2021

Israel Electric Corporation

Corporate Sustainability Report ESG



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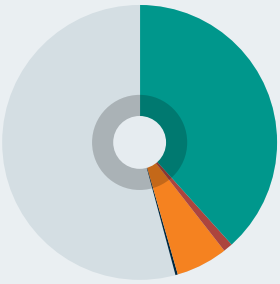
Introduction

Corporate Sustainability Report 2021

ESG performance for 2021

ENVIRONMENT

Over NIS 6.5 billion invested in emission reduction projects at the Orot Rabin and Rutenberg coal-fired power plants between 2013 and the end of 2021.



- Approximately NIS 2.5 billion invested in reducing coal-fired production and migration to natural gas-fired production at Orot Rabin:
  Refurbishment of 4 coal-fired units (NIS 17 million) and construction of 2 H-Class CCGT natural-gas-fired units with an output of 1,260 megawatts (NIS 2.3 billion)
- NIS 70 million invested in converting a production unit at the Rutenberg power plant from coal to natural gas
- Approximately NIS 406 million invested in environmental facilities in the generation segment in 2021
- Approximately NIS 20 million invested in environmental facilities in other operating segments of the electricity chain

11%
decrease in the use of coal and coal-fired power generation compared with 2020

13%
decrease in air emissions intensity of nitrogen oxides (NOx) in 2021

16%
decrease in the use of natural gas and in natural-gas-fired electricity production compared with 2020

25.2 million tons carbon dioxide equivalent (CO_2e) emitted in Scope 1 and 2

624 grams CO_2 equivalent emissions intensity per produced kWh

5%
decrease in solid waste **transferred to landfills**

46%
increase in solid waste **transferred for recycling** compared to 2020

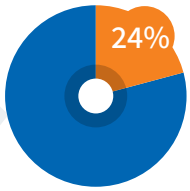
21%
decrease in hazardous waste (not including industrial effluents) of IEC compared to 2020

9%
of actual total electricity supplied by the IEC in 2021 was sourced from **renewable energies**

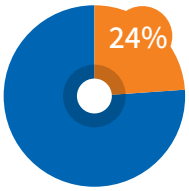
SOCIETY

11,103
employees

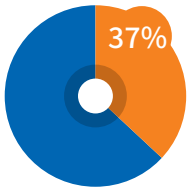
Propotion of women in managerial positions:



women in top managerial roles



mid-level management are women



first line management are women

11% of the employment are from underemployed populations

30 training hours
on average for each participant

NIS 3.6 million: total amount of investment in community educational programs

13,900 active suppliers

97% of suppliers are located and employ staff in Israel

Decrease in severity of accidents

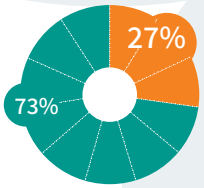
average severity of accidents 30
compared to 32.7 in 2020

NIS 21.4 billion procurement

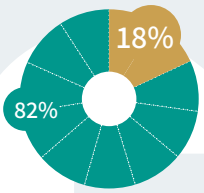
More than 95% of the new suppliers sign a letter on the Code of Ethics

CORPORATE GOVERNANCE

11 Board members



3 women
on the Board



2 directors
are from underrepresented populations

100%
of the Company's employees
have undergone an online anti-corruption course

2021 is the ninth consecutive year in which IEC was awarded a Platinum+ score in the Maala Index *

* *The 2021 index examined IEC's corporate responsibility activities in 2020 IEC has been ranked by the Maala Index since 2010, and has maintained a Platinum+ score since 2013.*

IEC was ranked tenth from among all companies from various sectors in the Israeli economy in BDI's best employer ranking.

IEC came first in the Human Resources Excellence competition, in the Promotion of Women category.

About This Report

This is the tenth Corporate Sustainability Report of IEC, which has been reporting its ESG performance since 2012.

The report reviews the Company's activity in 2021, was written in accordance with GRI's SRS (Core option), and includes references to the United Nation's Sustainable Development Goals (SDGs).

Unless stated otherwise, the report reflects the Company's performance, excluding its subsidiaries, in all of its sites and areas of activity. The report provides information as to Company's processes, data and progress in connection with ESG aspects, and sets targets for future years.

The purpose of the report is to present readers with the most relevant information about the IEC's effect on stakeholders and the management of these effects. The Company undertakes to continue reporting its ESG performance once a year, and to maintain a transparent dialogue with its stakeholders through those reports.

The environmental data published in the report are taken from IEC's 2021 Environmental Report.

The report was written with the guidance of BDO Consulting's Corporate Responsibility and Sustainability Unit. The unit is the sole GRI Training Partner in Israel and the group's consultants undergo specialized training for this purpose.

BDO GRI TRAINING PARTNER 2021 GRI COMMUNITY MEMBER 2022

The report underwent external assurance by Good Vision - Corporate Responsibility Consultants Ltd. using two methodologies: the reporting principles as per GRI's SRS and its reporting guidance under the Core option, and the principles of Accountability's AA1000 AS v3 assurance standard, under the Type 1 Moderate option.

For more information on the external assurance findings, see page 213

GOOD VISION Corporate Responsibility Consultants

AA1000 Licensed Report 000-13/V3-HIC4R



For information about the Report's topics, please contact the Regulation Environment and Sustainability Department:

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Identifying material topics for reporting

The materiality assessment is a process allowing the Company to identify and assess the most important topics for reporting for its various stakeholders. As a preliminary process for the preparation of its 2020 Corporate Sustainability Report, the Company conducted a comprehensive assessment of 22 material topics arising from its activities; this was done in accordance with the process required under GRI:SRS (for further information, see page 18 of the 2020 Corporate Sustainability Report[1]). At the end of this procedure, the 13 topics that were rated with the highest weighted score were defined as material.

In this report, the Company describes additional topics at length over and above the 13 material topics, due to their importance in the Company's opinion.

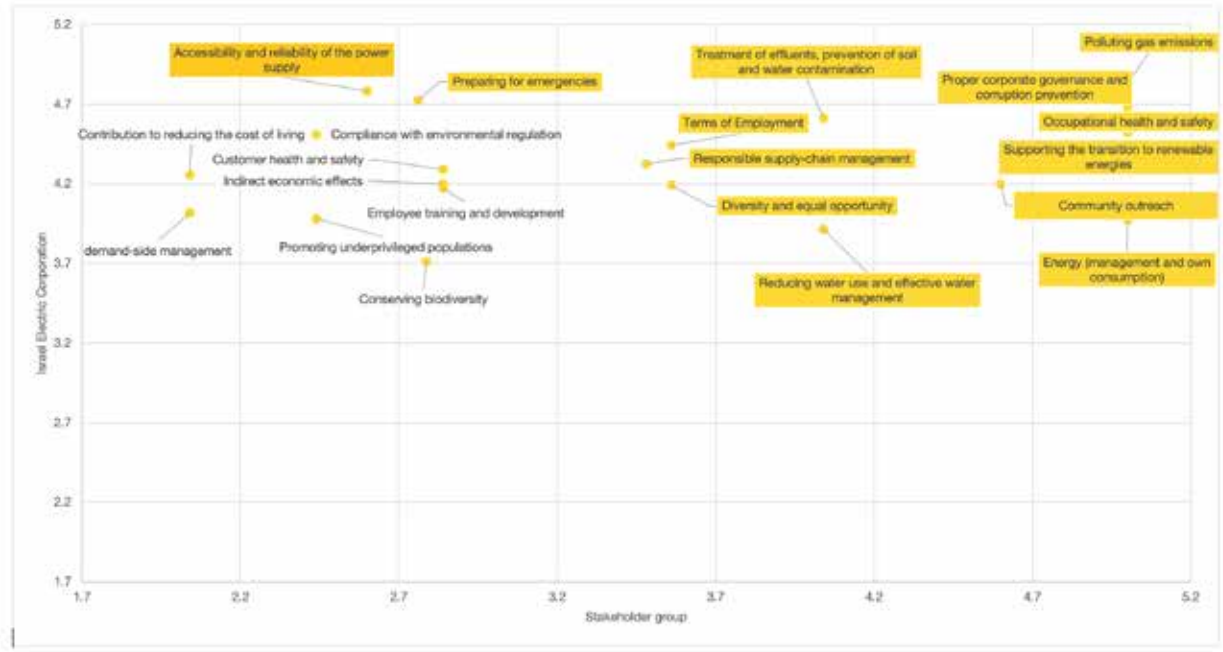
Table 1: Material Topics

Material topic in the report	GRI Topic and Impact boundary	
Polluting gas emissions	GRI 305: Emissions	◉
Occupational health and safety	GRI 403: Occupational Health and Safety	○
Proper corporate governance and corruption prevention	GRI 205: Anti-corruption	◉
Supporting the transition to renewable energies	GRI 302: Energy	◉
Energy (management and own consumption)	GRI 302: Energy	◉
Community outreach	GRI 413: Local Communities	◉
Treatment of effluents, prevention of soil and water contamination	GRI 306: Effluents and Waste	◉
Terms of Employment	GRI 401: Employment	○
	GRI 402: Labor-Management Relations	◉
Responsible supply-chain management	GRI 204: Procurement Practices	◉
Diversity and equal opportunity	GRI 405: Diversity and Equal Opportunity	○
	GRI 406: Non-discrimination	○
Reducing water use and effective water management	GRI 303: Water	◉
Accessibility and reliability of the power supply	Sector supplement	◉
Emergency preparedness	Sector supplement	◉

Impact boundary ○ Within the organization ◉ In and outside the organization

1. *Link to IEC's 2020 Corporate Sustainability Report: https://ieccontent.iec.co.il/media/xmrjwwiv/sustainability-report-2020.pdf.*

Materiality Matrix





Dialogue with Stakeholders

Our stakeholders are essential to the proper operation of IEC, and they impact and are impacted by its operations; therefore, we consider continuous dialogue with them of utmost importance. In order to deal with the existing challenges and to be open to opportunities to create "shared value" - business value alongside social/ environmental value, we create open and transparent communication and promote inter-sectoral collaborations as a means of enhancing trust, strengthening relationships, understanding the needs and adapting our activity.

The IEC's stakeholders

In 2021, IECheld dialogue with the different stakeholders, as is evident at length throughout the report. Below are select examples:

Selected channels of dialogue with stakeholders in 2021

Customers, local authorities and the general public

Service Channels:

- **Physical customer facing services** - at the Company's reception centers and the "customer-resident" service stations that were established in 2021 at several local authorities in Israel (in the local authority building/city hall).
- **The IEC's hotlines (103)** - are available both in Hebrew and Arabic
- **Digital service channels** - Facebook, LinkedIn, Twitter, Instagram, online chat, WhatsApp and text messaging service (during operating hours of the centers), chatbot that allows performing automatic online transactions with the guidance of a virtual representative, and as part of the hybrid pilot of the Nahariya service center in which digital guidance and training for online transactions are available. In addition, the Company's website offers a 24/7 self-service option in Hebrew and Arabic.
- **Visitors centers** - the Company operates two visitor centers, which are open free of charge as a service to the general public - at the Orot Rabin site and the Heftziba site in Hadera.

Satisfaction surveys and attitude surveys:

- Satisfaction surveys of the service that are conducted routinely:
  - 103 hotlines - a sample survey is conducted every quarter, and customer experience surveys shortly before the end of the call.
  - Customer facing services - customers at the reception centers are surveyed by telephone, and the survey results are assessed every quarter.
- In Q4 2021, a satisfaction survey was conducted among the prepaid meter customers; prepaid meters are typically installed for indebted customers from underprivileged populations.
- The "360 Degrees" IEC attitude surveys ("Barometer") are held once a year, for the third consecutive year; those surveys target the entire population and are also conducted separately for each of the segments - households and business customers.

Meetings with local authorities:

- Routine meetings with senior and professional officials in local authorities in order to ensure regular and reliable power supply to customers at all times and in all weathers, both in normal times and in times of emergency.
- Meetings with welfare officials and representatives of local authorities, as part of the Company's activity to help struggling customers exhaust their rights.

Employees

- **Assessment and feedback meetings** - once every two years the Company holds assessment, feedback and development meetings with all employees (the previous feedback took place in 2020).
- **Engagement and satisfaction survey** - the Company conducts, once a year, an "intra-organizational climate" survey to measure employees satisfaction and engagement. This is in addition to routine satisfaction surveys at significant milestones throughout the employee's life.
- **Digital communication channels** - digital dialogue within the units and divisions, WhatsApp groups for regular updates, etc.
- **Tours** - Management members and senior managers visit sites and meet with employees.

Suppliers

- **Service center for suppliers** - that serves as a one-stop shop covering all payment-related queries and other financial issues.
- **Dedicated suppliers website** - the Company upgrade it to expand the range of online actions and receive information.
- **Supplier conferences**

Regulators and government ministries

- Meetings and lectures for the exchange of knowledge and insights with representatives of government and municipal agencies, as well as scheduling strategic visits at the Company's sites. In this manner, joint projects aimed at addressing environmental, regulatory and social issues are promoted.
- In 2020-2021, IEC integrated the conclusions of research regarding its relationship with regulators; as part of the process, an orderly work method was formed between the Company and the different regulator.

Social, environmental and industrial organizations

- **Dialogue with social organizations** - the IEC holds ongoing discourse with representatives of organizations and authorities to make information accessible and exercise rights vis-a-vis the Company. In 2021, 10 online lectures on exercising rights were delivered to welfare entities.
- **Dialogue with environmental organizations** - in the past, dialogue was held mainly in structured roundtables. However, due to the relationship formed with these organizations, in 2021 several professional meetings took place on specific topics (including transportation of soil near IEC power plants, "green" investment rating index, etc.).
- **Dialogue with industry** – various conferences and professional seminars are held routinely. In 2021, an online conference with the Manufacturers' Association took place as well as a first conference for potential electricity suppliers - parties considering the sale of electricity directly to households as independent electricity suppliers, in preparation for competition in the supply segment in accordance with the reform agreements.

Community

- **Dialogue with stakeholders** - with the communities around the Orot Rabin and Rutenberg power plants.
- Extensive and long-standing information and educational activities held through a range of channels, including face-to-face meetings and online channels. Community outreach activities are conducted as part of long-standing partnerships with social non-profit organizations and inter-sectoral coalitions (business sector, public sector and the voluntary sector). Information activities also take place as part of the multisectoral forum for equal employment of women.

Academia

- **Lectures** - the Company holds lectures at various academic institutions on a range of topics from its core operations.
- **Collaboration with academic institutions** - as part of the HR Division's strategy to develop the Company's human capital.
- **Promotion of research in collaboration with the academia** - such as the research on health and safety among drivers and transport workers at IEC that was launched in 2021, and R&D collaborations with the Company's Innovation Unit.

Investors and analysts

- Maintaining a direct, ongoing and transparent dialogue with lenders, investors, analysts and other parties in the domestic and international capital markets; this activity is led by the Company's investor relations unit.
- Responding to investment research firms that provide ESG portfolio risk and performance analyticsto investors - in order to increase transparency and enhance the ongoing relationship and discourse with investors and rating agencies.

About the Company

The IEC is a key provider of an essential service in the economy; its mission is to provide power to millions of customers.
By supplying power, it contributes to the quality of every resident's life, sets the economy's wheels in motion, and is essential to the activity of each and every organization and household in the country, both in normal times and in times of emergency.



The Israel Electric Corporation Ltd. was founded in 1923; it has been the only company in Israel that operates vertically along the entire electricity chain - generating, transmitting, distributing and supplying most of the electricity consumed in the State of Israel for the past 98 years. The Company works to ensure reliable, available and high-quality power supply while adhering to high service standards and following economic, commercial and environmental principles.
In June 2018, a government decision was made regarding the promotion of reform in the electricity sector and a structural change in the electricity company, the main points and implementation of which are detailed in this report.

IEC is a governmental and public company . approximately 99.85% of its share capital is held by the State of Israel and its remaining issued and paid-up share capital is held by 120 individuals (as of the Report publication date). The Company is regulated by a number of regulators, including: the Israel Competition Authority, the Israel Securities Authority, the Ministry of Energy, the Ministry of Finance, the Ministry of Interior, the Ministry of Environmental Protection, the Market Concentration Committee, the Tel Aviv Stock Exchange, the Government Companies Authority and the Israeli Electricity Authority, which stipulates, among other things, electricity tariffs and the manner by which they are updated, in accordance with the provisions of the Electricity Sector Law.

The Company provides services to a wide range of customers : the household sector; the public-commercial sector - including merchants, shopping centers, various businesses, local authorities, public institutions and government ministries; the industrial sector - industrial plants and independent power producers; water pumping - the electricity required to supply drinking and irrigation water across the country and for any other purpose; agriculture; Jerusalem District Electricity Company (JEC), the Palestinian Authority and infrastructure services.

Termination of office and appointments

On August 1, 2021, Mr. Yiftah Ron-Tal's tenure as the Company's Chairman of the Board of Directors ended. On April 6, 2022, the Company's Board of Directors decided to elect the director Dov Baharav as chairman of its Board of Directors, subject to the approval of the Minister of Energy and Minister of Finance. On April 26, 2022, prior to granting of approval by the said ministers, Dov Baharav tendered his resignation as a director in the Company. As of writing this report, a new chairperson of the Board of Directors has not yet been appointed.

On May 9, 2022, Ofer Bloch's tenure as Company CEO ended. On April 14, 2022, the Company's Board of Directors unanimously resolved to adopt the recommendation of the Ethics Committee to appoint Meir Spiegler as CEO of the Company. On November 1, 2022, Mr. Spiegler began his tenure as CEO of the company after his appointment was approved by the Minister of Energy and the Minister of Finance.

2021 in numbers:

The Company's assets totaled NIS 90.6 billion

No. of employees was 11,103

The Company has approximately 2.9 million customers

an increase of approx. 52,000 in the number of customers compared to the end of 2020

Vision and values

The IEC leads in Israel, and seeks to continue to lead, the energy market as an efficient and fair business corporation, which is the backbone of the economy, using advanced technologies, accelerated development in an evolving, competitive market, while protecting the environment and producing cleaner energy [2].



Changing courageously

Business-oriented. Innovation. Efficiency

Our ability and determination to innovate and change as an organization will ensure our resilience and continuity.

We work to execute our tasks effectively, efficiently and with a business approach in mind. This is aimed at achieving adequate profits and increasing the Company's business competitiveness.



Committed to customers' needs

Quality accessible service

We are dedicated to developing the electricity sector and are committed to do all in our power to ensure power supply to all of the Company's customers - with an emphasis on availability, reliability, efficiency, and quality. This is done in accordance with the Company's goals, the provisions of the law and regulations while striving to protect the environment.

Understanding the needs of our diverse customer base and addressing those needs and in a swift and professional manner are at the core of our activity.



Leading responsibly

Integrity. Role modeling

We show leadership and bear personal and executive responsibility for our decisions, activity and its consequences. We conduct ourselves with integrity and in line with our statements, and serve as role models to those around us.

We act in accordance with professional, fair and non-discriminatory standards, and strive to maintain mutual trust in all our relationships within the Company and with external and internal stakeholders.



We care about people

Fairness. Mutual responsibility

We treat all Company employees and customers with respect, fairness, dignity and care. We are attentive to our employees' needs and difficulties, show solidarity and work to support and assist them as much as possible. We demonstrate and encourage openness, tolerance and the expression of diverse views. The staff are a key assets of the Company.



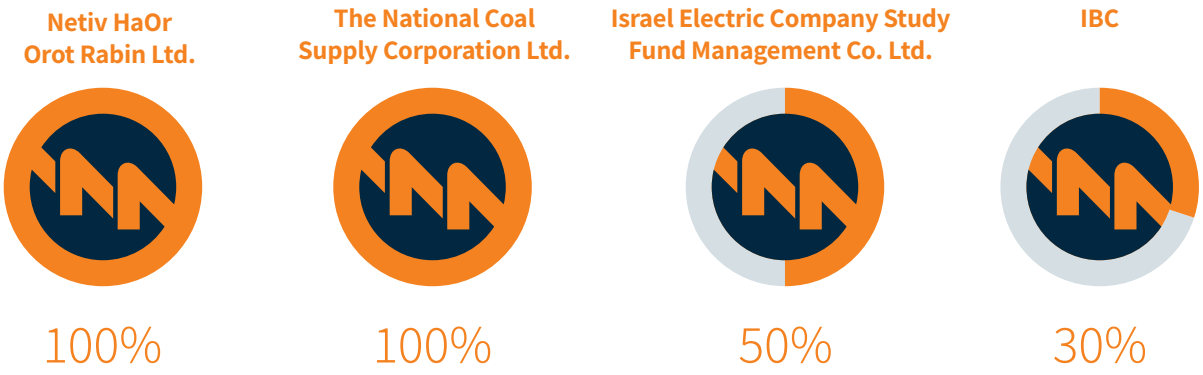
Committed to professionalism and excellence

Initiative. Passion for doing. Safety

At the IEC we strive to be the best at what we do, and regard taking the initiative and being passionate about what we do to be essential components in the effort to achieve our goals. We act to the best of our professional and business judgment, encourage excellence and constantly endeavor to improve our performance. We draw lessons from failures as well as successes and aspire to find solutions to problems that arise.

2. *For more information, see the Code of Ethics and Core Values document published on the IEC website - https://www.iec.co.il/about/Documents/KodE.pdf*

Figure 2: Structure of holdings



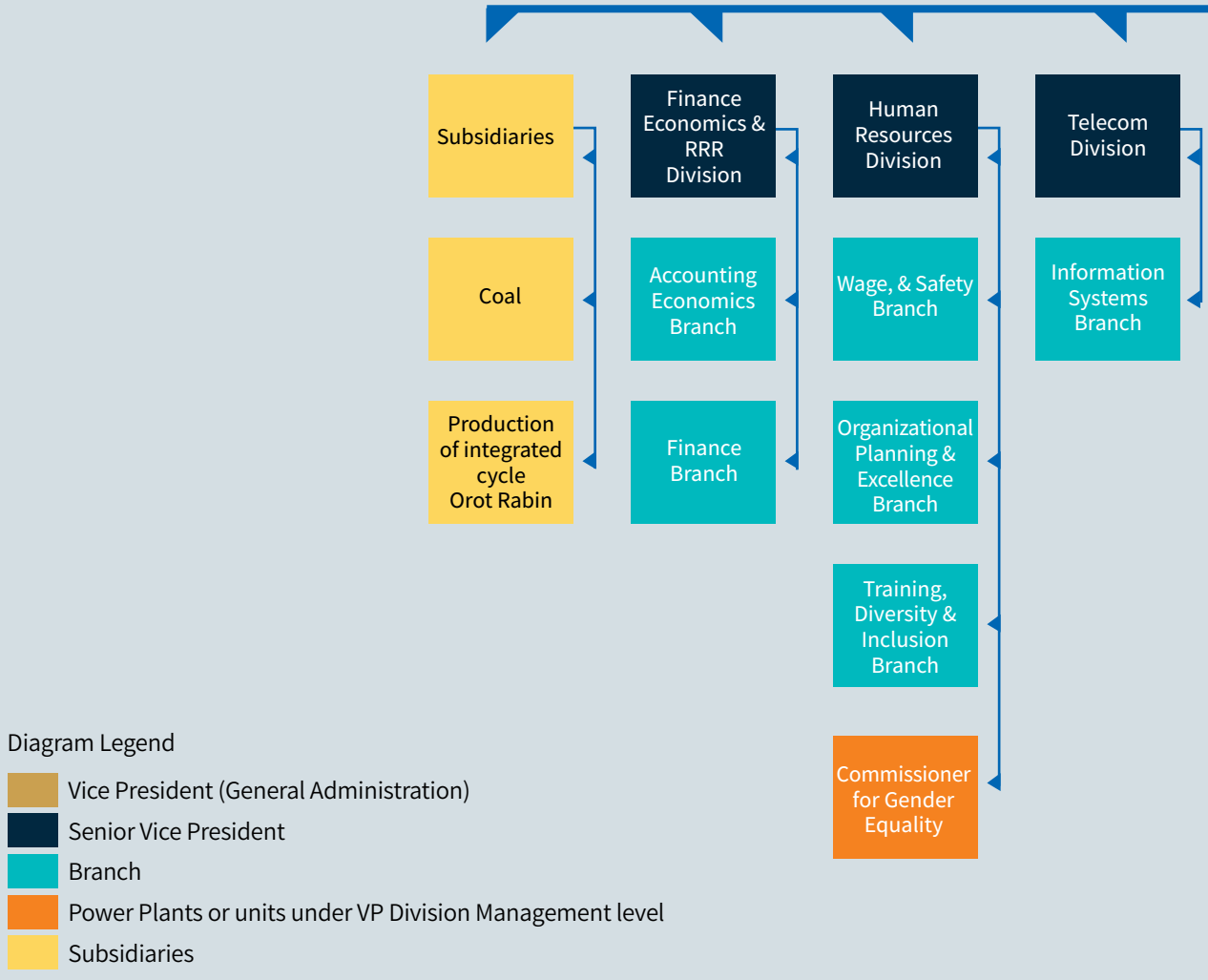
Structure of holdings

The subsidiary Netiv HaOr Orot Rabin Ltd - was established in March 2020 as part of the restructuring of IEC. The objectives of the subsidiary are the construction, operation and maintenance of two H-class combined cycle gas turbines (CCGTs) that will be operated by natural gas at the Orot Rabin site in Hadera.

IBC – The Company is setting up optic fiber infrastructure and provides advanced infrastructure services to the leading internet companies in Israel.

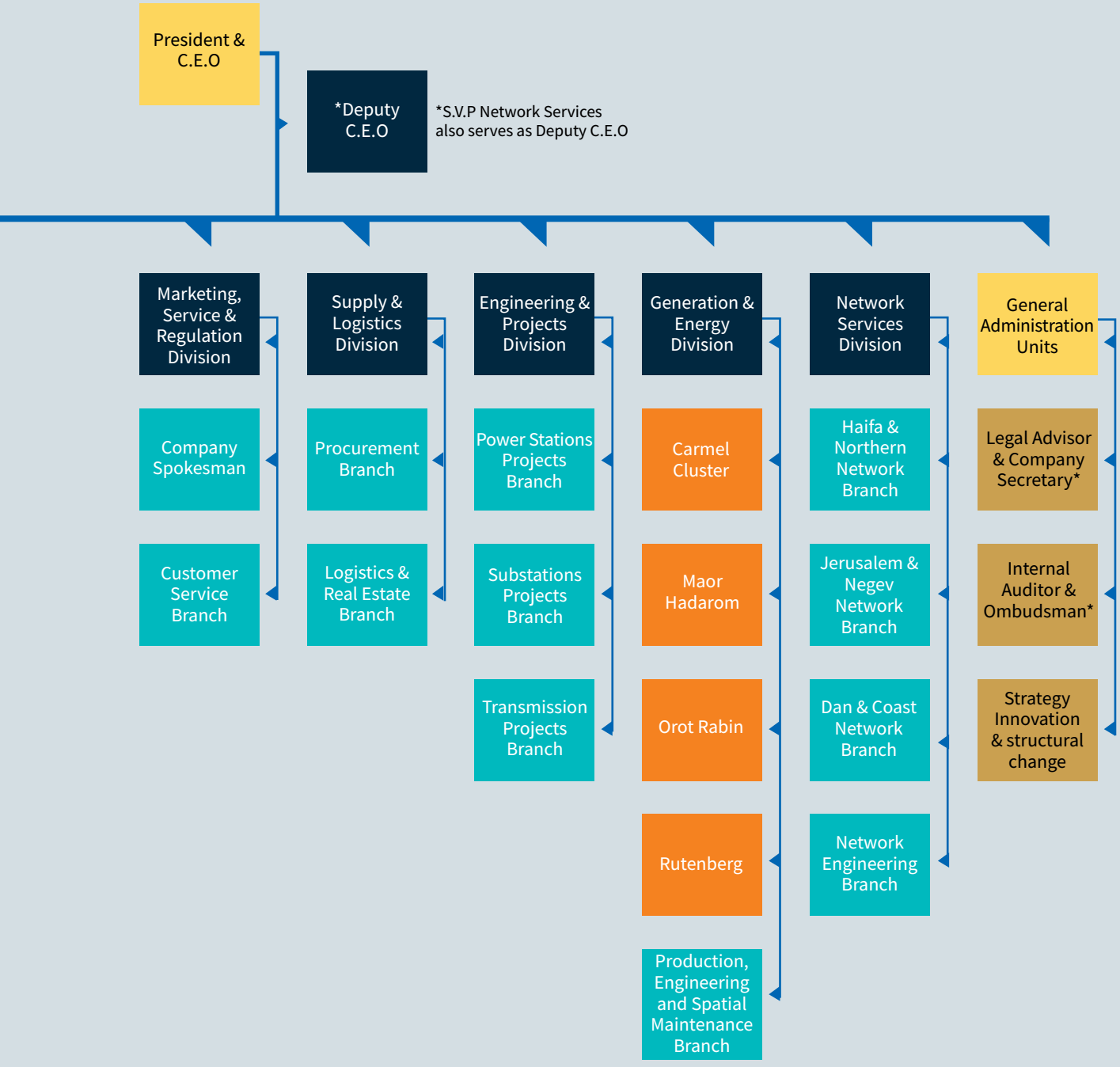


Figure 3: The IEC's organizational structure



5 Standard Headquarters and core divisions support

3 Standard Core Divisions


President & C.E.O
*Deputy C.E.O
*S.V.P Network Services also serves as Deputy C.E.O
Marketing, Service & Regulation Division
Company Spokesman
Customer Service Branch
Supply & Logistics Division
Procurement Branch
Logistics & Real Estate Branch
Engineering & Projects Division
Power Stations Projects Branch
Substations Projects Branch
Transmission Projects Branch
Generation & Energy Division
Carmel Cluster
Maor Hadarom
Orot Rabin
Rutenberg
Production, Engineering and Spatial Maintenance Branch
Network Services Division
Haifa & Northern Network Branch
Jerusalem & Negev Network Branch
Dan & Coast Network Branch
Network Engineering Branch
General Administration Units
Legal Advisor & Company Secretary*
Internal Auditor & Ombudsman*
Strategy Innovation & structural change

The Company's activity

Since November 2021, the Company's operations consist of five main areas of activity comprising the electricity chain, from power generation to supply of power to customers - the production segment, transmission and transformation segment, distribution segment and supply segment. This is following completion of the transfer of the entire electricity system management operations to the new government company Noga - Israel Independent System Operator Ltd , in November 2021, as part of the electricity sector reform and the restructuring[3], (hereinafter - "Noga Ltd.")[4]. Therefore, IEC ceased to serve as the manager of the electricity system. In December 2019 IEC started operating a transmission supervision function separate from the system management, which presently fully manages, operates and controls the transmission and transformation system. At the end of 2023, a computerized system - Transmission Management System - TMS will be put into use and will enhance the operational and control capacity of the transmission systems for which the Company is responsible.

Generation Segment

All activity involved in generating electricity at IEC's 15 [5] power generation sites and in each site in one to several of the power generation units (total 52 units, see details below).
In 2021, the Company generated 51% of the power generated in Israel in 2020 compared to 61% in and 66% in 2019.

Transmission and Transformer Segment

The activity includes power transmission:
From the power generation sites using high voltage lines and ultra-high voltage lines (including connection transformers that change the energy from ultra-high voltage to high voltage) to the switching stations[6] and substations.[7]
Energy is transferred from the substations to a high voltage grid through output transformers:

400 kV lines - 777.6 km	Above-ground 161 kV lines - 4789.2 km
115 kV lines - 41.5 km	Underground 161 kV line - 157.38 km
11 switching stations	148 private substations	

Distribution Segment

The Company's activity includes transmission of power from substations to consumers through high and low voltage lines, including the metering the consumed energy at the customers' facilities (the electricity meters).

Total of 29,718 km of high voltage grid lines
52,847 distribution transformers with a total output of 26,643 MVA
Approximately 39,121 km of low-voltage grid lines including cables connecting homes

3. *A process that was launched on December 1, 2020, when the Planning and Technological Development Division and part of the Statistics and Market Research Department activities were transferred Noga.*
4. *Noga Ltd.'s former name: IISO - The System Management Company Ltd.*
5. *As of December 15, 2021.*
6. *"Switching station" - a station that receives 400 kV or is connected to a power plant with an output exceeding 400 megawatts and 161 kV.*
7. *"Substation" - according to Section 2 of the Electricity Sector Law, a transformation station interconnecting the different types of power grids, which contains transformers that increase or decrease voltage.*

Supply Segment

The activity includes the Company's collection and service function, which is responsible for preparing and issuing bills, as well as consumer services, including a customer call center, customer facing services and customer file coordinators.

At the end of July 2021, as part of the reform measures, a first supply competition pilot was launched in Israel. For further information, see "Progress in implementing the electricity reform in 2021" (on page 21) and on page 82.

The IEC's power generation facilities

IEC is committed to generating and supplying available, quality and continuous power from the various generation sources at its disposal:

Table 2: The production process, Installed capability (MW), No. of production units

(Steam (dual-fuel) (coal and fuel oil	4,840	10
(Steam (dual-fuel) (natural gas and diesel oil	1,340	6
Industrial gas turbines	914	9
Jet gas turbines	504	16
(Natural gas combined cycle (internal combustion and steam	4,017	11
Total	**11,615**	**52**

The Company operates the generation units according to provisions sent by Noga - Israel Independent System Operator Ltd., which is responsible for the planning and development of the electricity system, subject to regulation regulated, inter alia, by standards to mutual relations between the electric company and its customers, established by the Israeli Electricity Authority's, the Minister of Energy's decisions and regulation of the Ministry of Environmental Protection. These instructions are based, among other factors, on environmental restrictions, fuel costs per produced kWh, and operational and systemic constraints. The Company's units are usually operated based on the following order of priorities: coal-powered steam generation units at minimum load; natural gas-powered combined power units; steam generation units converted to gas; open cycle gas turbine units powered by natural gas or LNG, and finally increasing generation in the coal-powered units up to maximum loan and diesel, while this order changes according to system and/or environmental constraints. When necessary, mainly in periods of peak demand, backup industrial gas turbine and jet gas turbine type diesel-powered industrial gas units are operated; the operation of these units can be started and stopped within a shorter time than the steam generation units, but on the other hand, the cost of their operation is higher.

Progress in implementing the electricity reform in 2021

In 2018, the Israeli government passed an historical resolution approving the reform in the Israeli electricity sector. The reform includes, among other things, extensive structural and organizational changes in the IEC, in order to increase efficiency and competition in the electricity sector and enhance the Company's financial resilience.

Main actions taken restructuring IEC:

In 2019, the sale of the Alon Tavor site was completed, in 2020 the sale of the Ramat Hovav site was completed and the subsidiary Netiv HaOr was established; Netiv HaOr is constructing two combined cycle gas turbines (CCGTs) at the Orot Rabin power plant. Furthermore, as stated above [8], the Company also established a transmission supervision function in parallel to gradually transferring the activity of the System Management Unit to Noga Ltd., which was completed in November 2021.

The steps taken to implement the reform in 2021 include, among other things:

- In November 2021, the entire system management activity was transferred to Noga - Israel Independent System Operator Ltd., and IEC ceased operating as the manager of the electricity system.
- At the end of 2021, a first supply pilot will be launched in Israel, in which 35 thousand households equipped with smart meters will have the option of disconnecting from IEC and buying electricity at a reduced price from companies approved by the Israeli Electricity Authority.
- On November 5, 2021, the Knesset (the legislature of Israel) approved the economic program (hereinafter - the "Economic Arrangements Law"), including resolutions for preparations to prevent damage to the power supply to the Tel Aviv metropolitan area, resolutions postponing the dates for terminating the operation of the Reading site and suspending the construction of two combined cycle gas turbine units at the Reading site in accordance with the government resolution on the reform.
- An agreement for the sale of the eastern part of the Hagit power plant was signed in December 2021; the Company is expected to transfer its holdings to the buyer in June 2022.

8. *Company's operations sub-chapter*

The IEC - forward-looking

In light of the worldwide energy revolution and as part of the joint global effort to prevent further climate change, a profound change is taking place in Israeli energy sector, as well. Accordingly, IEC is leading significant measures throughout its value chain, including:

- Phasing out coal
- accelerated development of the grid to integrate renewable energies and decentralized power generation by private producers
- Promoting storage solutions
- Integrating smart command and control systems to optimize management of the grid
- Assessing the use of hydrogen for production

These moves are part of the Company's renewing strategy for 2021-2040, that was completed at the end of 2020. The strategy relies on the Company's vision and core values, while integrating considerations and measures of innovation, sustainable development, human capital development and efficiency - supporting the IEC's transition from a monopoly to an equal competitor in a free market, caring for its stakeholders.

The Company's sustainability strategy

The IEC will operate bearing in mind its environmental and social responsibilities, its business interests, the principles of sustainability and forward-looking considerations.

In 2014, management and the Board of Directors approved the Company's first policy, strategy and sustainability targets paper. The revised version of the paper was published in 2016; it focuses on the aspiration to achieve sustainable growth by 2020, including defined targets and required courses of actions. The area and principles of sustainability were implemented in the organization through detailed work plans, including setting monitoring, performance and control metrics.

At the end of 2021, IEC initiated a process to formulate an ESG strategy and define cross-company sustainability goals - in light of the company's vision, its core values and the company's business strategy. As part of the process, quantitative ESG strategic goals and objectives for the year 2030 will be defined.

Innovation at IEC

The innovation unit was set up at the beginning of 2020 under the Strategy, Innovation and Structural Change Division. Despite the fact that innovation has been an integral part of the Company's activity since its establishment 99 years ago, under the innovation unit this issue became - for the first time - an orderly discipline with clear methodologies, targets and performance metrics. The unit works together with innovation agents in the various divisions, who serve as divisional "innovation leaders", in order to integrate innovative practices in all areas of activity.

Together with the innovation leaders, the unit is leading the Company to the "world of tomorrow" by integrating new growth engines and linking challenges to solutions. This is through the development of collaborations and harnessing creative, flexible and agile organizational capabilities in order to build, lead and accelerate innovation projects.
The primary objective of the unit is to assimilate an organizational culture of entrepreneurship and innovation, while striving to predict and implement - within a short period of time - technological changes relating to its different areas and establishing itself as a knowledge-led organization.

The unit's objectives are as follows:

- Adapting the IEC to the changes in the global trends and in the domestic market in view of the reform
- Improving the Company's ability to compete and achieve comparative advantages
- Improving the efficiency of the Company's processes and operations
- Creating new value for customers and employees
- Creating business models and new revenue streams

Innovation is presently managed at IEC on three parallel levels
| Open innovation | R&D and collaborations with the academia | Corporate innovation |

Open innovation

Open innovation is expressed by collaborations with startups in technological pilots, whereby IEC provides the plan outline, the expertise and the platform (meaning the grid and special infrastructures for the electricity and energy market for assessment of new technologies), while the startup provides its technology.
The unit also collaborates with regulators, the Chief Scientist at the Ministry of Energy and the Innovation Authority. For this purpose, the Company established a power up program under which a call for proposals was published for entities seeking support for innovative concepts, technologies and products in the development phase. The Innovation Unit also conducts due diligence to assess investment in companies, and at the end of 2021, the Company made a first investment in EGM Inc., a company that produces IOT technologies for monitoring and asset management of electrical grids, for optimal integration of renewable energies in the national electrical grid. In 2022, the Company invested in Prisma Photonics, a company that monitors long infrastructures (electrical lines, gas pipelines, etc.) by optic fibers using sensors along their entire length.

R&D and academia

At the end of 2021, a framework tender was completed in which four R&D suppliers were selected for the Company. These suppliers will provide a solution to challenges raised by the Company and will allow solutions to be developed for the challenges facing IEC. The intellectual property and commercialization of the products of this activity will be owned exclusively by IEC. Furthermore, in 2021 a call for proposals was published for the academia as part of which the Company joined the National Institute for Sustainable Energy of Bar-Ilan University. In 2022, another two R&D projects are expected to be launched.

Corporate innovation

The Innovation Unit promoted and led a wide range of measures to develop and integrate a culture of innovation in the Company, from social platforms, through workshops and courses to a corporate innovation incubator; the first class ended at the end of 2021 and the products that were designed in it are expected to be commercialized in the coming years. The innovation activities reached a peak during “innovation week” in the Company, which took place in October 2021. As a result of these collaborations, approximately 200 pilots were launched during the three years since the unit was set up, and research and development was launched in the Company.
In 2021, the Innovation Unit led 50 different pilots in the Company and as part of different collaborations in various areas of activity. The pilots included projects in various areas, including integrating decentralized generation sources in the grid; smart electric transport; energy storage; smart grid; process automation and improvement of the safety level; integration of AI applications in the power plants; the use of hydrogen in power generation, etc.
Information on the projects developed by the Company’s divisions, in line with its strategic and innovation goals, is available in the 2020 Corporate Sustainability Report, pages 33-35.

Developing a smart grid

The Israeli electricity sector is transitioning from classic electricity system to a decentralized power generation era, where many independent power producers connect to the grid and transfer the energy they generate into the grid, using different technologies. Such transition constitutes one of the most significant challenges facing the electricity sector in Israel.

In order to manage the power grid in its new format, the electricity sector needs a "smart" grid that will allow the integration of private power generators alongside the options of reducing, diverting and managing demand by, among other things, giving financial incentives and providing information. A smart grid will increase energy efficiency and reduce greenhouse gas emissions; at the same time, it will allow efficient management and control of power generation at the national level, management of loads in power distribution lines and will ensure the quality and reliability of power supply. Thus, for example, applying variable rates during different times of the day will drive changes in patterns of power consumption among consumers and will divert demand from times of the day when demand is high, and electricity is expensive to times of the day when demand is lower, and electricity is cheaper.

Smart metering - an advanced electronic meter which allows continuous measurement of energy consumption and other electrical parameters, data storage and two-way communication - is the foundation of a "smart electrical grid".

Smart metering project

Integration of "smart meters" is essential for the success of the process described above. Smart meters will allow continuous measurement, collection of information and two-way transfer of information about power consumption and generation in real time; based on those data it will be possible to set dynamic tariffs. The deployment of "smart meters" is expected to have a positive effect on the entire electricity sector: opening of the supply segment to competition; promotion of Ministry of Energy goals; reduction of overall power consumption, assistance in increasing energy efficiency, contribution to cutting the costs of meter reading and fuels, reduction of power loss in the transmission and distribution system, reduction of emissions of polluting gases and reduction in levels of power reserves. Furthermore, these systems will support the monitoring, management and control processes and will give customers a digital and smart indication about their power consumption.

One of the IEC's flagship programs is the deployment of smart metering**,** which the Company promotes as part of the Ministry of Energy's policy for achieving the objectives of the reform in the electricity sector and creating the infrastructure for developing the electricity sector and opening the market for competition.

In February 2020, the Company's Board of Directors approved the outline of the smart meter project for an interim period between 2021-2023 and for preparations to continue the project beyond 2024. As of the end of 2021, approximately 140 thousand remote meter points (household and commercial) have been installed in Israel, which constitutes 4.5% of all meters provided by IEC. The Company plans to reach approximately one million remote metering points installed by the end of 2024, while since November 2021, in new installations, meaning in any new connection and/or connection enlargement (replacement of meters by outsourcing and new installations by Company employees), it installs smart meters only. In 2021, the Company also started installing smart metering equipment in grid transformers, and by the end of the year completed the installation of approximately 1,000 transformers. At the same time, the Board of Directors has given Company's management the power to work with the Israeli Electricity Authority in order to recognize the project's costs and to launch procurement procedures and international public tenders for the period after 2024.

In October 2021, the Israeli Electricity Authority published Resolution No. 61611 regarding "principles for deployment of smart meters among low-voltage customers" and recognized the need to deploy the smart meters and the costs of an installed smart meter [9]. In addition to the general meter deployment plan in the sector, at the end of December 2021 the Israeli Electricity Authority published a hearing document [10] setting out the principles and tariffs for installation of smart meters for any customer seeking to replace the existing meter with a smart meter.



Future measures and objectives

- In 2022, the Company started deploying smart meters in the field through contractors and will install infrastructure for metering equipment. Sub-Suppliers will install the smart metering equipment in another 2,500 transformers.
- In 2022, the Company plans to replace 120 thousand meters and install 83 thousand new installations (including connection enlargements).
- The Company published a new international tender to purchase a system and equipment for meters for deployment nationwide, and a winning supplier is expected to be selected before the end of 2022.
- Replacing the analog meters with smart meters and reaching one million installed smart metering points by the end of 2024.

Pilots to integrate a smart grid

- Pilot with Megger Grid Analytics (Metrycom) and EGM - As part of the pilot, electrical grids in the transmission and distribution segments were monitored using sensors installed on the grid. The sensors transmit real-time electrical, physical and environmental data, contributing to optimal management of the grid, improved operational performance and readiness to receive decentralized power generation sources - inter alia, photovoltaic power generation systems, storage in the grid and storage beyond the meter, electric car charging station, etc.

- Pilot with Prisma Photonics - as part of the pilot, an optic fiber was used, which was installed along the entire length of the transmission grid and uses a sensor that can monitor the electrical and environmental effects to the grid. The use of an optic sensor can contribute to improving the grid reliability, accurate identification of the malfunction location, etc.

ADMS - distribution management system

The ADMS system is an advanced high and low voltage distribution management system. The system is a strategic flagship project of IEC as part of compliance with the reform resolutions and the restructuring of the distribution grid operating model, according to the revolution in the electricity sector and for integration of the smart grid.

9. *Up to 450 thousand smart meters and until the end of 2023, and an option for 150 thousand more smart meters, subject to the authority's instructions.*

10. *The complete hearing document published by the Israeli Electricity Authority: https://www.gov.il/BlobFolder/rfp/shim_clalei_monim_hachamim/he/Files_Shimuah_shim_hatkanat_monim_malle.pdf*

As part of the restructuring, IEC resolved to replace its existing distribution management system (DMS) with an advanced distribution management system - ADMS. The existing distribution consists of six separate DMS systems in six control rooms, each of which manages the high voltage distribution grid in a different geographical area, while there are shared border points between the areas. The DMS system was purchased at the beginning of the 2000s and was considered advanced at the time; it was designed for classic distribution management in which the direction of the energy flow from the substations to the end customer, both at high and low voltage, through the distribution transformers is fixed and known.

