in its rate setting for backup services that the Company is required to provide to private producers under the Electricity Law. As an essential service provider, the Company is required to provide backup services to private producers (Section 17), while the Electricity Authority is obligated to factor such backup services into the rate.
- Accordingly, Management assumed that the backup rate will indemnify Management for reduced income in 2013-2014 as a result of IPP introduction, through setting the expected amount for such services.
- Moreover, the current rate base states that cost related to an inventory of spare parts will be covered at only 50% of the average cost as was computed by the Authority, since during the process the Authority did not receive all needed information for cost control purposes. Management estimates (including based on its discussions with the Electricity Authority) that the lack of recognition compared to average cost stems from the fact the Authority did not receive all information, and that the entire cost will eventually be recognized when that information is provided by the Company. However, the average cost computed by the authority is still low compared to the cost of spare part inventory in Company accounts, as of the Analysis Date.

Profit from fuel mix

- Further to description in Section 3 above with respect to limitations in natural gas supply from Egyptian and Israeli sources, the Company anticipates significant usage of liquid fuels to provide the demand targets.
- Further to historical trends, the Company expects it will be able to operate coal fired stations more efficiently, thus generating profit (over and above the “pass-through” income stipulated in the tariff base) as a result of an optimal and more efficient generation mix than that set out in the tariff. This profit, estimated at NIS 833m, will be earned between January 2012-July 2013, and is taking into account the excise tax rate in force during this period according to legislation in force as at the Analysis Date as well as the date of this report.
- At this point the Company assumes that the normal gas supply will be restored in mid-2013 from the Tamar gas field, in addition to the commence of LNG gas supply in the first half of 2013.

Further assumptions - Grid

Startup dates – Property, plant and equipment (PPE)

- In contrast to the generation segment with its limited number of major sites and definitive startup dates, investment in grid segment PPE covers numerous projects, each worth relatively moderate amounts.
- Hence, it is assumed that CAPEX is spent equally during the year. Based on this assumption, it was assumed that investments operated until the date of the base rate update receive full rate coverage from the date of updating the rate.

Other assumptions

Expected demand forecast

- For the purpose of preparing the cash flow projections, Management used expected electricity demand forecasts for the years 2012-2014, as prepared by the Company.
- The expected electricity demand forecasts were reflect:
  - IEC's current views regarding electricity demands, taking into account climate trends and economic cyclicality.
  - An estimation of the expected desalination plants consumption, which are constructed these days, and expected to be activated in 2013-2014
  - Projections for IPPs production volumes in the years 2013-2014.

Salary increases

- Payroll expenses forecast, was devised under the assumption of a 2.6% growth in payroll expenses.

Change in average pay for salaried employee in Israel

- Salary costs covered by the rate, are updated annually according to the change in the average monthly wages per employee in Israel. Salary costs income projection was based under the assumption of the average wage will be remain constant in real values, according to the trend in the Israeli market in the years 2001-2010 (as shows in the Israeli ***Central*** Bureau of Statistics data).

Working capital

- The balance of trade receivables is determined based on Company forecasts, and based on historical days receivables and operating receivable balance (less customers overdue on credit term) out of total annual income.
- Other working capital balances remain the same in annual terms over the years.

Interest rates and exchange rate

- Forecasts do not include assumptions on future changes in interest rates and exchange rates.

	2012	2013	2014
Total demand (Grid)	55,098	54,029	54,529
IEC net sales	54,500	53,076	52,319
IPP sales	1,536	4,978	7,550
Generation segments net production	56,914	55,390	54,600

Section 8
Value in Use estimate - DCF Method

Value in Use – Generation (1 of 2)

Adjusted to NIS of December 2011, in Millions		2012	2013	2014	2015 onwards
Revenues					
Capital costs	❶	**3,762**	**3,433**	**3,389**	**29,438**
Operations	❷	2,606	2,490	2,426	
Other income	❸	97	168	227	
Total revenues		**6,465**	**6,091**	**6,042**	**29,438**
Fuel component	❹				
Fuel basket cost		17,564	10,951	10,992	
Fuel working capital		106	104	104	
Fuel working capital - customer related		83	51	51	
Fuel profits		437	397		
Total Fuel component		**18,190**	**11,502**	**11,147**	
Other					
Equipment and vehicle sales		22	22	22	
Total revenues		**24,676**	**17,615**	**17,211**	**29,438**
Costs					
Fuel costs		17,564	10,951	10,992	
Operating costs		316	352	358	
General and administrative	❺	2,073	2,210	2,148	
Total costs		**19,954**	**13,513**	**13,498**	
Operating profit		**4,722**	**4,102**	**3,713**	
CAPEX					
Investment in segment property		1,631	1,066	115	
Environmental investments		1,186	1,445	1,372	
Other investments		491	652	539	
Total CAPEX		**3,308**	**3,163**	**2,026**	
Investment in working capital		699	(912)	(53)	
Other operating balances					5,223
Free cash flow		**716**	**1,852**	**1,740**	**34,661**
Present value of free cash flows		**693**	**1,679**	**1,478**	**27,992**
Total present value		**31,843**			

❶ **Capital costs –** Includes return on equity, return on foreign capital and depreciation.

According to the rate base, return on assets is split into 1/3 on equity and 2/3 on foreign capital.

Revenues in 2012 are higher than in subsequent years due to a compensation for lack of coverage in previous years, which is assumed to be received in full during 2012.

The decline in 2013-2014 mainly stems from a decrease in sales in these years, offset by increasing the capital costs revenues due to the introduction of new generation units in 2013-2014.

These revenues reflect full recognition of investments in environmental projects after the forecasted period.

❷ **Operations** – Decline in revenues in 2013-2014 is due to lower sales in the generation segment (after the introduction of IPPs) which will be accompanied by applying the efficiency factor.

❸ **Other income** – income from backup rates is assumed to be included as part of other income. Accordingly, other income increase in 2013-2014 in step with private producer introduction.

❹ **Fuel coverage** – according to management's assumption, fuel costs are fully covered throughout the forecast period. The Company's results for 2012-2013 are favorably impacted by profit from fuel mix and based on the tax regime in force today (under which excise reduction will be eliminated in 30/6/2013, as set out above. 2013-2014 fuel revenues are higher than fuel costs due to coverage of fuel inventory finance costs.

❺ **General and administrative expenses** – Reflect the allocation of overhead costs among segments.

Value in Use – Generation (2 of 2)

Adjusted to NIS of December 2011, in Millions		2012	2013	2014	2015 onwards ❿
Revenues					
Capital costs		**3,762**	**3,433**	**3,389**	**29,438**
Operations		2,606	2,490	2,426	
Other income		97	168	227	
Total revenues		**6,465**	**6,091**	**6,042**	**29,438**
Fuel component					
Fuel basket cost		17,564	10,951	10,992	
Fuel working capital		106	104	104	
Fuel working capital - customer related		83	51	51	
Fuel profits		437	397		
Total Fuel component		**18,190**	**11,502**	**11,147**	
Other					
Equipment and vehicle sales		22	22	22	
Total revenues		**24,676**	**17,615**	**17,211**	**29,438**
Costs					
Fuel costs		17,564	10,951	10,992	
Operating costs		316	352	358	
General and administrative		2,073	2,210	2,148	
Total costs		**19,954**	**13,513**	**13,498**	
Operating profit		**4,722**	**4,102**	**3,713**	
CAPEX					
Investment in segment property	❻	1,631	1,066	115	
Environmental investments	❼	1,186	1,445	1,372	
Other investments	❽	491	652	539	
Total CAPEX		**3,308**	**3,163**	**2,026**	
Investment in working capital		699	(912)	(53)	
Other operating balances	❾				5,223
Free cash flow		**716**	**1,852**	**1,740**	**34,661**
Present value of free cash flows		**693**	**1,679**	**1,478**	**27,992**
Total present value		**31,843**			

❻ **Investment in segment property** - Reflects the investment in new power plants, Haifa 3, Haifa 4, Eshkol, Tzafit, Hagit, Ramat Hovav. As to Alon Tavor (emergency stage 2), management is in the opinion that if power rates do not cover the construction of the facility adequately, the company will not build the plant, without undermining the power supply.

❼ **Environmental investments** – The main project included within these costs is a project to reduce emissions in Orot Rabin and Rotenberg power plants.

❽ **Other investments** – These investments include renovations that are capitalized to the asset, cost of completing operating units, conversion to natural gas and investments in fixed assets that are not allocated to the activity segments ("**joint fixed assets**") and in other assets (mainly IT projects).

❾ **Other operating balances**– Reflects a full recognition by the Authority of the balance of segment assets on the date of rate update (January 1, 2015).

❿ **2015 onwards** – As was indicated above, after rate updating date (January 1, 2005) operation and fuel costs of the Company will be fully covered, and for that reason are not taken into account. Capital services for generation units were computed through the end of depreciation period of each site.