The ADMS system that is planned to replace it is an advanced system for national-level distribution management and control, which will allow central control and provide an adequate solution to new needs that typify a modern distribution grid, such as decentralized generation facilities, storage facilities, electric cars, and future needs based on IEC's roadmap for a smart grid. The system is based on a geographic information system (GIS) and supports implementation of the country's goals for renewable energy, reduced emissions and switching from polluting cars to electric cars. The ADMS system was also preplanned to provide a solution against cyber threats, which have now become frequent. The new system includes two unified supervision centers - primary and secondary, that are far from each other and provide it with the high survivability both in IT terms (IT equipment malfunctions) and in physical terms (earthquakes, fire, floods, security incidents, etc.) as part of the Company's emergency preparations.

The international tender to purchase the ADMS system that was published in 2017 included an option to purchase a transmission management system - TMS. As a result of the reform agreements, and the need to establish transmission supervision that operates separately from the system management that was transferred from IEC to Noga, it was decided to exercise the option.

The TMS project (see next page) is managed in parallel and in coordination with the ADMS project.

The Company selected GE Grid Solutions as the winner of the tender, and in March 2019 an agreement was signed with it to purchase an ADMS system.

In 2021, the system's database was established, adjustments were made, the system functionality was tested, electrical grid displays were built and a database of reports was established. In addition, the primary site was constructed, and a backup site was planned. The system is currently at the end of the development stage and initial acceptance testing at the supplier's factory (FAT).



Future measures and objectives

- In 2022, the FAT (function acceptance tests) are scheduled to be completed and then the system will be sent to Israel for installation. The system is scheduled for initial operation at the end of 2023, immediately after completion of the acceptance testing in Israel - SAT (system acceptance tests).

TMS - transmission management system

Integration of a transmission management system (TMS) is one of IEC's strategic supervision projects. The TMS system is an innovative computer system purchased by IEC, which upon completion of its integration in 2023 will upgrade the operating and control capabilities of the transmission systems for which the Company is responsible. According to the government resolution regarding the reform dated June 3, 2018, in December 2019 IEC started operating a new transmission supervision function separately from the system management, which was established by the Company according to the restructuring and as part of its preparations to transfer the Planning and Technological Development Unit and System Management Unit to the new government company - Noga.
The roles of the Transmission Supervision Unit are to manage, operate and control the transmission and transformation system - all while safeguarding the staff, protecting the equipment, receiving high voltage and ultra-high voltage customers and independent power generators, and promoting technology by integrating additional computer and operating systems.

The Transmission Supervision function has been operating on the EMS system of the System Management Unit at Noga since December 2019. Since August 30, 2020, the Transmission Supervision function started operating as an independent entity and serves as a single point of contact (SPOC) between all operational entities at IEC, private customers connected to the transmission grid and the management system at Noga Ltd.
By virtue of its function, the Transmission Supervision Unit plans, among other things, the annual downtime program, receives all transmission grid maintenance and development requests, approves and transfers them for final approval by the system management. Once they are approved, the unit executes the work and addresses interruptions in the transmission grid.

In July 2019, an agreement was signed with GE for the purchase of a computerized TMS (transmission management system). This is in order to enable IEC to stop using Noga's system and manage the transmission and transformation system independently using more advanced technology.
The TMS system will receive information the field from approximately 300 substations and high and ultra-high voltage circuits, display them to the supervisor at the transmission control room, transfer them to the ADMS, assist the transmission supervisor by receiving data from the meteorological system, interruption recorders, control recorders, information on phasor measurement equipment, and will display the data in the SCADA system (supervisory control and data acquisition system) and on a topographic map.
The system characterization phase took place during 2020-2021.



Future measures and objectives

- In H2 2022, the system will undergo FAT tests at GE's sites in France and Bucharest.
- The system is expected to reach Israel in January 2023, and after testing, to be put to use at the end of 2023.
- The Transmission Supervision Unit is expected to

The IEC and the Sustainable Development Goals (SDGs)

The US's Sustainable Development Goals (SDGs) include 17 goals and 169 sub-goals to be achieved by 2030. Goals relate, among other things, to the issues of reducing inequality, investment in education, infrastructure, economic growth, tackling global warming and more. In September 2015, the State of Israel and all other 192 UN members states adopted the resolution to take part in the achievement of the goals. As a national utility company, the Company's current activities contribute to the fulfillment of some of the SDGs through the Company's core activities, and through pro-active steps in various areas and interfaces with stakeholders (see below for selected relevant examples). The Company's extensive endeavors to fulfill the global goals at the local level are elaborated on throughout the report.

The selected goals reflect the areas that are most relevant to the Company's activity and strategy, alongside the areas where the Company has the highest potential impact:















SDG 4: Quality Education

The Company conducts extensive educational activities in line with its core business. Those activities focus mainly on educating people about prudent and safe use of electricity, and about increasing energy efficiency, more information of which is available in Chapter 4: Community Outreach at the Israel Electric Corporation.

- A range of educational programs across the country; the programs are available for people from all walks of life, with an emphasis on the social and geographical peripheries that have a high-rate of low socioeconomic groups.
- Nearly two million students took part in the Company's flagship program Netiv HaOr during the past two decades; those students learned about electricity through experiential learning.
- Two technological schools operate in collaboration with education networks in order to train the next generation of electrical engineers in Israel. Through those schools, the Company promotes an equitable approach to technical and professional education and to the acquiring of capabilities and skills required for successful integration in the employment market.
- Educational and information activities in connection with the importance of biodiversity as part of Sheltering Birds of Prey in Israel project. For further information, see page 67.



SDG 7: Clean and Affordable Energy

The primary objective of the Company is to ensure that customers have a reliable and available power supply that meets their requirements and the requirements of the Israeli economy. Although the Company is prevented from generating power from renewable energies (due to the regulations in place), it takes a range of steps to promote clean and green energy.
For further information, see the Environment chapter on page 49-51.

- Connecting renewable energy power generation facilities of private producers to the grid.
- Reducing its operations in the coal-fired power generation segment and phasing-out coal-fired power generation facilities by 2026
- Converting the Rutenberg 1-4 and Orot Rabin 5-6 coal-fired units to gas-fired generation and establishing gas-fired CCGT units at the Orot Rabin power plant.
- Extensive activities for the benefit of struggling customers under the struggling customer assistance fund and in collaboration with the welfare authorities, local authorities and social organizations. Alongside those activities, the Company takes action to raise awareness on an ongoing basis - through a range of channels - for exhaustion of rights and informed use of electricity, with the aim of "not leaving anyone behind". For further information, see the Customer chapter on page 90-91.



SDG 9: Industry, Innovation, and Infrastructure

In 2020, the IEC has set up a dedicated unit whose role is to promote innovative ventures and create intra-organizational innovation mechanisms and a supportive organizational culture. For further information, see Innovation at IEC on page 23-24.

- The two combined cycle power plants being built in the Orot Rabin power plant are built using generation H-class combined cycle turbines. This technology, which is among the most advanced currently available globally, is characterized by very high levels of energy efficiency, which contributes towards the generation of power in a more environmentally friendly manner and at a lower cost.
- By the end of 2021, approximately 140 thousand remote metering points were installed in power plants and private power generation facilities from private suppliers, as well as in the premises of customers with special agreements and domestic consumers. They constitute 4.5% of all meters provided by IEC. The Company is also preparing to deploy 450 smart meters by the end of 2023, according to the outline published by the Israeli Electricity Authority in October 2021, with an option for 150 thousand more meters subject to the provisions of the Authority, and by the end of 2024, deployment of approximately one million smart meters is planned.



SDG 13: Climate Action

The Company recognizes its responsibility to protect the environment and reduce its impacts thereon; the Company strives to reduce air pollution and its carbon footprint; for more information, see the Environment chapter on page 43.

Furthermore, the Company takes steps to increase the public's awareness for global warming and its potential consequences. For that purpose, the Company adopts a range of solutions and measures, including:

- Establishing a taskforce to prepare for the climate change in the Company in 2021.
- Reducing Company's operations in the coal-fired power generation segment; converting the coal-fired power plants to gas-fired generation by 2025 and no later than 2026; and accelerated development to integrate renewable energies in the grid.
- Power generation using natural gas using combined cycle technology, which increases energy efficiency in the process of power generation and reduces emissions of polluting gases. In 2021, NIS 1.5 billion was invested to develop the generation segment, NIS 666.6 million of which was allocated for the construction of CCGTs at the Orot Rabin site (see Goal 9).
- Construction of ten energy storage facilities in the transmission segment at the Company's private substation sites. The storage facilities will help support the stabilization and moderation of the impact of the renewable energy plants on the ability to maintain stable power supply and the sustainability and reliability of the electricity supply, and will allow balancing supply and demand in real time. The projects is scheduled to be deployed in 2023-2024. (The regulator, the Israeli Electricity Authority, gave IEC approval to construct 5 storage facilities according to the hearing [11] published by the authority in February 2022, setting out the proposed resolution that IEC's market share should not exceed 10% of that constructed by the private market. IEC applied to increase the quota, which has yet to be set by the Minister of Energy).

11. *Hearing from Israeli Electricity Authority Meeting 627 on February 28, 2022 – Principles for Including IEC in the Energy Storage Sector.*



SDG 15: Life on Land

The Company's facilities are infrastructure facilities located in or in proximity to open and natural (undisturbed) areas, which sometimes affects biodiversity. Such impact stems from the actual location in the open field and from the accompanying environmental impacts caused by ongoing operations. In view of the above, the Company conducts extensive activities and implements a range of innovative and creative measures with the aim of protecting and restoring aerial, aquatic and terrestrial ecosystems. The Company also conducts information activities in order to raise awareness for the importance of protecting biodiversity, and to involve employees, consumers and the general public in efforts to protect the fauna and flora. For further information, see the Environment chapter on page 65-67.

- Protecting marine biodiversity - tracking and monitoring biodiversity in the hot water outlets where water are returned from power generation plants to the sea. In addition, dying the cooling systems' water with dyes that prevent (due to their composition) very small organisms from colonizing the systems, without compromising the quality of sea water.
- Protecting terrestrial biodiversity - steps to reduce the use of areas with high levels of biodiversity, ecological rehabilitation of work sites, and assessing alternative sites for building new facilities and power lines.
- The Sheltering Birds of Prey in Israel project - the Company collaborates with leading environmental organizations in Israel to prevent birds from being electrocuted, running into power lines, and poisoned, and to protect, track and monitor the population of birds of prey in Israel.

1

The Environment

Corporate Sustainability Report 2021

Israel Electric

2021 in numbers - Noteworthy data on the environment

The Israel Electric Corporation (IEC) is committed to supplying reliable, available, clean energy while protecting the environment and striving for sustainable development.

The Company rigorously complies with environmental regulation requirements, and goes above and beyond the requirements to align with best available environmental practices.

Over NIS 9.2 billion

invested as of the end of 2021[12]

in projects aimed at reducing air emissions and transitioning from coal to natural gas (of total planned investments of NIS 11.3 billion), of which more than NIS 6.5 billion invested since 2013 in projects designed to reduce emissions from the Orot Rabin and Rutenberg coal-fired power plants, in order to comply with optimal environmental standards, in accordance with regulation.[13]

Approximately NIS 406 million invested

in environmental facilities in the generation segment

Approximately NIS 20 million invested

in environmental facilities in other operating segments

12. *For further details, see the Financial Report of the IEC for 2021, Part A, p. 23, Section 7.7.4, "Main projects in the production sector."*

13. *As the Company is barred from producing electricity using renewable energy sources itself, pursuant to government resolutions and the regulation to which the IEC is subject, the investments in the generation segment are focused on reducing the use of coal and cutting back emissions from coal-fired power plants, and on the transition to natural gas.*

Approximately 11% decrease

in the use of coal and in coal-fired electricity production in 2021 compared with 2020, as a result of the Company's efforts to meet its goal of discontinuing the routine use of coal in power production by 2026

Approximately 16% decrease

in the use of natural gas[14] and in natural-gas-fired electricity production in 2021 compared with 2020

9% of actual total electricity supplied by the IEC in 2021

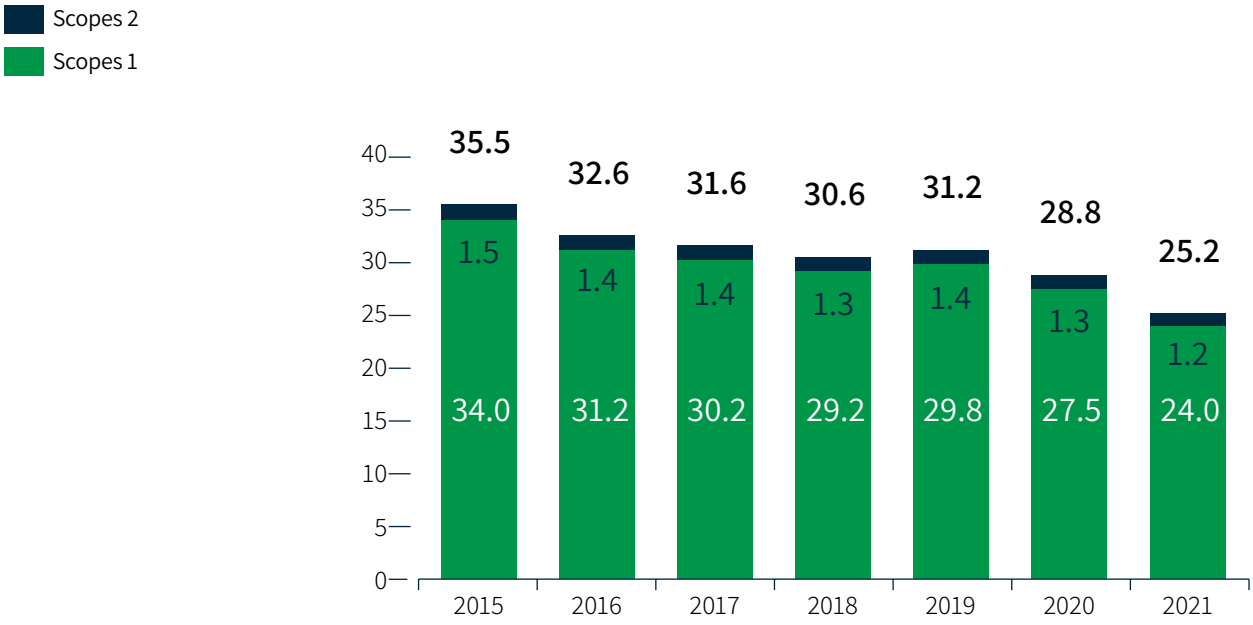
was sourced from renewable energies

Private production facilities fueled by renewable energies with production capacity of 845 MWp were connected for distribution, to promote compliance with the government target of 30% renewable energies by 2030.

14. *The use of natural gas is calculated in Terra-Joule (TJ) units; source of data for calculation: Table 3 in the IEC Environmental Report for 2021 https://ieccontent.iec.co.il/media/uorefxcf/iec-enironmental-report-2021.pdf*

Graph 4: Carbon footprint of the IEC

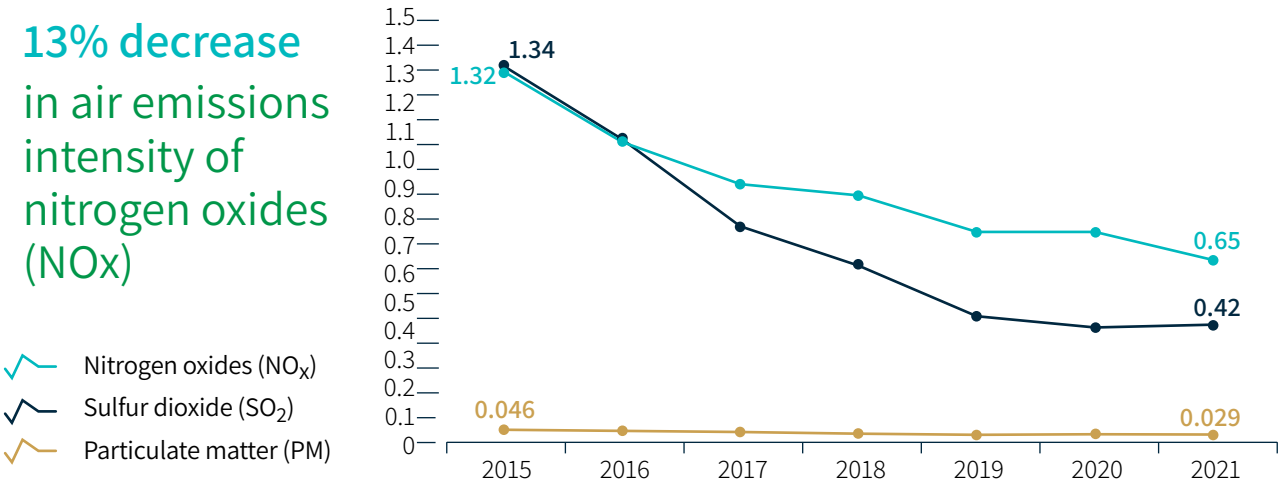
million tons carbon dioxide equivalent



Graph 5: Intensity of air pollutant emissions

per gram of kWh generated

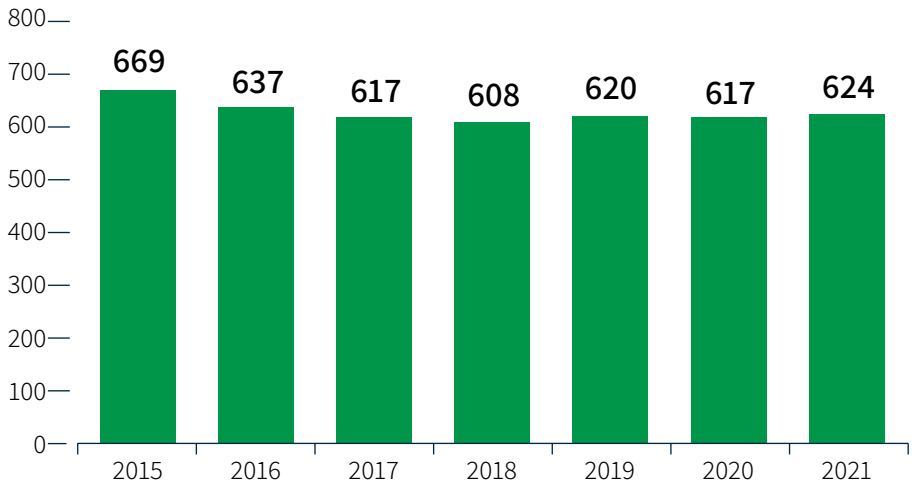
13% decrease in air emissions intensity of nitrogen oxides (NOx)



13% decrease in air emissions intensity of nitrogen oxides (NOx) in 2021 compared with 2020, as a result of investments in the reduction of air emissions, combined with a change in the composition of fuels and reduced use of coal.

This process promotes compliance with the strategic goal of reducing nitrogen-oxide emissions, in grams per produced kWh, by 65% by 2030, in comparison to 2015.

Graph 6: Emission intensity equivalent to carbon dioxide
per gram of kWh generated



Emissions of 559 grams of carbon dioxide per supplied kilowatt-hour: electricity supplied to customers of the Company in 2021 (emissions intensity in supply, part of Scope 3)

Carbon-dioxide emissions intensity in the supply segment is lower than electricity emissions intensity in the generation segment. The reason is that the supplied electricity includes electricity generated using renewable energies and natural gas, acquired by the IEC from private producers which the Company has connected to the power grid.

Protecting the environment and managing environmental risk

The IEC considers itself responsible for and committed to adopting measures for preserving the environment and reducing environmental hazards along the electricity supply chain. The Company operates in accordance with its strategic policy and environmental vision: [15]

"The Israel Electric Corporation will act responsibly towards society and the environment, from a sustainable, long-term, forward-looking perspective. The Company will minimize the environmental impacts of its activity and demonstrate leadership in preventing hazards and reducing environmental impacts."

The Company is working to adopt leading environmental standards, to use raw materials wisely and to reduce pollutant emissions at source. Furthermore, the Company acts in accordance with international environmental conventions (such as the Barcelona Convention to prevent pollution of the Mediterranean from on-shore sources), cooperates with environmental organizations and promotes dialogue with relevant stakeholders.

The Company operates in accordance with its environmental protection policy, the principles of which were first approved at the Company in 1997 and are updated as necessary from time to time. The policy encompasses a series of principles, including the following:

- Integrating environmental considerations across all areas of activity, including in decision-making processes
- Planning and operating the facilities while ensuring continuous reduction of environmental impact, taking into account the principles of sustainable development, while adopting the best proven and most cost-effective technologies
- Adopting leading proven environment standards:
- Intelligent use of natural resources and raw materials: land, air, water and fuels
- Reducing and recycling waste and by-products
- Combining landscape, spatial and environmental considerations in the design of new facilities and maintenance of existing facilities
- Conducting an open and transparent dialogue with the public regarding plans that have environmental implications
- Reducing emissions of greenhouse gases, in the spirit of the international conventions to which the State of Israel is a party, by increasing the efficiency of power plants, expanding the use of environment-friendly fuels and energy sources, and encouraging electricity savings
- These activities contribute to reducing the demand for electricity and thus to reducing the consumption of fuels used for generating electricity, and as a result - to reducing pollutant emissions, including of greenhouse gases
- Assimilating of environmental values in the organizational culture, increased awareness and environmental commitment of the Company's employees and integrating environmental issues in the Company's community activities

Full details of the IEC's environmental policy can be found in the Israel Electric Corporation Environmental Report for 2021, on pages 12-16.

15 *Protecting the environment – https://www.iec.co.il/en/content/sustainability/contentpages/environment*
The renewed vision of the Israel Electric Corporation – https://www.iec.co.il/en/content/about/contentpages/vision

Environmental management and control

Management of environmental protection at the Company is based - among other things - on an official system that operates by supervising and defining duties, and includes, among other things, hiring the required and relevant personnel, allocating required budgets and writing appropriate procedures.

The IEC has a management committee for the environment, headed by the VP for engineering projects, one of whose duties it is to revise the Company's environmental policy from time to time. The Company maintains an open-ended process of setting goals and objectives relating to environmental protection, and operates in accordance with the requirements of environmental laws and regulations, and global trends, side-by-side with its technological capacities and the unique conditions in the surrounding the Company's facilities.

Environmental protection is an integral element of the operation, maintenance, planning, and development of IEC facilities; the activity of the Company is subject to extensive regulation in this area. The Company studies the consequences of environmental laws; acts to prevent or minimize the environmental risks that may occur during its operations; prepares for the economic, legal and operational consequences arising from environmental laws; and allocates funds in its budgets for complying with the provisions of the applicable environmental laws and those that may apply to it.

Implementation of quality standards and environmental management and control system

The Company has functions that are certified or in the certification process for integrated management systems, as described below:

The Generation and Energy Division - the Division's operation and different production sites at the Company are certified for an integrated management system, for quality management standards (ISO 9001) and for environmental management (ISO 14001).

The Logistics and Assets Division undergoes integrated management system certification for the following standards: Quality Management System (ISO 9001), Occupational Health and Safety Management System (ISO 45001), Environmental Quality Management System (ISO 14001) and Traffic Safety and Quality Management System (ISO 9301).

The Transmission Projects Department undergoes integrated management system certification for the following standards: Quality Management System (ISO 9001), Occupational Health and Safety Management System (ISO 45001), Environmental Quality Management System (ISO 14001).

The Production Projects Department undergoes integrated management system certification for the following standards: Quality Management System (ISO 9001), Occupational Health and Safety Management System (ISO 45001), Environmental Quality Management System (ISO 14001).

The Transformer Projects Department is in the process of documenting its undergoes integrated management system certification for the following standards: Quality Management System (ISO 9001), Occupational Health and Safety Management System (ISO 45001), Environmental Quality Management System (ISO 14001). This process is expected to be completed in the second half of 2022.

Environmental costs and IEC investments in environmental protection

Below is a breakdown of the Company's investments in environmental protection between 2015 and 2021:

Table 3: Breakdown of the Company's environmental costs and investments in the environmental protection

Year	2021	2020	2019	2018	2017	2016	2015
Total investment in environmental facilities	426	470	465	610	831	765	956
Operating costs (excluding depreciation)	160	156	142	82	88	105	89

1 million (NIS), current prices deducted from remeasurement) - twelve months ended on December 31 per year

Investments in 2021

In 2021, the Israel Electric Corporation invested NIS 406 million in the environmental aspects of the generation segment (on top of the NIS 20 million invested in the transmission and distribution segments and in special projects), including by installing devices to reduce emissions into the air at the Orot Rabin and Rutenberg power plants (such as "initial measures," extractors, and setting up catalytic facilities) and in conversion to gas at the Rutenberg Power Plant Unit 1.

In addition to the foregoing investments, in 2021 the Company spent, as part of the costs of operating the power plants and fuel related expenses, an amount of NIS 157 million in order to comply with the requirements arising from environmental protection in the generation system (and in addition to NIS 3 million not attributed to the generation system). The Company estimates that most of the environmental costs incurred by the Company in 2021 were invested in future prevention and reduction of environmental damage, and the rest was invested in repairing and rehabilitating the environment.

Budget for 2022

The Company sets aside funds in its budgets to comply with pro-environmental conditions and legislation. In its regular operations and development budget for 2022, the Company allocated a total of approximately NIS 780 million (net of remeasurements and depreciation) for compliance with environmental protection requirements, including: activities for the protection of fauna and flora, the air, soil, groundwater, and surface water; asbestos removal; effluent treatment; noise reduction; protection against radiation; and waste treatment.

Conversion to Gas Budget

As part of the five-year budget approved by the Board of Directors in December 2021, the Company allocated an amount of NIS -1.1 billion to converting the coal-fired power plants to gas, based on a preliminary assessment. In 2022, an amount of NIS 141.2 million was allocated for converting to gas. The initial budget distribution between the years was based on the multi-annual and long-term planning plan, and the comprehensive investment for the project has not yet been prepared.

The estimate by the Company's management on the expected volume of the investments in the environment is forward-looking information, as defined in the Securities Law, and it is based on the Company's budget and work plans. The Company's estimates on the total expected volume of investments in the environmental protection area might not materialize, materialize partially, or materialize differently than the Company estimates; including because of factors outside the Company's control, such as changes to the regulatory requirements applicable to the Company, changes in the scope of the Company's generation activity and the fuels the Company uses to generate electricity, and other events; including events that might follow from the realization of the Company's risk factors.

Compliance with environmental regulation

The Company is exposed to various environmental risks, including: pollutant emissions of fuel combustion products; storage and use of hazardous substances and fuels; soil and water pollution; industrial effluents; asbestos; coal ash; noise; non-ionizing radiation, etc. Therefore, the Company's operations are subject to extensive regulation concerning the environment.

In recent years the requirements of environmental legislation (or in stages of legislation) applicable to the Company's operations are becoming much more stringent, as have the manner of supervision and enforcement of these environmental requirements. In the Company's opinion, this trend is expected to continue and become even more stringent in the coming years, in accordance with awareness and international requirements, as well as, among other things, based on customary practice in Western countries. The environmental protection laws that apply to the Company's operations include - among other things - the Prevention of Sea Pollution from Land-Based Sources Law; the Hazardous Materials Law; the Protection of the Coastal Environment Law; The Clean Air Law; the Prevention of Hazards from Asbestos and Harmful Dust Law; the Freedom of Information Law; Protection of the Environment Law (Environmental Emissions and Transfers - Reporting and Registers Requirements), the regulations promulgated under these laws; and various bylaws.

Failure to comply with the provisions of the environmental laws and the terms and conditions of permits and licenses granted to the Company under them, may expose the Company and its managers to criminal and administrative risks, including the imposition of fines and sanctions, as well as to incurring costs for clean-up and restoration. In the Company's opinion, as at the date of this Report, it substantially complies with the essential legal provisions with respect to the environment. The Company holds the environmental licenses required for its activities and where they are missing, it works to obtain them.

Preparing for climate change and reducing environmental impacts

The Israel Electric Corporation's targets to reduce greenhouse gas emissions

As a result of the strategic measures described below, carbon-dioxide emissions and the carbon footprint of the Company were approximately 7% lower in 2021 than in 2015, and emissions intensity in 2021 was 624 grams of CO_2 equivalent per produced kWh, compared with 669 grams of CO_2 equivalent per produced kWh in 2015. The carbon emission intensity data show the greenhouse gas emissions per unit of output. The table below presents the specific emissions in gr of carbon dioxide equivalent (CO_2e) per kWh produced.

Table 5: Comparison between actual environmental performance in air emission and the goals set for 2021

	Pollutant emitted due to firing fuel for generating electricity	
	Emissions reduction target 2030	Actual reduction of emissions 2021
Carbon Dioxide	-30% (g/kWh)	-7% (g/kWh)
Carbon footprint	-30% (g/kWh)	-7% (g/kWh)

Measures to reduce GHG emissions

The IEC focuses its efforts on reducing GHG emissions in the generation segment, as well as on other measures in the transmission and transformation segment and the supply segments.

The IEC is committed to the goals and national effort of reducing greenhouse gases in Israel, although it is prohibited from generating electricity using renewable energies, due to the regulatory restrictions to which it is subject.

In the generation segment, the Company focuses its efforts on reduction of the use of coal and transition to natural gas, and on establishing combined-cycle production units with exceptionally high efficiency.

In the transmission and transformation segment, the IEC is working to integrate renewable energies into the grid and develop the transmission and transformation system to support these processes. In addition, in the supply segment, the Company is acting to provide value-added services contributing to the reduction of GHG emissions.

In accordance with the reform, when the number of customers of the Company falls below 75% of the total customers in the low-voltage supply segment, the IEC will be permitted to provide value-added services to its customers, including services that promote GHG emissions reduction, such as Smart Homes and energy efficiency, for low-voltage consumers only (this matter will be specified in the supply license to be granted to the Company after expiration of the general license it currently holds).

Reduction of the use of coal, transition to natural gas, and production at combined-cycle power plants (CCPP)[16]

The IEC is a strategic partner in the green revolution and in implementing government policy [17] on the transition to a low-carbon economy, reducing greenhouse-gas emissions, and discontinuing the routine use of coal, no later than 2026, through the following processes:

- **Conversion of coal-fired plants to natural gas**[18] – The Company is preparing for conversion to natural gas of the four coal-fired production units at the Rutenberg power plant and of Units 5-6 at the Orot Rabin plant, at total capacity of approximately 3,400 MW. As directed by the Ministry of Energy, a pilot project is underway at the Company to convert Unit 1 at the Rutenberg power plant to natural gas. The results will be analyzed and reported to the Ministry of Energy so that it can make a decision regarding conversion to natural gas of all of the units.
- **Construction of two advanced production units at the Orot Rabin site – combined-cycle gas turbines (CCGT) fueled by natural gas:** The two CCGT units, Orot Rabin 70-80, will replace the coal-fired Units 1-4 at the site (see below). The units are being built through the subsidiary Path of Light, using some of the most advanced CCGT H technology, with installed capacity of approximately 1,200 MW.
- **Shutdown of four coal-fired production units at the Orot Rabin power plant site, and commencement of conservation.**
  As the CCGT units being built at Orot Rabin begin to operate using natural gas, in 2023 to 2024, the coal-fired units will transition to a conservation process, according to a conservation plan to be approved by the Ministry of Environmental Protection.
- **Examination of production technologies** – The IEC will continue the process of examining technologies for power production using clean fuels, such as hydrogen, and for further reduction of greenhouse gases, subject to the regulatory restrictions applicable to the Company in the area of production.

In February 2021, the Ministry of Energy set a goal for the reduction of production using coal in 2021, at approximately 19%-22.5% of total electricity production in Israel (by the IEC and private producers). The Company intensively endeavored to attain this target, by raising the load at units fueled by natural gas; as of the end of 2021, coal-fired production accounted for approximately 23% of total production in Israel[19].

In 2021, coal-fired power production was reduced by 42% compared to 2015.
11% reduction in the use of coal to produce electricity compared with 2020.
16% reduction in electricity production (kWh) using natural gas compared with 2020.

16. *CCPPs combine industrial gas turbines with steam turbines. In the first stage, after burning the fuel (natural gas), the exhaust gases are pumped to operate gas turbines, which are connected to a generator that generates electricity. After the turbines are turned on, the residual heat from the exhaust gases is not emitted into the air but is used to create steam and propels another turbine - steam. This turbine is also connected to a generator, which actually produces an additional amount of electricity without any additional fuel. Thus, the technology makes it possible to increase the production of power without increasing the amount of fuel consumed, and as a result, the amount of air emissions, and increases energy efficiency to 60% (compared to a mere 40% in a coal-fired power plant).*

17. *For details regarding government resolutions, see the Financial Report of the Israel Electric Corporation for 2021, Chapter C – Consolidated Financial Statements, p. 17, Note 1.C.3, "Government policy in the field of energy production from renewable sources and reduction of GHG emissions." https://ieccontent.iec.co.il/media/14shytkp/financial_reports_december_2021.pdf*

18. *Government Decision 465 dated November 24, 2019, Policy to Cease Routine Use of Coal in the Generation Segment of the Electricity Economy by 2026".*

19. *The Company operates its production units according to instructions conveyed by Noga. These instructions are based, among other factors, on environmental restrictions, fuel costs per produced kWh, and operational and systemic constraints. Within its restructuring, the IEC operated as partial manager of the electrical system until 30th October 2021. On November 1st 2021, the system management activity was sold in full to Noga.*

Table 6: Distribution of electricity production by type of fuel used in the generation segment (in percent)

	2021	2020	2019	2018	2017	2016	2015
Coal	**44.3%**	42.5%	45.8%	43.0%	45.2%	49.6%	57.6%
Natural gas including LNG	**55.5%**	56.9%	53.1%	56.5%	53.5%	49.9%	41.6%
Diesel fuel	**0.1%**	0.3%	1.0%	0.4%	1.1%	0.4%	0.7%
Fuel oil	**0.1%**	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%

The composition of fuels consumed by the IEC consists of coal and natural gas (as well as fuel oil and diesel fuel in negligible quantities consumed for electricity production, and diesel fuel and gasoline consumed for transportation. The redirection from electricity production using coal and liquid fuels to natural gas (which has contributed, as noted, to a substantial reduction of emissions of pollutants and greenhouse gases) is evident in the Company's fuel mix.

Energy consumption at the Company

Table 7: Total IEC energy consumption (in TJ)

	2021	2020	2019	2018	2017	2016	2015
Consumption for electricity production							
Coal	**160,003**	180,003	207,504	194,994	205,001	226,216	266,804
Natural gas including LNG	**159,983**	189,980	179,981	194,975	185,002	168,770	148,803
Fuel oil	**342**	494	760	864	1,025	781	704
Heating oil	**692**	1,297	4,625	2,370	4,906	1,939	3,881
Consumption for transportation							
Diesel fuel for transportation	**367**	356	365	347	287	331	357
Gasoline for transportation	**76**	76	118	123	115	132	116
Consumption at the Company's sites							
Own consumption of power by the power plants	**5,776**	6,294	6,614	6,501	6,666	6,802	6,909
Estimate of self-consumption at the offices and other sites	**216**	216	216	216	216	231	360
Total	**327,455**	**378,716**	**400,183**	**400,390**	**403,218**	**405,202**	**427,934**

Carbon footprint of the IEC[20]

GHG emissions in the generation segment

Following the reduced production using coal and the transition to natural gas in recent years, the sale of 2 power plants to private producers in 2019 (Alon Tavor) and 2020 (Ramat Hovav), and the lower market share of the IEC in electricity production in Israel, a downward trend is apparent in GHG emissions, which decreased by approximately 30% in 2021 compared with 2015 and by approximately 13% compared with 2020.

Table 8: Data on air emissions of GHG from fuel combustion for electricity production by the IEC(tons/year)

	2021	2020	2019	2018	2017	2016	2015
Emissions (tons/year)							
Carbon dioxide	**23,793,248**	27,300,821	29,525,691	29,006,456	29,978,814	30,938,165	33,757,748
Carbon dioxide equivalent	**23,870,304**	27,387,896	29,634,047	29,109,700	30,087,822	31,055,231	33,893,752

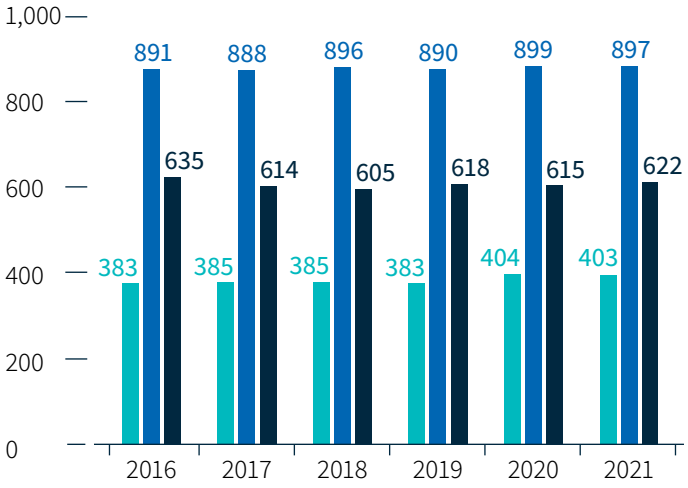
Emissions 2021 compared to:	2020	2015
Carbon dioxide	**-13%**	**-30%**
Carbon dioxide equivalent	**-13%**	**-30%**

GHG emissions intensity in the generation segment

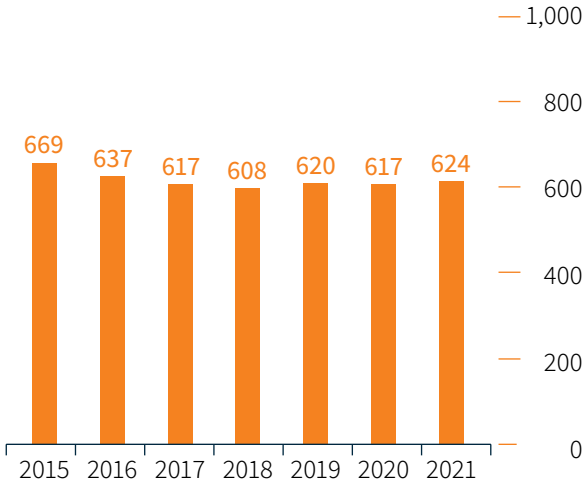
The reduction in the intensity of greenhouse gas emissions by the Company was achieved through gradual transition to the use of natural gas since 2004, together with the decrease in the use of coal.
The intensity of carbon-dioxide emissions per produced kWh increased by 1.1% in 2021 compared with 2020; since 2019, the emissions intensity of IEC power plants fueled by natural gas has also increased slightly. This resulted from the sale of CCGTs with high efficiency and low emissions intensity, as part of the implementation of the reform and due to the power-plant operating policy dictated by the system management company Noga, to which the IEC is subordinate.

20. *Since 2000, the IEC continuously reports GHG emissions caused by burning fuels for generating power, as part of its environmental reports. The reported emissions constitute 99.5% of the total direct GHG emissions resulting from the IEC's operations. Since 2010, the IEC has taken an active part in the Ministry of Environmental Protection's "Voluntary Mechanism" project for registering and reporting GHG emissions.*

Graph 7: CO_2 emissions intensity from electricity production
(gram/kWh produced)



Graph 8: CO_2 equivalent emissions intensity per produced
(gram/kWh produced)



Emissions intensity carbon dioxide

- for gas-fired power plants
- for coal-fired power plants
- for all IEC production

GHG emissions intensity in the supply segment

559 grams of CO_2 emitted per kWh supplied

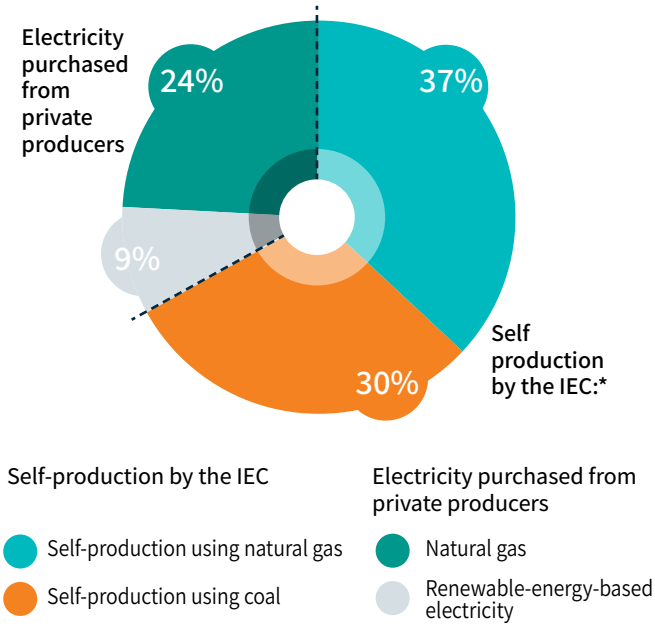
The electricity supplied by the IEC to its customers comprises electricity produced by the Company itself, generated primarily from gas and coal (and a negligible percentage of electricity generated from diesel fuel and fuel oil), and electricity purchased from renewable-energy-based producers and private natural-gas-based producers.

Scope 3 indirect GHG emissions of the Company in the electricity supply segment (without weighing in Scope 1 or 2 emissions) stood at approximately 5.55 million tons of carbon-dioxide equivalent in 2021, compared with approximately 3.95 million tons in 2020. The increase in Scope 3 indirect GHG emissions in the course of supplying electricity resulted from the increase in the volume of electricity purchased from private producers of electricity generated using natural gas. However, emissions intensity in the supply segment decreased, reaching 559 grams per kWh supplied, compared with 579 grams per kWh supplied in 2020. This resulted from a substantial increase in electricity sourced from renewable energies supplied to customers of the Company.

Distribution of sources of electricity supplied in 2021

The data in the graph reflect the distribution of the sources of electricity supplied to customers through the IEC. In total, 51,537 million kilo-watt-hours (kWh) were supplied to customers by the Company in 2021. 67% of the electricity supplied was produced by the IEC (versus 75% in 2020), while the remaining 33% of the electricity supplied by the Company in 2021 was produced by private producers and purchased from them by the IEC (versus 25% in 2020: 8% from renew-able-energy-based producers and 17% from natural-gas-based producers).

Graph 9: Distribution of sources of electricity supplied by the IEC in 2021



* Negligible volumes of production using diesel fuel and fuel oil.

Table 9: Carbon footprint of the IEC

	Scope 1	Scope 2 [21]	Total (Scopes 1 + 2)
2021	**24.0**	**1.2**	**25.2**
2020	27.5	1.3	28.8
2019	29.8	1.4	31.2
2018	29.2	1.3	30.5
2017	30.2	1.4	31.6
2016	31.2	1.4	32.6
2015	34.0	1.5	35.5
Rate of reduction in 2021 compared with			
Year 2020	- 13%	- 7%	- 13%
Year 2015	- 30%	- 17%	- 30%

Scopes 1 and 2, in units of million tons of carbon-dioxide equivalent, MM CO_2eq

Carbon footprint of the IEC. Year 2015 to 2021, according to IEC reports to the voluntary local mechanism of the Ministry of Environmental Protection.

Scope 1 - direct emissions of IEC greenhouse gases, mainly in the generation segment as a result of firing fuels for generating power.
Scope 2 - indirect emissions of greenhouse gases as a result of the power for internal use by the IEC.

Due to a decrease in production in 2021, Scope 1 CO_2 emissions decreased by 13% compared with 2020, equivalent to savings of approximately 3.5 million tons CO_2eq, and approximately 30% reduction of emissions in tons CO_2eq in 2021 compared with 2015.

21. *Based on self-consumption of electricity by the equipment used to produce electricity, and estimated self-consumption of electricity of administrative and other sites*

Integration of renewable energies in the electrical grid and reduction of emissions in the network segment and the supply segment

- **9% of total electricity supplied to customers by the IEC in 2021 was sourced from renewable energies (electricity purchased by the IEC from private producers)**
- **Connection of private production facilities fueled by renewable energies with production capacity of 845 MWp for distribution and 60 MW for transmission**
- **Promotion of the construction of 10 storage facilities at substations, at a budget of approximately NIS 175 million**
- **Adapting the transmission and delivery grid for the introduction of electric vehicles**
- **Development of a smart grid to support the intake of renewable energies, while developing adapted means of analytics and monitoring**

The IEC is a strategic partner in progress towards the national goal of increasing electricity production using renewable energies to 30% of total production by 2030, through the connection of renewable-energy production facilities of private producers to the electricity grid. The Company is prohibited from producing electricity using renewable energies, due to the regulatory restrictions to which it is subject[22]; however, it buys surplus electricity produced by private renewable-energy-based producers and supplies it to customers. In 2021, 9% of the electricity supplied by the Company was sourced from renewable energies, while 8.1% of total electricity produced in the industry in Israel by all electricity producers (the IEC and private producers) was sourced from renewable energies (electricity produced by private producers).
In 2021, the IEC connected private production facilities using renewable energies with an installed production capacity of 845 MWh in distribution and 60 MW in transmission.

The Company is preparing to upgrade the grid to allow the intake of renewable energies on a large scale. A substantial investment of resources in the transmission and transformation segment and in the distribution, segment is necessary in order to meet the targets for the integration of renewable energies into the power grid, as the transition from centralized to decentralized production, in addition to increased production capacity, requires the expansion and renewal of these systems.