Value in Use – Grid (1 of 2)

Transmission

Adjusted to NIS of December 2011, in Millions	1-3/2012	Discard value
Revenues		
Capital costs	**423**	
Other income		
Operations	121	
Consumer tariffs	0	
Accumulated amortization factor	(83)	
Other income	6	
Receipts from third parties (1)	18	
Total segment revenues	**486**	
Costs		
Operating costs	81	
General and administrative	12	
Other costs	(1)	
Total costs	**92**	
Operating profit	**394**	
CAPEX		
Fixed assets	4	
Investment in segment property	209	
Total CAPEX	**212**	
Investment in working capital	25	
Residual value (2)		
Fixed assets		13,890
Working capital, spare parts inventory and equipment		474
Free cash flows	**156**	**14,364**
present value of free cash flows	155	14,142
Total present value of free cash flows		**14,296**

Distribution

Adjusted to NIS of December 2011, in Millions	1-3/2012	Discard value
Revenues		
Capital costs	**572**	
Other income		
Operations	444	
Consumer tariffs	112	
Accumulated amortization factor	(338)	
Reduction of consumer tariffs	(130)	
Other income	28	
Receipts from third parties (1)	35	
Total segment revenues	**723**	
Costs		
Operating costs	321	
General and administrative	57	
Other costs	(5)	
Total costs	**373**	
Operating profit	**350**	
CAPEX		
Fixed assets	5	
Investment in segment property	312	
Total CAPEX	**317**	
Investment in working capital	49	
Residual value (2)		
Fixed assets		18,485
Working capital, spare parts inventory and equipment		337
Free cash flows	**(15)**	**18,821**
Present value of free cash flows	(15)	18,530
Total present value of free cash flows		**18,515**

Value in Use – Grid (2 of 2)

1. Receipts from third parties - represents management assumptions around revenues earned from third parties with respect to investment in the grid.
2. Residual value – the residual value for fixed assets and other operating balances, reflects the net carrying amount prevailing when the rate will be updated. This balance is added to the Value in Use since management is of the view that upon such an update, the Authority will recognize the Company's asset portfolio,

Value in Use – DCF Method

Estimation of Value in Use:

- According to our opinion, based on the detailed analysis in the report, and the valuation method we used, the table on the left presents the carrying amount and minimal value in use of the CGU, which includes the three Activity segments of IEC as of the date of analysis.
- Under this assumption, as of the date of valuation, and as discussed in this work under IAS 36, the minimal value in use of the operating assets of the three Activity segments is not lower than the value of these assets in the unaudited financial statements of the company as of the date of analysis.

NIS Millions adjusted of December 2011	
Minimal Value in Use	64,654
Carrying amount	64,454

* The carrying amount was provided by the Company

Sensitivity analysis

- As aforementioned, Management has applied the full-coverage assumption in preparing the financial projections. Any lack of coverage of would result in declining Values in Use.
- Furthermore, as part of the full-coverage assumption management estimates that future electricity rates will fully cover the Company's operating costs. Any lack of coverage will result in declining Values in Use.
- The tables opposite set out a sensitivity analysis of the WACC. This sensitivity analysis assumes no change in FCF, while the WACC fluctuates.
- However, we note that actually, the rate of return on capital as calculated by the Authority is built according to a methodology similar to the one used to calculate the WACC. Accordingly, Management expects that a change in the rates of return would also drive a directional change in the Company's electricity revenues, and hence its FCF.

WACC	+0.5%	+0.25%	Chosen WACC	-0.25%	-0.5%
Minimal Value in Use	64,166	64,409	64,654	64,901	65,151

Appendix 1

Detailed experience and formal education of the head of the valuation team

Detailed experience and formal education of the head of the valuation team- Tzur Fenigstein, CPA (Isr.)

Education:

2010 - Tel Aviv University, PhD in Philosophy

1989 – Tel Aviv University, MBA

1986 - CPA

1983 - Tel Aviv University, BA in Accounting and Economy

Work experience:

2001- Kesselman Finance PricewaterhouseCoopers Ltd., Head of Corporate Finance, Financial and Economic Consulting, heading strategic and financial consulting projects, including corporate finance consulting, business planning, business valuations and feasibility studies.

1995 - 2001 – Kesselman finance, Head of Corporate Finance, Financial and Economic Consulting

1994 - 1995 – C holdings LTD., VP Investments

1993 - 1994 – Bank Hapoalim- Poalim Capital Markets, Privet Transactions Manager

1990 - 1993 – Ya'ad consulting, Project manager and senior advisor

1989 - 1990 –KPMG Somekh Chaikin, Accountant

Project and research managed in Kesselman Finance:

Valuations, Economic reviews, business planning

Preparation of position papers with respect to Macro and Micro economic issues

Guidance and assistance in variety of financial reviews for various companies

Provision of expert opinions as part of legal proceedings.

Appendix 2
Data Sources

Data Sources

The evaluation relied upon the following data sources:

- Draft financial reports as of December 31, 2011, and the audited financial reports as of December 31, 2009 and 2010
- The Company's budget update for the year 2012
- The Company's long-term financial planning
- Conferences and conversations with the company's senior management:
  - CFO
  - Head of the Regulation and LT financial planning unit
  - Head of the Regulation department
  - Head of the LT financial planning department

As of any other evaluation, this paper does not presume to determent the exact value of the company, but rather place it within a reasonable range, based on the data above. Any changes or addition of those might affect the evaluation's outcome.