The IEC is conducting comprehensive analyzes regarding the implications of integrating the renewable energies production facilities into the electricity system in all the segments, including the implications for the development plan required in preparation for meeting government goals. Furthermore, the Company published, in accordance with the guidelines of the Electricity Authority, a large number of feasibility studies regarding various initiatives in the sector, and also updated the master plans accordingly.

22. *From the 2021 Financial Report, Notes to the Financial Statements, Note 1, Section E.1.b.4: "The Company or the production subsidiary shall not construct, replace, operate, plan, or engage in the development of power plants in Israel, itself or as a contractor for a third party, and shall not engage in the production of electricity, including through microgeneration or renewable energies, in Israel. This provision shall apply during the years of the reform and after the years of the reform."*

The Company is formulating a long-term development plan for the power grid for 2030, and leading the following processes:

Development in the Transmission and Transformation Segment

The Company is promoting plans to upgrade and establish 400 kW and 161 kW lines and to upgrade the transformer capacity, to adapt the transmission and transformer system to the electricity sector's needs in view of the government's renewable energy goals. The upgrade and development of the systems will allow extensive intake from private producers, including from renewable energies, with integration at extra-high voltage. In addition, a computerized Transmission Management System (TMS) was acquired in light of the removal of the current management system unit from the IEC; the TMS will be fully integrated in 2023 and will enhance the operational and control capacity of the transmission systems for which the Company is responsible. With regard to the TMS system, see details in the Introduction chapter, page 28.

Development in the Distribution Segment

In this segment, the Company is also advancing a development plan for the distribution grid that will support expansion of the integration of private production in the high and low voltage systems. As part of this effort, the Company promoted extensive activity in the area of decentralized production in 2021[23]. The emphasis was on meeting the Ministry of Energy's target of 30% of production using renewable energies in 2030, and progress towards a target of 10% of production using renewable energies by the end of 2021. The activities of the Company in this area included:

- Holding weekly project administration meetings to promote connections and remove barriers within the Company and outside it (with the participation of Ministry of Energy representatives, Israel Electricity Authority representatives, Noga representatives, entrepreneurs, and others);
- Increasing the pace of connecting generation facilities to the grid;
- Appointing division project managers for each division of the grid, to complete the connection of all generation facilities that the Company has agreed to connect by the end of 2021, and bringing forward the connection of generation facilities from the first quarter of 2022;
- Producer-centered service – As part of the effort to improve service and provide a comprehensive service offering, designated service representatives were appointed for producers with large numbers of PV connections.
- Dialogue was conducted with private electricity producers, through a telephone survey, to determine their readiness for connection by the end of 2021. In addition, a producer conference was held to present progress on connections and innovations in this field, and to discuss barriers encountered by producers.
- Promotion of IT and information-systems solutions for improved efficiency of the procedure for connecting private production facilities, as part of the process of improving service for producers:
- Acquiring an advanced distribution management system (ADMS) for managing the grid (high and low voltage) that will enable management of large-scale decentralized production and provide an appropriate response for the anticipated development needs of the energy economy; for more information about the ADMS, see in the Introduction section, on pages 26-27.
- A Kaizen Event was held to overcome barriers and improve work processes, in cooperation with entrepreneurs; subsequent to the event, a rapid track was designed for connecting low-volage facilities of up to 10 KW, with an option to consider rapid expansion by up to 15 KW after one year.

23. *Decentralized electricity – Until several years ago, all of the electricity needs of the Israeli economy were supplied by a few large power plants. The current approach is based on a decentralized production model. This means that large consumers, or even ordinary households, can become suppliers in their own right by installing facilities for electricity production using renewable energies. The surplus left over from their own consumption can be sold to the IEC.*

Energy storage

Promotion of the construction of storage facilities to support the integration of renewable energies in the electricity grid on a large scale, in compliance with government targets in this area. A higher volume of production based on renewable energies increases the need to integrate storage facilities, as the dynamic entry to and exit from the grid of renewable energies produced by decentralized producers poses challenges for the IEC in maintaining frequency stability in the system (which is essential for the reliability of supply). In addition, storage facilities will ensure a balance of supply and demand in real time, making it possible to cope with surplus production of electricity (beyond demand) in photovoltaic facilities during daylight hours by storing the surplus electricity generated, and supplying this electricity from the storage facilities during evening hours, when demand for electricity rises.[1]

The Energy Storage Administration was created in 2019; the appointment was updated in 2020 to form a professional team acting in accordance with the guidelines of a steering committee headed by the Deputy CEO, VP of Network Services. The administration performs comprehensive activities to compile information regarding global trends in storage, technologies, and regulation; formulate business models for the promotion of plans to integrate electrical energy storage; create collaborations with academia; and conduct feasibility tests, including simulations and system analyses.

Within the examination of various technologies, in 2021 the Company held a first pilot project for storage at the Caesarea switching station, which serves as an experimentation and study facility, for optimal implementation of future facilities. The Company subsequently issued an international tender for the construction of 10 additional storage facilities at southern substations by the end of 2024. Concurrently, it began the process of examining dozens of substations across Israel, for the purpose of constructing additional storage facilities. The storage potential at substations in the system was also examined; the result was approximately 1,000 MW.



Future measures and objectives

- The IEC is conducting an international tender for the construction of 10 additional storage facilities at southern substations by the end of 2024.
- The Company is conducting a procedure to acquire an advanced distribution management system (ADMS), for high and low voltage, that will allow compliance with the decisions in the reform and with the restructuring of the operational model for the distribution network (establishment of a national distribution supervision center and a backup center, instead of six regional centers), allow management of large-scale decentralized production using renewable energies, and provide an appropriate response for the anticipated development needs of the energy sector. The system is scheduled to be implemented in 2022, following the conclusion in January 2021 of eight months of training for 21 engineers and practical engineers recruited by the Company to serve as distribution supervisors in national distribution supervision. The new system will operate in parallel to the existing supervision methods, until it is stabilized.
- Subsequently, existing supervision centers based on the DMS system, which have used by the Company for approximately 15 years, will be shut down. For further details, see the Introduction chapter, pages 26-27.
- Formulation and promotion of processes with the Electricity Authority to establish dedicated regulations for the improvement, absorption, and smart management of renewable-energy production facilities, in terms of both economic and engineering aspects.

Additional measures to reduce emissions in supply: promotion of the Smart Metering project – Introduction chapter, page. 25, and Customers chapter, page 83; for plans to provide value-added services, see the Customers chapter, page. 83.)

Transportation and distance traveled

The IEC is working to reduce fuel consumption and mileage. Among other factors, this effort is aimed at reducing pollutant and greenhouse-gas emissions, reducing road congestion, and raising employees' awareness of this issue. Measures to reduce mileage can be divided into four vectors:

- Encouraging the use of public and shared transportation and improving the efficiency of the ride system – A nationwide ride system operates to and from the Company's sites. In addition, the Company encourages its employees to use trains, offers a shuttle service from the train stations, and there is a shared travel app that allows the Company's transportation officer to optimize the pickup and drop-off routes of employees to and from the work site.
- Electrification of the vehicle fleet – The Company encourages its employees to use hybrid vehicles, and includes hybrid options in the list of vehicles offered to employees for leasing. The Company is also increasing the number of hybrid vehicles in its own vehicle fleet.
- Raising awareness – Educating employees and imparting skills on efficient ecological driving, tire pressure levels that save fuel consumption, and more.
- Reducing travel – Less work-related travel between units of the Company through the use of video conferencing systems and a partial transition to work from home.

Table 10: Total IEC energy consumption for transportation,* 2015-2021 (in terajoules – TJ)

	2021	2020	2019	2018	2017	2016	2015
Diesel fuel for transportation	367	356	365	347	287	331	357
Gasoline for transportation	76	76	118	123	115	132	116
Total	**443**	**432**	**483**	**470**	**402**	**463**	**473**

* For the full table of total IEC energy consumption (for electricity production, for transportation, and at Company sites), see Table 7 in the Environmental Data Annex, page 45

In 2021, the volume of gasoline used for the Company's vehicle fleet was 2,214 thousand liters. This figure is similar to the gasoline consumption in 2020 (2,206 thousand liters), due to a shortage of hybrid vehicles in the domestic market in 2021. Diesel fuel used in the vehicle fleet (excluding heavy machinery) stood at 8,034 thousand liters in 2021, a 3% increase in consumption compared with 7,802 thousand liters of diesel fuel consumed in 2020. Total diesel fuel consumption data, including[1] heavy machinery, primarily used in development projects led by the network services and engineering project divisions, also reflect the 3% increase in 2021 (10,080 thousand liters) in comparison to 2020 (9,780 thousand liters)[24].

24. *Annex to Environment chapter, Table 18: IEC fuel consumption for electricity production and the vehicle fleet, and consumption of raw materials in 2015-2021*



Future measures and targets:

- The Company has set a target for 2023 of reducing fuel consumption for transportation (gasoline consumption of administrative vehicles in liters) by 4.5% compared with 2019.
- Renewal of the range of vehicles for leasing, gradually transitioning to hybrid, plug-in, and electric vehicles.

Table 11: Total IEC energy consumption at Company sites,* 2015-2021 (TJ)

	2021	2020	2019	2018	2017	2016	2015
Own consumption of power by the power plants	5,776	6,294	6,614	6,501	6,666	6,802	6,909
Estimate of self-consumption at offices and other sites	216	216	216	216	216	231	360
Total	5,992	6,510	6,830	6,717	6,882	7,033	7,269

* For the full table of total IEC energy consumption (for electricity production, for transportation, and at Company sites), see Table 7, page 45

Within the IEC's commitment to protecting the environment and achieving government targets on energy efficiency and emissions reduction, the Company has set goals for cutting back its own consumption of energy. Meeting the target of 10% reduction in the Company's total energy consumption for 2021, compared to the base year 2019. With the aim of maximizing cooperation in the area of energy efficiency, as well as removing barriers, raising awareness of the importance of this issue among employees and managers, and allowing uniform reporting to Company management, an administrative unit was established in 2014, where a Company-wide team promotes energy efficiency projects. The team brings together all of the functions engaged with this issue within the Company. Some of the energy efficiency processes it has led at the Company's sites in recent years include the following:

- Improving energy efficiency in existing production units;
- Replacing old air conditioners with modern air conditioners with a high energy rating;
- Replacing light fixtures with modern and energy-efficient fixtures;
- The unit operates based on a five-year plan for 2020-2024, at an estimated implementation cost of approximately NIS 23.6 million; the plan is expected to lead to a decrease of approximately 4.65% in electricity consumption, in comparison to the baseline year of 2013. Cumulative cost savings of approximately NIS 26 million are expected.

In 2021, NIS 4.09 million was invested in energy efficiency projects at the IEC, generating overall annual energy savings of more than 7,000 thousand kWh. The annual monetary savings are expected to reach NIS 3.7 million, with 4.17% improvement in efficiency. Within its five-year plan, the Company approved a budget of NIS 4.6 million for energy efficiency in 2022.

Renewable energies at the IEC plants

As part of the efforts to realize the potential of energy efficiency at the IEC, the Company sought to construct photovoltaic facilities for the absorption of solar energy on the rooftops at the Company's sites for self-consumption only and in full compliance with the requirements of the reform. The project was suspended due to regulatory restrictions applicable to the IEC. As an alternative, in August 2021 a team was established to map and examine facilities of the Company with infrastructures suitable for the construction of photovoltaic facilities that can be leased to third parties for the construction and operation of the facilities.

Main energy efficiency projects carried out in 2021:

- Acquisition and installation of silencers for pressurizing air fans in Unit 3 at Rutenberg.
- Installation of chiller units for the Tsafit 34 control room.
- Continued installation and activation of FTR systems at large coal-fired units.
- Extensive activity to replace and upgrade old air-conditioning systems and lighting systems and fixtures at the facilities of the Company.

Establishment of an upper-level steering committee to prepare for extreme weather conditions

Alongside the targets set and measures taken to reduce emissions of greenhouse gases, as described above, the Company is working to contend with climate change. Periods of extreme weather (unusually severe winters or hot summers) may affect the extent of demand for electricity, as well as the reliability and continuity of supply for customers. The Company is continually preparing, based on an ordered methodology, to cope with such extreme conditions; preparations for summer are conducted in accordance with Company procedures, in terms of the availability of production units as well as an available inventory of fuels. The Company also prepares for peak periods in the summer and winter seasons through maintenance and renovation of production units at a level that ensures their reliability.

Following the severe weather events of the summer of 2021 in Europe, in September 2021 the CEO of the IEC established an upper-level steering committee under his leadership to prepare the Company for natural disasters caused by the climate crisis. Six subcommittees headed by VPs are working concurrently to oversee preparation in the areas of production, transmission and transformation, distribution, emergency conditions, spokesperson functions, and IT and communications services.

For further details regarding the preparedness of the Company for extreme weather conditions, see Chapter 8, page 209.



Future measures and targets:

A document will be submitted in the late first half of 2022 presenting an overview of the activities required at the Company to prepare for extreme weather events, as a basis for the formation of a work plan to implement the actions. After the overview document is submitted, its conclusions will be presented to Noga, in its capacity as the Israeli Electricity Authority (under its system management license), and to the Ministry of Energy and Electricity Authority, to requisition the necessary resources. Further details regarding this process are provided in Chapter 8 – Fair business practices, climate risk management, page 209.

Air emissions of additional pollutants

Additional types of gases are emitted into the atmosphere during the electricity production process (in addition to carbon dioxide (CO_2), described above in the subsection, "Carbon footprint of the IEC"), as a result of the combustion of fuel materials. The main gases are sulfur dioxide (SO_2), nitrogen oxides (NO_x), and particulate matter (PM).
As part of the Company's development plan and in accordance with the directives of the Ministry of Environmental Protection, the Company is required to act to reduce air emissions.

To attain these goals, the IEC is investing substantial resources in a series of measures, some of which were described in the subsection on the reduction of its carbon footprint. Additionally, the Company is working to complete ambitious emissions reduction projects at its Orot Rabin and Rutenberg sites.

Investments in reduction of air emissions

Emissions reduction facilities at coal-fired power plants

In recent years, the Israel Electric Corporation set up facilities to reduce emissions at the Orot Rabin Site in Hadera, and is in the final stages of making all emission reduction facilities at the Rutenberg Site in Ashkelon operational. This was a complex project that took several years to establish at a cost of NIS 7 billion (this amount does not include interest during installation).
As of 2021, and based on the emissions permits issued for coal-fired units, units 5-6 at Orot Rabin and units 1-2 and 4 at Rutenberg are operating successfully with the emission reduction facilities and are in compliance with the emissions levels set in the emissions permits. In addition, as of the end of 2021, Unit 3 at the Rutenberg power-plant site is in advanced stages towards activation, following completion of the installation of all of the facilities and addition of the SCR facility for the reduction of nitrogen oxides.
The projects at the Orot Rabin power plant in Hadera and Rutenberg site in Ashkelon include an update of all existing systems in these units (initial measures), and in addition - installation of flue gas desulfurization (FGD) plants, and selective catalytic reduction (SCR) systems for further reduction of nitrogen oxide emissions. The operation of the extractor is based on the adsorption of the sulfur dioxide into limestone dissolved in water. Because of the "wet" absorption process, gases are saturated with water vapors, and a white plume can be observed coming out of the flue, created by the moist emission gases.
The flue-gas desulfurization facilities (FGDs) could not be adapted and connected to the sites' current stacks, such that new stacks were built in these sites. The new stacks are used at the Orot Rabin Generation Unit 5 and Generation Unit 6 and at the Rutenberg Generation Unit 1 and Generation Unit 2 (Rutenberg Units 3 and 4 have had a similar device installed since they were built).
A by-product of the sulfur oxide elimination process is gypsum of the appropriate quality for the cement and construction industry to which it is directed and for the manufacture of gypsum dry-wall.
Because of the "wet" absorption process, the remaining gases in the stack are saturated with water vapor, so when operating the extractors, a white plume can be observed coming out of the flue, which is the result of the moist emission gases and the low temperature. This plume is not smoke, rather steam, and the plume is a testament to the success of the process and that the eliminators are working properly.

As this project comes to completion, which is a milestone in the IEC's environmental investment; and parallel to the development of the natural gas reservoirs and the gas transmission system in Israel, the IEC is embarking on another project that aims to further reduce significant emissions: the project to convert the large coal-fired units to natural gas as the main fuel, and for maintaining the coal firing capacity for emergencies and natural gas shortages only. Once this project is complete, the State of Israel will benefit from further reduction in emissions and the integration of the State of Israel's obligations under the Paris Agreements, while maintaining a reliable and available power supply for Israeli residents that is, at the same time, cleaner and more environmentally friendly.

Reducing air emissions of pollutants

The various measures taken by the IEC, as described throughout this section, have led to a continuous downward trend in the annual volume of air pollutant emissions, as well as in emissions intensity (specific emissions measured in units of gram per kilowatt-hour produced):

Attainment of targets for reduction of intensity of air emissions of pollutants [g/kWh]

Table 12: Comparison of actual environmental performance in 2021 in the area of air emissions with the goals set for 2030 in relation to the baseline year, 2015, for reduction of air pollutant emissions from fuel combustion for the production of electricity

Pollutant emitted due to firing fuel for generating electricity	Emission reduction vs. the baseline year 2015	
	Emissions reduction target 2030	Actual reduction of emissions 2021
Nitrogen oxides (NO_x)	-65% (g/kWh)	-51% (g/kWh)
Sulfur dioxide (SO_2)	-85% (g/kWh)	-69% (g/kWh)
Particulate matter (PM)	-40% (g/kWh)	-37% (g/kWh)

Table 12 reflects a trend of significantly reducing emissions, while striving to attain the targets set for reduction of air emissions intensity [g/kWh]: 2030 vs. the baseline year 2015

Graph 10: Air emissions of pollutants resulting from fuel combustion for the production of electricity (gram/kWh produced)

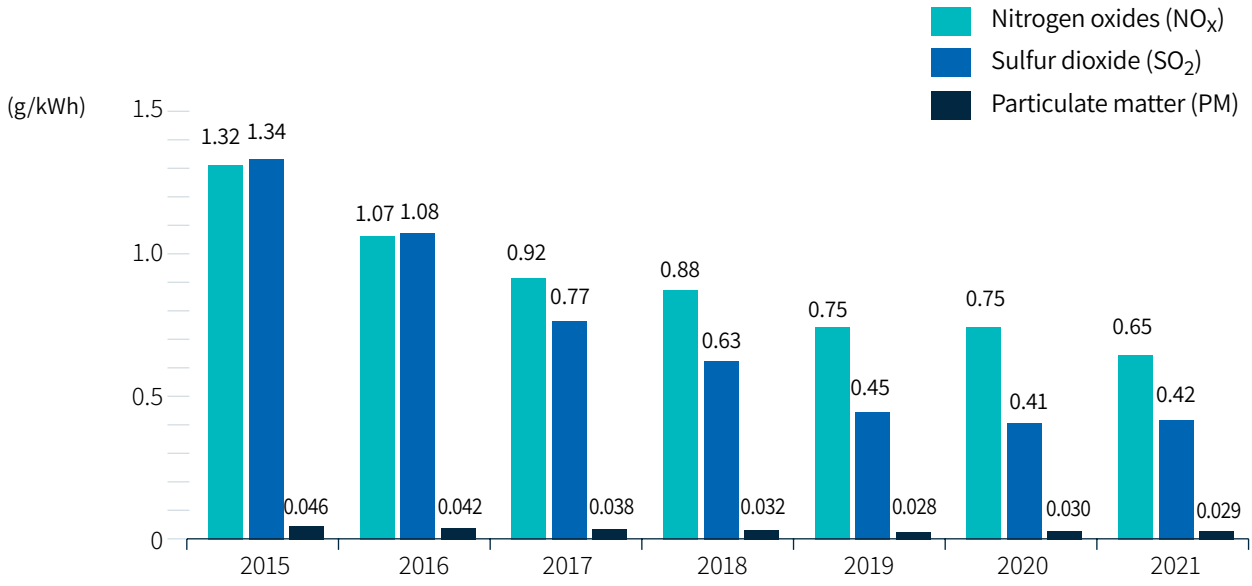


Table 13: Emissions of specific pollutants to the air as a result of fuel combustion for electricity generation by IEC [gram/KWh generated]

	2021	2020	2019	2018	2017	2016	2015
Nitrogen oxides (NO_X)	**0.65**	0.75	0.75	0.88	0.92	1.07	1.32
Sulfur dioxide (SO_2)	**0.42**	0.41	0.45	0.63	0.77	1.08	1.34
Particulate matter (PM)	**0.029**	0.030	0.028	0.032	0.038	0.042	0.046

The rate of change in 2021 compared to the years:	2020	2015
Nitrogen oxides (NO_X)	-13%	-51%
Sulfur dioxide (SO_2)	+2%	-69%
Particulate matter (PM)	-3%	-37%

Downward trend in annual volume of air emissions of pollutants [tons/year]

Data on the absolute volume of emissions of air pollutants resulting from fuel combustion for the production of electricity by the IEC (in units of tons per year) also reflect a significant, ongoing downward trend in emissions:

- 25% decrease in nitrogen-oxide emissions [tons] in 2021 compared with 2020, and 63% decrease compared with 2015
- 11% decrease in sulfur-dioxide emissions [tons] in 2021 compared with 2020, and 76% decrease compared with 2015
- 17% decrease in suspended particulate matter (PM) emissions [tons] in 2021 compared with 2020, and 53% decrease in emissions compared with 2015

Main causes of the downward trend in emissions:

- Increasing the use of natural gas
- Completion of the emission reduction project at the Orot Rabin site
- Completion of the emissions reduction project at the Rutenberg site
- Operation of extremely high efficiency CCGT production units
- Decrease in the use of coal as per the Minister of Energy directives and according to the provisions of emission permits
- Use of ultra-low sulfur liquid fuel for backup only

The IEC's Air Monitoring System

As part of its system for monitoring environmental impacts, the IEC has established an air quality monitoring system, within which 25 air quality and meteorology monitoring stations operated nationwide in 2021. This system is part of the Ministry of Environmental Protection's national air monitoring system under the Clean Air Law, in which the Association of Cities for the Environment (Haifa, Hadera, Ashdod and Ashkelon) and the Ministry of Environmental Protection also take part. The IEC's air monitoring laboratory is certified under the ISO 17025 for monitoring and calibration of instruments and systems for monitoring environmental air quality. The Company also operates a manual sampling system in accordance with the stack sampling procedure and work plan approved by the Ministry of Environmental Protection. The sampling is used to calibrate the continuous air pollutant monitoring systems, which are installed in the stack.

The IEC measures and tracks air emissions[25] of principal pollutants at its monitoring stations. Findings of the air quality measurements in 2021 indicate that sulfur dioxide concentrations (a pollutant typical of coal, fuel oil or diesel fuel fired power plants) are declining, and are significantly lower than the environmental air pollutant values pursuant to the Clean Air Regulations (Air Quality Standards) (Temporary Order), 2011. This trend is in line with the downward trend of emissions in the Company's power generation units.

With regard to other air pollutants, in 2021 the various monitoring stations of the IEC recorded occasional concentrations of nitrogen oxides, nitrogen dioxide, ozone and particulate matter, which were relatively high and sometimes even higher than those permitted by air quality standards. These cases appear to have not been directly related to emissions from power plants.[26]

During 2021, the process for upgrading the monitoring devices, structures and infrastructure at all existing monitoring stations continued, to ensure the reliability and availability of the data.

25. *Further information and expansion regarding other air pollutants can be found in the environmental air monitoring reports on the IEC website at: https://www.iec.co.il/content/environment/filepages/environmentqualityreports (Hebrew)*

26. *High concentrations of nitrogen oxides and nitrogen dioxide are associated with transportation, high concentrations of ozone are attributed to photochemical processes in the atmosphere, and high concentrations of fine airborne particulate matter were measured during dust storms and hazes.*

Reducing negative environmental impacts – water, effluents, and waste

Water and effluents

The IEC adopts measures for the smart use of water consumption at its sites. This, among other things, by improving and monitoring processes and increasing the recycling of effluents. Furthermore, we make extensive use of brackish water resources, independent sources as well as external sources, and act to improve and monitor processes and increase the recycling of effluents, including:[27]

Use of industrial effluents and borehole water in the emission reducing plants. This water is used as a substitute for potable water in scrubbers, to reduce emissions of sulfur oxides (FGD – flue gas desulfurization).
Use of sanitation effluents from an external source for the cooling towers at the Gezer CCGT power plant.
Use of purified sanitation effluents and drainage water to irrigate garden areas.

The fresh water supplied to the IEC's power plants through a national water supply system includes a mixed ratio of aquifer water (wells), water from Lake Kinneret (the national carrier), desalinated seawater, desalinated brackish water and surface water from various sources.

Table 14: Breakdown of IEC water consumption data [m³]

Potable water consumption

< Brackish water consumption >

- Sanitation effluents from external sources of used at the cooling towers*
- Sanitation effluents from independent sources for irrigating garden areas
- Industrial effluents and drainage water from independent recycling sources
- Boron enriched water from external sources
- Total consumption of brackish water

						Summary	Rate (**)	Total (***)
2021	**5,503,905**	***3,065,293**	**71,566**	**699,694**	**565,276**	**4,401,829**	**44%**	**9,905,733**
2020	4,910,415	*2,159,270	102,881	542,993	587,051	3,392,194	41%	8,302,609
2019	5,341,845	4,144,109	87,241	663,795	768,715	5,663,860	51%	11,005,705
2018	4,851,136	5,172,668	103,140	686,161	637,867	6,599,836	58%	11,450,972
2017	4,797,440	4,443,348	101,774	554,362	410,946	5,510,430	53%	10,307,870
2016	4,565,698	4,067,951	102,502	649,884	0	4,820,337	51%	9,386,035
2015	4,866,935	3,867,815	97,039	643,934	0	4,608,788	49%	9,475,723

*Additional site where wet cooling with sanitation effluents is used through cooling towers is the Alon Tavor power plant. This power plant was sold in late 2019, as part of the electricity sector reform. In view of this, the need for sanitation effluent consumption from external sources used for cooling towers was reduced, and accordingly, the IEC total consumption of brackish water decreased.

** Rate of brackish water consumption out of total sources*

***Total IEC water consumption - excluding seawater used for cooling at the coastal power plants

27. *For further information regarding the Company's water consumption see the Company's website, in the IEC Environmental Report for 2021 in the chapter on "Wise use of water resources".*

In the operation of power plants, the IEC is subject to the operating policy of the electricity system management company (Noga); the Company therefore has only partial influence over the water consumption required to produce electricity. Consumption of potable water increased by 12% in 2021 in comparison to 2020, due to the increased operation of production units at the Rutenberg site equipped with flue gas desulfurization (FGD) scrubbers, for the removal of SO_2 from combustion gases – i.e., water consumed to reduce air pollutant emissions, and decreased reuse of industrial discharge as FGD feedwater due to the penetration of seawater into the system. In addition, there is increased use of potable water at the cooling towers at the Gezer site production units in April and May 2021, instead of some of the wastewater fed into the cooling water, because of the need to address higher turbidity values and floating solids.
However, the IEC is succeeding in reducing the proportion of potable water in the water consumed by its facilities.

* Note that the Alon Tavor power plant site, which used wet cooling with sanitary wastewater via cooling towers, was sold in late 2019, within the electricity sector reform. In view of this, the need for sanitation effluent consumption from external sources used for cooling towers was reduced, and accordingly, the IEC's total consumption of brackish water decreased. Due to the increased operation of cooling towers (as a result of increased production volumes) using sanitary wastewater from an external source in the production units at the Gezer site, consumption of brackish water increased by approximately 30% in 2021 compared with 2020, while brackish water as a percentage of all water sources at the IEC rose from 41% in 2020 to 44% in 2021. For data on the consumption of seawater for cooling and discharges of treated wastewater into the sea, see page 78.



Future measures and targets:

- Targets for reduction compared with the baseline year 2013 (before the emissions reduction projects)

| For Year 2024: -10% | For Year 2030: -30% |

- Targets for Increase use of wastewater (wastewater from internal and external sources)

| For Year 2030: +2% |

Target for increased use compared with the baseline year 2013

Promoting a circular economy and waste treatment management

As part of the IEC's efforts to preserve the environment and reduce its environmental impacts, efforts are being made to optimize and maximize the utilization of the raw materials and energy sources used for its operations. In light of this, the Company is working on circular economy initiatives, including:
The coal-fired power production process is characterized by the formation of two by-products: Coal dust and FGD gypsum. Coal dust is a by-product of coal at the Orot Rabin and Rutenberg power plants, while gypsum is a byproduct of the reaction in the desulfurization at the coal-fired power plants using limestone as a raw material added to sulfur dioxide in the FGD plants installed at the coal-fired power plants.

Coal ash

The entire quantity generated by the activity of the IEC is delivered for industrial and agricultural use, primarily in the production of cement and concrete, similar to the common practice in most of the developed countries. Environmentally, the use of coal dust as a raw material for the production of cement and concrete reduces the damage to the environment and open areas resulting from quarrying of raw materials that are replaced by coal dust (especially sand for construction, which is in increasing shortage in Israel). In addition, the use of this resource for the production of cement (crushing) and concrete contributes to reduction of CO_2 emissions in the cement industry. Details of the uses of coal ash are presented in Table 15 below.
The use of ash in cement and concrete production reduced CO_2 emissions in 2021 by an estimated 189,400 tons. Coal dust use is based on permits issued by the authorities, including the Ministry of Environmental Protection. The IEC monitors the coal dust environmental impact once every six months, and the results consistently comply with the criteria defined for the coal dust already in use.

Table 15: Production and use of coal dust in 2015-2021 (thousand tons)

	2021	2020	2019	2018	2017	2016	2015
Total production of coal dust							
Total use of coal dust	**605**	**1,055**	**848**	**804**	**719**	**758**	**657**
Total production of coal dust	**584**	**1,054**	**848**	**805**	**719**	**741**	**634**
Used in cement production	243	603	519	480	382	344	268
Used in production of concrete products	341	385	280	273	331	389	361
Used for infrastructures	0	30	14	17	0	0	0
Used for agriculture and other uses	0	36	35	35	6	8	5

Gypsum

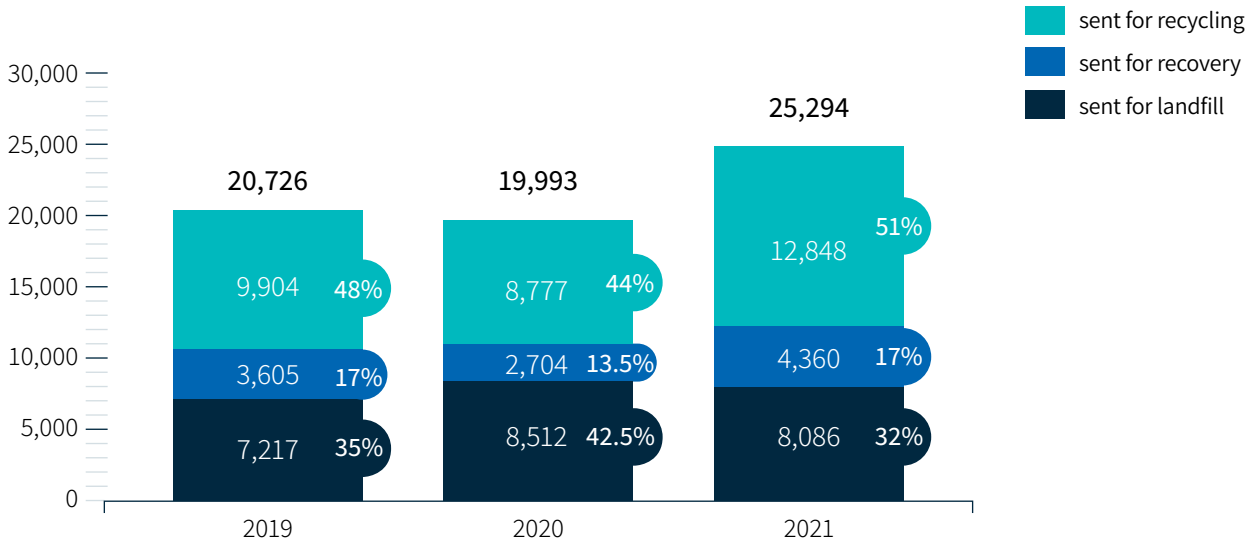
Gas emissions from production units 1-4 at Rutenberg and production units 5, 6 at Orot Rabin pass through flue gas desulfurization (FGD) facilities. The gas emissions from coal burning boiler pass through the FGD system and are washed in a limestone suspension. In the plant a chemical reaction is created between the SO_2 and the calcium carbonate ($CaCO_3$), forming gypsum ($CaSO_4.2H_2O$) as a byproduct of the process. The resulting gypsum is of a similar quality to that of natural gypsum, and is therefore suitable for use as a substitute for quarrying gypsum. This saves mining of the natural resource as well as the environmental hazards involved in such mining. In 2021, the Israel Electric Corporation generated 103,570 tons of FGD gypsum. The entire quantity of gypsum produced by the Israel Electric Corporation in 2021 was supplied for cement production (gypsum is an essential component of ground cement, to delay the concrete hardening).

Solid Waste

The IEC treats waste generated as a result of its day-to-day operations by adopting the Total Waste Management approach, with various actions along the entire waste formation chain (prevention, reduction, collection and treatment), in order to reduce the environmental impact.[28]
Among others, actions are taken to reduce consumption and prevent the formation of waste, as well as to reduce the volume of waste disposed for landfill by separating various types of waste at source and transferring them for reuse and recycling, subject to the development of the recycling market in Israel.

In 2021, most solid waste was removed for recycling or reclamation, as shown in the diagram below.

Graph 11: Solid waste treatment (ton) - excluding by-products



28. *Further information about the IEC's waste treatment is available on the Company's website, in the IEC Report - Environmental Report for 2020 in chapters Solid Waste and Hazardous Materials and Hazardous Waste.*

The increase in the quantity of solid waste resulted, among other factors, from the sale of sites, due to the reform, which led to increased waste removal as part of the process of preparing the sites for sale.
Most of the increase in the quantity of waste stems from waste removed for reuse and recycling, and from waste originating with the optimization and improvement of waste management processes at the Company (such as a significant increase in removal of electronic waste).

Hazardous Materials and Hazardous Waste

The IEC holds, uses and stores hazardous materials at some of its sites, for operational purposes. The Company works to reduce the potential risk arising from the use of hazardous materials that are associated with the power generation chain. As part of this, efforts are being made to reduce consumption of hazardous materials at source (source reduction); in the production processes, to replace materials with lower risk materials; to identify environmentally friendly substitutes; to train employees on this issue; to identify alternative solutions for landfill of hazardous waste, to expand the types of hazardous waste that needs dedicated treatment, etc.

As part of its obligation under any law, the IEC disposes of hazardous waste at authorized sites.

Total hazardous waste of the IEC decreased by 21% in 2021 compared with 2020.

Table 16: Treatment of hazardous waste (excluding industrial effluents) by type of treatment [tons]

	2021	2020	2019	2018	2017	2016	2015
Hazardous waste - not including industrial effluents							
Total hazardous waste	**4,800**	**6,105**	**4,573**	**8,566**	**5,245**	**4,515**	
Hazardous waste sent for landfill	690	1,191	151	57	883	49	
Hazardous waste sent for recycling	3,913	690	1,500	5,462	454	2,871	
Hazardous waste sent for disposal	197	4,224	2,922	3,047	3,908	1,595	

For further reading regarding the treatment of hazardous waste, see the Environmental Report of the IEC for 2021



Future measures and targets:

Table 17: Waste reduction targets for 2030 in relation to 2020

Disclosure	Future objective	Description
Reduction of quantity of solid waste	- 10%	% reduction of quantity of solid waste for landfills
Reduction of quantity of hazardous waste	- 15%	% reduction of quantity of hazardous waste
Solid waste recycling	+ 10%	% increase in solid waste transferred for recycling

Conserving nature and biodiversity

IEC impacts on biodiversity

The impact of the IEC on biodiversity arises from the location of its facilities in or near undisturbed open natural spaces. The main impacts can be divided into marine aspects and terrestrial aspects.

The main impacts on marine biodiversity arise from the use of seawater by coastal power plants to cool the steam that drives the turbines in the power production process. The pumping of seawater to the cooling systems, heating it and returning it to the sea, has an impact on the biodiversity in the pipes and in the condensers of the cooling systems, as well as around the hot water outlet pipes from the power plants to the sea. Therefore, the Company is strict in monitoring and tracking biodiversity in the area around the outlets.

Environmental impacts on terrestrial biodiversity arise from the production facilities of the Company, as well as from its transmission and transformation system. The IEC owns thousands of kilometers of power lines, of varying voltage, spread across the country. Among the many facilities of the Company are facilities and lines located in or near natural areas and nature reserves, which affect terrestrial biodiversity. Accordingly, as part of the environmental impact surveys and environmental documents issued with regard to projects, the impact of the projects on nature is also examined.

In recent years, parallel to the global development and awareness of the importance of preserving biodiversity, the issues reviewed in this area have been expanded.[29]

29. *Further information regarding the impacts of the IEC on biodiversity is available on the Company's website, in the Corporate Sustainability Report for 2020, and in the Israel Electric Corporation Environmental Report for 2020, in the chapter, "Management of impacts on biodiversity."*

Measures for managing impacts of the Company on terrestrial biodiversity:

Actions to manage and improve interfaces with biodiversity

We consider the need to reduce traffic through biodiversity-rich spaces in order to minimize impacts on these areas, and examine alternative locations for new facilities, utility poles, and power lines. Lines in ecologically sensitive areas (such as nature reserves or open spaces) are constructed in collaboration with the Nature and Parks Authority, with diligent reduction of the ecological footprint to the extent possible. This is achieved by minimizing access routes and setup surfaces; using substrates made of local materials that can later blend into the natural environment; avoiding work in certain areas during periods of high environmental sensitivity (e.g. near winter pools during wintertime, or near nesting sites); avoiding work near the shores of streams; relocating or fencing trees to reduce damage to them; and rigorously rehabilitating the environment and landscape at the conclusion of the construction work.

Conducting ecological surveys

As part of environmental impact surveys, and integrating the commitments in the outline plans. This includes surveys of the fauna and flora species in the vicinity of the planned project, with reference to the Red List of Vertebrates in Israel, which defines and classifies endangered species regarding which action should to be taken to prevent extinction (the definitions in the Red List of Threatened Animals are consistent with the definitions of the International Union for Conservation of Nature (IUCN)). Intra-organizational awareness of the importance of preserving biodiversity is raised by various means.

Collaborating with the Society for the Protection of Nature in Israel, the Nature and Parks Authority and the Ministry of Environmental Protection, as part of the public appeal to assimilate biodiversity conservation considerations in companies.



Biodiversity goals

- Within its strategic goals, the IEC has set a target of mapping all of the Company's sites, based on protected areas (nature reserves, etc.) and areas with high biodiversity value not declared as protected, by 2023, and accordingly providing relevant environmental planning rules.

Spreading Wings project

The Spreading Wings project, launched in 1996 as a collaboration between the IEC, the Nature and Parks Authority, and the Society for the Protection of Nature in Israel, is aimed at protecting the population of birds of prey in Israel, as part of the Company's corporate sustainability policy. The project initially focused only on the vulture population; however, in view of its success, it was expanded to include the treatment and rescue of other species of birds of prey, such as eagles. The project is based on applied research conducted to develop means of safeguarding utility poles, which are the main cause of electrocution of large birds, due to their tendency to use the poles as a convenient place to stand, sleep, observe, or even nest. The project currently operates on two main axes: safeguarding poles to prevent electrocution, and safeguarding lines against bird collisions, to preserve the population of birds of prey. Over a period of more than 20 years, approximately 3,000 poles have been safeguarded within the Spreading Wings project, at a pace of about 100 poles each year.

A geographical sensitivity model was prepared in 2021 to predict electrocution of Bonelli's eagles, which are currently severely endangered in Israel, and other eagles in Israel. The model mapped the 6,000 poles with the highest probability of causing electrocution, and was embedded in the work plan for safeguarding the utility poles. Following the development of the model and the identified need to increase the pace of the safeguarding process, in 2021 the IEC decided to double the pace to 200 poles per year; concurrently, the IEC supported a request made by the Nature and Parks Authority and the Society for the Protection of Nature in Israel for the Electricity Authority to recognize the need for broader protection. With the agreement in principle of the Electricity Authority to accelerate the safeguarding process and recognize the costs according to actual execution, the Company is preparing to safeguard 6,000 poles mapped as sensitive over the coming few years.

In practice, due to equipment delivery delays caused by the global coronavirus crisis, 74 poles in the Jezreel Valley region and 70 additional poles nationwide were safeguarded in 2021, according to ecological needs, within the 2021 work plan.

Apart from protecting against electrocution, the project deals with broader aspects of conservation and protection of birds of prey in Israel. The preservation interface takes proactive measures to expand breeding stocks, monitor at-risk species of birds of prey, and fight poisoning, by supplying high-quality food for vultures and maintaining feeding stations, purchasing GPS transmitters and monitoring telemetry data, importing vultures from other countries, and conducting activities to educate the public and raise awareness.

In recent years, there has been an increase in efforts to track endangered species of birds of prey, and as a result, the tracking capabilities of avian telemetry (flight) data have greatly improved. The data helps to actively preserve the birds of prey populations, contributes to knowledge and research on the subject and enables preparation of more accurate work plans for safeguarding pylons. Further, expansion of the collaboration into another aspect of the protection of birds from collisions with utility poles was approved, with a dedicated steering committee to oversee the collaboration between the parties and approve work plans and an annual budget. In addition, the IEC began to employ consultation services regarding avian ecology, which will help in building geographical models for areas potentially harmful to birds, formulating guidelines for planning and erecting power lines, assistance in pilot projects, groundbreaking projects and work plans on this issue.

Dialogue with Stakeholders on Environmental Protection

Dialogue with environmental organizations

The IEC acts to create an open, transparent and mutual communications channel with its key stakeholders. As such, the Company maintains a fruitful and long-standing dialogue with environmental organizations and attaches much importance on maintaining and conserving this relationship. This collaboration takes place through several channels, including a tradition of round-table sessions held by the Company and meetings with environmental organizations dedicated to various topics.

In view of the importance accorded to such dialogue with environmental organizations, the meetings are usually led by the CEO, and the Company's senior management participates. Meetings on designated topics are led by senior IEC professionals.

In 2021, only professional meetings were held, on specific issues raised by environmental organizations, such as transporting sand near IEC power plants. A meeting on the subject of smart metering is planned during 2022.

Dialogue with employees to raise environmental awareness

The IEC works to raise awareness and impart knowledge on environmental and sustainability issues, and conducts activities for its employees on various levels, including:

- Development and implementation of educational programs for employees and managers of the company, attended by hundreds of employees every year. In 2021, 600 employees participated in courses on environmental topics at the IEC training center.
- The Green Blue Orange CEO Environmental Award Competition is an intra-organizational contest aimed at encouraging absorption and internalization of environmental protection and sustainability values among employees, taking personal responsibility in this area, initiation and leadership of significant measurable improvement in environmental issues, and prudent use of resources in the work environment and in the broader spheres of home and family. The competition focused on individual or team initiatives that contributed to protection of the environment, division-level projects, and academic papers by employees of the Company in this area. The CEO Environmental Award ceremony was held in April 2021; 32 proposals were submitted for the competition.

Dialogue with policymakers

As part of fostering a dialogue, four meetings were held with authority heads and officers in authorities around the power plants, to share information about the Company's activity with transparency and while establishing trust, raising suggestions and ideas to reinforce the cooperation between the Israel Electric Corporation as well as promoting good neighborly relations with the local authorities.

Dialogue with the public on environmental issues

The Company has developed several means designed to support sustainable, aware, environmentally conscious public conduct, including:

- Within the community activity led by the IEC – see Chapter 4, Community Outreach in IEC, page 147 onward.
- Carbon dioxide calculator - a calculator that is available to electricity consumers and allows them to calculate the amount of carbon dioxide (CO_2) emitted into the atmosphere as a result of their electricity consumption for a given year, and to compare between different years. The calculator is based on emission coefficients for of fuel combustion for electricity production and refers to IEC only. The calculator is available on the IEC website at - https://www.iec.co.il/environment/pages/pollcalculator.aspx/
- Energy efficiency advice - on energy saving and smart use of electricity, which allows energy efficiency, reduces the demand for electricity, reducing air pollutant emissions.
- Providing access to information on environmental issues – In accordance with the Freedom of Information Regulations on Public Access to Environmental Information, 2009, the IEC releases environmental information in its possession, including annual environmental reports (since 2000), reporting through the voluntary mechanism for recording and reporting GHG emissions, environmental air monitoring reports, air monitoring data, and more. The publications can be viewed on the Company's website, at www.iec.co.il.

Environmental events in 2021

In 2021, a number of environmental incidents occurred at the IEC, which were reported to the Ministry of Environmental Protection in accordance with the requirements of the permits and licenses issued to the Company, and a number of procedures are being carried out on this issue.

In January 2021, the Company received a warning notice of noncompliance with the permit to discharge groundwater into the sea at the Orot Rabin Power Plant. The warning notice included claims of deviations from the criteria set in the permit. The Company believes this is most likely because of sand that penetrated the pump line. The Company submitted its reply to the Ministry of Environmental Protection. As of the publication date of the Report, the Ministry of Environmental Protection's response to the Company's claims has not yet been received.

In August 2021, the Company received a warning notice of pollution in the coast at the origin of the Unit 3 cooling water channel at Rutenberg and a deviation from the discharge permit into the sea conditions. The above is further to a stain observed in the sand near the cooling water channel. In the warning, the Company was asked to furnish information and take various measures. The Company submitted its response on September 5, 2021. Within this, the Company claimed, among other things, that the discharges were performed according to the terms of the permit.

In November 2021, the Company received a warning from the Ministry of Environmental Protection, claiming strong or unreasonable nitrogen oxides air pollution (a deviation from the emission value for the gases emitted into the air) out of the Unit 6 gas turbine chimney at the Hagit Power Plant. The Company submitted clarifications to the Ministry of Environmental Protection, stating that the deviations from the permitted standard were made within a calibration process, and so there is no deviation from the standard.

Significant environmental protection measures along the power supply chain

Production Sector

Electricity sector reform

- Sale of 5 IEC power plants to independent power producers (IPP)
- Orot Rabin
  - Transition of coal-fired production units 1-4 to conservation status (cessation of routine production and conservation for emergencies)
  - Establishment of 2 natural-gas-based power plants using combined-cycle technology
- Transferring the management of the power system to Noga, the new independent government company

Reduction of emissions

- Operation of sulfur and nitrogen oxide scrubbers at the Company's power plant sites to reduce air emissions
- Reducing the use of coal and increasing the use of natural gas
- Reduction of production using coal and substitution with electricity production based on natural gas, using advanced combined-cycle technologies

Promoting circular economy

- Coal dust produced as a by-product of the coal combustion process is transferred in its entirety for industrial use, for the purposes of building infrastructure and for agriculture
- Gypsum produced by the process for reducing emissions from coal combustion is transferred almost in full for use in the cement industry and for agricultural purposes

Performance in 2021

- Pursuant to the government resolution on the reform, the Company was required to sell the Reading production site in a competitive procedure. The deadline for delivering possession of the site was June 3, 2021. In view of the need to extend licenses, in order to maintain the reliability of the electricity supply and the survivability of the system, the Minister of Energy.
  Approved an extension of the Company's licenses at the Reading power plant until December 2022, at this stage
- Sale of the eastern part of the Hagit power plant was signed in December 2021. The Company transferred its holdings to the buyer in June 2022, during the writing of this report.
- Sale of 584 thousand tons of coal ash for reuse.
- Sale of 103,570 tons of gypsum for reuse
- Coal-fired power production was reduced by 42% compared to production in 2015
- Construction continued on 2 combined-cycle units using advanced H technology at the Orot Rabin site in 2021
- The transfer of management of the electricity sector system to Noga has been completed

Objectives

- Strategic goals for 2030 vs. 2015 [g/kWh]:
  - 30% reduction of emissions of carbon dioxide [the carbon footprint of production].
  - 65% reduction of specific emissions of nitrogen oxides.
  - 85% reduction of specific emissions of sulfur dioxide.
  - 40% reduction of specific emissions of particles.
- Discontinuation of the use of coal for electricity production by 2026, in line with government objectives. The Company is preparing to begin the conversion of coal-fired plants to the use of natural gas. The Company has started a pilot project to convert Unit 1 at Rutenberg to natural gas, as directed by the Ministry of Energy
- Gradual activation of 2 units, in 2023 and 2024, and concurrent transition of coal-fired units to conservation status

Transmission and Transformer Segment

Electricity sector reform

- Investment in the development of a smart transmission grid

Reduction of emissions

- Integration of photovoltaic (PV) installations of private producers in the electricity sector
- Advancing the smart grid
- Intensive development of the electricity grid, to enable integration of renewable energies into the grid
- Energy storage

Performance in 2021

- In 2021, the IEC connected private production facilities using renewable energies with an installed production capacity of 845 MWh in distribution and 60 MW in transmission
- NIS 1,685 million was invested in the construction, development, and upgrade of transmission lines, substations, and high-voltage stations, to adapt the transmission and transformation system for extensive intake from private producers, including renewable-energy-based producers, and integration at ultra-high voltage
- Connection of private production facilities using renewable energies with an installed production capacity of 845 MWp in distribution and 60 MW in transmission
- The Company has embarked on its first pilot project in storage, at the Caesarea switching station
- An international tender of the IEC has been issued for the construction of 10 storage facilities

Objectives

- Formulation of a development plan for the transmission and transformation system by 2022
- Increase of capacity and transformation by at least 10,000
- MVA; target
  - Laying 810 km of 161 lines
  - 470 km of 400 lines
  - Construction of 10 storage facilities by the end of 2024

Transmission and transformer segment

Electricity sector reform

- Fully opening of competition for large-scale business customers and household customers
- In accordance with the reform, when the number of customers of the Company falls below 75% of the total customers in the low-voltage supply segment, the Company will be permitted to supply cybersecurity services to all of its customers, such as Smart Homes and energy efficiency, for low-voltage consumers only (this matter will be specified in the supply license to be granted to the Company after expiration of the general license it currently holds).

Reduction of emissions

- Smart metering project
- Smart Home services and energy efficiency services will help reduce emissions
- Energy storage

Performance in 2021

- There are approximately 141 thousand installed remote metering devices in Israel, as of the end of 2021
- The supply pilot project began in September
- Since November, the Company has installed smart meters only, in all new and expanded connections
- Promotion of the distribution grid development plan, to support the integration of private producers in high-voltage and low-voltage networks (administrative unit meetings, appointment of project heads, producer-centered service, Green Track for connection of low-voltage facilities) Technological solutions

Objectives

- In 2022:
  Smart meter deployment begins, in accordance with a resolution issued by the Israeli Electricity Authority in October 2021, which applies to 450 thousand meters by the end of 2023, with an option for an additional 150 thousand meters, subject to a resolution to be passed by the authority
- The Company's goal is to install approximately one million remote metering devices by the end of 2024
- The Company will be permitted to offer Smart Home services beginning in 2024, after completion of the first stage of the installation of the meters
- Promotion of dynamic rates



Appendix A - Environmental Data

Table 18: IEC fuel consumption for power production and vehicle fleet and consumption of raw materials

	2021	2020	2019	2018	2017	2016	2015
Fuel consumption (in Ktons)							
Coal	**6,400**	7,200	8,300	7,800	8,200	9,100	10,700
Natural gas including LNG	**3,200**	3,800	3,600	3,900	3,700	3,390	2,989
Fuel oil	**9**	13	20	22	26	19	18
Heating oil	**16**	30	107	55	115	46	91
Transport diesel fuel	**10,080**	9,780	10,034	9,528	7,882	9,106	9,831
Gasoline	**2,214**	2,206	3,431	3,562	3,340	3,835	3,366

Table 19: Data on IEC air emissions from combustion of fuels for power generation (grams/KWh generated)

	Air emissions (gm/kWh)			Power generation
	NO_X	SO_2	PM	(MWh thousands)
Year 2021	**0.65**	**0.42**	**0.029**	**32,248**
compared to 2020	**- 13%**	**- 2%**	**- 3%**	**- 14%**
compared to 2015	**- 51%**	**- 69%**	**- 37%**	**- 24%**
2020	0.75	0.41	0.030	44,363
2019	0.75	0.45	0.028	47,784
2018	0.88	0.63	0.032	47,905
2017	0.92	0.77	0.038	48,788
2016	1.07	1.08	0.042	48,718
2015	1.32	1.34	0.046	50,641

Nitrogen oxides emissions (NO_X)
Sulfur dioxide emissions (SO_2)
Particulate matter emissions (PM)
Power generation

Table 20: Data on IEC air emissions from combustion of fuels for power production (ton/year)

	Air emissions (ton/year)					Power generation (MWh thousands)
	CO_2 eq	CO_2	NO_X	SO_2	PM	
Year 2021	**23,870,304**	**23,793,248**	**24,839**	**16,154**	**1,096**	**32,248**
compared to 2020	**- 13%**	**- 13%**	**- 25%**	**- 11%**	**- 17%**	**- 14%**
compared to 2015	**- 30%**	**- 30%**	**- 63%**	**- 76%**	**- 53%**	**- 24%**
2020	27,387,896	27,300,821	33,116	18,198	1,317	44,363
2019	29,634,047	29,525,691	35,876	21,425	1,327	47,784
2018	29,109,700	29,006,456	41,957	29,951	1,516	47,905
2017	30,087,822	29,978,814	44,800	37,592	1,856	48,788
2016	31,055,231	30,938,165	51,888	52,663	2,041	48,718
2015	33,893,752	33,757,748	66,925	67,636	2,336	50,641

Nitrogen oxides emissions (NO_X)

Sulfur dioxide emissions (SO_2)

Particulate matter emissions (PM)

Power generation

Carbon dioxide equivalent (CO_2 eq) emissions

Carbon-dioxide (CO_2) emissions

Table 21: Breakdown of seawater consumption for cooling of the coastal power plants [m3]

Year 2021	5,850,274,128
2020	5,865,870,606
2019	5,835,648,997
2018	5,896,219,446
2017	5,522,770,404
2016	5,464,694,022
2015	5,588,037,522

Table 22: Data regarding treated effluents discharged into the sea at IEC sites [m3]

Year 2021	341,275
2020	413,015
2019	375,419
2018	357,940
2017	389,054
2016	370,722
2015	400,092

2

High Quality Service for Our Customers

Corporate Sustainability Report 2021

Israel Electric

We are committed to the needs of our customers

High quality and highly accessible service is one of the Israel Electric Corporation's core values, and improving our service is a central pivot of the Company's strategy and activity.

The Company is investing substantial effort into developing new products and services, to enhance the service quality and the customer experience providing needs based services to all Company's customer segments. Among other things, these efforts include developing and integrating digital tools and artificial intelligence to improve customer service, – both in the interface between the customers and the service centers, and enhanced self-service options. All this is in addition to a continuous and fruitful dialogue with the customers and the community within which the Company is operating.

In 2021, we launched and enhanced the digital customer journeys that enable our customers to perform most actions with no need to wait for a service representative or go to a reception station.
The improvements we introduced include these services:

- Meter reading submission; reassigning or changing the electricity account information; reporting power cuts and safety hazards through the website and via WhatsApp; and making standing orders via credit card on the website.
- Opening orders with no need to arrive at the Company's offices.

All these things have led to improved customers' satisfaction measurements in 2021, compared with 2020, as shown below in this chapter.
We also carried out a pilot to make frontal customer service near the customers' homes more accessible. The service includes developing hybrid mobile stations and setting up service stations at the local authorities.

Continued Implementation of the Organizational Change in the Service Area

In 2020, the Company carried out a comprehensive organizational change in the service area, to meet the goals of the electricity sector reform and with the aim of professionalizing in customer-oriented service.

Opening the Electricity Sector to Competition

In accordance with the Government's resolutions under the reform [30], power supply will gradually be opened to competition for large business customers and low-voltage consumers [31] with installed smart metering. In this way, customers would be able to pick the electricity supplier that offers the lowest rates compared with the government rates, and switch to it. In June 2021, the IEC held the first conference for parties interested in examining the sale electricity directly to households as independent suppliers. Also, in September 2021, Israel's first supply pilot was launched, and within it, 35 thousand households in which smart metering is installed were given the opportunity to disconnect from the Israel Electric Corporation, and buy electricity at a lower rate from the companies authorized by the Israeli Electricity Authority. As from November 2021, the IEC installs only smart meters whenever the installation of a new meter is required or when the power consumption capacity is increased.

As of the end of 2021, within the competitive supply pilot, two systems were developed to support the electricity sector and competition; and as of the reporting year, 54 household customer meters are participating in the competitive supply, as well as 4,060 commercial customer meters.

30. *Israeli Electricity Authority Resolution No. 58604 on August 5, 2020, on "Gradually Opening the Electricity Sector's Supply Segment to New Suppliers and to Supply to Household Consumers"*

31. *This resolution stipulates the principles for the two-year period based on which, the supply segment will be opened to competition. In Phase 1, the supply will be limited to 400 MVA, of which, 100 MVA will be allocated exclusively to the competition on household consumers. It was also stipulated that the suppliers will buy all electricity supplied to their consumers from the system operator, based on the tariff mechanism set forth in the resolution.*

Smart metering project

In December 2020, to prepare for competition, the IEC issued a tender to replace electricity meters with digital (smart) meters with an independent communication network. Unlike the standard analog meters, these meters enable reading the household's real-time electricity consumption remotely and via digital means. The consumption information would be available to new electricity suppliers who would be able to offer customers electricity at a reduced tariff, according to the consumption hours and consumption volumes.

By 2023, the Company intends to reach 450,000 installed smart metering points, and a million installed smart metering points by the end of 2024.

Since November 2021, whenever a new installation or a power consumption capacity are needed, the Israel Electric Corporation exclusively installs smart meters.

Due to the processes currently underway in the electricity sector and the need to distribute smart meters that would expose customers to competition in the supply segment and receive additional services, in October 2021, the regulator – the Israeli Electricity Authority – published a resolution[32] on the "Principles for Smart Meter Distribution among Household Consumers" by the Israel Electric Corporation. This resolution applies to up to 450 thousand smart meters and until the end of 2023, with an option for 150 thousand additional smart meters, subject to the authority's instructions. To promote the customers' exposure to competition, in early January 2022, the Israeli Electricity Authority published a hearing[33] for public commentary, regarding installation of smart meters for every customer who wishes to make the switch to a smart meter (outside of the general market-wide smart metering distribution).
For more information about smart metering – see pages 25-26.

Advantages of the smart meter for customers:

- Remote meter reading with no need for a meter reader to arrive
- Ability to read the meter on different dates as necessary at the customer's request
- Continuous measurement of electricity consumption in a given period (quarter hourly)
- Use of advanced digital electricity consumption management tools and more efficient energy consumption
- Use of differential and dynamic rates
- Issuing periodic reports and analytics that would enable customers to plan their electricity consumption



Future measures and objectives

- **Replacing the analog meters with smart meters** and reaching one million installed smart metering points by the end of 2024.
- **Added value services** - In accordance with the reform, when the number of customers of the Company falls below 75% of the total supply segment in the low-voltage customers, the Company will be permitted to supply cybersecurity services to all of its customers, and offer other added value services such as Smart Homes and energy efficiency services, for low-voltage consumers only (this matter will be specified in the supply license to be granted to the Company after expiration of the general license it currently holds).

32. *Resolution No. 61611 – Principles for Smart Meter Distribution among Household Consumers*
33. *Hearing from Israeli Electricity Authority Meeting 621 on December 29, 2021 – Smart Meter Installation Rules*

Holding a Continuous Dialogue with Customers

Diverse Service Channels

To offer a better service for our customers, the Israel Electric Corporation operates a variety of service channels, including:

- **Digital customer service channels** – a responsive website that enables performing a wide range of actions: an online chat on the website, offering customers direct interaction with a representative; service via text and WhatsApp (during the centers' business hours), and a chatbot allowing to perform various actions with a virtual representative's support, such as reporting meter readings, reporting on and inquiring about power cuts, etc; Facebook, LinkedIn, Twitter, and Instagram.
- **The Israel Electric Corporation's call centers (the 103-call center)** – the centers provide service in Hebrew and Arabic.
- **103 Self-service and callbacks** – the Israel Electric Corporation provides self-service options, performed through IVR, when dialing 103. We also offer the option to receive service by having a service representative call the customer back (callback).
- **Integrated service station pilot**: physical branch with remote representatives - A pilot, launched in February 2021, offers a creative solution to providing service to customers who struggle to receive service online, and need guidance to complete processes and receive information. The integrated service station was established at a branch in Nahariya, and the actions performed there are physical, but its staffing is remote, offering communication with human representatives through video chat. In addition, it is possible, at the station, to receive service in various languages.
- **A service station for residents-customers at the city hall** – in 2021, the Israel Electric Corporation started offering service stations in multiple local authorities, where reception stations were set up at the city hall. The stations operate one day a week during business hours, and they provide all services offered at the Company's reception stations.
- **Upgrading the Company's website** – in March 2021, the Israel Electric Corporation launched the updated website offering customers advanced and convenient digital experience for self-services. Since the end of 2021, the website has also been available in Arabic, and in the future, it will also be adapted to surfing and performing actions on the mobile phone.
- **Guaranteeing diverse service in everyday life and during emergencies** – to ensure high quality, relevant service that is adapted both to everyday life and as well as to diverse populations, the Company works with government and municipal entities. This includes:
  - Routine work meetings with senior and professional officials in local authorities in order to ensure regular and reliable power supply to customers.
  - Meetings with welfare officials and representatives of local authorities, as part of the Company's activity to help struggling customers exhaust their rights, as described later in the chapter.
- **Visitor centers** – the Israel Electric Corporation operates two visitor centers for the general public at the "Orot Rabin" and "Heftziba" sites (for more information, see chapter 4, on page 147).
  These centers create a dialogue with our customers and the general public, offering enriching and educational opportunities.



Future Targets for 2022

- We will further expand the self-service channels and continue to work to enhance the service experience on multiple levels:
  - Continued development of the mobile hybrid stations (to be placed at central locations in different cities) through which, all actions performed at the reception are available.
  - Expanding the variety of services provided on different communication channels – a business model that offers the customer a "one-stop shop": the IEC would place stations at multiple local authorities, and these stations will be integrated under one roof, with the local authorities' stations.
- Launching an innovative portal for private producers to further expand the customers' access to services. Through the portal, private producers will be able to submit documents, keep track of the different stages in the process, and receive support from Israel Electric Corporation representatives.
- Further improving customer journey: expending the digital customer journeys, to leverage the Company's capabilities towards becoming a leading provider of digital customer service.
- In 2022, the Company's new website's conversion to the new infrastructure will be completed.



Public inquiries

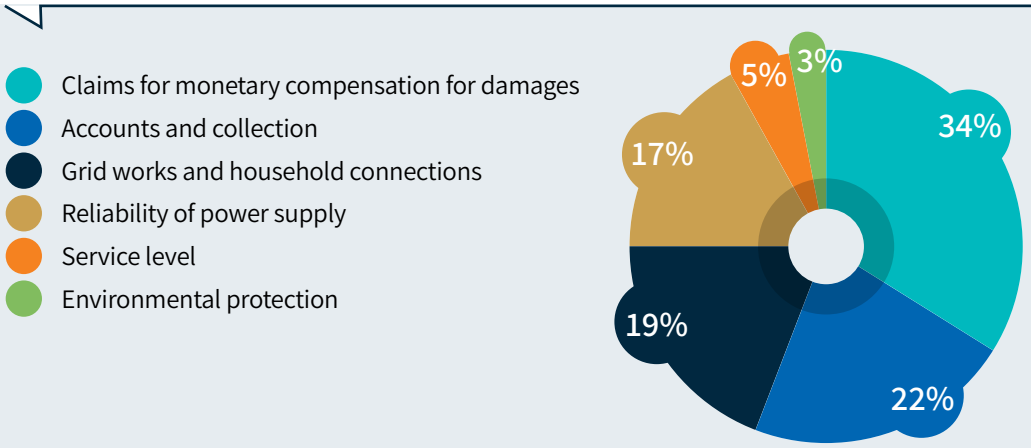
As part of its service strategy, the Company invests substantial resources in training its' service representatives to provide its customers with high quality service to ensure customers' satisfaction and to prevent cases of complaints.

In 2021, the Israel Electric Corporation received 17,730 complaints – 21.9% less than the total complaints received last year, of which, 24.4% were justified – a 3.6% decrease in justified complaints, compared with 2020. The number of complaints on the service quality and service level dropped from 2,047 in 2020, to 875 in 2021 – a 57 % decrease.

Each complaint is examined and looked into, according to the Israeli Electricity Authority's criteria.

The Company examines and analyzes the information obtained from the complaints to learn lessons, creating opportunities to improve the service and work processes.

Graph 12: Breakdown of types of complaints by topic in 2021



For more information on public inquiries, see the details of the 2021 Public Inquiries Report published on the Company's website[34], and also see the "File a complaint to the Ombudsman" public inquires page[35] and the "Ways to Contact the Ombudsman" on the Company's website[36].

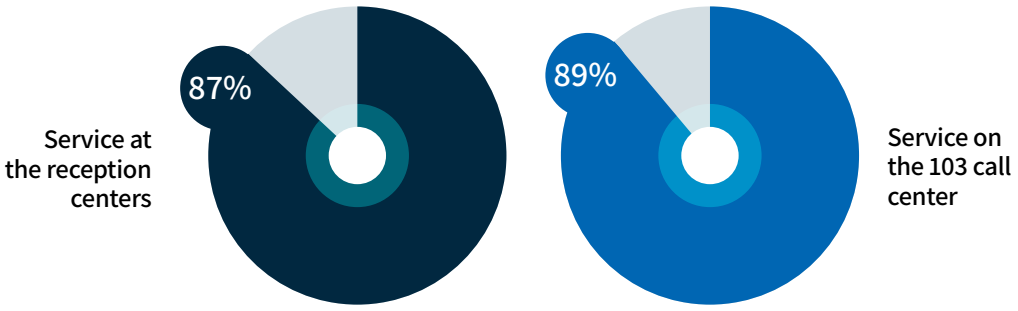
In 2022, as of writing this report, the Ombudsman moved from the Internal Audit Unit to the Service, Marketing and Regulation Division.

34. *The 2021 Public Inquiries Report on the Company's website – https://ieccontent.iec.co.il/media/1y1jglmd/annularreport2021.pdf*
35. *File a complaint with Public Inquiries – https://www.iec.co.il/content/ombudsman/pages/filingcomplaint*
36. *Ways to contact the Ombudsman - https://www.iec.co.il/content/ombudsman/pages/contactus*

An Improvement in the Service Quality Satisfaction Surveys

Customer satisfaction with the quality of the service and the improvement thereof are a main element of the Company's policy and its strategic plan.

Graph 13: Service Quality Satisfaction Surveys - 2021



The IEC's hotlines

Within the effort to learn and improve, and to assess the level of customer satisfaction with the call centers (103), the Company regularly carries out two types of surveys. The survey findings are presented and discussed before the management every quarter:

- **Satisfaction surveys via text messages** – the management considers the review of customer satisfaction with the 103-call center very important. The survey is carried out through a text message that is sent to the customer at the end of each telephone call with a 103-call center representative. In 2021, customer satisfaction according to the 103 survey findings was at 89%, compared with 80% in 2020.
- **"Customer experience" surveys** - digital surveys are conducted continuously after end of the call, through a designated system. Each customer who was served through the 103-call center is sent a text at the end of the call, with a link to provide feedback.
- **The total weighted satisfaction with the 103-call center in 2021 is 89%, compared with 80% in 2020.**

Reception

Starting in Q4, 2020, customers at the reception centers are surveyed by telephone, and the survey results are examined every quarter. The survey is carried out among reception center customers, customers who were served at a hybrid station, and customers who were served by Israel Electric Corporation representatives at the local authorities or asked the reception offices to call them.

Each quarterly survey samples 1,100 customers. The satisfaction level according to the reception surveys in 2021 was at 87%, compared with 84% in Q4, 2020.

The total weighted satisfaction with the reception centers in 2021 is 87%, compared with 84% in 2020.

Additional Surveys

- **The "360 Degrees" barometer** – with the help of an external research company, the Israel Electric Corporation carries out annual position surveys on several subjects. The "360 degrees" ("barometer") surveys are distributed among the general population and specific communities, including the Ultra-Orthodox community, the Arab community, and senior citizens. The survey further segments household positions and business consumer positions toward the Company. These surveys are an effective tool for receiving feedback from the public, review how positions toward the Israel Electric Corporation have evolved throughout the years, and to estimate the public sentiment. The survey results help identify the key areas for improvement or for maintenance, and they make it possible to weigh the public's positions into the Company's decision-making processes. The third annual "360 degrees" survey was held in February 2021, shortly before the end of the third lockdown, and its results indicated some erosion in the Company's image among most of the surveyed communities, beside and improvement in the Company's general trust score.
- **Prepaid meter customer survey** – in Q4, 2021, a satisfaction survey was carried out among the prepaid meter customers for the first time; prepaid meters are typically installed for indebted customers from underprivileged populations. The survey findings showed that 54% of these customers reported the highest satisfaction score (9 to 10 on a decimal scale).



Future measures and objectives

- Launching a new website – in Q1, 2022, while writing this report, a new, customer-oriented website was launched, which provides advanced digital experience and makes the most frequently needed actions accessible to the end customer. The website will also be available for browsing and execution of transactions by mobile phone. The updated site aims to improve the customer experience, and may reduce inquiries to the service centers, decrease workloads and allow IEC to provide better service.
- Conduct a customer satisfaction survey of the 103 services: chat services on the website and in the app, interactive text messages and Facebook/messenger, and fax and online inquiries.
- Promoting a survey to study the professional-technical customers' including engineers, electricians and electricity consultants, architects, etc. satisfaction with their interface with the Company.
- Designing a consolidated service measurement for all customer service aspects, private and professional alike. The measurement will include all service interface points and the satisfaction with each interface.

Diligent Work to Improve Service

To enhance customer welfare and improve customer service, the Company is promoting a string of service initiatives at the various service centers, including:

- **The "Circuit" app for professional customers:** Out of an understanding of the technical - professional customers' unique needs and willingness to provide designated services to different consumers, we developed the "Circuit" app in 2021. The app presents all the technical information the Company's customers need on various activities (including the digital ordering system, planning connections for buildings, facility inspections, transformation stations, decentralized production, grid tariffs, electric vehicles, and the engineering archive), in an accessible and concentrated manner. The app also streamlines the interface with the customers and sets uniform technical requirements for them.

- **The quality service competition for 103 call centers:** To encourage more effective and efficient customer service and encourage information exchanges between call centers, the Customer Service Department launched a competition between the three 103 call centers. The competition focused on aspects of service quality and effectiveness, and was based, among other things, on the customer satisfaction, as measured at the end of each call.

- **The CEO Award for Improved Customer Service:** The Company has been awarding the CEO Award for Improved Customer Service for over a decade. The purpose of the competition is to encourage the employees to suggest ideas for new products and services. The Company implements the winning suggestions through a follow-up committee, overseen by the Head of the Service Department and the VP of Service, Marketing, and Regulation (SMR). In 2020, the competition was not held because of the Covid-19 pandemic and the Company's restructuring. In 2021, an updated outline for the competition was formed. The suggestions were submitted through an automated system, and the participants that progressed to the next stages were assigned with mentors and provided with tailored training program in cooperation with the Innovation and Organizational Development Unit. The competition's judge panel was composed of VPs, the Service Department Manager, and the Employee Organization Representatives. Many of the suggestions were integrated into the Company's work plans for realization and implementation, while following up on the integration, led by the VP of SMR and the Head of the Service Department.

Making Sure Underprivileged Populations Exhaust Their Rights and Receive Service

We are committed to provide professional, attentive, and caring service to all our customers, emphasizing customers who are struggling to pay their electric bills or belong to economically underprivileged communities.

The electricity rates are all set by the Israeli Electricity Authority and IEC has no influence over them. The Israeli Electricity Authority, together with the National Insurance Institute, defined 11 population groups as eligible for reduced electricity payment, including Holocaust survivors, soldiers without family support, individuals entitled to a long-term care allowance, etc.

Special activity for struggling customers

To aid customers who are experiencing hardship and crises, the Company maintains a continuous dialogue with social organizations and the local authorities' welfare departments, the Ministry of Welfare, the Ministry of Social Equality, and the National Insurance Institute. The Israel Electric Corporation also offers a series of solutions and arrangements for struggling customers, some of which are a result of the processes that reached fruition during the Covid-19 crisis, that the Company has decided to apply under normal conditions too:

- **Flexible arrangement** - The option of receiving the electricity bill monthly and paying monthly.
- **Prepaid meters** – a prepaid meter, which allows customers to control and plan their electricity consumption ahead of time and avoid accruing debts.
- **Debt restructuring** – offering an option to spread the payments on the electric bills from 2020, while forgiving the accrued interest. In May 2021, another interest cancellation campaign was conducted in respect of the period between January 1, 2020, and April 30, 2021.
- **Scheduling a telephone appointment** – due to the Covid-19 pandemic and the inability to address customers' needs via frontal reception, the option of scheduling an appointment with a customer service representative and receiving a response via telephone at the scheduled time was created. This is in addition to the channels of communication with the Company described throughout this chapter.

Based on understanding of the social and business value entailed in providing information to customers on exhaustion of their rights, in 2016 we launched widespread activity that included lectures, conferences and meetings on the subject with various stakeholders. In addition, we strive to lead a better electricity consumption culture, and as part of the lectures, information is also provided on safe use of electricity and efficient electricity consumption at home. In 2021, 10 frontal lectures on exhausting rights were delivered to welfare entities at local authorities, to provide access to information on the public's rights toward the Company. This is in addition to the regular dialogue with different organizations' and authorities' representatives, to address topical issues.

An Assistance Fund for Household Customers Who Struggle to Pay off Their Electric Bills

In November 2021, the IEC's board of directors authorized the establishment of the assistance fund, bringing to fruition a strategic process the Israel Electric Corporation promoted to support customers who are struggling with paying their electric bills.

The process was based on "shared value" principal, reflecting Company's continuous dialogue with social organizations and in response to the call of the Israeli Corporations Authority to promote projects embedding both social gain and business strategy.

The fund's budget is NIS 15 million a year, and its main aim is to support customers' transformation from a customer in debt to a paying customer. Assisting customers who have fallen into debt with electricity payments to cease the accumulation of payments and interest coupled with raising financial awareness trough additional solutions that will be offered to them - such as a prepayment meter and spreading of payments will help the Company to minimize collection costs and the substantial costs of disconnecting and reconnecting.

The eligibility for assistance from the fund will be determined by members of the fund's executive committee, comprised of representatives of ministries/government entities, social organizations and the Israel Electric Corporation, who will determine who is eligible (for partial or complete assistance) to receive assistance from the fund, to cover their debt to the Israel Electric Corporation.

The assistance fund mechanism formation commenced in early 2022. As of writing this report, the fund has started to deliberate on customer applications (in July 2022). The chair of the fund is Adv. Roni (Fantanesh) Malkai.



Future measures and objectives

The assistance fund's operating mechanisms will be fully formed in 2022.

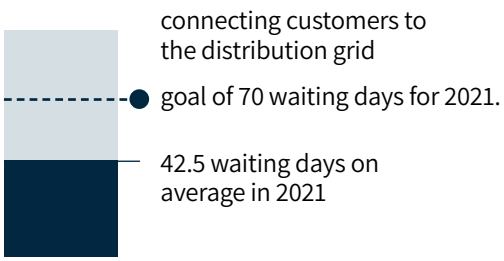
Setting Goals and indicators to Improve Service

The Israel Electric Corporation service performance indicators are set by the Israeli Electricity Authority, and they are set forth in the Criteria Book.[37] The criteria are intended to govern interactions between the Company and its customers, and they set forth the parties' "rights and duties", including in the areas of consumption, bills and payments, charges, inquiries, customer service, and connections to the grid. The book also sets the criteria for reliable electricity supply, in terms of planned power cuts, renewed electricity supply, frequency shedding [38] and damage to electric appliances.

Connecting Customers

The Israel Electric Corporation is responsible for connecting customers to the electric grid. Within the strategic plan, the Company has set a goal of minimizing the number of days customers wait to be connected, and even set incentives for connecting consumers and producers to the distribution grid. A model was set to check if goals are met, and in 2020, the goal was 75.9 waiting days, compared with a goal of 70 waiting days for 2021.
In practice, the average waiting days for electricity connection was 42.5 in 2021

Graph 14: Average waiting days for electricity connection in 2021



37. *See the book of criteria on website of the Israeli Electricity Authority: https://www.gov.il/he/departments/general/amotmidabook*

38 *Automated disconnection of a consumer's facility, to stabilize the system's frequency*

Reliability of the Power Supply and Supply Interruption Minutes

We make efforts to maintain continuous and available power supply to all our customers, and invest extensive resources in improving the electricity transmission infrastructure.

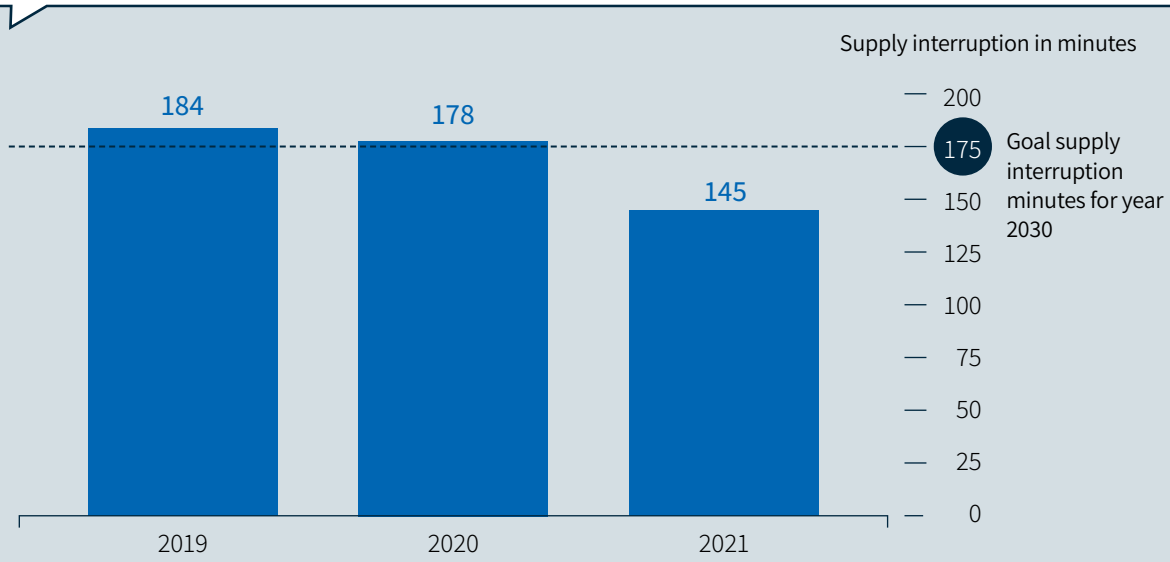
In addition to ongoing maintenance and in order to ensure available supply of electricity, in the transition seasons we make sure to reinforce the response to customers at call centers, the technical teams working in the field, the preventive works (pruning, washing of lines, ongoing tests) in the field. We are also reinforcing use of technological means such as helicopters, drones, and rescue teams that help us locate sensitive areas, and we treat them as soon as possible before a malfunction emerges.
Despite these preventive measures, unplanned power cuts sometimes occur. The duration in which electricity is not supplied to a customer because of a regional power cut is referred to as the "system average interruption duration". The measurement refers to a supply interruption resulting from disturbances in the high-voltage grid and in the transmission and transformation segment, as opposed to supply interruption failures resulting from inordinate events.

The Company regularly monitors the electricity quality characteristics, analyzes inordinate events in the electric grid, and compiles a multiannual statistic of the electricity quality characteristics, all to make sure the Israel Electric Corporation is robust, according to the relevant criteria and standards for monitoring electricity quality.

In June 2020, the Israeli Electricity Authority published supply reliability level metrics.[39] The published metrics include a gradual supply reliability goal of 100 minutes of supply interruption per customer a year until 2030 [40], and a reduction of the standard deviation between reliability levels in different sub-districts by at least 60% until 2030. Following the publication, the Company is working with the Israeli Electricity Authority to form a long-term plan up to 2030, which will comprise achievable goals to reduce the number of supply interruption minutes. At the same time, the Israel Electric Corporation has been working since 2021 to improve the supply reliability measurements according to a short-term plan, setting a goal of 175 supply interruption minutes. The actual measurement in 2021 was 145 supply interruption minutes.

39. *Israeli Electricity Authority Resolution No. 58208 – Incentives to Develop the Distribution Grid.*
40. *The measurement refers to supply interruption minutes resulting from disturbances in the high-voltage grid and in the transmission and transformation segment only.*

Graph 3: Supply interruption minutes in 2019-2021 (excluding storm and extreme weather events)[41]



Power cuts portal, providing updated information on power cuts at customers' property and in their area is available for our customers on the IEC website at: https://eoutages.iec.co.il/home
In addition, the customer can view the history of supply interruption data in their residential area at: https://c.howazit.com/e/2350369614?abts=1634219161379



Future measures and objectives

Applying changes to the supply interruption minutes measurement methodology, adopting the standard international measurement methods.

41. *The number of supply interruption minutes resulting from disturbances in the high-voltage grid and in the transmission and transformation segment only, deducting extreme weather events.*

Committed to customer health and safety

The health and safety of our customers is a top priority of the Company and a material issue for us especially since when incorrectly used, electricity may be hazardous and cause harm. The Company is heavily and strictly regulated in terms of health and safety, and it is continuously working to map out these aspects' potential outcomes, prevent them, and mitigate them. Therefore, the Company complies with all the strictest standards in the area of production, transmission and distribution of electricity, sometimes even beyond the requirements of the binding regulations. Special emphasis is placed by the Company on providing access to information on the subject of safety, through various communication channels and social media. The Company's website offers a great deal of up-to-date information, according to the seasons of the year and various developments in the Company's operations, and our publications in the communication channels include explanations and guidelines for safe and prudent use of electricity. Also, during meetings with the public and lectures delivered to diverse audiences, and within our educational activity and community outreach, electrical safety is discussed extensively (for more information, see the chapter on "Community Outreach in the Israel Electric Corporation", page 147).

Our guiding principles

- Compliance with the requirements of the law and regulations on electricity safety.
- Meeting guidelines on behalf of the Ministry of Energy, the Israeli Electricity Authority, local authorities and statutory authorities, for planning and construction of national infrastructure, building an underground network in urban and industrial zones that are characterized by high population density;
- Obtaining permits to establish and operate radiation sources, as defined in the Nonionizing Radiation Law, granted by the Ministry of Environmental Protection under the law, and following the precautionary principle regarding magnetic fields. For further details, see the financial report for 2021:[42]
- Construction of new electricity facilities, according to terms included in the construction and operating permits with regard to implementation of measures to limit the exposure levels, limiting access, placement of warning signs, reporting obligation and more;
- Monitoring air emissions - IEC[43], the Ministry of Environmental Protection[44] and the Associations of Towns for Environmental Protection, perform ongoing monitoring activities to ensure compliance with standards to which the Company is committed. The Company operates completely transparently with regard to the monitoring results;
- Extensive activity to mitigate the environmental impact of the Company's activity. For more information, see the Company's annual environmental reports[45] and the Environment Chapter in this report, from page 35.

42. *For information on non-ionizing radiation, see the financial report for 2021 of IEC, Page 56. Section 9.10.2: https://www.iec.co.il/investors/DocLib1/meshulav1221.pdf*
43. *Summary of annual air monitoring findings in the monitoring stations of IEC: https://www.iec.co.il/environment/pages/airqualitymonitoringin.aspx*
44. *Air monitoring data in Israel, Ministry of Environmental Protection: https://www.svivaaqm.net/*
45. *Environmental reports of IEC: https://www.iec.co.il/environment/pages/environmentalreports.aspx*

Committed to Protecting Our Customers' Privacy in the Age of Information

Protecting information privacy

The Company makes sure to protect and prevent any harm to the customers' privacy, and that of its suppliers, employees, and prospective employees; and it follows the provisions of the Privacy Protection Law, 1981, and the regulations promulgated thereunder.

The Company has cyber security procedures, including a specific procedure on privacy protection, authorized by the Company's management, which addresses the variety of areas of responsibility for protecting individuals' privacy, while detailing the IT system protection and cyber system protection rules in the Telecommunications Unit (not including cyber warfare).
The procedure defines guidelines for appointment of different officers, including a personal information protection officer, who is responsible for implementation of the provisions of the law and regulations in the Company's databases. In addition, the Company has an information disclosure committee headed by the VP of ICT, which examines and approves disclosure of personal information from the Company's database to public entities outside the Company, or receipt of information from public entities.
Furthermore, the Company website contains a privacy policy that is available to users and sets out information about management of the information and details collected by the Company, including information collected automatically and how it is used. Customers who do not wish their personal information to be collected, sent or disclosed in any manner may remove their name from the digital service options. Every customer may review the information kept in the Company's database according to the Privacy Protection Law, and apply to the Company to correct or delete information if necessary.

The Company has network-wide protection of databases, an authorization management system, the user lifecycle is treated, authorizations are reviewed, there is a methodical risk survey process in place, and penetration tests are carried out for the relevant systems.

In 2020, a motion to certify a class action was received, dealing with an alleged severe security event during which confidential personal information of consumers was exposed as part of access to digital services on the Company's website. On April 28, 2021, a court decision was issued in the motion to authorize the settlement agreement.

Information security and cyber security

At IEC, as a national utility company, it is of utmost and strategic importance to manage the information security and cyber security system, since information security and cyber security incidents may lead to impairment of regular power supply in the country and a breach of various regulatory requirements.

The CEO of the Company is at the head of the Company's Head Steering Committee of Cyber Security, and he receives annual updates from the forum of vice presidents on the Israel Electric Corporation's data protection and cyber security robustness status. The VP of ICT, with the organizational CISO (the data protection manager) is the professional leader of all of the Company's data protection and cyber security operations. The Company's cybersecurity administration is subordinate to them, and it comprises members who hold the key positions in this area in all Company units. The Company is compliant with the regulator's instructions, in accordance with the work plan. In addition, periodic internal or external controls are conducted on information security subjects for the purpose of examining the manner of management thereof in the Company and maintaining continued proper work. Within the risk management and the enhancement of our ability to handle cyber incidents and data protection incidents, there is an operational order file for handling actual or suspected cyber events, and there is a business continuity plan for cyber and data protection events, that is updated annually. In addition, risk and information security surveys are conducted, in collaboration with external experts.

The work procedures are derived from the instructing regulator's cybersecurity and data protection method and from the Company's policies. The Company is also spearheading a plan to increase the Company employees' awareness of these issues, including training, educational software and information booklets, that state the proper channel for employees to make appeals and report of actual or suspected data protection or cyber events to the National Cyber Center. Every new employee in the Company is required to complete an online information security tutorial and sign an information security form.

In 2021, 384 training hours were held on the subject of information security, with the participation of 510 Company employees.

Advertising and marketing ethics

The purpose of the IEC's advertising and marketing activities is to provide the public with meaningful information about the electricity bill and the volume of electricity consumption, the electricity rate, including eligibility for lower electricity rates for special-needs populations (under law) electrical safety rules, special preparations required according to seasons of the year, efficient energy consumption recommendations, significant changes in the Company's operations, sustainability and environmental protection issues with value or significance for the public, etc.

> We believe that advertising that is not for the purpose of direct profit constitutes another means of dialog that allows us to maintain continuous contact with our customers, which include over 2.5 million households.

We make sure to target diverse audiences in all our marketing and advertising materials, maintain a gender balance, and use appropriate language that cannot be construed as offensive. In addition, in all advertisements and marketing material that we distribute to the public, we use clear and simple language, and avoid concealing messages in "small print".

In 2021, the Company did not receive any complaints or fines for non-compliance with laws and regulations from marketing communications aspects.

3

Human Capital at IEC

Corporate Sustainability Report 2021

Israel Electric

IEC employees are the Company's main asset and the main factor in its success, especially at a time when the Israeli electricity sector is undergoing comprehensive reform.

Due to the spirit, professional knowledge, and vision of our employees, we are able to reach significant achievements , and continue to provide a stable, safe, and reliable supply of electricity to all citizens of the State of Israel. Our commitment to the employees is reflected in mutual respect, open communication, and support for their personal and professional development, while cultivating a sense of pride, belonging, and organizational engagement.

Moreover, we promote a proper, safe employment environment, free of any form of harassment, while ensuring full compliance with the provisions of labor laws. The Company also uses the diverse means available to it to encourage occupational diversity, equal opportunity, and prevention of any type of discrimination.

11,103
employees

24% of senior management are women

24% of mid-level management are women

37% of first line management are women

30 training hours on average for each participant

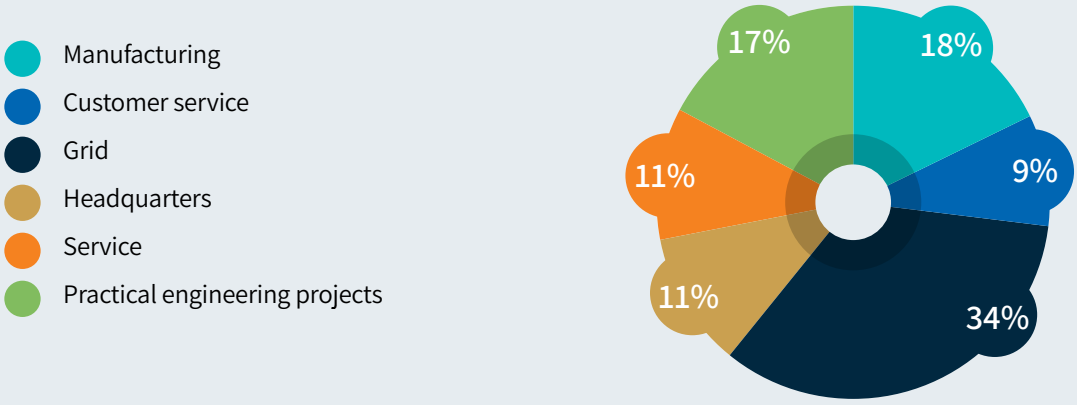
The average was calculated in respect of all participants in training (not in respect of the total number of employees); it includes employees that were counted more than once and who participated in a number of courses over the year

11% of the employment are from underemployed populations

0.42 rate of workplace accidents in 2021 compared with 0.48 in 2020

The accident rate refers to workplace accidents with casualties that occurred while performing the work. The rate is based on a multiplication of the number of accidents by 100 thousand hours, divided by the number of actual work hours of all employees

Graph 16: IEC employees by area of activity, in 2021



*1: Excluding 405 workers under special employment agreements and Excluding employees of the system management unit, who were not included in the report for 2021, in contrast to reports of IEC for previous years. Within the reform, these employees were transferred to the new government company, Noga Electrical System Management Ltd.

Terms of employment and employee unionization

The employment terms of IEC's employees are regulated under the Labor Charter for IEC Employees and under a set of collective agreements and arrangements. These agreements constitute a binding agreement in the Company for hiring or severance, employment terms, employment relations, rights and obligations of the parties. Under a special collective agreement signed between IEC, the Histadrut - the General Federation of Labor in Israel, and the national labor union of IEC, the employment term for temporary workers was limited to 4 years of work at the Company.

As of the end of 2021, 10,982 of the Company's employees (representing 98.9% of the employees) are unionized in collective agreements.

Relations between management and the labor union

IEC recognizes the labor union as a collective body that represents its employees in negotiations with the Company's management and considers it an integral and key partner in its success, with the relationship between the Company's management and the labor union being based on mutual trust, transparency, and open communication. Once every four years, elections are held for the organization's institutions; and the national workers' representation is elected, which is an entity representing the interests of all employees and retirees in the various fields before the Company's management. In general, the labor union is responsible for representing the employees before management, acts in favor of the employees and their family, and supports them throughout their personal and professional life in the Company as well as during retirement. Its main purpose is to protect the rights and obligations of the employee, negotiate wage agreements, arrange subsidized medical insurance that includes supplemental insurance and dental insurance, provide assistance by obtaining low-interest loans, produce community and volunteer activities for different types of communities, contribute financially to hospitals and various social organizations, take care of the Company's widows and widowers and their family, provide ongoing care for the needs of retirees, provide discounted and subsidized services to employees, such as vacations, shows, fun days, trips, marches for various purposes, arrange sports events to commemorate employees or their children, and more. When making organizational changes in employee-management relations, all changes are made, to the extent possible, while maintaining the employment terms of the Company's employees and within the framework of the labor constitution.

The labor union may announce a strike in accordance with the restrictions set out in the general legislation of the Settlement of Labor Disputes Law and the ruling on this issue. In 2021, a labor dispute was declared by the professional union division chairperson at the Histadrut General Federation of Labor in Israel, with regard to the reform signed in 2018. Pursuant to the labor dispute announcement, the main topics regarding which the labor dispute was declared are the promotion of new resolutions and regularizations in the electricity sector, as well as in all matters pertaining to the supply and distribution segment, which have implications for the rights of employees of the Company, including concerns over harm to their wage terms and job security; avoidance and delay by the Company in taking actions to implement the reform; and de-facto implementation of a new unilateral reform. The Company is working to resolve the disputes through talks with the employee union.

Promoting a diverse and inclusive workplace

As a national utility company, the Company's Board of Directors outlines a consistent policy for the promotion, hiring, and integration of employees from all walks of life in Israeli society and from all sections of the population, including underrepresented populations in the employment market. This, out of the Company's moral duty, its social responsibility, and the perception that integrating populations from diverse backgrounds increases creative thinking, improves output, contributes to a positive and open atmosphere, and expands the candidate pool for positions in the Company.

To implement this policy for the promotion of adequate representation among our employees, mechanisms and organizational processes that support diversity and inclusion were established. Since 2015, a senior officer has served as Diversity and Inclusion Officer in the IEC. His role is to establish diversity goals, lead adjustments in the work environment, and act to create a climate and culture of inclusion, so that each employee is given the opportunity to express themselves while maintaining human dignity and equal opportunity.

The Company’s managers and employees attend training, seminars, and study days on diversity and a multicultural work environment. In this framework:

- Hiring center employees are trained to hold interviews with candidates from diverse backgrounds, while paying attention to cultural biases. In addition, non-culturally biased compatibility tests were formulated.
- Lectures on IEC's diversity policy are conveyed as part orientation courses for new employees and in management development courses.
- The Get to Know Each Other initiative, in which employees from diverse backgrounds give lectures to all Company employees to create acquaintances, share success stories and challenges from everyday life, and promote dialogue between employees.
- In preparation for the annual performance appraisal, all managers employing people with disabilities are trained to hold effective feedback discussions with the relevant employees.

Initiatives to support diversity in the Company's workforce

The extensive diversity activity in the Company is performed through diversity officers in the units, in addition, a diversity steering committee was established. To promote the appropriate representation, we maintain partnerships with a variety of associations that are specifically dedicated to supporting underrepresented groups in the labor marketAnd we adapt the work environment to the needs of the diverse groups.

The calendar of holidays and vacations of the Company's employees includes holidays of different religions, and all employees have the option of choosing their vacations according to the holidays they wish to celebrate. The IEC gives the employees gifts for the holidays' which are tailored to the different needs of employees, such as special kosher certification customized to religious Jews and gifts boxes that include alternatives to wine for our Muslim employees. In addition, the Company collaborates closely with the gay community organizations, and conducting trainings for employees and managers on promoting a safe and accepting work environment . We implement employment models and give benefits adapted to the diverse range of families in Israel, /.
Messages of a multicultural and inclusive work environment are also integrated in the Company's external publications (in accordance with the provisions of the law applicable to the Company in this matter) as well as in publications in the inter-organizational communication channels.

Developing career paths for populations from diverse backgrounds

The second session of the training program in engineering professions for young people of Ethiopian descent and of the Bedouin sector began at the Company in early March 2021. The eighteen-month program, which was attended by 12 trainees of Ethiopian descent and 12 trainees from the Bedouin community, including one woman, is aimed at recruiting the graduates for core professions at the IEC. The IEC grants the students a scholarship, paid every three months. The Arab-speaking trainees of the Bedouin sector also attended a preparatory program on the subjects of Hebrew, mathematics, and English prior to the course; during their studies, all of the students receive mentoring and extra tutoring as needed. This is the first time the IEC has held a training program on this scale, in collaboration with the Bedouin community in southern Israel. The program promotes shared value, by fostering closer relationships with and strengthening the community, and supports the aim of reducing the incidence of illegal electrical connections in this region. The program also provides solutions to the challenge of recruiting employees in the technological professions in Israel.

Program in collaboration with the Profession for Life project

In 2021, as part of the partnership with the Profession for Life project operated by the IDF, 20 soldiers from diverse backgrounds will be included in preparation for their release, in the field of mechanical maintenance - which is considered a core profession at IEC. The program assists soldiers who are about to be released in acquiring a profession in demand, creates an employment outlook for them, and also entitles the participants to a vital work grant.

Collaboration with the Lamerhak * program that promotes employment for Israelis of Ethiopian descent

As part of the partnership, Israeli employees of Ethiopian descent are integrated into a variety of positions and core occupations in the Company, gain technical experience, and receive an opportunity to develop a career in a large Israeli company.

……

* *Lamerhak" is a phrase in Hebrew that means in the current context: for the long term"*

Orot Olim* program

The Orot Olim program, a joint initiative of the Ministry of Immigration and the Ministry of Labor, which the IEC and the Jewish Agency have mobilized to join, works to bring about the successful immigration and assimilation of electrical engineers and their families in Israel, while recruiting the engineers to work at the IEC. The immigrant employees enjoy occupational welfare and financial security, acquire the language, and receive trainings, which are valuable for their professional development and will serve them even if they subsequently choose to leave the Company and enter the labor market in Israel. In 2021, after working at the Company for two years, the employees signed a ”veteran temporary" employment contract, within which their terms of employment were modified. This change in terms, which is only possible subject to manager recommendation, is a testament to the successful assimilation of the engineers at the Company.

Age diversity – Recruitment program for employees over the age of 45

In 2021, working with partners specializing in finding candidates over the age of 45, we developed and expanded our relevant recruitment sources. This effort is a response to the difficulty faced by employees over the age of 45 in finding new roles, while also addressing the IEC's need for quality employees who are committed and experienced.



* *Orot Olim is a word play in Hebrew that means "Lights of Immigrants"*

Integrating people with disabilities into the IEC

Nitzan-Or * project - for integrating people with disabilities into IEC

IEC is one of Israel's leading employers of people with disabilities, and the issue is intertwined with the vision and the core values of the IEC . with routine hiring of people with disabilities into the Company and within the Nitzan Or program. The program has been operating in the Company since 2015, and its goal is to integrate employees with significant disabilities and at the same time - to bring about a change in perception and to serve as an example to all companies in Israel.

Locating the candidates for the Nitzan Or project is done with the help of associations specializing in the integration of people with disabilities into jobs; formulation of the job content and the training and mentoring program begin at the stage of candidate application. Suitable employees are integrated in a range of positions in the Company, each according to their skills and abilities, and throughout their working lives they are supported by a professional team from within the Company, along with guidance from expert organizations., We make physical adjustments in the working environment For these employees, and according to their needs, including renovation and accessibility of buildings, purchase of accessories and compatible clothing, and translation and transcription into sign language.

IEC employs approximately 400 employees with disabilities, including 300 employees with significant disabilities (a disability degree exceeding 40%) under the Nitzan Or project. Each year, 20 jobs are allocated for the program, in addition to NIS 1.5 million for adjustments in the work environment.

Managers employing people with disabilities participate in specialized training for screening and onboarding a person with a disability, optimal integration, feedback discussions and performance evaluation, adjustment of work routines, and more. Internal organizational surveys to assess the "impact" of the project on the business units in which people with disabilities were integrated show that following integration, there is consistent improvement in the performance of workers who were employed in the units for many years before the arrival of the Nitzan Or employees.

The Company aims to hire 40 employees with disabilities, so that by the end of 2023, these employees will represent 5% of the total number of employees in the Company. The focus is on hiring employees with significant disabilities (with a disability degree of 40% or more), including people with disabilities recognized by the defense forces, Paralympic athletes, and people with disabilities supported by associations and welfare agencies.

In addition to the Nitzan Or program, the Company employs another 160 people with disabilities who suffered serious injury or illness. After being found fit to return to work, they were rehabilitated as part of the job, underwent adapted training and, where necessary, were placed in new positions subject to a medical recommendation.

The Company has a unique program for integrating people with autism into the workshops. For optimal integration, we made safety adjustments to work equipment and machines to prevent life-threatening injury from equipment, appointed professional mentors who provide mediation and close professional and social support, and adapted work routines.

* *Nitzan-Or translation is: Bud of Light*

Table 24: A diverse workforce recuited in 2021

Diversity in IEC - 2021 in numbers:

Table 23: Employee Diversity & inclusion – segmentation by groups in 2021 and targets to 2023

No. of employees in the Company:		A multi-year target for the labor force for 2023:	Percentage of entire senior management:
People of Ethiopian descent	318 2.86%	2%	0
Ultra-Orthodox	149 1.34%	3%	0
Arabs	443 3.98%	5%	2.7%
People with disabilities	457 4.11%	5%	0
Employees over age 60	10.5%		27%

Table 24: A diverse workforce recuited in 2021

No. of employees hired by the Company this year:	Percentage of all employees in the Company:	
People of Ethiopian descent	17	3%
Ultra-Orthodox	10	2%
Arabs	31	6%
People with disabilities	24	4.7%
Employees over age 60	-	



Future measures and objectives

- Integration of 18 ultra-Orthodox women in a practical engineering training program. Further information on page, in the subsection, “Diversity and inclusion.”
- 20 managers selected for a mentoring program developed in collaboration with JDC Israel and the non-profit organization Equal Employment. Under the program, they will serve as mentors for people with disabilities when entering the workforce.
- Development of an inter-organizational mentoring program in which employees of the Arab sector at the Company are assigned a manager from one of the largest companies in Israel as a mentor, and managers at the IEC serve as mentors for employees at other organizations.
- Establishment of an organizational diversity forum for interaction and learning, conservation of accumulated organizational knowledge, and promotion of intra-organizational collaborations, to increase the diverse employment potential.

Excellence in promoting gender equality

First place in Human Resources Excellence Association competition for 2021, in the category Promotion of Women.

The first company to win the Na'amat certificate for organizations that promote equality

IEC placed integration and promotion of women on the public agenda, alongside maintaining gender equality, allowing equal opportunities for women and men. The measures for promoting women in the Company arises from our moral duty and from business justification, since it is clear to us that an organization that allocates resources to this area benefits from satisfied employees and promotes a better, more diverse, and healthier work environment.

Since 2017, the Company has a unit dedicated to gender equality in the Human Resources Division. The unit's vision is to create an organizational reality in which men and women face equal opportunities to realize their personal and professional potential. The gender equality unit aims to assimilate the issue in thought, organizational culture, and daily practice, and to formulate it as a business perception, with the promotion of gender equality serving as a lever to drive overall organizational change in IEC.
In this context, the gender equality officer strives to promote the issue in the Company in six main layers: formulation and application of policy, promotion of women to senior positions, organizational climate, integration of women into field and technology positions, promotion of employment flexibility, and integration into community projects to expand the spheres of influence.
In view of its extensive activity in this field and its creative, innovative thinking in the sphere of human resources, in 2021 the IEC won first place in the Human Resources Excellence competition organized annually by the non-profit organization Human Resources Israel, in the category Promotion of Women, among many of the leading companies in Israel. This year, the IEC was also awarded a certificate for organizations that promote equality by Na'amat, which examines companies in Israel based on their gender fairness in practice.

Gender equality in IEC - 2021 in numbers:

In IEC's Board of Directors, as of December 31, 2021, there were 11 members, including 3 women (27%). In comparison, on December 31, 2020, the Board of Directors comprised 13 members, of which 3 were women (22% women).

IEC employs 21% women and 79% men
(compared with 22% women in 2020).

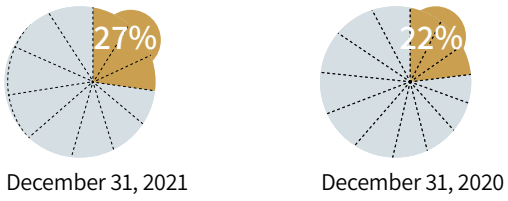
68% of the Company's female employees work in core professions
and in core support professions with a horizon for promotion, compared with 66% of female employees in 2020, an increase of 2%.

In 2021, 514 new employees were hired by the Company, of which 159 were women (31% of hirees, compared with 29.5% in 2020). For core occupations and core support occupations, 64 female workers were hired
(40% of all women hired, compared to 35% in 2020)

In 2021, 24% of senior managers were women

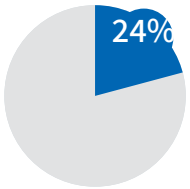
4 women were hired as senior executives at the Company in 2021

Graph 17: Percentage of women In IEC's Board of Directors

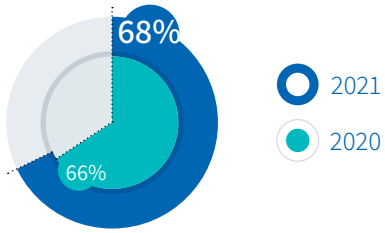


December 31, 2021 December 31, 2020

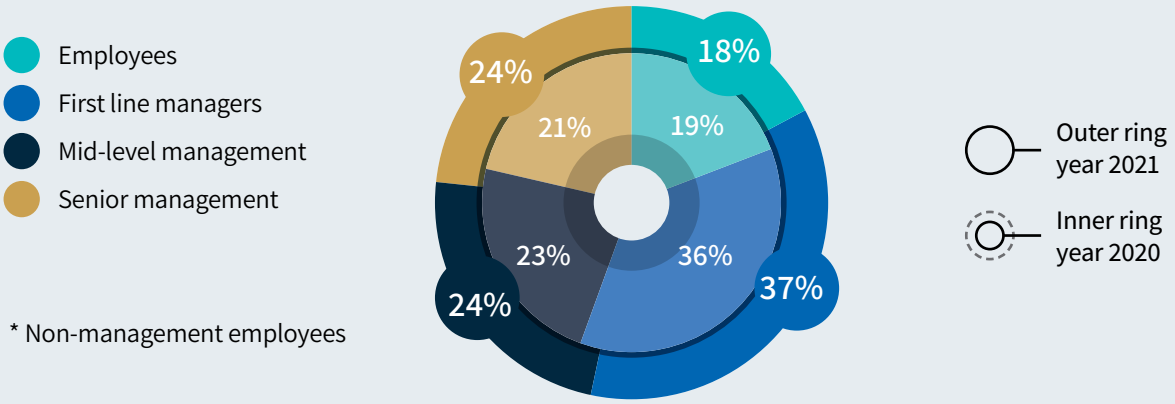
Graph 18: Percentage of women in the IEC



Graph 19: Percentage of women in core professions



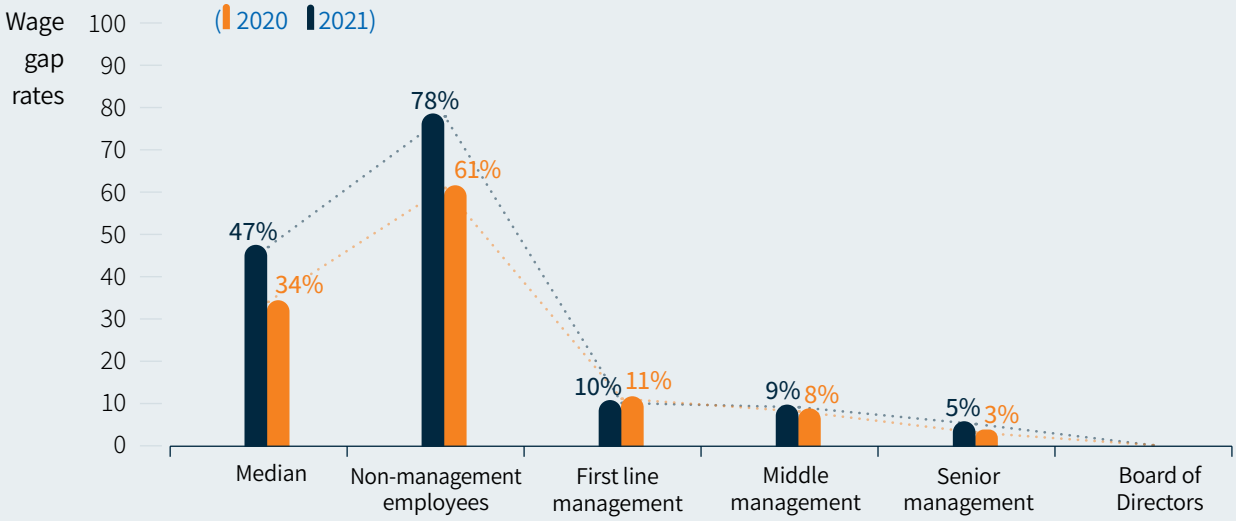
Graph20: Percentage of women at various ranks in the IEC, in 2020-2021



* Non-management employees

Comparison of average wages for men and women

Graph 21: The gap rates in the average wage of men compared to women in the various ranks



The chart above demonstrates the ratio of wages of men and women, according to rank. The average monthly wage ratio is calculated by dividing men's wages by women's wages and subtracting one, for each rank.

* The survey was performed on the gross salaries of approximately 10,300 of the Company's employees.
* The increase in the ratio of average wages of men to women in non-management roles from 2020 to 2021 resulted from the need for the Company to maintain operational continuity during the period of the coronavirus pandemic, while also protecting employees' health. Consequently, laborer groups (men) had to change their work schedules, and received special wage increments in return.
  Meanwhile, women continued working without scheduling changes, as most women workers are not in field positions; this was reflected in wages.
  In addition, more women than men were hired at the Company during this period to staff administrative positions (such as service representatives at the call centers); every new employee at the Company begins at a lower wage.

As a government company, the IEC pays equal basic wages based on rank to men and women workers. However, the wage gaps described above demonstrate a significant disparity, particularly among non-management employees. These disparities primarily derive from the nature of the positions involved at the core areas of the Company. Field workers and manual workers - most of whom are men - are also paid, by virtue of their position, in addition to the base salary - a salary increment for shift work and various payments for special jobs that include additional risk and field work.

In recognition of the importance of addressing wage gaps and promoting the representation of women at the IEC, the Company applied a series of measures in 2021 to provide both localized and lateral solutions to the issue of the representation of women at the Company.

Formulation and implementation of a policy encouraging representation of women

- Periodic reporting to senior management on processes and data on female representation; setting goals for female representation, and ongoing measurement of achieving goals.
- Gender-focused recruiting, including posting jobs on the Company's website in grammatically feminine language in Hebrew, which is a groundbreaking step in the market.
- Integrating the gender equality content in training courses as an orientation course for new employees, managerial development courses, and in an administrative management forum.
- Establishment of the role of a women's representative in tenders, as a formalized procedure, designed to reduce gender bias in tenders. When there is a woman candidate in a tender proceeding, the presence of a representative of the gender equality supervisor. Accordingly, the Company is working to find and train a group of potential representatives among its women employees.
- The issue of gender equality is defined as one of the Company's values in the Code of Ethics, and it is reflected in the activities of assimilating the ethical code.

Promoting women at management ranks

- In 2021, we carried out a process , in collaboration with the heads of the departments and the VPs, to identify and realize the existing potential for promoting women in the Company..
- Actively encouraging women to present their candidacy in tenders, including preparation for the tender, if necessary.

Dedicated training activities for women

- Leadership Produces Leadership program - a six-month mentoring program that aims to reinforce the female management backbone, promote personal development, create an organizational support network, and offer personal guidance for addressing challenges at work. Senior women managers within the organization provide guidance and mentoring to the women participating in the program.
- Focus on women's entrepreneurship – A women's entrepreneurship program, developed in collaboration with the Innovation Unit, brings together women employees of the IEC and women managers from other Israeli companies, to solve challenges in the areas of energy and electricity. The program was launched during Innovation Week held in IEC, at a Women's Entrepreneurship conference. The program is currently being implemented.

Integrating women in field and technology positions

- Gender-oriented service conditions – As part of the adaptation of working conditions, we created specially designed work pants for field workers who are pregnant. The pants have an elastic waistband and added side and rear pockets. The pants have passed all required safety tests.
- Targeted hiring for field and technology professions – Ongoing work of the Hiring Center with the division managements to expand hiring and representation of women in the various engineering professions, including electrical engineering, software, machinery, civil engineering, project management, architecture, safety, and more.
- Round-table meetings with women employees (at various management ranks) in the Network Division.
- As a career management move, women electrical engineers are encouraged to enroll in licensing courses and take external tests to become licensed electricians.

Creating an organizational climate and culture that promote gender equality

The IEC recognizes that supporting and promoting women is only part of the solution, and that to fully address this issue it must create an organizational climate and culture that promote gender equality. Building on this insight, the Company has applied a series of measures over the years, including the following:

- **Combating domestic violence** - For several years now, IEC has been running a special program that includes a framework for employees to address domestic violence, including identifying and assisting in cases of violence. In addition, on International Day for the Elimination of Violence against Women, the Company, led by the CEO, called on the leading companies in Israel to join a forum to lead action against domestic violence and published a video on the subject in the media [46].
- **Prevention of sexual harassment** - We work to secure a respectful, safe work environment that is free from any kind of harassment. During 2021, employees harmed by sexual harassment could discreetly contact any of the members of the regional sexual harassment committees. Starting in 2022, sexual harassment issues can also be addressed to the supervisor of gender equality, who was also appointed in charge of the prevention of sexual harassment. All complaints submitted to the supervisor of the prevention of sexual harassment at the Company in 2021 were investigated and addressed.
- **Marking gender-related dates and events** – Health Week, during Breast Cancer Awareness Month; International Women's Day; Family Day; the International Day for the Elimination of Violence Against Women; and more.
- **New families** – In 2020 a team dedicated to the promotion of equal opportunities, was established. Upon its establishment, the team dealt with adapting work procedures to the new family models. Currently, the team convenes as needed. In addition, the IEC labor union grants NIS 30,000 to same-sex families who are in the process of surrogacy.

Promoting occupational flexibility and work-life balance

We, at the IEC, believe that work-life balance is an essential component of employee well-being and a contributing factor to an equitable workplace for men and women.

- We have officially defined one day a week as a shorter working day.
- We allow a gradual return from parental leave, for parents who wish to do so.
- The Company participates in daycare costs for employees' children and runs programs for employees' children during school holidays.

46. *The forum of companies will act to provide social benefits and explanatory content to victims of domestic violence, while striving to change government policy and provide financial assistance to women in need.*

A series of processes were conducted at the Company in 2021 to improve work-life balance:

Pilot project for gradual return to work after parental leave

An experimental program was introduced in 2021 allowing employees a gradual return to work after parental leave, offering a softer landing at work and allowing parents the opportunity to enjoy time with their newborns. At the same time, they can continue earning and realizing their employment potential according to a specially developed model. At the end of 2021, following a lessons-learned process applied to the pilot project, the decision was made to extend the program by six additional months. After the extension period, during the writing of this report, the VP of Human Resources approved the implementation of the program starting from June 1st 2022.

The first day of school year

A decision has been made to allow all employees who wish to do so to begin working later than usual on September 1st , the first day of the school year in Israel. Accordingly, the Human Resources Division instructed relevant parties to refrain from scheduling meetings, talks, or department events earlier than 10:00 AM on that date.

The Zoom platform

During 2021 we held a series of events via Zoom meetings, and evening lectures for the Company's employees and retirees, as well as their families, on topics identified as interesting to the employees and relevant to their lives.

#Four_o'clock_dads campaign

In 2021, the IEC participated, with other leading Israeli companies, in a campaign on the occasion of Family Day, initiated and led by the Civil Service Commission. The campaign was designed to raise awareness of balance between work and family life among men, promote acceptance of men leaving work early to spend time with their families, and encourage workplaces to adopt family-friendly policies and create a culture allowing balance for all households. As part of the campaign, companies signed a compact for family-supporting organizations.
The IEC also held a series of community initiatives to expand its sphere of influence in the areas of gender and inclusion of women, aimed at empowering women and girls and promoting gender equality at various levels and fields. In this context, we participated in online hackathons, conferences, conventions, and round tables, lectures in academic institutions, we were integrated in technology education programs for girls, activities with the Tsofen* organization and more.

Promoting a hybrid work model

While coping with the challenges of work during the Covid-19 era, the Company identified a need and desire to formulate a more flexible model of work, encompassing a combination of work on Company premises with work from home. The Company established an organization-wide team to develop a hybrid work model. In 2021, talks were held with the employee union and the Commissioner of Wages to obtain final approval for the developed model. During the writing of this report, on May 1st 2022, an agreement took effect that allows employees in amenable roles to work from home two days a week, as they resume routine work after the period of the coronavirus pandemic.

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* *Tsofen is a non-profit organization, founded in 2008 by Jewish and Arab hi-tech professionals and economists who aspired to develop the hi-tech sector in the Arab community as an economic lever and catalyst for shared society in Israel*



Future measures and objectives

- We will continue to integrate a study unit on Gender Equality in management courses in the Company.
- Continued refresher courses for the team of women representatives in tenders.
- Opening professional courses on electricity targeted to women, aimed at hiring trainees who graduate successfully, as IEC employees:
  - A training program targeted to ultra-Orthodox women will open at the Mercaz Chareidi Institute of Technology in Jerusalem, with 18 women participating in a course on practical electrical engineering. After completing the program, the trainees are expected to be hired at the IEC for professional positions suitable for the ultra-Orthodox sector (March 2022).
  - A practical electrical engineering course for women, in collaboration with the non-profit organization Atidim and ORT Braude (October 2022).
- Recruitment of women for core and field positions, including a pilot project in 2022, in collaboration with the IDF Homefront Command, for hiring newly discharged women combat soldiers for network jobs.
- The Tnufa women's empowerment course, opening in June 2022, is designed to help women at various ranks and experience levels realize their individual and professional potential. The course is the outcome of a collaboration between the Gender Equality Unit and the Organizational Development Unit at the Company.
- Launch of a support workshop on work-life balance for employees who are fathers of young children.
- We will strive to achieve the goal of strengthening the women executive tier and raising the percentage of women in management roles – The Company has set a target of 25% women in management roles by 2025 (inclusive).



Safety and hygiene as a top organizational priority

IEC regards occupational safety and health as a supreme value and an essential measure of its success.

Accordingly, it regularly develops and revises its safety plans and works to promote and assimilate the safety culture in the Company. As part of the effort to make safety a top priority for the Company, safety has been established as a lateral metric for the Company's compensation policy.

6,300 employees attended safety training
(90% of total workers required to attend)*

4 hours of safety training per employee on average

6,697 visits by safety supervisors
in the various sites

1,462 near-miss incidents in the Company
(305% compliance with the annual target)

15% increase in the number of reports
compared with 2020

Safety activities with approximately 900 contractors

IEC's Occupational Safety, Hygiene, and Health Policy, which was signed in 2017' expresses the management's commitment, led by the CEO, to safety, and constitutes a framework under which the goals of the Company's safety management program are determined, while focusing on two approaches:

1) Proactive-preventative approach: A structured and systematic risk management process and encouragement of a reporting culture, to reduce organizational and the individual risks of accidents . As a result of this approach, management is required to create conditions that will prevent accidents, and at the same time, employees are required to act with personal responsibility.
2) Reactive approach: Carrying out in-depth investigations of safety incidents, workplace accidents, and occupational diseases, with the aim of drawing cross-organizational conclusions and taking corrective action.

Short-term CEO goals and long-term strategic safety goals were established for the first time at IEC in late 2020. The goals include:

- To aspire to zero road accidents and workplace accidents in the Company
- To attain the targets for reduction of the number of accidents each year (95% of the five-year average of the safety metrics)
- To assimilate a proactive safety culture.

Safety management in the Company under company policy and the CEO's targets is derived from relevant laws, regulations, procedures, and guidelines to which the Company is committed in order to maintain occupational safety and health. Towards the end of 2020, two new Company procedures came into effect, defining the function of safety and hygiene at IEC and describing the role of the safety supervisor.

- The Safety Organization and Safety Management Plan Preparation Procedure, which consolidates three older procedures: 10-07-03, "Activity of Safety Committees"; 10-07-04, "Safety Trustees"; and 10-07-01, "Activity of the Head Safety Committee."
- The Management of Risks at Work (Safety and Hygiene) Procedure, currently being implemented at the Production Division, and planned to apply to all divisions of the Company.
- The Safety Unit operates in accordance with the safety plan and policy, "Safety Management Method," which is implemented at all levels of the Company.

In addition, certification of the Logistics and Assets Division and the Engineering Projects Division for an integrated management system, including the standard for an occupational safety and health management system (ISO 45001), was completed in 2021.

(For further reading regarding the adoption of ISO standards, see the Environment chapter of this report, page 40).
Internal safety instructions and procedures formulated by the Company, such as:

- The Safety Organization and Safety Management Plan Preparation ProcedureSafety instructions for work with switchgears at district power plants and substations, for all types of voltage levels
- Safety instructions for manual handling
- Safety procedures for work with hazardous materials
- Safety procedures for operation, maintenance, and transportation of materials
- Safety procedures for transportation/storage of materials
- Safety procedures for work at the Company's power plants and facilities
- Occupational hygiene

Safety control system

Safety committees

Within its safety control system, the IEC operates several committees of different compositions for monitoring, developing, and maintaining safety and safety culture at the IEC. The committees meet several times a year; their activity is described in the section, "Safety data," on page 125 .

Head Safety Committee

- The committee is common to the Company's management and members of the labor union secretariat

Function of the committee:

- Establishes policy; delineates implementation methods
- Monitors execution
- Coordinates the work of all safety committees

On-site safety committees at the various sites

- Joint committees for employees of the site or unit (with representation of management and the employee union)
- Operating under the Labor Inspection Organization Law
- Engaged in safety issues in the units and sites under their purview

Central technical committees

- Joint committees of professional functions from all divisions of the Company, with representatives of the Safety Unit
- Developing, revising, and distributing occupational safety instructions in all areas of activity at the Company
- Composed of relevant professional parties and members of the safety unit who coordinate them.
- Create ad-hoc work teams for implementation

Disciplinary committees

- Disciplinary committees are established in accordance with Company Procedure 10-03-01 (Addressing Cases of Violation of Occupational Safety Regulations) or following an investigation committee.

In addition to the safety committees, IEC has a performance monitoring and measurement system for occupational exposure of employees to hazardous material through various tests, including personal sampling, area and surface sampling, in five stages:

1) Recognition and identification of risk in the work environment - identification of the hazardous material and its separation from other materials in the workplace. Identification is made through knowledge of the different production and work processes, as well as familiarity with the source of the hazard in the processes - raw materials, end products, and complaints of workers about nuisances.

2) Knowledge of the potential risk - knowledge of the properties of the hazardous material, its toxicity, physical condition in the air, how it penetrates the human body, the effect of the process on dispersion of the material in the environment, and the possibility of interaction between the material and other materials.

3) Environmental monitoring - measuring the concentration of the material in the air.

4) Biological monitoring - a system for measurement and control of materials in body fluids and tissue.

5) Exposure assessment - weighting of all data, including conditions that increase or decrease the intensity of exposure (such as physical exertion, exposure to several hazards simultaneously, and environmental conditions).

There is also a set of environmental-occupational tests that include preliminary surveys and monitoring of hazardous materials to measure their concentration in the air. The tests are performed at the frequency and in the scope prescribed by law, by a surveyor from a certified laboratory for environmental-occupational tests.

Safety indicators

To monitor and manage the attainment of CEO targets in the area of safety, the Company has established a series of objectives and indicators [47], measured on a quarterly and annual basis. The Company's key indicators:

- Accident rate (number of accidents per 100,000 hours)
- Average severity of accidents
- Average number of days of absence following an accident
- Lost hours or working days

In addition, personal safety targets were set for employees of the Company, for reporting at least five times as many near-miss events as the number of accidents in the preceding year (reporting using a dedicated safety management system application), safety risk management tasks, and remedying findings of safety inspections.

Safety supervisors and trustees

IEC has safety trustees and safety supervisors at the Company's sites. 700 safety officers hold letters of appointment from the safety committees, and 23 safety supervisors hold letters of appointment from the Ministry of Labor (under the provisions of the Labor Inspection Organization Law, 1954). Safety supervisors, who are required to attend eight training days each year, perform their duties in accordance with 19 sections of the Labor Inspection Organization Law. In order to maintain a high level of safety among the Company's employees, the trustees visit on a regular basis the various sites of the Company, in aim to identify and quickly remedy safety deficiencies. The inspections, which are performed based on an annual work plan, examine aspects of the work environment, the use of tools and equipment, personal protective equipment, work processes, hazardous materials, signage, risk management, training for Company employees and contractors, monitoring of medical examinations and environmental testing, and more. The resolution of deficiencies is also monitored continuously, including automatic alerts for managers according to the schedule established for resolution, through a safety management IT system.

These reviews raise two types of findings:

- Findings for improvement: risks and detection of hazards in the work environment, unsafe conduct, and violation of safety instructions by employees.
- Findings for preservation: safe conduct, environmental protection, and proper work processes.

In 2021, safety supervisors held 6,697 visits at various sites and identified 4,147 findings for improvement, as well as 14,993 findings for retention. Following that, 96% of the findings and deficiencies identified were addressed.

Labor Inspection Organization Regulations (Safety Management Program), 2013 require the implementation of a system-wide proactive program for occupational safety management.
In 2021, 36 safety management programs were prepared and signed in the different departments/divisions of the Company.

47. *Targets are based on the average performance for each indicator in the preceding 5 years, with the aim of meeting the target of 95% ("good level") of the five-year average of the index. The targets weight the number of accidents against the number of work hours, the number of safety supervisors per 100 employees, and the percentage of safety officers.*

Safety training

In 2021, approximately 7,000 employees were required to participate in safety training, of which 6,300 actually participated in training (90% of total employees required to participate in training), with an average of 4 training hours per employee. Training for employees and contractors was conducted in 2021 through in-person instruction and online tools, including video calls via Zoom and safety tutorials prepared by the Safety Unit and the Training School at the Company (including tutorials on the proper use of hazardous materials, safety tutorials for employees at the production divisions and in network services, and dedicated tutorials for units of the Engineering Projects Division).

Initiatives to uphold safety at IEC

1. Program for to mitigate safety risk

Since 2020, a comprehensive plan has been in place to reduce overall safety risk at the Company. the plan was approved by the head safety committee, in the presence of the CEO. The risk-management work plan was updated in 2021, with the aim of changing the perception of safety at the Company and instilling an approach based on the following principles:

- The data and digitization function - to streamline and improve reporting, monitoring, collection of information, and analysis in a way that allows rapid drawing of conclusions.
- Risk control based on the principle of "reduction to an acceptable level" - an acceptable level is based on: the requirements of the law, a balance between the possible damage and the expected benefit, social norms and organizational culture, the cost of mitigating risk, and prioritizing risks.
- The perception of safety as an essential component of business activity - through cost savings, work efficiency, and reduction of damage and wear and tear of equipment.
- System-wide approach - centralized and uniform management of the subject for all divisions in the Company, while combining leadership, principles of a learning organization, continuity and repetition, transparency, and increased awareness.

2. Encouraging a culture of safety excellence

To reinforce the Company's safety culture, reduce and prevent workplace accidents, and to encourage safety excellence on both the personal and organizational level, an annual award is granted to departments excelling in safety. The choice is made following an in-depth assessment of proactive and reactive safety indexes and weighting of data from the preceding five years for the various departments. In 2021, the first-place CEO safety trophy was awarded to the regional Production, Engineering, and Maintenance unit in the Production and Energy Division. The VP safety trophy was awarded to second- and third-place winners: the Transformation Projects unit and the Network Engineering unit, respectively. Appreciation ceremonies were also held in 2021 for hundreds of safety trustees from all divisions of the Company, within the safety committees.

3. Sharing and expanding knowledge among employees

The Safety Unit led a large-scale publicity campaign in 2021 to raise awareness of safety and help change behaviors among employees and managers of the Company. The Company aspires for this ongoing interactive campaign, made accessible through a wide range of communication channels, to contribute to the achievement of its safety goals, including reduced harm to employees from work accidents and safety incidents, and improvement of the associated business benefits.

The campaign is accompanied by a plan for biannual measurement and feedback through surveys of employees and managers, and periodic examination of the effect on key safety indicators at the Company.
An interim survey of approximately 1,200 employees was conducted in late 2021. Findings of the survey were measured against the survey conducted prior to the campaign, in April 2021. Notable findings of the interim survey:

- Stronger connection between safety and professionalism – Increased link between professionalism and safety (79%, versus 74% in the preliminary survey).
- Improved safety behavior – Greater diligence in the use of mechanical engineering equipment. Decreased reports of employees who do not diligently use mechanical engineering equipment, from 29% to 24%.
- Decreased rate of participation in safety meetings – The interim survey found that the rate of participation in safety meetings had decreased by approximately 10%. The reasons for the decrease will be investigated in greater depth later in the campaign.

To raise awareness of various safety topics, Be Safe leaflets are displayed on bulletin boards and sent by e-mail, and a range of intra-organizational events are conducted.

4. Near-miss reports

Near-miss reports are an important part of the safety culture and in prevention of workplace accidents. These reports are divided into two types - reports on hazards and reports of deficiencies in the work process. IEC strives to increase the number of work process deficiency reports, with the aim of improving and enhancing work guidelines and safety procedures, thus systematically and consistently raising the safety level. The Company's management encourages near-miss reports, and the Head Safety Committee also set a target for 2021 - a ratio of 1:5 : at least 5 near-miss reports are required in 2021, compared with each accident that occurred in 2020.
In 2021, 1,462 near-miss incidents were reported in the Company (305% compliance with the annual target) and there was also an increase of 15% in the number of reports compared with 2020. 1,271 of the reports addressed hazards, and 191 addressed deficiencies in the work process.

Occupational safety project for subcontractors

As part of the reform of the electricity sector and the restructuring arising from it, we implement numerous construction, infrastructure, and operation projects. The execution of these projects involves a range of functions, both IEC employees and contractors, and brings together a wide variety of infrastructures, tools, methods, and work processes. The complexity of the projects and the range of functions involved in execution lead to significant safety risks and require extensive preparation by all of the parties. This preparedness is reflected in safety programs that are an integral part of the work plan in each project. In 2021, we performed safety operations with more than 900 contractors.

When working with contract workers, there are two significant safety risks:

1) Safety culture gap - Due to the nature of the project work, the contract worker is usually a temporary worker who is unfamiliar with IEC's safety culture and requirements.

2) Partial or poor communication - When working on large projects with the participation of many entities, safety incidents sometimes occur due to deficient coordination between the contract workers and other implementing and supervisory entities.

To address the increase in agreements with external contract workers and the numerous complex construction and operational projects, the safety unit implemented several significant changes:

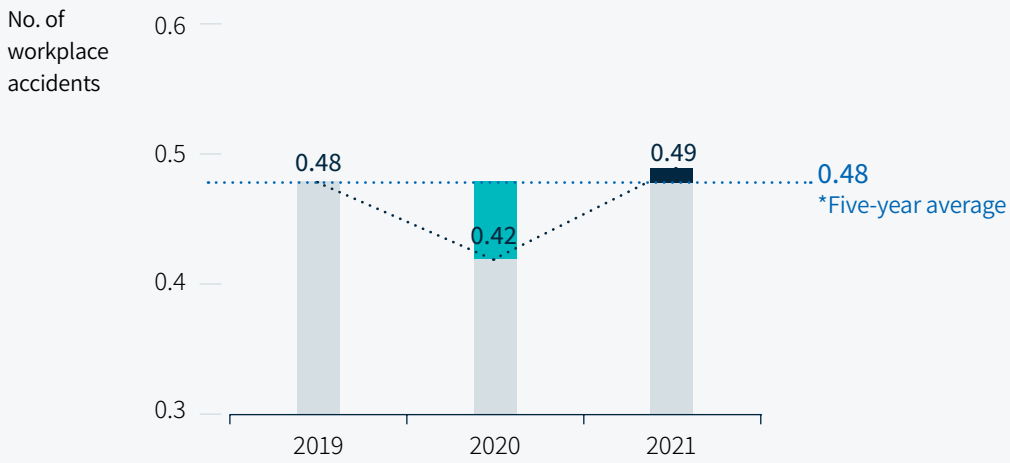
- Reporting to the Procurement Division on contractors according to their safety history - In coordination with the Procurement Division, contract workers are identified according to safety incidents in which the contract worker had been involved.
- Requirement for a structured safety appendix in the contract worker's performance specification - The contract workers' safety program must be included in the performance specification, to assimilate and reinforce their commitment to work under safety procedures.
- Improved contract worker training - The entry of contractors and their employees to the Company's sites is subject to safety training by the Company's safety supervisor, most of which is conducted remotely, online.

100% of relevant IEC suppliers and subcontractors attended safety training in 2021.

In 2021, there were 41 injuries of subcontractor employees at IEC sites, and two workers were killed in two lethal accidents. One lethal injury occurred in May 2021, during renovation work, when during the opening of a scaffolding part pipeline safeguard, scaffolding parts fell onto a subcontractor worker; another injury occurred in December 2021, when a subcontractor worker fell from height. Both incidents are under investigation by the police.

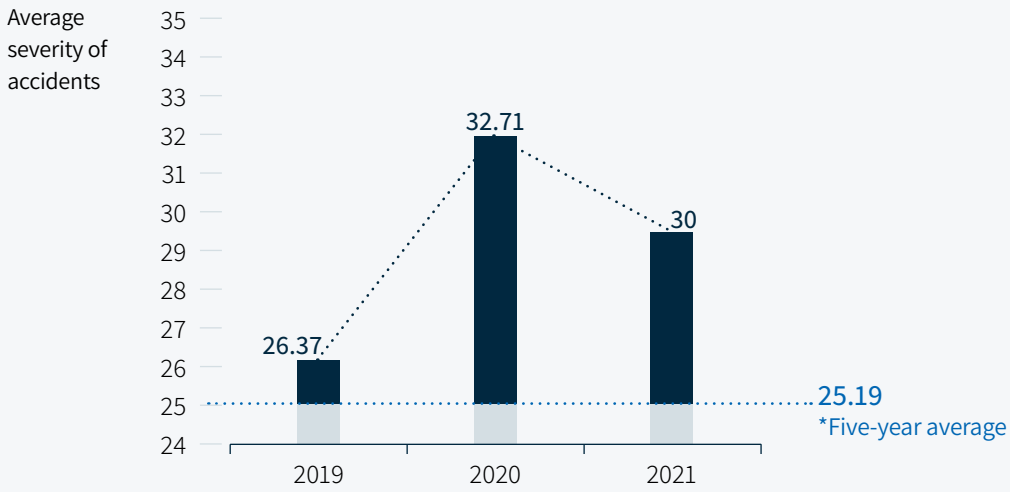
Additional safety data for 2021

Graph 22: Rate of workplace accidents (number of accidents per 100,000 hours)



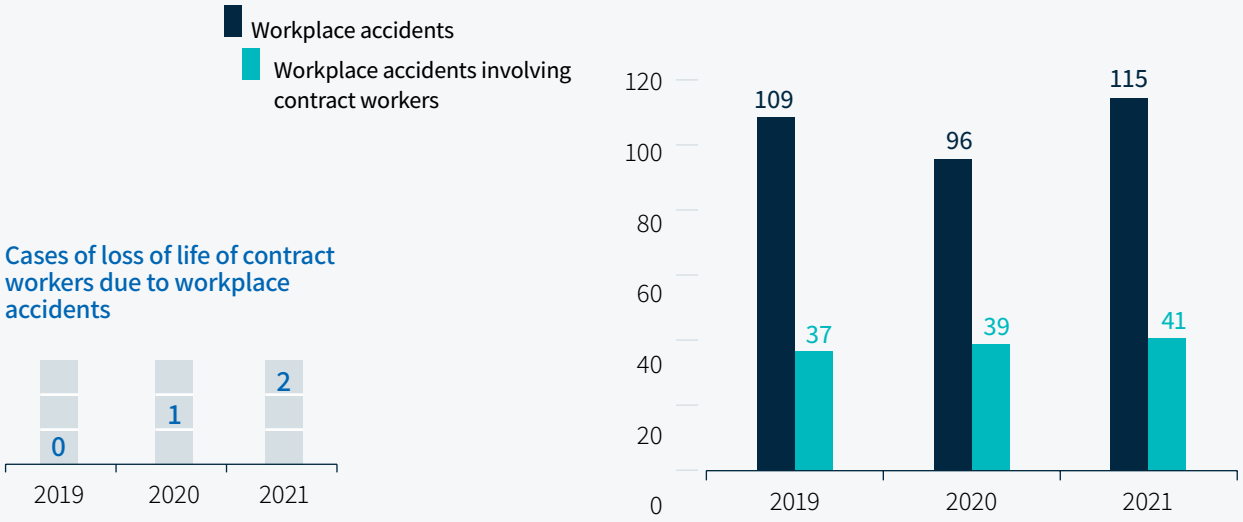
Graph 23: Severity of work accidents

The severity of accidents is based on the number of accident-related absence days



* The five-year average is presented since targets are based on the average performance for each indicator in the preceding 5 years, with the aim of meeting the target of 95% ("good level") of the five-year average of the index. The targets weight the number of accidents against the number of work hours, the number of safety supervisors per 100 employees, and the percentage of safety officers.

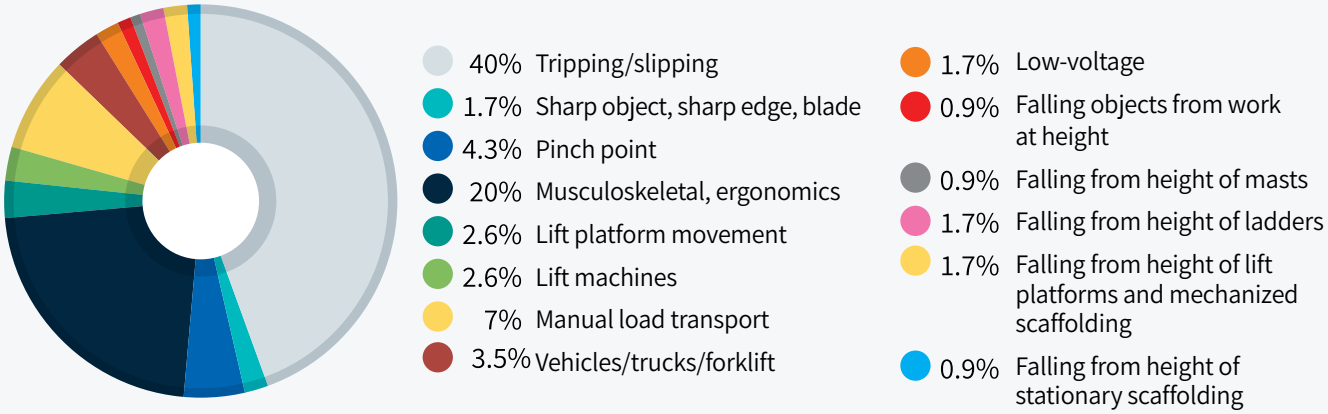
Graph 24: Number of work accidents



Cases of loss of life of contract workers due to workplace accidents

The number of work accidents of employees increased in 2021 compared with 2020; there were 596 safety incidents, of which 115 resulting in the absence of an employee for at least one day beyond the day of the accident. Concurrently, there was a negligible increase in accidents of contract workers. At the same time, the severity of the work accidents that occurred decreased.

Graph 25: Segmentation of types of accidents in 2021 – material risk factors



No. of employees who received safety training

2020	2021
7,326	6,300

Table 6: Safety training for employees

Head Safety Committee	Committee members: members of the Company's management and members of the labor union	
	Areas of responsibility: making decisions regarding IEC's safety policy. The committee outlines the methods for implementation, performance, and improvement of the safety policy, and coordinates the work of the safety committees of all sites.	
	In 2021, the Committee held three meetings, in which decisions were made to position employee safety as a top priority and to reinforce the commitment of the Company's management to the issue.	
On-site safety committees (18 committees in total)	Committee members: employees of the site/unit (management and labor union)	
	Areas of responsibility: site/division safety committees operating under the Labor Inspection Organization Law. The committee is required to hold at least eight meetings every year, on safety issues in the units and sites within its area of responsibility.	
	In 2021, each committee convened 8 times.	
Central technical committee (10 committees in total)	Committee members: professional entities from all the Company's divisions and representatives from the safety unit	
	Areas of responsibility: developing, revising, and distributing occupational safety instructions in all areas of the Company's business. The committees are composed of professional entities from all divisions, alongside the members of the safety unit who coordinate them. Each committee convenes several times a year, and the decisions and routine work are usually implemented by local ad-hoc sub-teams for each task.	
	Each of the technical committees convenes several times a year.	
Disciplinary committees	Disciplinary committees are established in accordance with Company Procedure 10-03-01 (Addressing Cases of Violation of Occupational Safety Regulations) or following an investigation committee.	
	In 2021, 30 disciplinary committee meetings were held for violations of safety regulations or unsafe conduct at work.	

Partners in the committee | Responsibilities of the committee

Occupational hygiene and medicine

Occupational hygiene addresses maintaining and promoting the physical, mental, and social wellness of the person in the workplace, by maintaining an adequate work environment, combined with healthcare supervision and social welfare conditions.[48]

Occupational medicine addresses the recognition and evaluation of the medical aspect of occupational risk factors, recommendations for preventing exposure of employees to these risk factors, periodic medical follow-up of employees exposed to occupational risk factors, diagnosis of occupational diseases, recommendations for placement of employees in a job compatible with their medical condition, and recommendations for rehabilitation of employees in a job in the event of an illness restricting them.

IEC uses different kinds of tools, machines and materials, and employees engage in diverse operations under variable working conditions. At the workplace, employees may be exposed to hazardous materials, and to maintain their health and a proper work environment, the Company takes steps to predict, recognize, evaluate, and control these hazards by implementing a set of environmental-occupational monitoring tests (biological and environmental monitoring), based on three levels of prevention:

1. Environmental control - performing preliminary surveys and environmental monitoring of hazardous materials in the air and comparing them to exposure levels/ standards.

2. Biological control - performing blood tests and other medical tests for employees, and comparing them with biological exposure markers.

3. Level of healthcare supervision - periodic appointments with the occupational physician for tests. The Company also acts to prevent and reduce exposure to hazardous materials, by using materials that are more user-friendly or using equipment and work methods that reduce the exposure of employees to hazardous materials

Within the management of safety and health risks, following a finding of failure to report medical testing of employees for harmful factors, in 2021 a decision was made to raise the risk level of safety and health risk at the Company to high, based on data on employee exposure, in accordance with the work plan pursuant to the Occupational Hygiene Procedure.

48. *Occupational hygiene activity is set in Company Procedure 10-08-01, Occupational Hygiene.*

Committed to employees' well-being and health

Employee wellbeing

The Company invests extensive resources in the well-being of its employees, who are entitled to a range of benefits and employment terms, including meals, subsidized health insurance, higher minimum wage, a study fund, support for life events, and more. These benefits are anchored in the collective agreements and apply to all employees, if they have accumulated the conditions for their receipt - including the date they started work and actual working days.[49]

In addition, the Occupational Welfare Department in the IEC staffed by welfare and social workers located at the company's sites throughout the country, and provides a full social response to all Company employees and to the 8,000 retirees and families of deceased IEC employees.

"We care about people" is a core value for the national Occupational Well-being Department.

The department provides guidance, support, and assistance to IEC employees and their families, retired employees, and relatives of deceased employees, in times of stress and crisis such as occupational, health-related, or mental distress, mourning, illness, divorce, dismissal, and retirement. . The department's employees are also responsible for providing opinions in cases of employees who request benefits for humanitarian reasons and early retirement due to personal, health, and/or family problems.

In addition, the department initiates diverse projects in response to needs arising from the "field", such as a framework for employees caring for family members (caregivers), a community for parents of children with special needs, and more. For the Company's retirees, the department initiated the Lend and Ear project, in which retirees regularly contact older retirees, take an interest in their wellbeing and update the welfare department on their requirements when needed. The department operates in close contact and full cooperation with social organizations, and refers employees, retirees and/or their family members for further care in the community as relevant. In recent years, the Well-being Department has also led a project for the prevention of domestic violence, which has been implemented at all units of the Company.

At the outbreak of the coronavirus pandemic, the work model at the department changed, with regular home visits by the Well-being Department transitioning to online and/or telephone form. The Company's employees and retirees may contact representatives of the Welfare Department through telephone, text messages, e-mail, and suggestion box, and they are routinely informed of any changes in means of contact the department.

49. *The benefits do not apply to contract workers where the agreement is not anchored in the collective agreements.*

Our responsiblity for keeping our employees healthy

IEC management accords great importance to employee health. The IEC therefore works to develop organizational infrastructures and instill an organizational culture in which health-promoting activity is interwoven into employees' daily routines. Accordingly, the health officer holds constant dialogue with the Company's managers to locate opportunities during the workday that can be used for health activities.
In addition, twenty "health promoters" were trained and placed in the Company's various sites in order to reach all the employees, engage them and raise awareness of corporate activities, andto encourage them to a healthy lifestyle . The health promoters initiate and lead local health and fitness activities, and assist in the implementation of cross-organizational activities. The activities are publicized via intra-organizational communication channels: bulletin boards at the various sites, ,corporate intranet portal, and email.

Activities to promote health take place in a number of main areas:

Encouraging movement

One of the main challenges we address is prolonged sitting and immobility throughout the day, since a direct link was found between prolonged sitting and the development of chronic diseases. We hold a range of events and activities to encourage movement during the working day, including an annual Walking Day, a traditional staircase race over the 27 floors of the at the Company's headquarters building in Haifa, , a race for Company employees at the IEC training center in the city of Hadera, encouraging employees to take walks collectively, a step-count contest over the course of a month, using a dedicated app, and more. To raise awareness of the importance of physical activity, administrative offices and stairways at the headquarters building as well as some sites were branded with signs encouraging employees to use the stairs.
With the assistance of an external supplier, we developed the Employees On the Move app, which encourages movement and healthy lifestyles, and provides reminders during the workday to get up, stretch, and drink water. The app can be used to register for classes and activities and offers content such as optimal organization of the work environment, short exercises that can be implemented during the workday, online sports lessons, lectures, podcasts, and more. For employees who are interested, personal ergonomic advice is offered through the app for organizing the work environment at home and in the office, as well as lectures on the subject.
In addition to activities and tools integrated into the workday, we hold hybrid-format long-distance running groups, where runners attend a weekly lesson online and meet twice a month to run together. In addition, our employees participate in IEC's representative sports teams and employees' leagues in various branches, through the labor union.

To encourage commuting by bicycle, thereby promoting energy savings along with sports activity, we have installed bicycle racks and showers at various sites.

Preventing illness and promoting health

The main activity in disease prevention is survey tests that we subsidize for every employee aged 40 and above, with a small deductible. The rate of utilization of this benefit doubled in 2021, to approximately 20% of eligible employees. This resulted from substantial modifications we made that encouraged the utilization of the benefit that changed employees' behavior and increased utilization of the benefit – such as:

- Approval of paid absence hours for the purpose of the tests, whereas in the past the absence was at the employee's expense.
- Activities and lectures to encourage testing.
- Expending the range and number of suppliers.

In addition, Health Month was held in online form in 2021; during that month, various activities were held during work hours and in the evenings, and a wide range of lectures and enrichment workshops on health and well-being topics was offered. For example: preventive medicine and the importance of early detection, managing a balanced lifestyle, quality sleep, and stress reduction and more. Since there is a direct correlation between volunteering and health and extending life expectancy, in Health Month we also included the Volunteering Challenge with the message that volunteering itself contributes to the volunteer's health.

The Company also marked Breast Cancer Awareness Month with various online activities, including production of a video featuring Company employees who had coped with the disease, and organization of mammogram testing days, in collaboration with health-maintenance organizations (HMOs), for employees and for employees' spouses.

To promote skin cancer prevention and awareness, we held centralized testing days for diagnosis of moles by dermatologists, and publicized the importance of prevention and sun protection. In 2021, we focused on employees in the Network Services Division, who spend long hours working outdoors.

Proper nutrition

In the Company's dining rooms, emphasis is placed on a healthy menu, and the contracts with our catering services suppliers are drawn up with the assistance of nutritionists. In addition, there is outside culinary supervision of the dining rooms, including the kitchen, raw materials, and the quality of the meals. We ensure that employees are offered the option of a rich vegan meal each day. In food arrangements for outside workers who are entitled to this, special emphasis is placed on the inclusion of healthy options.

In addition, to raise awareness of the issue, we offer lectures in various frameworks on the importance of a healthy diet and its role in disease prevention.

Heftziba - The national IEC training campus - a health-promoting site

National Training Campus - Electricity, Energy, and the Environment, which also serves as a leadership training center, was declared as a health promoting site.

A series of processes to promote health and movement have been carried out at the site, where employees come for professional trainings that last from several days to weeks. :

- Walking track was paved and signposted.
- Inviting Fitness Park was built, adapted for various levels of activity.
- We have maintained training routines for employees include such as lectures on nutrition and exercise classes.

This year, the Heftziba 1 Race was held in the site for the first time, to showcase the new emerging lifestyle culture and the current and forthcoming athletes. Employees from across Israel participated in the race, including participants in the various running programs and runners from the IEC teams.



Future measures and objectives

- In the coming years we are planning to conduct an attitude survey to assess the impact of the health-promotion activities on employees, and to examine whether the organizational climate and culture have improved. The previous survey was conducted in 2018 so we expect to obtain a comparative perspective of these effects.
- Health Month – Is expected to take place in the last quarter of 2022, as every year.
- Fitness center subsidies – We are working with the employee union to offer subscriptions for employees nationwide, in various forms of sports.
- 6 additional fitness parks will be built at six sites over the coming 3 years, as part of the effort to make sports accessible to employees during the workday.
- Launch of the "Hatna'a" intervention program to reduce work accidents and illness among drivers and transport workers at the IEC.

Hatna'a intervention program to reduce work accidents and illness among IEC drivers and transport workers

The Hatna'a program will begin in July 2022, with the aim of reducing occupational illness and accidents among drivers and crane operators who spend long hours in the driver's cabin, and to improve their health. These employees are exposed to various types of risks, including mental strain, exhaustion, and physical injuries related to the restrictive spatial conditions and constant vibrations. Further, long hours on the road and tight schedules impair the ability to maintain a healthy lifestyle, including regular meals, exercise, and sufficient sleep.

The Hatna'a program was developed at the initiative of the IEC, in response to these challenges. The program is a collaboration with the Manof Fund of the National Insurance Institute, which invests in social ventures to create a safe and healthy work environment. The program receives guidance from the Israeli Center for Diabetes Research and Policy of the medical research foundation at Sheba Medical Center, which will examine its benefits.

The program focuses on instilling healthy behaviors, increasing physical exercise, and educating and raising awareness through content adapted to employees in this occupational setting. The content concerns planned and spontaneous exercise, ergonomics, nutrition, sleep, and sun protection. This content is conveyed through in-person training as well as digital means (a phone app paired with a smart bracelet).

Development of human capital

Development and retention of our human capital, given the changes in the business environment, were defined by the Company's management as one of the Company's four main focal points. To position IEC as a leading business entity in the Israeli economy, the Human Resources Division formulated four dedicated strategic targets:

Designing an organizational culture

and leading strategy-supporting change and business objectives

- Employee engagement
- Remote management
- Enterprise learning
- Excellence in service
- Tools for business thinking
- Innovation

Development of human resources

of the revitalized company

- Talent management
- Career management
- Assessment and development

Development of a leadership backbone

to lead the Company to achieve its strategic objectives

- Training of managers at different levels and development of senior leadership in accordance with the organizational leadership model.

Development of the Human Resources Division

as a leading entity to achieve the Company's objectives

- Development, expansion, and assimilation of HR practices in the organization
- Support and training of the Human Resource Departments and Excellence Centers of the division

Human-capital development at the Company focuses on two main paths:
1) Professional training path – The IEC's Electricity, Energy, and Environment Training Campus provides professional training programs in the principal areas of activity of the Company and the certifications required by government ministries pursuant to laws and regulations.
2) Leadership and organizational culture development path – Responsible for executive development processes at the Company, and works to mold and adapt its organizational and managerial culture to that of a business in a competitive market, in light of the reform in the electricity sector, through the creation of a multi-channel continual learning process.

The overall investment of the IEC in training and coaching (training, coaching, study programs, and leadership development), in 2021 and 2020, was approximately **NIS 152 million** and approximately **NIS 111 million**, respectively.[50]

Professional training

According to company policy, every employee is required to receive relevant professional training. The Company releases an annual training work plan every year, derived from analysis and processing of data collected regarding the needs of the various divisions and trends in the evolving and changing electricity sector.

The Company has a range of professional training tracks in various fields, including for professions such as electricity, grid, natural gas, mechanics, welding, piping, project management, risk management, contract worker supervisors, operations, control, IT, cyber, height, safety, forklifts, cranes, hoisting equipment, cutting, rescue, firefighting, service representatives, training skills, and development of training means.
In 2021, as restrictions on congregating were eased, training activity increased relative to 2020, while many training activities were conducted through remote online learning, allowing expansion of training activity.

493,624 total hours of professional training [51] in 2021 (equivalent to 61,703 working days)
The average number of training hours per participant was 24 hours[52]
The IEC's investment in training in 2021 was approximately NIS 143 million[53].

Data on training:

	2020	2021
Number of participants	10,028	20,378
Employee days	37,200	61,703
Average days per employee	(3.7)	(3)

50. *The amount includes salary expenses, outsourced training expenses, transportation and other general expenses, for the Energy and Environment Training Campus (professional training)and for the Center for Leadership and Business Management.*
51. *Training hours were calculated by multiplying the number of participants in each course by the number of hours in each course for all professional training courses, net of employees who participated in multiple courses during the year.*
52. *The average was calculated in respect of all participants in training (not in respect of the total number of employees); it includes employees that were counted more than once and who participated in a number of courses over the year.*
53. *The amount includes salary expenses, outsourced training expenses, transportation and other general expenses.*

Development of leadership and corporate culture

The Human Capital Development Unit has set several goals, to support realization of the Company's vision and strategy:

- To improve interfaces between divisions and enhance partnerships.
- To instill organizational ethics and core values (see Chapter 6).
- To cultivate business leadership.
- To assimilate a service concept adapted to a business company in a competitive market, among all the employees and managers in the Company.
- Continued support for the Company's transition to remote management, and providing management tools in a changing reality.
- Assimilation of a corporate culture of learning organization across the Company
- Formulation of a concept, tracks and supportive tools for career management, and professional development of employees with skills.
- Continued support of the business units through programs aimed at organizational change, tailored to customer requirements.

In order to develop a prominent leadership backbone at the IEC, a dedicated development plan has been formulated. The plan encompasses a broad and integrative view of all levels of management, including components of preparation for a role (managerial reserves), the process of entering a new role, and learning and development on the job.
The plan includes search and screening processes, career management, performance evaluation and compensation, and lateral organizational processes.
In addition, the program deals with leadership development among all management levels in the Company, customized to each level: strategic leadership for the rank of deputy division manager and above, system-wide and operational leadership for department managers and sector heads, and personal leadership for all employees and managers in the Company.

Leadership development programs

As an organizing managerial concept and with the aim of realizing the Company's vision and strategy, a leadership model was formulated for all employees and managers in the organization, designed to serve as a basis for managerial development processes. The leadership model includes behavioral orientations that define the behavior expected from each employee/manager in the Company, with the appropriate emphases defined for each level: personal leadership for employees, system-wide/operational leadership for sector heads and department heads, and strategic leadership for senior managers - from the level of deputy division manager and above.
As a policy, before entering any managerial position in the Company, the relevant employees participate in the leadership training course.

The leadership model formulated by the Company's management positions the manager as a change leader, through four success engines:

- Business leadership to create a competitive advantage and value to the customer;
- Nurturing human capital;
- Organizational excellence;
- Reinforcing partnerships - engaging and harnessing the internal and external environment.

To produce a continuity of development processes and empowerment of employees and managers, from the day they enter the Company and their initial orientation, and throughout their managerial career (with emphasis on the three levels that appear in the leadership model), the following programs are offered for different management levels:

Personal leadership

- Mentoring for new employees - The Company has a structured onboarding process for new employees. Each new employee receives an onboarding kit with information about the Company's history and vision, its areas of business, key work processes, core values, as well as terms of employment, employee rights, and salary components.
- Flowers of Light - The purpose of the Flowers of Light program is to identify and develop potential candidates among the younger generation in the Company for the position of department heads, and to create a pool of excelling employees, develop them, and influence, with their help, improved organizational culture. We invest many resources in the process of finding the most suitable candidates, with training in the program combining academic components and enrichment content alongside deepening the perception of the role of the manager and imparting management skills. This training is held once annually; 22 managers participated in the program in 2021.

Program for sector heads - In the context of reorganization in IEC, a new position was created - sector head, which will serve as an operational arm and assist the department manager. For some of the sector heads, this is their first managerial position and special training is designed to provide them with managerial tools to address challenges and increase their sense of capability. In the Network Services Division, there were six training cycles for sector heads in 2021. This continued a process started in 2020 (3 training programs, in which all section heads at this division participated). Additional training was held this year for section heads at the following divisions: Service, Marketing and Regulation, Operations and Logistics, and Engineering Projects.

Total investment of the IEC in leadership development in 2021 was approximately NIS 6.6 million

- Barak Or program - a program for training department heads when taking up their position. The objectives of the training are to provide a framework and support for the development of a business management orientation processes, to create a space that allows personal managerial development, to shape a perception of a personal role, and to formulate a future departmental picture that maps gaps and the way to realize it. In addition, participants experience a process of personal empowerment and increased capability, and as a result of the program, a group of peers for interdepartmental learning and interaction was formed.

Executive training and development

There are 115 senior executives at the IEC*. Training and development programs for the executives are based on a comprehensive offering covering the following key aspects:

- Management potential - preparing middle management for a senior position by building infrastructure for learning, screening, assessment centers, and projects for implementation.
- In-service training - a structured onboarding process implemented with the help of the onboarding manager and the Human Resources Department of the senior staff. The process includes work plans, feedback, and tools developed for the onboarding manager, the onboarding manager and organizational development unit.
- Career management - identifying the needs of the incoming manager and building a customized development system.

For the past years, outside organizational consultants have been accompanying senior executives in areas such as: change and changing management, achieving business goals, going up a step to more senior positions, and accompanying the division. The managers attend diverse training and acquire needed skills, such as evaluating employees and managers, and more.

(*This group includes the rank from sector manager up to the Company's CEO)

Courses and academic studies

In addition to IEC training programs, we encourage employees to attend various professional courses and earn academic degrees, as part of the development of human capital at the Company. The Company approves attendance of courses/seminars and conferences (depending on the position and rank) for employees, as well as academic studies for bachelor's/ master's degrees/technician/ practical engineer, or certificate studies. Employees are entitled (under the Civil Service Regulations) to financing for their studies at a rate of 60% to 100% of the tuition fee, depending on the affiliation to work requirements, and receive approval for absence for a full study day at the Company's expense.

In addition to the programs offered by academic institutions, two programs have been developed as part of postgraduate studies, which were specifically customized to the Company's requirements:

- An MBA program majoring in natural resources, environment, and energy at the Netanya Academic College, which has been adapted to the requirements of the largest infrastructure companies in Israel.
- Master's degree in electrical engineering from Ariel University, majoring in power systems (high voltage).

Investment in academic studies in 2021 was approximately NIS 2.5 million.

Professional Talent – Psagot

Alongside the development and promotion tracks of the employees, IEC runs a professional promotion track - Professional Talent - Psagot. The objective of the program is to increase preparedness, organizational resilience, and rapid adaptation to changes through leadership development, professional development, and encouragement of excellence. This innovative program includes the identification, selection, and advanced professional training of employees with outstanding professional abilities, who are identified as having the potential for development and a positive impact on the Company's employees. The program was initially run as a pilot project in the form of divisional training at the Production Division. A new Company-wide format was formulated for the program in 2021, planned for implementation in 2022.



Future measures and objectives

- Expansion of the training program for section heads to the Finance and ICT divisions.
- Holding the Professional Talent Psagot training program in a new Company-wide format.
- Mentoring – Formulation and implementation of a Company-wide mentoring program.
- Individual consulting for managers and systemic consulting for Company units – Continuation of individual support for managers entering new roles or during change processes. Systemic consulting for all units of the Company, for guidance in adapting its culture to the culture of a business in a competitive market.

Processes for performance feedback and evaluation of employees and managers

The Company has a process of annual feedback and evaluation. The process begins with a self-assessment form, which is submitted to managers for the feedback session. During the meeting, the manager (at the level of sector head and above) addresses the range of issues and aspects in the employee's performance and function. The performance appraisal process supports a number of objectives, including coordinating expectations, improving performance, and learning lessons, as well as formulating a career horizon for employee development. In addition, the feedback improves the communication channel between employees and managers, and draws the employee's attention to the evaluation of their performance. The feedback is documented in the employee's personal file and provides information to the human resource system about decisions regarding employment or promotion, the need that arises for professional retraining, and training or studies, locating managerial potential, and more. Feedback processes were held for 100% of employees in 2021.

Inter-organizational dialogue

Our employees are at the center of organizational change, which is designed to prepare the Company for changes in the electricity sector and the challenges involved in these changes. The Company, together with its managers and the labor union, invest great effort and resources to undergo this change together, as a cohesive company ready for the challenges of the future. We have an ongoing, transparent, and sensitive dialogue with our employees, and hold meetings with the employees led by and with the participation of the Company's management. The purpose is to convey information and updates and learn how the employees, some of whom have been with IEC for many years, experience and address the complex changes.

Employee engagement measures

Despite the remaining Covid-19 restrictions, in 2021 we continued to maintain dialogue with employees, encompassing talks, conferences, and meetings at the various units. Activities were also held at all units of the Company during the year to apply the insights and focus areas drawn from the organizational climate survey first conducted in 2020.

In addition, over the year, senior executives made field visits and met with line workers. During the visits, they heard, among other things, about the work challenges in this complex year, as well as ideas, initiatives and proposals for streamlining arising from the day-to-day experience of the employees.

Channels for continuous communication

Communication with employees is held through a variety of channels, including written media and by video. We manage the Facebook group Stay Connected, targeted at employees and retirees, which allows for firsthand and multi-directional dialogue. This is alongside the "classic" channels: the organizational portal, television screens in central sites, e-mails and text messages, a special mobile app and internal WhatsApp groups, and if necessary, also in printed media on signs and notices on bulletin boards in the Company's sites. In addition, other processes are underway to increase dialogue, including round tables that provide an informal meeting with the Company's executives and field trips.

Every week, a short video magazine is sent to cellphones, summarizing the main events and activities in the Company over the past week. The communication channels are also used to support and reinforce various inter-organizational measures, by launching targeted campaigns, for example: an organizational climate survey,

conduct during Covid-19 and the benefits of immunization, and occupational health and safety. These measures are led by the spokesperson and inter-organizational communication division, in collaboration with the Human Resources Division and together with all the Company's divisions.

Organizational climate survey

An organizational climate survey was conducted at the IEC for the second time in 2021. The organization climate survey is a continuation and expansion of the attentiveness processes we implemented in previous years, including a survey regarding the effectiveness of organizational change management in 2019. The objective of the survey is to obtain a snapshot of how employees and managers feel about the organization, to learn, listen, improve, and reinforce organizational resilience. The survey is based on our core values, to assess the extent to which these values are actually assimilated and reflected in the Company's day-to-day conduct.
Outstanding insights from the survey:

- 89% of the employees are proud to work for IEC and 68% would recommend working at IEC to a friend.
- 63% noted that the Company manages to change and adapt quickly to the changing reality dictated by Covid-19.
- 86% feel that their role is meaningful and contributes to the success of the Company; 68% feel that the Company treats its employees fairly, including during the current period of the reform.
- 53% of the employees indicated overwork and burnout.
- The average overall employee satisfaction with the Company was 3.76 out of 5.

Beyond the climate survey, smaller-scale satisfaction surveys are held regularly in various areas, including a safety climate survey, internal service customer experience questionnaires, and questionnaires on significant junctures for employees, such as at the completion of a managerial reserve track or other professional training program, after retirement, and more.

Following the intra-organizational climate surveys and the processes of listening to employees, we hold processes to implement our insights. For example, in the surveys, employees expressed a desire to continue working in a hybrid model combining work from home and work at the office; in practice, in May 2022, during the writing of this report, a hybrid work model took effect. We regard this as characteristic of a young and revitalized company, a step that would probably not have been possible in the past without conducting a dialogue.



Future measures and objectives

- Holding another organizational climate survey in the third quarter of 2022, due to the importance that the Company attributes to maintaining dialogue and offering employees the opportunity to express themselves and make their voices heard.

Preparing for retirement

The IEC accords great importance to long-term savings and pension insurance, recognizing that workers should prepare for retirement throughout the years of their work, to ensure a satisfactory standard of living during retirement. As such, the Company operates an innovative, special-purpose center of expertise on long-term savings, the Pension and Provident Center, which provides service to all the Company's employees and retirees. The center's main objectives are to raise awareness of savings and pension insurance among employees and managers in the Company, and to proactively take care of the pension future of thousands of employees. The center also works to implement the reform process among employees insured under accruing pension plans, including calculation of estimates of reform grants and bridge pensions for eligible employees designated for special early retirement programs. The Center also supports the management and implementation of pension plans for senior executives in the Company, who have moved to work under personal contracts, the operation of complex pension plans, and a pension service for retiring senior executives.
The Center regularly initiates personal contact with employees at personal and occupational junctions, guides them through the pension process, offers tools, and encourages them to be proactive to ensure their pension rights.

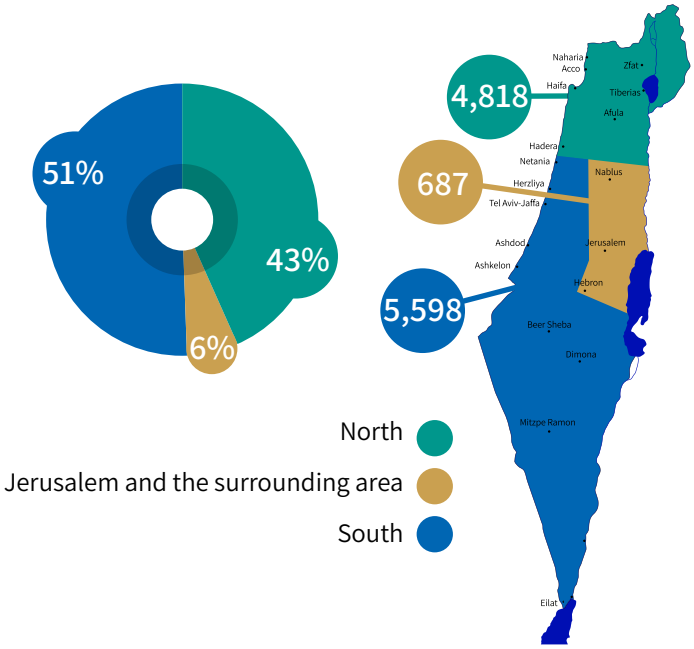
In 2021, the center worked to make all pension-related information accessible through online means, including targeted lectures on the accruing pension arrangement at the Company, transmitted digitally via video-conferencing platforms to various audiences at the Company.
The Company also makes information accessible to employees through a dedicated portal on its intranet site, including personal and general pension information, content for enrichment and knowledge acquisition, and a monthly pamphlet on wages and benefits containing directives and guidelines on wages and pensions, conveyed in clear and easily understood language for employees. All pension-related information is posted on the intranet site, as noted, as well as in the employee community on Facebook and by text messages to employees' mobile phones.

In 2021, the Company continued to address issues of labor relations in the area of pensions through action to regularize the retirement terms of permanent employees with accruing pensions, and reached agreements with the employee union regarding their terms and entitlements.
In addition, IEC has a "retirement center", through which the Company accompanies its employees in all retirement procedures, and holds retirement preparation courses and leisure activities for the Company's retirees. The Company's retirees, both early retirement and mandatory retirement, receive full financial information. Concurrently, human-resources employees and administrative managers receive training on retirement, to enable them to respond to and guide employees and their families.

2021 in numbers - further information about employees:[54]

IEC employees by scope of position

Graph 26: IEC employees by geographic location



Graph 27: IEC breakdown of employees by geographic location

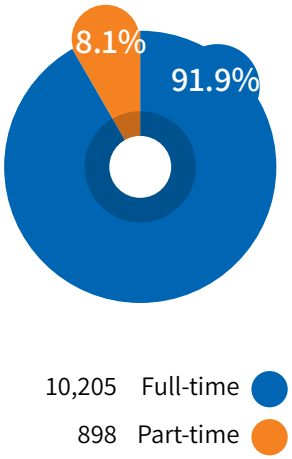


Table 26: IEC employees by gender and rank

	Year 2021				Year 2020			
	Total	Men	Women		Total	Men	Women	
Total no. of Employees	11,103	8,767	2,336	21%	11,483	9,027	2,456	21%
Senior management	108	82	26	24%	115	91	24	21%
Mid-level management	688	520	168	24%	665	510	155	23%
First line management	1,490	941	549	34%	1,478	942	536	36%
Employees*	8,817	7,224	1,593	18%	9,225	7,484	1,741	19%

* Non-management employees

54. *Excluding electricity system employees included in previous reports.*

Table 27: Education data of IEC employees in 2021

	Employees	Managers
College graduates	3,296	700
Practical engineers and technicians	2,256	45
Non-academics	4,755	51
Total	**10,307**	**796**

Table 28: 11,103 IEC employees by gender and age in 2021 - in numbers and percentage

Age group	Men		Women		Total	
Up to 29	724	58%	444	42%	1,168	8%
30-34	1,117	76%	356	24%	1,473	13%
35-44	1,807	77%	561	23%	2,368	22%
45-54	2,424	78%	653	22%	3,077	27%
55-65	2,651	89%	320	11%	2,971	29%
67-74	44	95%	2	5%	46	1%
75+	0	-	0	-	0	-
Total	**8,767**	**79%**	**2,336**	**21%**	**11,103**	**100%**

Table 29: Data regarding new employees , Year 2020-2021

	Year 2021			Year 2020		
	Men	Women	Total	Men	Women	Total
Total no. of new employees	**355**	**159**	**514**	**682**	**286**	**968**
New employees by age						
Up to 30 (inclusive)	161	105	266	321	187	508
31-50 (inclusive)	186	50	236	336	87	423
Over 51	8	4	12	25	12	37
Positions filled internally *	292	95	387	481	-	-

* No. of positions filled internally - without organizational/recording changes

Table 30: Data regarding employee departures

	2021	2020	2019
By gender			
Women	**303**	245	310
Men	**652**	615	802
By age			
Up to 30 (inclusive)	**218**	160	249
31-50 (inclusive)	**245**	239	260
Over 51	**492**	461	603
Total churn rate in 2021	**8.6%**		

Table 31: Data regarding employee departures by cause of departure

	2021	2020	2019
Retired upon reaching mandatory retirement age	**135**	135	149
Early retirement plan for 64+	**0**	48	76
Retired as part of the IEC reform	**319**	204	343
Total exits	**501**	387	568

Table 32: Parental leave

	Women	Men	Total
On parental leave	236	4	**240**
Returned to work after parental leave	99	3	**102**
Remained on parental/unpaid leave	108	1	**109**
On parental leave and chose not to return to work	21	0	**21**
Of these, the number of employees who returned to work after parental leave (in 2021)			
On parental leave during the year and remained on parental/unpaid leave after the end of the calendar year			

Table 33: Data regarding employee absences in 2021

	Women	Men	Total
Deceased employees	0	3	**3**
Personal events*	0.24	0.31	**0.29**
Reserve duty (average per employee	0.1	0.9	**0.7**
No. of utilized sick leave days	11	39.7	**10**
Rate of absence due to sick leave	6.1%	4.9%	**5.2%**

* Personal events of the employee – marriage, birth, mourning

Rate of absence due to sick leave, of total days paid in that year

Table 34: Professional training of employees

	2021	2020
1. Total no. of training hours	**493.624**	297,600
2. Average no. of training hours per participant	**24**	30
Scope of investment in training (NIS)	**143 milion**	107 milion

1. Calculated according to the participation of participants in all courses and training, including employees who participated several times a year in various training courses

2. Calculated according to the multiple of the hours for each course by the number of participants in each course, divided by the total number of participants who participated in all the courses (including employees who returned for a number of training courses)

As shown, activity volumes decreased in 2020 due to the Covid-19 restrictions, which prohibited congregating, and the stricter guidelines at the IEC. By contrast, in 2021, as extensions for professional certification schedules granted by the state (due to Covid-19) were exercised, the restrictions on congregating were eased, while remote learning and the use of technologies in training became routine, allowing an increase in the volume of activity.

Table 35: Employee feedback, 2020 (held once in two years)

	Women	Men
Managers	100%	100%
Employees	100%	100%

Table 36: Segmentation of employees by full/part-time position, Year 2021

Segmentation by full/part-time position	Employees	
Full-time	10,205	91.9%
Part-time	898	8.1%
Total	**11,103**	**100%**

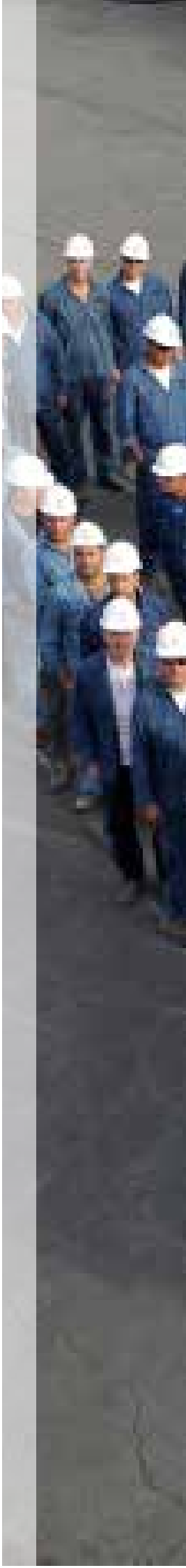
Segmentation of employees by employment agreement	Employees	Men	Women
No. of employees under collective contracts	**10,982**	8,678	2,304
No. of employees under individual contracts	**121**	89	32
Total	**11,103**	**8,767**	**2,336**
Percentage of employees in employee unions	**98.9%**	98.9%	98.6%

Segmentation by type of employment	Employees	Men	Women
Total	**10,982**	**8,678**	**2,304**
Full-time	**6,905**	5,684	1,221
Part-time	**4,077**	2,994	1,083

The table does not include data regarding employees not employed directly by the Company:

External employees – employees not employed directly by the Company who work permanently at the offices/branches/sites of the organization (security, cleaning, etc.).

Outsourcing employees – employees who, while not employed directly by the Company, work exclusively for the organization (IT staff, etc.).





4

Community Outreach in IEC

Corporate Sustainability Report 2021

Israel Electric

Involvement and consideration

As a national utility company, it is important to us to work for the benefit of society and the community in Israel. We aspire to be attentive to the human environment in which we operate, striving to work with it and demonstrate involvement, consideration and social responsibility.

Our operations in this area reflect our core values as a company and constitute a strategic tool to creating "shared value" for the Company and the community. The Company initiates and maintains dialogue and long-term collaborations with various stakeholders in the community based on the changing needs that arise on its part and in areas in line with its core business activity, including safe and prudent use of electricity, science and technology, sustainability and efficient energy consumption.



Employee volunteering

As a government company, the Company is prohibited by regulation from giving donations in cash and cash equivalents, including donation of time. However, the Company places great importance on staff volunteering, both for the benefit of the community and the benefit of the organizational climate, staff bonding and personal growth. Therefore, the Company developed a staff volunteering program encouraging its staff to volunteer after working hours near their work sites.

Subsequent to receiving the Board of Directors' approval in December 2021, the volunteering program was launched on Hanukkah (the Festival of Lights). The activity is carried out through 21 community leaders who coordinate the various group volunteering activities at 28 Company sites across the country. Ruach Tova, a leading volunteers coordination organization, supports the program connecting volunteer groups from the IEC with nonprofit organizations seeking volunteers based on their needs and location.



Future measures and objectives

- In the first half of 2022, 1,800 employees are expected to volunteer in 56 volunteering projects throughout Israel.
- By 2030, IEC strives to increase the number of volunteering employees by 25%.

Dialogue with the community

Dialogue with the communities surrounding the coal-fired power plants

The dialogue with the communities surrounding the coal-fired power plants initiated by IEC constitutes a tool for creating "shared value". The Dialogue program, has been initiated in 2019, following a community survey indicating a knowledge gap between the Company's activity and the public's perception of it. We have established an ongoing dialogue aiming to increase transparency, establishing trust, reinforcing the cooperation between IEC and the local authorities, and promoting good neighborly relations.

The program is implemented in three different circles:

- First circle - the power plant workers
- Second circle - area residents - from private consumers through to the heads of the local authorities
- Third circle - environmental organizations, academia, etc.

The dialogue focuses on the Company's core issues while emphasizing transparency and disclosure regarding environmental matters in the area of the Ashkelon and Hadera power plants. For the purpose of the dialogue activities, 28 "community leaders", among staff from both power plants, took upon themselves to lead dialogue with the community, giving lectures and taking active roles in educational and community activities, serving as IEC ambassadors.

The lectures, within the dialogue framework, include subjects related to electricity generation, the quantity of electricity generated, clarifications in regard to the white plume, etc. In addition, we have developed a Green Experience kit, an educational kit available for the IECs staff facilitating educational activities at their kids' schools. There are also tours of facilities, collaboration with the academia, and other joint ventures are promoted.
The dialogue is carried out in full collaboration with the power plants and regional management and staff and is expected to expand in terms of scope and impact.

28 active community leaders

8 enrichment lectures to students at the Sami Shamoon College of Engineering in Ashdod on subjects in the core of the Israel Electric Corporation's activity, given by the company's management.

14 meetings with students at 14 schools from Hadera, Ashkelon and the surrounding communities, as part of the Efficient Energy Consumption and Prudent Use of Electricity program for 7th graders.

3 tours at the Hadera and Ashkelon power plants for stakeholders from the area and officials from the local authorities.

4 meetings and roundtables with heads of local authorities surrounding the power plants and their officials.

Dialogue with the public

Visitor centers

The Company's visitor centers were established with the aim of making our activity accessible and transparent to the general public, satisfy curiosity about the electricity generation for all ages. We regard visitor centers as a bridge to the community in which we operate, offering a glimpse of the extensive activity and content worlds in which we engage each and every day. Through the direct experience provided by the visitor centers, we aspire to present different aspects of the Company's operations and answer every question raised, transparently and professionally.

Orot Rabin Visitors Center

The center provides a unique and dynamic learning experience, using interactive exhibits and means of illustration, along with a physical tour of the power plant. During the visit at the center, visitors are also exposed to simulation of a cyber incident, a significant and less known aspect of the Company's activity.
In January through April 2021, Orot Rabin Visitors Center was operating virtually while the physical center was closed to the public. As part of the adjustments, we produced a virtual tour tailored to the entire family on an online platform. From May 2021, physical operation of the visitors center started gradually.
In 2021, 233 virtual tours took place at the center and 300 groups visited it.

Heftziba Farm Visitors Center

The visitors center is located at a nature and heritage site, and tells the story of the agricultural farm that trained the Second Aliyah pioneers and prepared them to settle in Israel. The center offers visitors an exciting tour of the pump house and Poalim road as part of the story of the historical farm, and an observation point overlooking the Orot Rabin power plant site. After the first quarter of 2021 during which the visitors center was closed, an alternative, open air tour program was developed, which was undergone by 23 small groups according to the purple Covid pass requirements. Following the successful pilot, and according to Ministry of Health relief guidelines, since May activity at the Heftziba Visitors Center was renewed for groups, including entry to the visitors center.
In 2021, 103 groups visited the center.

Strategic visits and professional tours of the Company's sites

Meetings of senior figures in the Israeli economy and in the Israeli public, accompanied by the Company's staff and management, is another significant tier in our relationship with stakeholders. Hosting such visits is an opportunity for us to reveal the core of the Company's work, deepen the discourse and promote acquaintance between public leadership, decision makers and the Company. We also host tailored professional tours at the IEC sites for the Ministry of Education and academic institutions representatives for knowledge enrichment, strengthening collaborations.

After suspension of the tours in 2020 due to the Covid-19 crisis, since May 2021 the tours have been renewed gradually.
In 2021, 21 strategic visits and 16 professional tours took place at IEC sites.

Educational community activity

IEC's educational activity focuses on the Company's core areas of operation, particularly electricity safety and efficient energy consumption. Through the educational programs, IEC seeks to raise awareness and lead behavioral change in the community by exposing the future generation to the importance of energy efficiency and expanding their understanding of issues such as renewable energy, reduction of emissions, etc.

The educational programs are held with the approval and full participation of the Ministry of Education, while striving for wide deployment of the activity and reaching all sectors of Israeli society, with emphasis on the social and geographic periphery. In addition, all programs have a monitoring and evaluation system that includes quantitative measures and goals and questionnaires for the purpose of checking for knowledge gaps as well as perception and behavioral changes before and after the educational program.

The community leaders who were trained as part of the Dialogue activity (described above) also participated in local activities (around the Orot Rabin and Rutenberg power plants) that take place in the educational programs, and gave lectures at 14 schools.



The total monetary investment in educational activities in the community was NIS 4 million, NIS 2.8 million of which was channeled to our flagship program Path of Light.

Since 2004, some 2 million students from 229 local authorities have participated in the Path of Light program, 150,000 of whom in 2021.

4,000 Safe and Prudent Use of Electricity workshops under the Path of Light took place online, including 300 special education workshops.

The Energy Efficiency and Prudent Use of Electricity as a Way of Life program took place at 150 middle schools in 110 local authorities from across the country.

Path of Light flagship program - since 2004

IEC's flagship program on safe and prudent use of electricity, the Path of Light, operates at kindergartens and elementary schools in 229 local authorities, encompassing over 300 schools nationwide, among all sectors of Israeli society since 2004. It is the largest among educational programs of IEC. The program was established as a response to cases of electrocution of children. The purpose of the program is to instill habits of safe and responsible behavior with electricity, to provide knowledge on subjects such as energy saving and environmental protection along with development of leadership skills. The program is facilitated by Company staff who volunteer in the program and have undergone specialized training and by external instructors with appropriate training.
The program is recognized by the Ministry of Education under the purple Covid track, and thereby, the ministry allows and encourages schools to implement this program.
The Path of Light Program operates in two modules:

School module

- Good Morning Path of Light initiative - during which Path of Light Children leadership groups from each school are trained to assist with integration of the program at their school and in the community. Hands-on enrichment sessions are held, including various experiments aimed at instilling the students' understanding of all areas of safety with electricity. In each of the schools, the first meeting of the year is led by IEC staff or outsourcing, and the other annual meetings (6-8) are led by the teacher responsible for the Path of Light at the school.
- The Good Evening Path of Light initiative was developed for the Covid-19 period, during which every family was invited to participate in online sessions in which tips and tools were provided on consumption and safe use of electricity.

Community module

- In this program, representatives among the Path of Light Children worked in their community and invested efforts in explaining and distributing the topic of prudent and safe use of electricity.
- Every year, an annual competition is held, which is the highlight of the project. In 2021-2022, the topic of the competition was designing a short videoclip to communicate safety messages.

From the beginning of the program in 2004 until the end of 2021, approximately two million students participated in the program

150,000 students in 2021

Energy Efficiency and Prudent Use of Electricity as a Way of Life program

The program operates to increase the awareness on importance of energy efficiency and prudent use of electricity among youth, creating spill-over effect in their communities. In 2021, 80% of the program's sessions took place online. 150 middle schools in 110 local authorities from all sectors of Israeli society participated in the program. The program assessment findings indicate a significant positive change in reducing knowledge gaps, perception changes and behavioral changes after participation in the program.

Eureka in the Electricity World

A joint project of IEC and Rutenberg House formed based on the Rutenberg Foundation's vision to reduce social gaps, which took place for the second year. As part of the project, in the 2021-2022 school year 60 - 7th graders experienced 3D applications in historical and contemporary IEC buildings, with emphasis on efficient energy consumption of the buildings. The project integrates the heritage and history of IEC and its founder, Pinchas Rutenberg, with instilling technological knowledge and use of software that enables engineering construction of 3D objects by the students, which will be applied by the construction of efficient "green" homes.
During the 2021-2022 school year, the program was opened to 4 more groups (total of 60 students) of 7th graders, and graduates of the 2021-2022 program (currently 8th graders) will continue to be enriched under the program and will also serve as instructors to 7th graders. In 2021, the program was expanded to additional innovative sectors of IEC's content areas.



Promoting Technological Education

Technological-vocational high schools

Our involvement in technological vocational education is another channel for creating shared value for the Company and the community in which we operate. By exposing the students to the industrial world, making it accessible and relevant for them, we contribute to training the future generation of the Israeli energy industry in general and of the Company in particular. Across the various study tracks, emphasis is placed on the professions required by the energy market and the needs of the revitalized company, and graduates receive priority in being hired as Company employees.

Amal EnergyTech

The Amal EnergyTech technological vocational high school was established in 2017 in the Company's training campus at Heftziba. The high school was founded as a joint initiative of the Company and Amal education network under the supervision of the Ministry of Economy and Industry. The high school, which comprises 120 10th-12th graders from Hadera region and the greater Haifa area, seeking to acquire a technological education combined with practical experience in the spirit of the dual-humanistic method prevalent mainly in industrial schools in Europe.

The main objective of the school is to connect students to industry and give them the opportunity of future integration in IEC or other companies in the energy sector in Israel, while encouraging excellence and instilling social values. Students participate annually in national and international competitions and reach impressive achievements.

The school operates two main study tracks:

- **Electricity track** - the track prepares students to receive a certified electrician certificate from the Ministry of Economy and Industry, and includes licensing certification exams.
- **Energy and engineering system track** - the course provides specialization in the creation of energy systems and trains the students in the field of mechanical maintenance, natural gas, CAD/CAM systems, computerized drawing and 3D printing. The course's graduates receive professional certificates from the Ministry of Economy and Industry and IEC according to their specialization. The issues emphasized during the program are such as green energy, natural gas, smart home, robotics, etc.

The two study tracks enable students to develop in two areas:

- Certificate track of the Ministry of Economy and Industry;
- Technological track, which includes passing matriculation exams in the core disciplines and in the professional field.

Most graduates of the school continue on to study practical engineering, following which they engage in technological professions in the IDF. They become part of the high school alumni on behalf of IEC, which nurtures the relationship with the students, connects between them and creates employment opportunities for them in the Company.

In the school year that ended on July 2021, a class of 40 12th graders graduated (each class lasts 3 years, from 10th-12th grade), and in July 2022, 40 more students will graduate. In 2021, with easing of the Covid-19 restrictions, approximately 80 10th-12th graders also participated in practical experience at IEC workshops together with the regular students.

Or He'Atid School

The collaboration with the Atid education network is yet another example of the Company's efforts to promote technological education. In this setting, students of the ultra-Orthodox vocational school Or He'atid in Gan Yavneh (for students in the coastal plains and the south) gained practical experience at the Company sites as part of their studies. The school provides its students with the option of obtaining a certified electrician certificate.

In 2021, 18 students
participated in the practical work at IEC workshops



Future measures and objectives

Development of a holistic educational program on electricity safety and energy efficiency from kindergarten through high school, which will be operated and expanded gradually in the education system.

5

Responsible Supply Chain

Corporate Sustainability Report 2021

Israel Electric

13,900
active suppliers

The number of active suppliers:

Goods and services in Israel and overseas – 4,235 suppliers

Fuels – 21 suppliers

Independent power production companies – 33 suppliers

Decentralized photovoltaic electricity producers – 9,615

91% of all payments to suppliers were made to Israeli suppliers

More than 90% of the new suppliers sign a letter on the Company's code of ethics

The total payments were at NIS 21.4 billion

Total procurement payments – NIS 21.4 billion, including NIS 19.4 billion in Israel (of which, NIS 5.9 billion for fuels), and NIS 2 billion overseas.

As a leading commercial company in the Israeli economy, we consider it our duty to operate with respect, integrity, fairness and reliability, while complying with all out obligations, to our suppliers. The recognition that our suppliers are at the center of the Company's business has led us to embrace a service-oriented and proactive approach to managing our relationship with them, including fostering collaboration and trust, and this has led to high quality, reliable, and highly available service to our customers. At the same time, we expect all our stakeholders, and our suppliers in particular, to follow high ethical standards in their conduct, and hence, we encourage them to express their commitment by signing the Company's code of ethics.

In 2017, a process was launched to consolidate all of the Company's procurement activities under the Procurement Subdivision, and in 2021, 99% of the Company's procurement activities were assigned to the Procurement Subdivision. Further to this, and to make sure people with a system-wide perspective carry out the procurement processes and minimize risks in the procurement processes, procurement department heads were appointment, and they now work with different divisions.

The Company has one of the largest databases of registered equipment and service providers in Israel, with 13,400 suppliers (8,400 local suppliers and 5,000 international suppliers), of which, 4,200 are active.

Responsible Conduct with Suppliers

Subject to the provisions of the law, and to align expectations and set the rules for regular conduct with suppliers, the Company drafted the "Service Policy for Suppliers" document. This document defines the Company's procurement values and expresses its aspiration for professional conduct and fruitful, professional and efficient collaboration with its suppliers. Procurement values:

Procurement Values

Fairness
We undertake to treat each of the suppliers properly and fairly. We believe in integrity and credibility as values that guide us in our day-to-day work

Respect and empathy
We are committed to ethical behavior derived from the code of ethics, core values and vision of IEC

Transparency and straightforwardness
We undertake to forward to the suppliers all current information and data relevant to them in an accessible and straightforward manner, for the purpose of submission of an optimal bid

Speed and efficiency
We undertake to work to complete the handling of suppliers' inquiries optimally and as quickly as possible

Confidentiality
We undertake to keep the information to which we are exposed confidential, and not to disclose information about suppliers to any of their competitors*

Professionalism
We undertake to behave professionally, while striving for excellence

Dialogue with suppliers

Within the realization of the "Service Policy for Suppliers", the Company is working to foster a regular dialogue with its suppliers, in these ways:

- The Company publishes its procurement plan for the years 2022 to 2026 on its website.
- The Company established a Supplier Relations Unit, in charge of managing and maintaining the regular relationship between the Company and its suppliers:
- The unit guides the suppliers from registration in the database of potential suppliers throughout their engagement with the Company.
  - The unit is responsible for establishment of metrics and assessment of suppliers' performance, as well as registration and certification of suppliers in Israel and overseas.
  - The unit assists in lifting bureaucratic barriers in procurement procedures, improving communication with suppliers and their "customer experience".
- The Company hosts business opportunity conferences, in close cooperation with the Ministry of the Economy and the Manufacturers Association; and after in-person conferences could not be held in 2020 because of the Covid-19 crisis, an online conference was held in 2021, with approximately 100 suppliers who are members of the Manufacturers Association. Also, thanks to the Company's efforts in 2021, and as a result of the conferences in 2019, there was an increase in the number of Company suppliers in 2021, with 700 new suppliers joining the supplier database, including 600 local suppliers.
- The Company established a supplier payment service to handle payments, invoices, proofs of payment, accounting card indexes, and more.

Improved Dialogue During Times of Crisis and in Normal Conditions

Since the Covid-19 crisis, which has been a very uncertain period, we have endeavored to help our suppliers and make things as easy as possible for them:

- We made sure to pay suppliers ahead of time and be flexible with payments.
- Considering the global shipping crisis and the prolonged commodity transportation, we set a mechanism for handling requests to postpone supply dates, and to reduce the liquidated damages for delayed supply.
- The Accounting Division has a service center that operates as a one-stop shop for all payment issues and other financial issues – work with digital invoices, issuing confirmations of continued regular activity with the suppliers even during the lockdowns, and continuous employment of external consultants and/or permanent contract workers, as much as possible.
- The Company has a designated website for suppliers that is being upgraded, with the aim of improving the service experience and the quality of dialogue. The process is led by work teams established for the purpose of thinking and formulating groundbreaking ideas to improve the service.

Upholding transparency and integrity vis-a-vis suppliers

In engagements with suppliers, the Company is committed to act fairly, equally, transparently and without discrimination, according to the requirements of the law, and with the aim of achieving mutual trust with them. Most of the Company's engagements are made through public tenders or other competitive processes, and it makes sure the rules are fair and offer all suppliers an equal opportunity. Also, in accordance with legal requirements, the Company's engagement documents with its suppliers are published on its website.

We take care to honor agreements with suppliers and not to abuse our position against them. In addition, we strive for and carry out proactive measures aimed at preventing harm to the integrity, corruption and improper conduct, and do so. This being the case, the Company instituted the procedure entitled "Prevention of Conflict of Interests and Protection of Integrity" (for more information, see page 182.

In addition, we treat our suppliers with transparency and allow them to review the bid documents, while protecting the commercial and professional secrets of other suppliers. Also, whenever an engagement is made other than through a tender according to the Mandatory Tender Regulations, we act in accordance with legal requirements for publishing these decisions on the Company's website.

In 2021, 3 complaints by suppliers were received on the matter of payments and participation in procurement processes. These complaints were checked with the relevant parties in the Company and once they were clarified, a solution was provided to the complainant.

Privacy protection and maintaining information security among suppliers

We operate according to strict procedures and guidelines with regard to information management and security in procurement and engagement processes with our suppliers, inter alia with the aim of enhancing their trust in the Company. Accordingly, the Company takes appropriate security measures to prevent information leakage, exposure and access by unauthorized parties that may harm the business activity of the Company or its suppliers. All parties involved in the procurement processes are committed to enhanced confidentiality procedures, and the Company's procedures dictate explicit rules regarding the distinction between different types of information, and marking, holding, copying and method of transferring them to third parties. On the other hand, Company suppliers must comply with the Privacy Protection Law, and the Company even makes sure that in every new engagement, its suppliers sign the data protection appendix, according to which, they must meet all data protection standards and instructions, according to the Company's procedures. From time to time, the Company carries out supplier controls on this.

Supply-chain management

The Company's procurement policy, including the environmental and social aspects, derive from the Mandatory Tenders Law (and regulations thereunder) to which the Company is subject as a government company. In this context, types of preferences were set which a government company is permitted to grant in tenders, such as: preference for "blue and white" (locally sourced) procurement, and preference for businesses managed by women.

As much as possible considering the law and its regulations, the Company integrates different tools to increase responsibility down the supply chain:

- In the supplier registration questionnaire in the Company's systems, two questions were included, to check if sustainability aspects in the corporation are formally addressed in general, and if there are practices that address environmental aspects in particular.
- During their registration process, new suppliers are asked to sign a letter on compliance with the law and the code of ethics. The letter is published on the Company website in Hebrew and English. In the Company's most recent strategic ESG plan, it has committed to hitting a 90% target rate of suppliers who signed the letter, and as of the report publication date, 95% of the new suppliers (since June 2019) signed the letter.
- Promoting diversity in the supplier database, as set forth in the subchapter entitled "Promoting Diversity in the Supply Chain".
- Different control mechanisms, regarding employee rights and fair employment practices were integrated, vis-à-vis the catering, cleaning, and security service providers.
- Mechanisms were integrated to increase security in the supply chain.

Promoting diversity in the supply chain

In our supplier database, we endeavor – as much as possible, considering regulatory restrictions – to encourage and include suppliers whose operation has a social and/or environmental added value. In this context, we initiated collaboration with the Small and Medium Business Agency (SMBA) in order to integrate additional such businesses in our suppliers database and provide them with access to the Company's procurement system. As part of the collaboration with SMBA, until the Covid-19 crisis, several supplier conferences were held nationwide - in large cities and towns of the periphery - in order to provide access to the Company's procurement system to small businesses. In addition, we participate in the WeSource initiative of the Jasmine Association and Zionism 2000, whose purpose is promotion of social change and integration of various suppliers in the procurement system of large organizations. As part of the initiative, a dedicated suppliers' database was set up, consisting of a variety of suppliers - including small and medium businesses, at least 51% of which are owned by minority groups, women, businesses in the social and economic periphery, social enterprises, local businesses and businesses that employ populations that are underrepresented in the employment market.

Sustainable Procurement

In 2021, the payment volume was at NIS 21.4 billion, of which, the payments to Israeli suppliers totaled NIS 19.4, including fuel procurement, at NIS 7.03 billion.

Below is a breakdown of the Company's main procurement items:

Fuel procurement:

Within the Company's strategic goals, we are committed to informed fuel procurement according to the operational requirements – all while verifying the fuels' quality and cost, environmental protection, a reliable power supply, and diverse fuel sources.

- The Company procures different types of fuels, except for coal, which is acquired by the Company's subsidiary, the National Coal Supply Corporation Ltd. Diesel fuel is procured from Israeli refineries, and the other types of fuel in the production segment (including carbon and liquefied natural gas) are procured, directly or indirectly, from overseas sources.
- Natural gas is procured from the Company's partners in the Tamar Reservoir and its partners in the Leviathan Reservoir.

Purchase of goods

Including stationary, office equipment, IT equipment, photocopiers, etc.

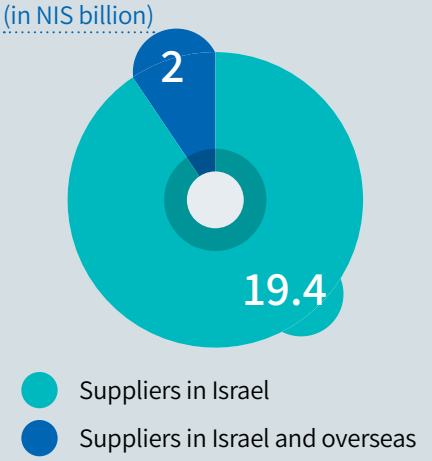
Equipment procurement

To construct and maintain power plants and electric grids (utility poles, different voltage wires, different voltage cables, etc.), the Company carries out highly technologically complex procurement, including of boilers, turbines, generators, transformers, the control equipment, and more.

Purchase of services

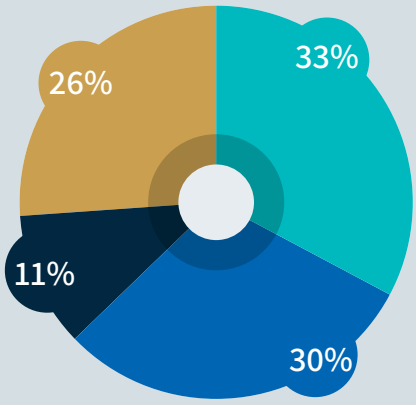
Such as cleaning, catering, security, staff shuttles, transportation, landscaping, vehicle maintenance, etc.

Graph 28: Distribution of payments to suppliers in Israel and overseas (in NIS billion)



* In 2021, within the overall policy for Israel's electricity sector, electricity purchases from independent power producers increased substantially, and procurement from PV facility owners increased as well.

Graph 29: Distribution of payments to Israel Electric Corporation suppliers by procurement type in 2020 to 2021 (in NIS billion)



As of December 31, 2021, the Company produces most of the electricity in Israel (51% of the total produced energy), and the rest of the electricity is produced by independent power producers.

Table 37: Distribution of payments to IEC suppliers by procurement type in 2020 to 2021

2021 (in NIS billion)	7.03	6.4	2.33	5.46
2020 (in NIS billion)	6.6	6.6	2	3.6

As of December 31, 2021, the Company produces most of the electricity in Israel (51% of the total produced energy), and the rest of the electricity is produced by independent power producers.

- Fuels
- Goods and services procurement
- Electricity procurement from PV facility owners
- Electricity procurement from private electricity producers (PEPs)

In 2021, within the overall policy for Israel's electricity sector, electricity purchases from independent power producers increased substantially, and procurement from PV facility owners increased as well.

Table 38: Distribution of the Company's procurement in 2021, by number of suppliers

Number of active suppliers	21	4,235	9,615	33

- Fuels
- Procurement of goods and services in Israel and overseas
- PV
- Private Electricity Producers

Protecting human rights in the supply chain

The Company adheres to fair employment principles among its employee, and takes any violation of rights in the terms of engagement of contract workers seriously - both as part of the procurement procedure and as part of implementation of contracts with suppliers. We ensure, in accordance with the requirements of the law, that the contracts with them are fulfilled, while protecting the workers' rights and ensuring compliance with labor laws. Among other things, Company suppliers must pay their employees on time and in accordance with the Minimum Wage Law, and provide fringe benefits and work and rest hours according to the law. Therefore, in relevant engagements, the contract documents include a provision that requires our suppliers to furnish periodic approvals from an accountant on the matter of fulfillment of duties and payments applicable to them under the labor laws, including to their employees who work at Company's sites. The Company also contracted with an accounting firm that makes sure employee rights are protected among all security, cleaning, and catering service providers.
We also have a mechanism for inquiring into, treating, and addressing contract workers' complaints.
The solution includes clarifying and addressing complaints of contract workers on the issues included in the law ,[55] collaboration with the Ministry of Economy and Industry, involvement of the Tenders Committee and forwarding recommendations regarding contractors.
No contractor worker complaints were received through the mechanism in 2021.

55. The Law for Strengthening the Enforcement of Labor Laws

Risk management in the supply chain and supplier inspections

The Company is identifying and mitigating potential supply chain risks, and it mostly focuses on safety risks, human rights risks, environmental risks, and ethical risks. Within this, the Company is managing the supply chain safety risks vis-à-vis all suppliers operating in Company sites, within the Company's "Health and Safety" policy.
The Company inspects and controls its suppliers, a process within which, among other things, protection of the suppliers' employees' rights and compliance with labor laws are examined. In addition, the tender documents include a specific section on prevention of bribery, worded by the Legal Counsel Unit, which bidders in tenders are required to sign.



Future measures and objectives

- In 2022 to 2023, the Company intends to initiate an appeal to its suppliers, for a satisfaction survey of their conduct vis-à-vis the Company.
- Completing the upgrade of the Company's supplier website, including an option to receive a personal password and independently authenticate one's identity. The objective is to shorten and make the process of logging onto the supplier website more accessible, adapt the website to smart phones and to the supplier chatbot, and allow suppliers to view their data on the Company's systems. In addition, a suppliers' rating system will be available on the website, which will allow suppliers to review the components of their rating independently and confidentially.

6

Ethics

Corporate Sustainability Report 2021

Israel Electric

Code of Ethics and its core values

The Company is committed to promotes its business while conducting itself properly and ethically across all its areas of activity. Due to this commitment, the Company formulated its five core values in a cross-organizational process that included Company managers and staff and constitute the foundation of IEC's Code of Ethics document [56].



IEC's Code of Ethics reflects our guiding principles, the vision of the revitalized company, the values we expect managers and employees to adopt and implement in their daily activities, details of the mechanisms and relevant parties to consult and report to on ethical issues, and the appendix sets out the rules of ethics in the digital domain. The Code of Ethics was written in 2011 and updated and approved by the Company's management and Board of Directors in 2019 and January 2020, respectively. The Code of Ethics applies to the Company, its directors, managers and employees. We place great importance on the integration and implementation of the Codes, and expect all of our employees, and specifically managers, to serve as role models and comply with the it. The Code of Ethics' principles and values also apply to the subsidiaries and guide the way we conduct ourselves not only in Israel but also abroad.

56 *For the Israel Electric Corporation's Code of Ethics, see https://www.iec.co.il/about/Documents/KodE.pdf.*

IEC Ethics Program

The Company has a two-year ethics integration program for 2020-2021, based on which ethics was integrated in the Company. The program is derived from the Company's Code of Ethics and core values; in 2021, it focused on in-depth implementation of two out of the Company's five core values: "Leading responsibly and reliably" and "changing courageously"

Instilling ethics

The Company's ethics function was set up in 2011; as of 2021, it comprises 160 "Ethics Ambassadors" - ethics liaisons and members of the Ethics Forum, who are in charge of integrating the Company's Code of Ethics into all Company's units in addition to their normal day job. The function is headed by the organizational ethics officer, Anat Ben Raphael, and the organizational head of integration of ethics and core values, Dalia Segev. Their job is to manage and direct employees, and act in accordance with the resolutions and guidance of management's steering committee for the implementation of the Code of Ethics and the Corporate Governance Committee. We also have an ethics program in the Company intended for all employees and managers, which includes discussions and workshops relevant to the Company and its needs in those years. The implementation of the Code of Ethics, the training program and controls over it fall within the remit of Company's management. In addition, in 2021, following past incidents of breach of integrity in the Company, the CEO ordered to conduct activities that will raise awareness for the issue of integrity using various measures.

In 2021, 7,091 employees participated in ethics integration training

The total integration percentage in the Company in 2020-2021 encompassed 97% of IEC employees

Ethics was integrated for 10,872 of the Company's 11,003 employees

Revision of the ethics integration program:

In 2021, the current ethics plan for the Company was reviewed for 2022-2023. The program provides a solution to the Company's needs, with the aim of strengthening its organizational ethics culture and its business, moral, social and economic resilience. The program and implementation schedule were approved by IEC management in January 2022.

Components of the revised two-year ethics integration program:

- Integration of general contents together with in-depth integration of three core values - "leading responsibly and reliably", "we care about people" and "we are committed to our customers' needs"
- Ethical dilemmas for all Company staff
- Ethical management dilemmas for managers
- Ethical dilemmas from the content areas of the different divisions
- All the dilemmas were reviewed based on focus groups of employees and managers with the participation of representatives of the Company's human resources departments, meetings with Company management, discussions of the ethics function in the different units, and reference to the organizational development and human capital sector.

Ethical routines

In order to create cultural, ethical and value change in the ongoing work routine, an ethical routine was built aimed at raising and strengthening the ethical discourse, creating an ethical language, raising awareness to the Code of Ethics and creating methods of integration to increase the connection and attention to the matter.
Examples of new 'ethical routine' processes:

- Integration of ethics in organizational processes, committees, courses, employee evaluations, and various publications.
- Extra mile - raising ethical dilemmas for learning and improvement in the different managements, publication and discussion of organizational climate survey findings, podcast on core values, a two-year Company-wide "happening", "ethical tips", etc.

Ethics success indicators

Success indicators were built to reflect how ethics is integrated in the Company:

- Compliance with the two-year work plan - according to schedules approved by Company management
- Review of the annual score against the results of the previous year on the question from the organizational climate survey - "Does the Company operate according to its code of ethics and core values?"
- Implementation of an "extra mile" ethical routine - raising ethical dilemmas from the field. Reviewing whether a discussion was held on the topic at least once a year in every division
- Ethical leadership - integration of ethics for employees by department managers with the guidance of the ethics function. This is in order to emphasize the importance of the matter to employees and to create engagement and participation on their part. Reviewing the percentage of integration activities provided by the managers

"Ethics integration control" system

A new information system was built to allow ethics trustees to monitor ethics integration according to the two-year integration program, while monitoring and controlling performance against targets graphically, quantitatively and in various cross-sections. The system is in the final testing phase and is scheduled to go live with start of implementation of the 2022 program.

Reporting mechanisms on ethics

The Company's employees have a number of channels through which they can report ethical issues or get advice in connection therewith:

- Intra-net ethics center - all employees and managers can contact the intra-net ethics center for a professional and pragmatic response to ethical dilemmas encountered during the course of their work, or to report violations in the matter.
- Reporting ethical breaches and receiving advice on ethical issues [57] - employees who grapple with an ethical issue, are in need of clarifications in connection with the Company's Code of Ethics, or have suspicions that the Code has been breached are advised to first speak, where possible, to a manager or employee related to the matter. Employees are also advised to contact the officers in charge and to the departmental ethics liaisons or the unit's forum members. Where the issue they raised was not handled in a satisfactory manner, employees are advised to contact the officer in charge of ethics or the head of the department dealing with the integration of the organization's ethics.
- Queries are dealt with by the ethics function; where this is required, the function or person dealing with the query - with the assistance of other parties at the Company - shall assess the case and its details. Queries are dealt with discretely while respecting the dignity of all concerned parties.

In 2021, 32 queries and requests for advice on organizational ethic issues were received in these channels
All inquiries were addressed

57. *Queries and/or complaints in connection with integrity and/or proper governance and/or breach of procedures are addressed to the internal auditor and/or the ombudsman and/or the HR department, as applicable.*

Code of Ethics for suppliers and business partners

The IEC's Code of Ethics also applies to its suppliers and business partners. In 2019, after the Code of Ethics was revised, the IEC's procurement department sent a letter to the Company's suppliers in Israel and abroad setting out the principles of the Code of Ethics. In addition, the letter emphasized the importance assigned by the Company to compliance with high standards of ethical conduct, and its expectation from the Company's managers, employees, suppliers and stakeholders to conduct themselves in accordance with such high standards and in line with the Company's values in a way that will enhance trust and collaboration.

As from June 2019, when Company's suppliers join the pool of the IEC's potential suppliers, they are asked to sign and approve the document describing the principles of the Code of Ethics and the Company's expectations from its suppliers in that context. In 2021, the Company's requirements on the matter were revised and its suppliers were also asked to confirm and sign that they have read the complete Code of Ethics published on the Company website and their consent to comply with the same standards of values that the Company has set itself.

Business partners are also asked to sign a document describing the principles of the Code of Ethics and the Company's expectations in that context. To read more, see details in the Responsible Supply Chain chapter.



Future measures and objectives

- Integration of the Code of Ethics Program for 2022-2023
- Revision of the Code of Ethics Program according to rends and needs that arose

Protecting human rights

IEC is committed to uphold employee rights and take action to promote a respectful work environment that treats all of its stakeholders with respect, fairness, dignity and care.

The Company places great importance on the upholding of human rights, and therefore takes great care in securing those rights - whether directly or indirectly through its supply chain. This includes the work environment, freedom of association, and conducting collective negotiation; prevention of discrimination and inequality; assisting welfare agencies to exhaust customer's rights with the Company, and fair employment in the supply chain. The above measures are elaborated on throughout this report.

In addition, in order to secure a work environment that is safe and free of sexual harassment, the Company formulated rules for preventing and dealing with sexual harassment, appointed an officer in charge of this issue and liaisons from among the employees. The Company also regularly communicates the importance of this matter to employees and managers through intra-organizational communication channels, in management discussions and in induction days to new employees. The Company also has in place a hotline through which employees can file complaints; it also operates mechanisms for submitting queries and reporting, and takes steps to inform employees of this issue.



7

Prevention of Bribery and Corruption

Corporate Sustainability Report 2021

Israel Electric

Prevention of Bribery and Corruption

As described in the Company's Code of Ethics, the Company is committed to treat its customers, employees, competitors, suppliers, lenders, shareholders and government agencies with respect, integrity, fairness and reliability. We strictly uphold incorruptibility and integrity in all of our areas of activity, work to prevent corruption and avoid giving or accepting bribery - directly or indirectly; we avoid any act or action of embezzlement or fraud; taking advantage the Company's business opportunities for personal gain, and any situations or actions in respect of which conflict of interest may arise between the good of the employees and the good of the Company.



Main points of the Company's anti-embezzlement, fraud, bribery and corruption policy

We pursue an uncompromising policy of compliance with the law including in connection with embezzlement, fraud, bribery, and corruption, takes proactive measures to prevent bribery and corruption at all levels in the Company and upholds integrity. In addition to the foregoing, we work in accordance with procedures, guidelines, policies, codes and programs [58] for dealing with the prevention of bribery and corruption and that address the various issues involved in this matter, including:

- Procedure on the "Prohibition of Bribery and Enforcement Function" (hereinafter - the "Enforcement Procedure")
- Procedure regarding the "Prevention of Conflict of Interest and Maintaining Integrity", which deals with avoiding situations or actions that might result in a conflict of interest between the good of the Company and the good of the employee, including in connection with gifts and entertainment
- "Embezzlement and fraud risk management" procedure
- "Gifts and Advertising Products to Outside Parties" procedure
- The Company's Code of Ethics
- Corporate Governance Code
- The Israeli Corporations Authority's circular on "Donations of Government Companies, Government Subsidiaries and State-Owned Enterprises"
- Circular on "Sponsorships and Collaborations by Government Companies and/or Government Subsidiaries" of the Companies Authority
- Company's Procedure on "Use of the Company's Facilities by an External Party for Community and Cultural Activities"
- Company Procedure on "Conduct During Elections and Avoidance of Political and Partisan Activities in the Company"
- Company's procedure on "Internal Audit and Public Complaints Commission"
- The procedures on "Arrangements for Protecting Whistleblowers who Report Violation of the Law, Offenses and Breach of Integrity"
- The Procedure on "Suspected Criminal Offenses by Company Employees"
- Supervision of Contract Work procedure
- A program for mitigating embezzlement and fraud risks
- IEC procedure - Addressing Disciplinary Offenses

All provisions of the law and of the Company's internal procedures are binding, apply to all of the Company's units and employees and published on the Company's website. Furthermore, as a publicly-listed company and a reporting corporation, the Company is committed to proper disclosure to its investors, through financial statements and immediate reports on material events in the Company, as required by law.

58. *For details of the Company's procedures, see the freedom of information page on the IEC website - https://www.iec.co.il/freedomofinformationact/pages/nehalim.aspx*

Management, Control and Supervision of Embezzlement, Fraud, Bribery and Corruption Risks

As part of Company's anti-bribery and corruption activities, the audit, risk management and enforcement functions take steps together to manage and mitigate the risk of embezzlement and fraud, including prohibition on giving and accepting bribes. For optimal management of the matter, the Company took several measures:

Appointment of responsible parties

- An embezzlement and fraud controller
- The VP Operations & Logistics is responsible for risk management (”risk owner”) and serves as the party responsible for the enforcement program and for bribery and corruption issues.
- A supreme steering committee for embezzlement and fraud headed by the Company’s VP Operations & Logistics, whose role is to supervise issues pertaining to Company’s risks on the matter; the committee also serves as a professional forum on this issue.

Mitigation Program:

The Company has a systematic master plan whose aim is to mitigate embezzlement and fraud risks. This program, which has existed since 2016, was approved by the Company CEO and Board of Directors, and is implemented Company-wide. The program covers various aspects of embezzlement and fraud, including - the prohibition on accepting bribery, the prohibition of giving bribery and the enforcement function. Under the program, the recommendations of internal surveys are implemented; a performance control function was established to review implementation of the mitigation program. Relevant Company procedures are also implemented and periodic reports are delivered by the risk controller to the steering committee for embezzlement and fraud, headed by the VP Operations & Logistics who was defined as the “risk owner” (the party in the Company responsible for risk management) for embezzlement and fraud, and to the various Board of Directors’ committees. In addition, the Company appointed 10 risk trustees, who function as an executive arm that implements the mitigation program in the different divisions in addition to their positions in the Company.

Program for prohibition on bribing foreign civil servants

The Company has a program for prohibition on bribing foreign civil servants program setting out the Company’s procedure in 2016: “Prohibition on Bribery and Enforcement ”, which is included in compliance guidelines published by the Legal Council in August 2017 as well as the guidelines and training for key parties in the Company, update of international engagement documents and operation of a compliance enforcement mechanism. The program was formed according to the guiding criteria that were established, inter alia, by the OECD, the general bribery prohibition under Israeli law, and control procedures.

Risk Surveys

In 2021, the Company continued to validate the risk of sensitive positions, conducted embezzlement and fraud surveys in the engineering project division. The Company is also conducting a lateral bribery and corruption survey that includes proactive control, applies to subsidiaries and investees, includes a maturity model, etc.

Online Course and Training

In 2021, the Company continued to take measures to integrate an organizational culture according to the guidelines of the anti-embezzlement and fraud policy, including training and seminars; it also provided focused training to the network service division and distributed training and newsletters on the matter to managers and all Company employees. In addition, in 2021 a cross-Company campaign took place on awareness to anti-embezzlement and fraud.

Joining Anti-Bribery and Corruption Forums

The Company is currently considering joining relevant anti-bribery and corruption forums. At the time of writing this report on May 8, 2022, the Electric Company was added to the Israel Business Integrity Forum of Transparency International Israel. The company was awarded a certificate confirming its membership after it was found that IEC complies with the requirements of the protection mechanisms against corruption which are a condition for membership in the forum .

The organization is a branch of the global Transparency International - TI movement, which operates through more than 100 branches worldwide to promote a World Free of Corruption.

Furthermore, the internal audit unit operates continuously to assess the risks of embezzlement and fraud, suspected bribery, corruption and breach of integrity, including:

- The internal audit reports dealing with corruption risks are presented in the Board of Directors' Audit Committee meetings; the annual and the semi-annual report of the internal audit function, which refer to all of its activities during the reporting period - including in the field of embezzlement and fraud risks and the activities to uphold integrity - are submitted to the Audit Committee and Board of Directors plenum, and discussed by the Audit Committee.
- The Internal Audit Unit's multi-year work plan focuses, inter alia, on embezzlement and fraud risks, based on risk surveys, previous audit reports that pointed out embezzlement and fraud risks, past events, etc.
- Every audit and review are conducted bearing in mind the embezzlement and fraud risks in the area under audit or review; where specific events occur, organization-wide consequences are also considered.
- Reporting Channels for Complaints to Internal Audit Unit and Ombudsman Function

We make available to employees, suppliers, customers or the general public, a variety of channels for complaints and reporting about suspicions about improper conduct or of corruption and violations of morals, either openly or - through an anonymous telephone line. Contact channels are detailed both on the external website and on the company's internal website.

- Contact details of the Internal Audit Unit:
  https://www.iec.co.il/content/content-pages/review
- Contact details of the Ombudsman function :
  https://www.iec.co.il/content/ombudsman/ombudsman-lobby/ombudsmanlobby *

The Internal Audit Unit, that handles complaints dealing with proper administrative procedures and moral purity, has reporting channels and work interfaces [59] with the Public Complaints Commission - the handler of customer experience and service quality complaints, because such complaints may sometimes also expose suspected inappropriate behavior.

* *More details on public complaints in chapter 2 on page 86*

59. *As of writing this report in May 2022, as part of the organizational change in the Company, the ombudsman activity moved from the Internal Audit Unit to the Service, Marketing and Regulation Division.*

Reports and information regarding complaints dealt with by the Internal Audit Unit are delivered to the Company's CEO, the Audit Committee and the Board of Directors, both as part of specific reports and in the semi-annual and annual reports of the Internal Audit Unit. This alongside data about the number of complaints filed, the number of complaints dealt with, the types of complaints, the results of the investigation of the complaints, etc.

The Unit initiates and participates in various Company workshops and forums and delivers training sessions on topics related to integrity. In addition, as part of its routine activity, the Unit initiates work interfaces and meetings with the Company's other "gatekeepers"[60] for the purpose of coordinating, collaborating, and brainstorming, including in the area of embezzlement and fraud risks.

Handling reports on incidents of corruption

The "Suspected Criminal Offenses" procedure provides that it is the duty of a Company employee who becomes aware of an act that raises concern of a criminal offense being committed by another Company employee, to report it immediately. The procedure lists the parties to whom such report should be delivered, how the Company should deal with such a concern and the link between such treatment and the holding of an internal disciplinary procedure. According to the Enforcement Procedure, Company employees who become aware of an act that breaches the procedure, the law or the convention or any concern of such, will report it to the Supervisor and the relevant officers. The Supervisor will investigate the case and the nature of the breach and will act in accordance with the procedure to address the case. The Company's Procedure for "Handling Disciplinary Offenses" regulates the internal disciplinary treatment by the Company in cases of conduct that contradicts the obligations of the Company's employees under the provisions of the law and the Company's procedures.

Protecting whistleblowers

The Company has a dedicated procedure for "Protecting Employees who Report Violations of the Law, Offenses and Breaches of Integrity" (hereinafter - the "Whistleblower Procedure"), which is based on the relevant provisions of the law. This procedure regulates the manner for filing complaints and reporting violations of laws, offenses, acts of corruption and breach of integrity or proper governance. The procedure also regulates ways of addressing it and protecting the complainant, including keeping their identity and details confidential, not have their work conditions adversely affected, not dismissing them, etc. Furthermore, so long as the employee's complaint is being investigated, no investigation and disciplinary committee shall be set up in connection with him/her in respect of any subject other than the subject of the complaint, except for cases where the summons in question is from an investigation and disciplinary committee that was set prior to the submission of the complaint by the employee.
The Internal Audit Unit operates in accordance with the Whistleblower Procedure and each case is examined on its own merit, in coordination with the legal unit. In accordance with the procedure, there are a number of units in the Company that are involved in handling this issue, including the Human Resources Division and the relevant management staff.
Generally, the Company provides legal assistance to employees against whom legal proceedings are instigated in respect of an act or omission they committed as part of and while doing their work in the Company (subject to various conditions and tests).

60. *Gatekeepers: embezzlement and fraud controller, Legal Unit, Investigation Unit, Risk Management Unit, SOX Department, Ethics Officer, etc.*

Prevention of bribery and corruption among suppliers and third parties

A comprehensive Company-wide guidance, which is revised periodically, was published by the Legal Counsel on "Rules of Conduct" with regard to compliance applicable to the Company in contractual engagements with suppliers and service providers and in contractual engagements with customers, business partners and intermediaries in the business development and innovation segment and IEC's investee companies (hereafter - the "Compliance Guidance").

This guidance includes practical rules of conduct that Company's units are required to adhere by in order to enhance compliance regarding bribery and corruption, anti-terrorism, prohibition on trading with enemy countries, and money laundering issues. The Guidance also includes instructions for the Company's units regarding the wording of statements and commitments to be included in the documents for contractual engagement [61] with third parties (including suppliers, service providers, customers, business partners and intermediaries) regarding the above compliance areas.

In the cases listed in the Guidance, based on the scope and level of risk, "red light" tests must be carried out using reports of consulting and research companies (e.g., convictions, indictments, investigations and proceedings conducted against the supplier in the relevant areas of compliance), and more in-depth tests in the cases set out in the Guidance. The Guidance also includes a provision to examine blacklists [62] in the cases listed in it, for entities with which the Company engages. Furthermore, according to the provisions of the Guidance, the parties with which the Company engages must be checked periodically against the blacklists.

The statements and contract clauses pertaining to compliance (inter alia, the prohibition of corruption and bribery) that third parties are required to sign were distributed to the Company units (and are available in the internal organizational portal) also in English.
Furthermore, the annual report required from the Company's units under the enforcement procedure, contains a section verifying that the compliance sections are included in the relevant contractual engagements, according to the provisions of the compliance guidance.
In addition, there is also dedicated guidance on mediation transactions and engagements with advisors on prevention of corruption and giving of bribes.
For more information, see the bribery and corruption statement on page 210 of the sustainability report for 2020.[63]

The IEC has in place various controls over the engagement processes as part of its routine activity:
Thus, for example, the Internal Audit Unit examines information and complaints received through the various channels, inter alia in connection with engagements with suppliers and external parties. Where relevant findings arise, they are reported to the management, to the CEO, Audit Committee and the Board of Directors, as the case may be and as needed.
The Company is also alert to any findings that may arise, from time to time, in respect of suppliers and third parties (for example as part of reports on behalf of the Internal Audit Unit and the Supervision of Engagements and Activity of the Tenders Committee), in connection with engagements with the Company, and takes action as applicable and in accordance with the circumstances.

61. *Below is a link to the page on the IEC website with guidelines for filing bids in a procedure exempt from a tender - IEC; the page contains documents setting out the general terms for procurement procedures that are exempt from a tender. Each document contains a "Legal Activity" section setting out the behavioral requirements in terms of anti-bribery and corruption: https://www.iec.co.il/content/suppliers/content-pages/request*
62. *The Company seeks to ensure that the entities with which it engages are not included blacklists, such as those of the US authorities (OFAC, US Department of State), the main (collective) list of the European Union, the list of sanctions of the UN Security Council, and the Israeli Ministry of Defense and Ministry of Finance.*
63. *The IEC's sustainability report for 2020: https://ieccontent.iec.co.il/media/xmrjwwiv/sustainability-report-2020.pdf*

Fair conduct in the Company's subsidiaries and investees

The Company is acting to integrate enforcement and/or reporting mechanisms at its subsidiaries, investees and associates,[64] as applicable. In this context, the Company mapped risk exposures of those companies, in which it instructed them to act as follows:

- **Subsidiaries** - implementation and integration of enforcement programs are to be carried out, including with regard to the issue of the prohibition of bribery, with the required changes based on their operations. This included the classification of attorneys for the subsidiaries and/or other parties, if necessary, as key personnel in the subsidiaries, who are required to participate in training and to sign key personnel statements accordingly, to submit an annual report(s) in accordance with the level of exposure, etc. Moreover, the Company maps exposures, reviews issues as they arise, takes periodic monitoring and supervision action involving representatives of the subsidiaries, and acts to provide guidance accordingly and as required.
- **Investees** - based on the level of the Company's control over their operations and according to the exposure arising from their operations, the Company instructed the investees or associates to take actions such as establishing/examining the existence of mechanisms or procedures for receiving information, maintaining compliance procedures appropriate for their operations, and monitoring implementation thereof. The Company checks that they comply with the requirements before making investments and acquisitions accordingly.

Supervision of Compliance in the Company

In parallel to specific embezzlement, fraud, bribery and corruption activity, the Company manages, controls and supervises its compliance risks. The Board of Directors' Corporate Responsibility Committee is in charge of supervising the Company's compliance with the provisions of the law and of procedures, circulars, guidelines, government resolutions, etc. that apply to it. Once a year, the status of the Enforcement Program is presented to the Committee, including the findings of the annual report, revisions in the law and case law, and the Committee reviews the Program accordingly. The Company's Board of Directors is updated on the progress of executing the enforcement program, according to the discretion of the Enforcement Supervisor or the Corporate Governance Committee, and in any event of issues of principle that may arise from it. Furthermore, the Committee's Chairman and Company's extended management receive the annual report that the Supervisor submits to the CEO, which summarizes the Company's activity in connection with the Enforcement Program. The members of the Board of Directors receive a copy of the notices sent by the Chairman of the Board of Directors, in accordance with Section 35 of the Government Companies Law, in cases where concerns arise of violations of the law or of integrity.

64. As defined in the Company's financial report for 2021

Prohibition on money laundering

In view of the IEC's areas of activity and the nature of its activities, it has a low money laundering risk; this is because its engagements are conducted as part of competitive procedures in accordance with the tender laws, and most of its customers are consumers of electricity. However, in order to mitigate the money laundering risk, the Company does everything in its power to pay its suppliers only by bank transfer. Nevertheless, payments to some suppliers can only be made by check; therefore, this means of payment is still used, although to a lesser extent. Furthermore, the engagement documents include suppliers' declaration on compliance with anti-money laundering laws.



Future measures and objectives

- As part of the anti-bribery and corruption enforcement program, the Company produced an updated online course that will be distributed in 2022 among key individuals in the different units.
- In 2022, the Company will continue to conduct a lateral bribery and corruption survey that includes proactive control, applies to subsidiaries and investees, includes a maturity model, etc.
- The risk function, enforcement function and Internal Audit Unit is continuing its extensive work to prevent bribery, corruption and protect integrity as described above, in all aspects of its activity.

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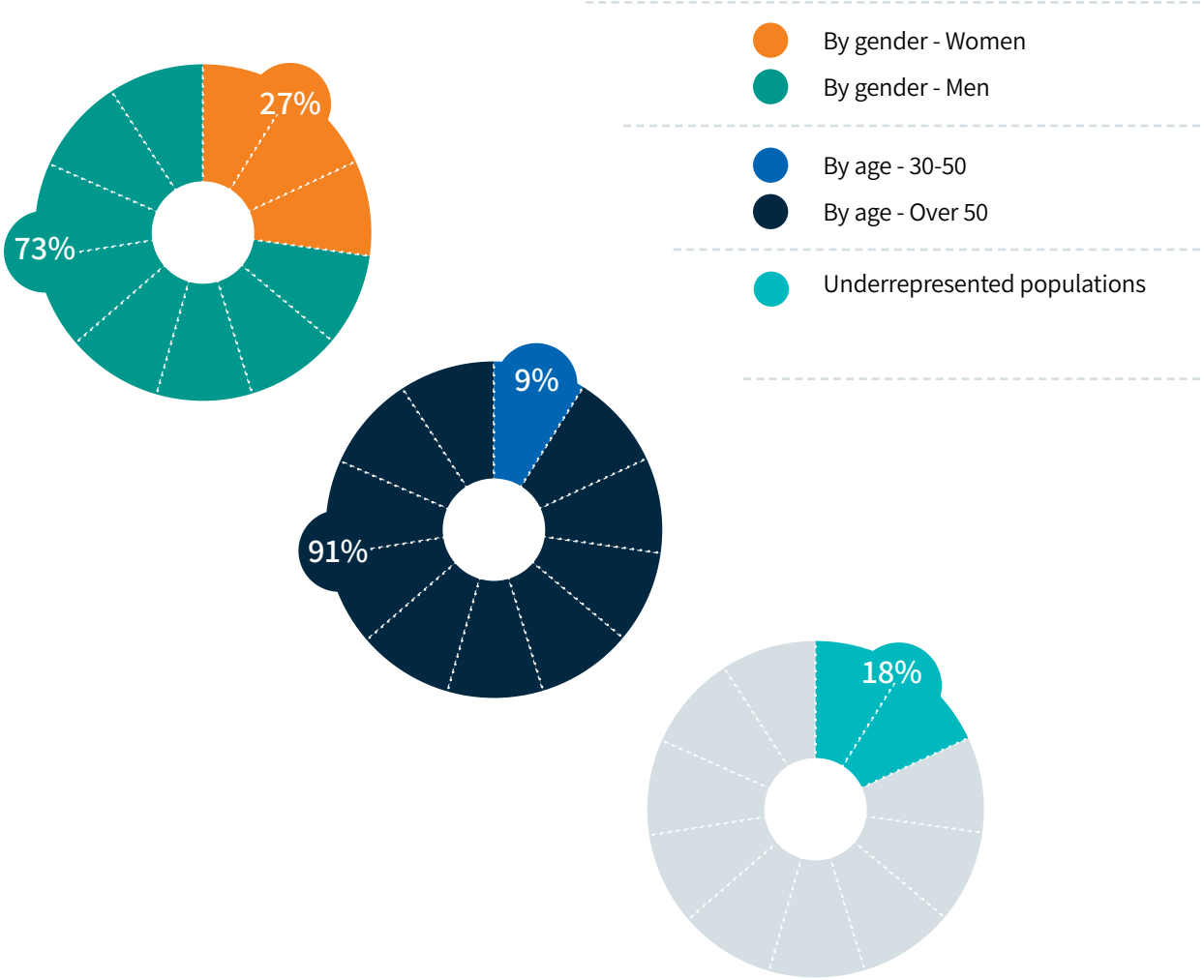
Appropriate Business Conduct

Corporate Sustainability Report 2021

Israel Electric

The Company is a government-owned company, a publicly traded company, and a reporting corporation, and as such, it considers its appropriate, effective corporate governance to be of the utmost importance. The Company has a corporate governance code formulated and approved by Company's Board of Directors (hereinafter - the "Code"); the said code includes the laws, regulations, guidelines as well as different legal provisions applicable to the Company, including the Companies Law, the Government Companies Law and Regulations promulgated thereunder, the Securities Law, the Electricity Sector Law, the Streamlining of ISA Enforcement Procedures Law, the Economic Competition Law, the Environmental Protection Law and the regulations promulgated there under. The regulation included provisions regarding the composition of the Board of Directors and its work, the powers of the Board of Directors, competency criteria of the directors and the method of their appointment, directors' compensation, and rules for ensuring the accuracy of the financial statements and the report of the Board of Directors.

Graph 30: Board members - breakdown by age and gender



Board of Directors

Table 39: Board Members

Major General (Res.) Yiftah Ron-Tal	Chairperson [65]

Members of the Board As of December 31, 2021

Ms. Dvora Sonia Hassid	A director from among the public, independent, with professional qualifications.
Mr. Efraim Refael Henig	Director from among the public with accounting and financial expertise and professional qualifications
Mr. Arieh (Arik) Forer	An independent external director with accounting and financial expertise
Mr. Yaki Ya'akov Vadmani	A director from among the public, independent, with professional qualifications
Mr. Yoav Druker	A director on behalf of the employees, with professional qualifications
Mr. Shlomo Arbiv	An independent external director with accounting and financial expertise and professional qualifications
Ms. Diana Halabi Hassoun	An independent director from among the public, with professional qualifications
Mr. Manela Avraham Mordechai	Director from among the public with accounting and financial expertise and professional qualifications
Mr. Meir Ben Uri Spigler	A director from among the public, with professional qualifications
Mr. Nissim Alon	A director from among the public, with professional qualifications
Ms. Anat Oren-Elad	A director from among the employees with accounting and financial expertise, professional qualifications, and managerial experience

Iindependent | External | Among the public | Among the employees

65. *On August 1, 2021, Mr. Yiftah Ron-Tal's tenure as Chairman of the Board of Directors ended. As of the end of the reporting year, the Chairman of the Board of Directors' successor was not named. On April 6, 2022, Dov Baharav was named as the chairman of the Company's Board of Directors, but he resigned on April 26, 2022. Consequently, the Companies Authority launched an investigation.*

The Board of Directors' purview and activity - the Corporate Governance Code:

In 2012, the Company's Board of Directors approved a Corporate Governance Code (hereinafter - the "Code"). The Code was revised in 2017 and approved by the Corporate Responsibility, Regulation, Rates and Environmental Protection Committee (hereinafter: the "Corporate and Social Responsibility Committee" and by the Board of Directors' plenum. In 2021, the Corporate Social Responsibility Committee authorized immaterial amendments to the code, and a written report was made to the Board of Directors.

The Code describes, among other things, the Board of Directors' roles and powers in accordance with the Companies Law, the Government Companies Law, guidance issued by the Government Companies Authority and by the Israel Securities Authority, including rules of conduct and ethical and legal provisions that the Board of Directors and management are bound by. The Code reflects the Company's managerial world view and values, regulates work-related interaction between management and the Board of Directors, and the Board of Directors' activities and its areas of responsibility and powers. The Code is based on the Companies Law, the Government-Owned Companies Law, and guidelines by the Government Companies Authority and the Israel Securities Authority.

The Code's highlights are presented below:

- Definition of the managerial framework and the principles underlying the work of the Board of Directors and its committees, its powers, roles and decision-making processes, including laying out of the Company's policy and supervising its execution by the CEO and management, and work-related interactions between them and the Board.
- The Code includes the key provisions of the laws relevant to the Company's activities and the regulations promulgated thereunder, the Company's Memorandum, Articles of Association and procedures, regulatory provisions and policy guidance pertaining to the work of the Board of Directors.
- The Code incorporates the director's rights and obligations, including: compliance with the provisions of the law, abiding by professional practices in the work environment, ethics, prevention of conflict of interests and benefits, prevention of taking advantage of the Company's opportunities, prevention of the use of insider information, maintaining confidentiality and the duty to report inappropriate behavior and/or concerns regarding a criminal offense.
- Defining the roles of the Chairman of the Board of Directors, the principal of which is to take action to promote the proper and efficient functioning of the Board and to comply with its obligations.
- The lists the topics requiring the approval of the Board of Directors, the manner of passing resolutions and the dates on which they will be discussed, in accordance with the laws applicable to the Company and in accordance with its policy.
- The Code refers to the Board of Directors' activity at times of crisis or during extraordinary events, and to the requirement that the Board discusses the effectiveness of the steps it takes.

Appointment of directors

As a government company, the Company's directors, other than external directors, are appointed by the relevant ministers after consulting the Committee for Reviewing Appointments in Government Companies [66]; the said Section requires that the competency and suitability of candidates to serve as directors, chairperson of a board of directors, and CEO in a government company be checked.

Composition of the Appointment Review Committee:

The Committee is headed by a representative of civil servants or public service employees, whose identity is decided by the Attorney General; the said employee should be eligible to serve as a District Court Judge.

The Committee members –

- A public figure whose identity is set by the Chairman of the Committee and is subject to the competency conditions applicable to a chairman of a board of directors as set out in the Government Companies Law; the said public figure should have no personal, business or political interest in any of the government's ministers.
- A representative of the Government Companies Authority.

External directors are appointed in accordance with section 239(B) of the Companies Law, that stipulates that a publicly traded Company's external directors are to be appointed by the general meeting, as long as one of the following conditions is met:

- The count of votes at the General Meeting will include a majority of all the shareholder votes that are not controlling shareholders in the Company or who have a vested interest in approval of the appointment excepting a vested interest that is not the result of the candidate's connections with the controlling shareholder, that are participating in the vote; in the count of all votes of said shareholders abstentions will not be taken into account; for those who have a vested interest, the provisions of Section 276 to the Companies Law shall apply, with necessary modifications;
- The total number of votes against among the said shareholders shall not exceed two percent of all voting rights in the Company.

Competency criteria when appointing directors

The competency criteria for service as a director on behalf of the state are set out in the Government Companies Law and the regulations promulgated thereunder, and in various government directives, including in relation to offering as a candidate for service as a director a person who has a personal, business or political affiliation to any of the government ministers, which may be approved under extraordinary circumstances and when such an appointment is worthy beyond any doubt due to the candidate's unique contribution. Furthermore, qualifications were set to competency criteria for service as a director, the term in office, terms of service, provisions on the expiry of directors' term in office and suspension of directors, and provisions regarding the prohibition of personal and institutional conflicts of interests.

66. *The Government-Owned Companies Appointments Committee operates under section 18B of the Government Companies Law*

Qualifications of the Board members

In accordance with the decision of the Board of Directors, the minimum number of Company directors possessing accounting and financial expertise will be five. The Company believes that this number will allow the Board of Directors to fulfill its duties as per the law and the Company's constitutional documents. As of December 31, 2021, the Board of Directors had eleven directors with experience in senior executive positions, of which, four had accounting and financial expertise. For more information on the directors' experience and education, refer to the consolidated annual report on the Company's website, Chapter D – Additional Information about the Corporation for 2021, page 10, article 26 – the Corporation's Directors.[67]

A director's term in office

According the Companies Law, a company director is appointed for a period of three years at most starting on the date on which his/her appointment came into effect. A director who has ceased to hold office can be reappointed after the ministers' approval. An external director in the Company is appointed for a period of three years and the Company may appoint him/her for two further three-year periods.

Directors' compensation policy

The compensation paid to directors from among the public is determined in accordance with the Company's classification [68] based on the amounts specified in the Government Companies Regulations (Rules on Compensation and Expenses to a Director from Among the Public in Government Companies) 1994. Since the Company is a publicly-traded company, the compensation paid to external directors is in accordance with the Companies Regulations (Rules for Compensation and Expenses for an External Director), 2000.

Preventing conflict of interest in the Board of Directors

The Company's Board of Directors must avoid all conflicts of interests, pursuant to the law and pursuant to the Code. Before they are appointed, each director signs an undertaking to avoid conflict of interests, and whenever they are in doubt regarding the above, the director warrants to reach out to the Company's legal counsel, and in relevant cases, the Company's secretary looks into the issue and works out a specific arrangement for the conflict of interests. The directors also complete questionnaires to detect any conflict of interests, and the Company also regularly makes sure to detect and lawfully authorized transactions in which a director has or might have a vested interest, and it is working to adopt transaction authorization criteria according to Chapter 5 of Part 6 of the Companies Law.

67. *https://ieccontent.iec.co.il/media/bhdieg0b/year2021.pdf*

68. *The Government Companies Authority classifies government companies in accordance with different parameters such as: the integrity of the company's activity; its efficiency; complexity and more. The Company's classification is relevant to a number of issues related to the Company, such as payment of compensation to directors in accordance with the Government Companies Regulations. In view of its size and the complexity of its activities, the Company was classified to the highest classification level by the Government Companies Authority.*

Maintaining the Board of Directors' independence

The IEC ensures to have in place appropriate corporate governance by, among other things, adopting a Corporate Governance Code it strictly adheres to, and by implementing the provisions of the law. The Company has two external directors (as of the end of 2021). Furthermore, four out of the eleven Board members are independent directors. Other than directors who are Company employees, Company directors do not report to the CEO, whether directly or indirectly; the compensation paid to directors is determined in accordance with the provisions of the law.

The IEC has internal procedures and various control and supervision mechanisms, including, among other things, approval of transactions with interested parties and adoption of transaction approval criteria in accordance with the Fifth Chapter of the Sixth Part of the Companies Law; questionnaires for identifying directors' conflict of interest, and conflict of interest arrangements signed by directors upon their appointment as Company directors.

Effectiveness of the Board of Directors' work

In July 2020, the results of an examination of the effectiveness of the Board of Directors' work were presented to the Board of Directors; the examination was carried out by an outside party, based on an examination model proposed by the Government Companies Authority. All suggested improvements were implemented in 2021.

Board of Directors' meetings

The Board of Directors convenes at least once a month in accordance with the Company's needs and an annual schedule of meetings set by the Chairman of the Board of Directors in November of each year. In 2021, the Board of Directors gathered according to the Company's needs, and 33 Board of Directors' meetings were held in total. The quorum for holding a Board of Directors meeting is three directors; such a meeting will not last more than 4 hours, except in exceptional cases and at the approval of the Chairman of the Board of Directors. Other than directors, Board of Directors meetings are attended by a representatives of the Government Companies Authority whose position is equivalent to that of a director, despite the fact that he/she is not counted in the quorum and he/she has no voting right. Furthermore, the Company's CEO, Deputy CEO, VP Finance, Legal Counsel, Board of Directors' Secretary, Internal Auditor Spokesperson are also invited to the meetings. The Company's independent auditor is invited to all meetings of the Board of Directors and/or Board of Directors committees, and takes part in all meetings dealing with the financial statements and in meetings discussing deficiencies in the management of the Company's businesses, the role of the independent auditor or other topics as decided by the Chairman of the Board of Directors. Furthermore, as and when needed, advisors to the Board of Directors and others attend the meetings in accordance with their areas of expertise at the approval of the Chairman of the Board of Directors or the Chairman of the relevant committee. At the end of Board of Directors meetings, the Chairman holds, at his discretion (including at the request of a director), a discussion attended only by directors.
In 2020, 33 Board of Directors' meetings were held, and the average attendance rate was 95%.

Board of Directors' committees

The Board of Directors committees' authorities and each committee's respective composition were set in accordance with the Companies Law, and membership thereof comprises external directors and independent directors, in accordance with statutory requirements.

Table 40: Audit Committee

The committee's composition	**Mr. Shlomo Arbiv (Chairman of the Committee)** **Mr. Manela Avraham Mordechai** **Mr. Meir Ben Uri Spigler** **Ms. Diana Halabi Hassoun** **Ms. Dvora Hassid**
12 meetings held in 2021 100% % of attendance	**Main powers, roles and purview of the committee:** • To assess and examine defects in the Company's business management, the internal auditing, or in the implementation of Company procedures, and manners of addressing the detected defects. • To inspect the Company's operational efficiency. • To decide whether to authorize actions and transactions that require the committee's permission under the law, and to determine the type of actions or transactions to be authorized based on criteria to be set ahead of time, once a year. • To make recommendations to the Board of Directors, on appointing and dismissing the internal auditor. • To supervise and examine the auditor's independence, impartiality, and the auditing work's effectiveness. • As requested by the Chairman of the Board of Directors, the Chairman of the Committee, the CEO, or the Internal Auditor – to discuss any unusual issue that might come up at the Company. • To examine and authorize the propriety of the public process for hiring a relative. • Annually, to make arrangements on how Company employee complaints of a defect in managing the Company's business are to be addressed, on integrity, and on how such employees who complained are to be protected, and to follow up on these arrangements' implementation. • To discuss and authorize the annual and multiannual auditing plan. • Discussing audit reports and other reports which pointed out deficiencies which require handling. • To examine the Company's internal auditing function and the internal auditor's actions. • To review the permits the Board of Directors issued for seniors to have other occupations, and to report to the Authority accordingly, every year. • The powers delegated under the law.
The committee's activity	In 2021, the Internal Audit distributed 75 auditing reports and follow-up reports. The main ones submitted to the committee

Table 41: Corporate and Social Responsibility, Regulation, Environment and Tariff Committee

The committee's composition	**Ms. Diana Halabi Hassoun (Chairperson of the Committee)** **Mr. Shlomo Arbiv** **Mr. Manela Avraham Mordechai** **Ms. Anat Oren-Elad**
2 meetings held in 2021 88% % of attendance	**Main powers, roles and purview of the committee:** • The committee advises the Board of Directors, and does not have the power to pass resolutions. • Setting, and as necessary, revising the Company's general corporate responsibility policy, on corporate governance, ethics, administrative enforcement, environmental protection and the community; and any other subject that the chairman of the Board of Directors, the Board of Directors, or the Chairman of the Committee might ask the committee to discuss. • Supervising the Company's compliance with the provisions of the law, procedures, circulars, guidance, government resolutions, etc. that may apply to it, including in the following areas: securities laws, companies laws, government companies laws, antitrust laws and environmental laws. • Supervising the Company's internal regulation. • Monitoring the implementation of the Code of Ethics and the Company's internal enforcement plans and proposing changes therein as needed. • Reviewing the wording of the Code. • Discussing State Comptroller reports, to the extent that they concern corporate responsibility, without detracting from the Audit Committee's authorities, and in coordination with the Chair of the Audit Committee. • Discussing the Company's corporate responsibility report and its corporate sustainability report. • Outlining the principles of the Company's activity vis-à-vis ministries, regulators, enforcers, the courts, and other establishment entities, that have authority over the Company under the law. • Supporting the Company in its activity with the Israeli Electricity Authority in order to formulate orderly work procedures that will enable obtaining tariff coverage as required.

Table 42: Budget, Financial Management and Risk Management Committee

The committee's composition	**Mr. Shlomo Arbiv (Chairman of the Committee)** **Mr. Efraim Refael Henig** **Mr. Arieh (Arik) Forer** **Mr. Yaki Ya'akov Vadmani** **Ms. Anat Oren-Elad**
11 meetings held in 2021 95% % of attendance	**Main powers, roles and purview of the committee:** Budgeting and financial management, including: • Reviewing and discussing the Company's budget • A discussion of loans • Cash flows and a discussion of fundraising (equity and debt). • Assessing the Company's financial structure, including its debt structure. • Following up on the short-term and long-term surplus liquid holdings. • Reviewing the economic aspects of ventures, as the committee sees fit to. • Drafting recommendations to the Board of Directors. • Risk management – holding discussions, examinations, and submitting recommendations to the Board of Directors, on these subjects: • The Company's risk management policy and the controls in place in respect thereof. • Rules of reporting to the Board of Directors, as proposed by the Company's management. • Examining the Company's risk management function, at least once a year, as set forth below: • Adapting the work framework to the Company's risk management policy, which contains a breakdown of the material risks to the Company, sets the principles for identifying, assessing, monitoring, and controlling or mitigating these risks. • Examining the set limitations on the risk and their suitability and effectiveness. • Examining the material risks that materialized or almost materialized during the period, and the conclusions of the lesson learning process that followed. • Establishing the material risks that remain "high risk" after the risk management plan's implementation. Also, setting the regular control policy (adjustment and revision), to mitigate these risks. • Examining the organizational infrastructure's suitability, the reporting infrastructure's suitability, and the flow of information, as required for the Company's risk management. • Studying the probability that the risks will materialize.

Budget, Financial Management and Risk Management Committee

Main powers, roles and purview of the committee: (cont.)

- The committee discusses the results of the Company's comprehensive risk survey, as soon as possible after it is complete, and forms its recommendation to the Board of Directors on the necessary duration for carrying out a new risk survey. According to the risk management policy (the Board of Directors authorized the most recent policy on March 31, 2022), and according to the Government Companies Authority's circular on risk management, dated January 8, 2020, the Company must carry out a comprehensive risk survey at least once every 4 years. The above was reported to the Plenum of the Board of Directors on February 20, 2022, when that circular was presented.

The committee also carries out controls of the Company's adequate insurance coverages, and it examines and authorizes the engagement with insurance companies.

According to the Board of Directors' resolution on February 20, 2020, the Company's Board of Directors will discuss the following subjects at least once a year:

- Setting the overall risk strategy, including setting the risk appetite.
- Authorizing the Company's risk management policy paper.
- Supervising and controlling the Company's annual and multiannual risk management plans (on February 4, 2021, the Plenum of the Board of Directors determined that the Budget, Financial Management, and Risk Management Board of Directors Committee will be in charge of this).
- Reporting on changes/developments/trends in the Company's risk focus areas.
- Establishing an effective risk management function.

The issues discussed at the Budget, Financial Management, and Risk Management Committee, at least once per quarter, even before they are discussed at the Plenum of the Board of Directors:

- Status of the Company's risk management activity.
- Report on material materialization/failure events in the Company in the previous quarter.
- Reporting on changes/developments/trends in the Company's risk focus areas.
- Major risks rated "high" or higher, including following up on the implementation of the risk mitigation plans.

Table 43: Compensation Committee

The committee's composition	**Mr. Shlomo Arbiv (Chairman of the Committee)** **Mr. Arieh (Arik) Forer** **Ms. Dvora Hassid**
5 meetings held in 2021 100% % of attendance	**Main powers, roles and purview of the committee:** • Making a recommendation to the Board of Directors on the executive officers compensation policy – among other things, once every three years, on extending the effectiveness of the previously set compensation policy, for a period of over three years. Furthermore, recommending on the policy's revision from time to time and looking into its implementation. • Passing resolutions on authorizing transactions that concern officers' service and employment terms, that legally required the committee's authorization. • To give exemption from the requirement to obtain the General Meeting's approval for a transaction with a candidate to the office of Company CEO, in accordance with the Companies Law. • The powers delegated under the law.

Table 43: Additional committees, No. of meetings held in 2021 and % of attendance

Engagements and Assets Committee	7 meetings	100% attendance
Business Development, Marketing and Service and Regional Cooperation Committee	1 meetings	100% attendance
Committee for Assessing Company's Preparedness for Emergencies	2 meetings	78% attendance
Financial Statements Review Committee	8 meetings	100% attendance
Strategy, Structural Change, Image and Innovation Committee	4 meetings	90% attendance
Human Resources and Organization Committee	7 meetings	94% attendance

Senior officers compensation

Officers' compensation Policy

The senior officers compensation policy is set in accordance with criteria set out in the Companies Law, including Amendment No. 20 to the Companies Law, and considerations such as: the Company's size, the nature of its activity, the Company's wish to retain the officers, and its being a government company subject to the previsions of the Government Companies Law and the regulations promulgated thereunder, and the provisions of the Government Companies Authority, which limit the Company's ability to operate independently on matters pertaining to salaries and benefits to its employees.

On November 18, 2021, the Company's Board of Directors reapproved the revised senior officers compensation policy, at the recommendation of the Compensation Committee of November 4, 2021 (hereinafter - "Senior Officer Compensation Policy"). On February 3, 2022, the general meeting of shareholders authorized the senior officer compensation policy. Within the approved senior officer compensation policy, the Company's goals and considerations and principles underlying the policy; the necessary approvals to authorize or revise the Company officers' terms of employment; parameters for examining the compensation terms; the Company officer compensation terms; compensation in connection with the termination of employment; the officer liability insurance clause; and bonus and incentive payments to the Company's senior employees, subject to the Government Companies Authority circular entitled "Principles for the Senior Employee Compensation and Incentives Model in Government Companies"; were revised, among other things.

As of December 31, 2021, the Company employs 105 senior employees who are eligible to the aforesaid compensation; said employees are employed under a personal employment contract. On July 20, 2021, the Company paid compensation of NIS 11.5 million to senior employees, after obtaining the required approvals.

Compensation Measurements Linked to Sustainability Aspects

The senior officers compensation policy includes an annual compensation model that defines metrics and goals for managers holding positions of department managers or higher; the model is approved by the Board of Directors and the Government Companies Authority. Furthermore, based on the said model, the Company formulated a compensation model for managers holding positions of deputy department managers, which is approved by the CEO. The model provides a set of measurements for which, compensation is determined based on their realization.

Company indicators

The Company has a set of "Company Indicators" which are material metrics for which an overall score is given to the Company as a whole; the score impact all senior managers even if they are not directly in charge of executing them (Company Indicator scores are weighted into the overall score of each manager). The measurement for a specific organizational unit that is directly responsible for performance will also be affected by that unit's senior managers' score. For example, the metric relating to the number of minutes during which there was no supply of power is a "Company Metric" that represents the quality of the supply of the product from which all senior managers are affected; the direct responsibility for its execution lies with the VP Network Services. The Company's other sustainability metrics include the "occupational safety metric", the "employees with disabilities hiring metric", etc.

Specific metrics for the area of practice

in addition to the "company metrics", there are compensation metrics that only affect the managers in charge of the metric's relevant areas. An example of such metrics, related to sustainability:

- The "satisfaction with the 103 service" metric – the metric applies to the Vice President of the Service, Marketing, and Regulation Division.
- The set of gender equality metrics - applies to the officer in charge of gender equality in the Company.
- Set of metrics relating to the development of human capital - applies to the deputy manager of the development and organization consulting department.
- The proper corporate governance metric - applies to the secretary of the Board of Directors, who assesses the Company's compliance with relevant requirements applicable to the Board of Directors and the Company.

Compensation of senior officers [69]

The senior officer compensation is calculated according to several elements: a fixed element, an equity element, a performance-based element, and a discretionary element. The Company's senior officers and the CEO are not entitled to the equity element. Section 7.6 of the "Prohibition on Using Inside Information, Fraud, and Securities Manipulation" procedure prohibits "insiders" [70] from trading in Company securities, except through a blind trust mechanism (currently, only one senior officer, Mr. Shlomo (Shlomi) Tsarfati, has one ordinary share in the Company; the Company's CEO does not hold any shares or other Company securities). The senior officer compensation policy also includes a clawback clause, that entails a demand that the paid compensation will be returned if the engagement is terminated under circumstances in which the officer's rights to severance pay can be lawfully revoked; or in circumstances in which the officer participated in conduct that caused the Company unusual harm through unlawful activity, a violation of the fiduciary duty, a violation of or disregard for the Company's policies, rules, and procedures, deliberately or out of gross negligence. In addition, the Compensation Policy does not include a negative incentive mechanism (malus clause) The ratio of the Company's highest paid employee's gross wages to the gross median wages for the other Company employees in 2021 is 3.58, compared with 2.77 in 2020. The explanation for the difference is that in 2021, because of the Covid-19 crisis, the Company limited the hours of overtime work that could be done from home, and moreover, many employees were quarantined or on sick leave. As a result, the overtime economy payments were lower.

69. *For more information, see the periodic report for 2021, under Chapter D – Additional Information about the Corporation, page 5, article 21(A)1: Senior Officer Compensation*

70. *The definition of "insider" in accordance with Section 4.1 to the procedure, includes the Company's directors, CEO and any employee whose position or role in the Company or whose relations therewith has given him/her access to inside information.*

Shareholders' meeting

Voting by shareholders

According to the Company's Articles of Association, votes are cast in shareholders' meetings, by show of hands or on a poll (the Company is exempted from Companies Regulations with regard to voting ballots and position notices, whereby shareholders may vote through a voting ballot); therefore, shareholders who wish to take part in the meeting must be physically present in the meeting or appoint a representative on their behalf within the time tables set in the Articles of Association. In view of the Company's ownership structure and the expedients incorporated in the regulations regarding transactions with a controlling shareholder, which exempt the Company from the requirement to bring certain resolutions for approval by the General Meeting, some topics do not reach the General Meeting, including the approval of officers and directors' employment terms (other than external directors and the Chairman of the Board of Directors whose employment terms are approved by the General Meeting).

Equal voting rights - one share one vote

In order to prevent a gap between the voting rights and the rights conferred by ownership of capital, the State of Israel adopted the "one share one vote" rule, whereby an Israeli company may only issue shares with identical voting rights. The rule was adopted in an amendment to the Securities Law and incorporated in Section 46B of this law, required to maintain equal voting rights in publicly-traded companies. This principle was also incorporated in Section 66 to the Company's Articles of Association.

The Necessary Rate of Shareholders for Gathering an "Extraordinary General Meeting"

An extraordinary meeting is a general meeting of shareholders that is not an annual meeting.
Pursuant to Section 63(b) to the Companies Law, the Board of Directors of a publicly-traded company shall convene an extraordinary meeting when it decides to do so, and when any of the following demand the convening of such a meeting:

- Two directors or a quarter of the serving directors.
- One or more shareholders holding at least 5% of the Company's issued capital and at least 1% of its voting rights; or one or more shareholders holding at least 5% of the Company's voting rights.

Convening shareholders' meetings

The Necessary Rate of Shareholders for Passing a Resolution at Shareholder Meetings

The majority required to pass resolutions in an annual general meeting is a simple majority of all the votes of shareholders participating in the vote, without taking into account abstaining votes.

In an extraordinary general meeting, the majority required depends on the proposed resolution on the agenda:

- Simple majority - the approval of some resolutions requires a simple majority of the shareholders participating in the vote, without taking into account abstaining votes.
- Special majority - the approval of some resolutions requires a majority of the votes cast by the shareholders participating and voting with respect to the resolution, so long as one of the following conditions are fulfilled:

  - The count of the majority votes at the General Meeting shall include at least a majority of all the votes of shareholders who are not controlling shareholders in the Company or parties with vested interest in approval of the resolution, who are taking part in the vote; in the count of all votes of the shareholders, with abstentions not being taken into account.
  - The total number of votes against among the shareholders stipulated in condition A above shall not exceed two percent of all voting rights in the Company.

Due to the Company's ownership structure, shareholders taking part in the vote who are not controlling shareholders of the Company or do not have a vested interest constitute approx. 0.15%; therefore, even if all shareholders object a resolution, the resolution will be passed since condition b. is fulfilled whereby the total number of objecting votes shall not exceed 2%.

Restrictions on taking legal action

In accordance with the statutory provisions that apply to the Company by virtue of its nature and its operations, including the statutory provisions that apply to it as a government-owned company and as an essential service provider, the Company is limited in performing some legal actions, including the actions appearing in section 11 of the Government Companies Law, that require permission from the government or from government ministers.

Risk management in the Company[71]

Structure of the Company's risk management function



(*) The Risk Management Department is part of the Accounting Division, which is subordinate to the CFO.

(**) Company units have 50 employees who act, in addition to their formal title, as risk controllers and referents who participate in the process. Dozens of employees more are members of the different risk management teams.

Risks are an inherent part of the Company's business environment and its work and management processes, and they are affected both by external and internal factors. The Company's risks are divided into strategic risks, operational risks, financial risks, and compliance and regulation risks. The Company operates in accordance with the Government Companies Authority February 2017 circular on the subject of the "Company's Preparedness to Apply the Standard Control Model within the Audit of the Internal Control's Effectiveness," and in accordance with Government Companies Authority Circular No. 2020-13-1 on corporate risk management in government-owned companies and government-owned subsidiaries, published on January 8, 2020 (most provisions of the circular were implemented. The Company is preparing to implement the remaining new circular provisions.)

71. *For more information on the Company's risk management, refer to the 2021 financial statements on the Company's website, Part A, pages 101 to 113.*

On December 5, 2019, the Plenum of the Board of Directors authorized a comprehensive risk survey, according to the instructions in the Companies Authority's circular.

These are the main actions the Company is taking:

- Regular reports to the management and to the Board of Directors Budget, Financial Management, and Risk Management Committee, as well as annual reports to the Plenum of the Board of Directors.
- Oversight of all risk management subjects in the Company, through a risk management committee, headed by the Chief Risk Officer.
- Periodic risk surveys.
- Identifying new risks according to the goals and examining their ramifications for the Company, including setting a policy on handling them.
- Setting the Company's aggregate risk exposure (risk appetite), to enable appropriate business conduct to meet the stakeholders' expectations.
- Preparing work plans to lower the risk level and/or integrate controls/preventative actions and integrating them into the Company's activity.
- Using a digital risk management IT system.
- Ensuring business continuity for critical processes in case of disruptions such as a state of emergency and/or an emergency.

The risk management policy's goals include, among other things:

- Mitigating risk to reach the Company's operational, financial, strategic, and other goals; and minimizing losses resulting from failure events that the Company is exposed to – all, while meeting the Company's aggregated risk exposure limits.
- Early detection of the risks that might affect the Company's goals as soon as possible, by mapping the relationship between the Company's or the divisions' goals and risks that might diminish them, while implementing work plans to mitigate them.
- Implementing an effective risk management culture among managers, to increase awareness of risk management in decision-making processes, including improving the follow-up and control of risk mitigation processes.

For more information about risk management in the Company, see the Company's 2021 annual report.

Preparedness for business continuity during emergencies[72]

The importance of Company's operational continuity is heightened at times of emergency, bad weather, security conflicts or stress events such as the coronavirus pandemic. In such periods, the collaboration and coordination between all emergency agencies in Israel are critical, and the Company must harness its capabilities, many years of experience and the uncompromising dedication of its employees to raise to the challenge.
According to the circular by the Government Companies Authority on risk management, published on January 8, 2020, the purpose of the business continuity function is to make sure it is possible to perform some actions or restore the Company's operations when required in cases of disruptions, such as states of emergency and/or emergencies. Within this, business continuity plans were drafted, set by the Vice Presidents.
The management team members are in charge of identifying critical processes whose continuity is vital; prepare work plans to handle scenarios that might interrupt their continuous operation until business returns to the usual; and drill and inform the relevant task forces, including securing the necessary resources for performance. The Company emphasizes reinforcing awareness of the existence and recency of the business continuity management policy, including drills on restoring critical processes, both in the framework of the Company's drills to prepare for the summer and winter, and individually.

The Company has a "Strategic Plan to Create Awareness and Emergency Preparedness", and its highlights were first presented and authorized in a Board of Directors discussion on August 14, 213. The issue is presented before the Board of Directors annually, and the plan's status was last updated before the Board of Directors on December 21, 2021. The plan is based on instructions by the Government Companies Authority, as set out in the Companies Authority's circular on the subject, dated July 11, 2012. The plan includes the Company's policy and targets for continued functional continuity and the emergency electricity supply, based on defined priorities: first and foremost, essential enterprises, and then the Company's other customers.
The Company has a number of procedures that regulate its emergency preparedness, such as:

- Procedure for the Company's preparedness for a chemical weapons attack;
- Procedure for addressing an emergency at substations and switching stations;
- Procedure for administering first aid and evacuating employees from the Company's yards;
- Procedure for preparing the Company in an emergency, crisis or stress;
- Preparedness for and handling of an earthquake and/or tsunami event, etc.

The policy bought an insurance policy to cover damages and indirect expenses resulting from natural disasters, fires, explosions, pollution, and mechanical impact.

A steering committee, headed by the Vice President of the Operations and Logistics Division, to address earthquakes and tsunamis, that has four subordinate subcommittees, is planning and performing the Company's preparedness for these events, to minimize and mitigate casualties and damage to facilities from such events and minimize the rehabilitation time following such an event.

72. *Other resources on the subject of the Company's emergency preparedness: the annual report for 2021, Part A – Description of Company Operations, pages 103-105 (regulation and new legislation, preparedness for and management of safety events, natural disasters, and emergency events, explosions and fires, data protection and cybersecurity, and telecommunication systems' availability); Part B – Board of Directors Report on the State of the Company's Affairs," pages 3-4, section A.1.C.3.*

The steering committee has set a multiannual work plan to handle earthquakes and tsunamis, including seismic surveys in some Company sites and an analysis of different scenarios, through which, the "Achilles' heels" that might be compromised are identified. Based on the analysis of these scenarios, recommendations are made to reinforce and anchor different electricity system components, and their implementation is included in the different subcommittees' work plans. The Board of Directors has also appointed a subcommittee to support and control of the Company's emergency preparedness, that engages in this activity. The Company reports of its activity on the subject to the National Earthquake Preparedness Committee.

Because of the essential services the Company provides to the State of Israel and its residents, it might be at risk and be a target of hostile actions against its facilities, including cyber operations. For this reason, the Company extensively guards its facilities and receives instructions from authorized parties on different security issues, including the National Emergency Management Authority (NEMA), the Israel National Cyber Directorate, the Ministry of Defense, the Israel Police Force, the Home Front Command, and others. As for the electricity production, the Company has assessed this threat, and it is taking precautions concerning employees in its facilities.
The insurance policies the Company acquires normally exclude terrorism and warfare damage, which are covered through a special fund provided by the State of Israel to compensate against terrorism and warfare damage, under the Property Tax and Benefits Fund Law.
The Company also drafted a "Plan to Respond to a Warfare Scenario" based on an aggregated reference scenario that comprises multiple scenarios, received from the National Emergency Management Authority (NEMA). The plan was authorized by the management, the Ministry of Energy, and the Israeli Electricity Authority.
With the Ministry of Energy, the Israeli Electricity Authority, the Ministry of Defense, and the Home Front Command, the Company is improving protection at critical points to the electricity sector; it is also closely cooperating with the Ministry of Energy, the Areal Defense System and the Ministry of Defense, to gain the ability to actively protect critical Company sites. Within this project, interception systems are currently deployed in selected Company sites.

The Israeli electricity sector is considered an electric "desert island". For this reason, the Company makes sure to keep a store of fuels, material, and equipment, to handle emergencies and operational failures, and it is topping up its strategic emergency reserve for the electricity sector to use in accordance with Cabinet Resolution No. 116B. The Company is also working to increase redundancy in the electricity sector, and among other things, it will work to convert coal-fired production units to using natural gas and to retain the coal-fired units at the Orot Rabin Power Plant.

The Company is working with the Ministry of Energy's Emergency, Safety, Information, And Cyber Department and the national authorities; putting together scenarios and defining plans to address them; preparing emergency plans and procedures; setting the emergency service levels; making sure to lock down the emergency manpower; making sure to reinforce operational continuity in the electricity sector; operating an organizational and a personal robustness function; training and drilling employees and systems in different scenarios; and drawing lessons and conclusions from actual events and drills and following up on their implementation. The Company is also playing a part in national drills, Ministry of Energy drills and drills initiated by other ministries, designated authorities, the Home Front Command and the Israel Police Force, at the national level and at the local/district level. The Company also carries out two national drills a year, to prepare for the summer and the winter (details below – "Extreme Weather Event Risk Management").

The Company's control and command systems are constantly being upgraded and updated, to improve the snapshot composition capabilities. Within this, a system was developed to manage events, make assessments and compose snapshots; the main operational headquarters and the substitute operational headquarters for the CEO were established; and new emergency headquarters were established for the VPs. The Company is revising the relevant emergency procedures, and it is working with other parties in the electricity sector, such as the Power Authority (a designated Ministry of Energy authority, in charge of the electricity sector's operational continuity during emergencies) and the Ministry of Energy, to set common procedures for the essential national enterprises and essential enterprises at the Company according to the new organizational structure, and the Power Authority carries out inspections of the defined Company enterprises.

The Company has security and firefighting functions, and search and rescue teams serving as first responders, including all the means required at times of emergency.
The Company is maintaining a capable independent rescue function, including procuring suitable equipment and performing relevant training, and it is maintaining a relationship and a collaboration with first respondents (Fire and Rescue, Magen David Adom, the Israel Police Force), to improve the first response to natural disasters. Furthermore, the Company makes preparations for business continuity in relation to its computer and communications systems, the office of the spokesperson for the Company and information to the public.

The Israel Electric Corporation is realizing the changes from the reform in the electricity sector, including preparing to reassign the responsibility for the Power Authority, which is in charge of operational continuity during emergencies, from the IEC to Noga, the government-owned electricity system management company, and it is practicing and drilling its emergency operations under the changed circumstances following the reform in the electricity sector. Within this, the Company vacated the emergency operation headquarters in the system management facilities that were assigned to the Noga Company within the reform agreements, and built two new operational headquarters for use in emergencies.

Throughout 2021, the Company also continued to ensure functional continuity and the electricity supply, including during the Corona pandemic; it is being conservative about the pandemic and following strict guidelines, as set by the CEO and the Company's management, all while consulting with Company doctors and the special advisor on the pandemic, Professor Meir Oren. The Company encouraged its employees to get the vaccine, and protected its critical employees against contagion. The Company also built state-of-the-art designated computational tools to receive continuous status reports on the rate of sick, quarantined, and vaccinated employees, while utilizing employee reports, human resources, and a variety of geographical analysis capabilities. The Company has taken a conservative approach in allowing entry to sites, and as of 2021, entry into the sites is conditioned on presenting a green pass or being tested for Covid-19. Throughout the period, the Company also operated as the Power Authority, in full cooperation with private electricity producers; helping them as necessary; reporting to them of any action required to fight against Covid-19; and keeping in continuous touch with the Ministry of Energy and other designated authorities, regarding the pandemic.

Extreme Weather Risk Management

The Company is preparing for its continued functional continuity during extreme weather events. Company divisions are performing preparedness actions, including:

- Preparing for higher peak demands than expected, according to the forecast;
- Reinforcing the substation units;
- Transmission and distribution lines maintenance according to the work plans;
- Trimming foliage and stripping;
- Updating division-wide procedures on setting up headquarters during states of emergency and ensuring their operational readiness.

The Company also established an upper-level steering committee headed by the CEO, for the Company's preparedness for extreme weather events resulting from the climate crisis and global warming.

The committee defined the risks that follow from climate change, including extreme precipitation, heavy snowfall, strong wind, floods, extreme sandstorms or dust storms, mud avalanches, extreme thunderstorms and heat waves and cold waves. The Company is cooperating with professional entities to predict weather events, in order to anticipate these events' frequency and severity in the future.

Every year, the Company carries out two national preparedness drills for the summer and the winter (the summer preparedness drill was completed in May 2021, and the winter preparedness drill was completed in October 2021). Before these drills, all of the Company's auxiliary IT systems and control systems are checked, and the divisional and departmental operational headquarters' preparedness is examined. The drills address the need to improve preparedness, including the need for critical processes' functional continuity. After each drill, a methodical process was carried out to draw conclusions, and the conclusions' implementation is followed up on. The Company also participates in national drills, General Staff drills, Ministry of Energy drills, and other ministries' and infrastructure entities' drills. The Company is also developing control systems to perform preventative actions and to quickly respond to events, to restore the electricity supply to its customers as quickly as possible.

Following the extreme weather events in Europe in July 2021 following climate change, in August 2021, a management team was established to prepare the Company to the risk of "extreme weather events". As part of the process, which is underway, themes were established to map out the risks, identify the different units' level of exposure to climate risks, and form risk and exposure indicators for different divisions, to draft suitable mitigation plans. The team met three times in 2021, and it will complete its work process by the end of 2022.

Claims and legal proceedings

For complete information about claims and legal proceedings, including the subject of the claim and the status of the proceedings, see the Company's financial statements for 2021, Chapter C - Consolidated Annual Financial Statements, Note 35 - Agreements, Claims, Contingent Liabilities, and Labor Disputes:[73]



73. *The Company's financial statements for 2021 – https://ieccontent.iec.co.il/media/bhdieg0b/year2021.pdf*

External Assurance Statement
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Israel Electric

External Assurance Statement

Background

Good Vision - Corporate Responsibility Consultants Ltd., of the Fahn Kanne Group, was commissioned by the IEC to perform external assurance regarding its ESG Report for 2021. The company was established in 2002 and has undertaken more than 100 consultation jobs in all spheres of ESG. The company is certified by the British AccountAbility organization to perform due diligence for corporate responsibility reports.

This external assurance was performed in August-September of 2022 for a fee and in a manner as objective and professional as possible, based on information provided by the IEC. The company is not affiliated with and its business is not dependent on the IEC. For proper disclosure purposes, it should be noted that several years ago the company assisted and advised the IEC regarding ESG issues.

This is the second time that Good Vision performed due diligence for the IEC. The company's consultants who deal with ethics, corporate governance, community involvement and the environment took part in the due diligence process. The external assurance findings are intended for publication among all IEC stakeholders (internal and external).

Methodology

This due diligence review is based on two methodologies for reviewing the compliance of the report with the mandatory reporting requirements: GRI reporting guidelines based on SRS, and principles of due diligence based on AccountAbility's AA1000AS V3 standard, at Type 1 Moderate level, which aims to test the reliability of the report.

Work process

The reporting adequacy of the IEC's Sustainability Report for 2021 was tested by reviewing and analyzing documents that record relevant data and work processes, as well as several rounds of questioning and clarification conversations with IEC officials about how the data is collected and presented in accordance with generally accepted principles. In this context, it is important to note that the work was carried out with the cooperation of and transparency by the IEC staff. Furthermore, part of the due diligence findings that were forwarded to the IEC had already, while writing this report, been corrected and appear in the report.

The review included compliance of the report with, among other things, the following principles:

- **Inclusivity** - reviewing the report of all A-level indicators that must be reported (full report on the managerial approaches to all material issues and all current core benchmarks in the 3G-GRI Reporting Guidelines), and reviewing the extent to which the report provides comprehensive information to all stakeholders and gives them the option to respond.
- **Materiality** - reviewing the extent of reporting on significant sustainability issues for various stakeholders.
- **Responsiveness** - reviewing the extent of transparency in reporting material sustainability issues and their implications, and the IEC's progress and responsiveness with regard to them.
- **Impact** - review of the indices used to enable monitoring of the IEC's broad impacts. At the end of the external assurance process, a detailed report was submitted to the Company, presenting the main issues of the process, and including an extensive explanation of findings and recommendations, a summary of which appears at the end of this External Assurance Statement.

Findings:

According to the due diligence review, the process as described above and based on the material given to us, we can conclude that the IEC's Sustainability Report for 2021 complies with the reporting requirements of the GRI-SRS reporting guidelines. Furthermore, the report also complies with the AccountAbility reporting principles.

AA1000
Licensed Report
000-13/V3-HIC4R

As part of the due diligence review, we found that the report addresses material topics as required by the GRI-SRS. We believe that the report presents the data comprehensively and clearly, and extensively describes the Company's sustainability and ESG activities. In our opinion, the report was written reliably while basing on relevant data and documents. Nonetheless, we recommend that the following topics be expanded and/or be reported in the next report:

Recommendations for Future Reports

- To observe methodological consistency in the baseline years with respect to data comparison, compared to previous reports.
- To expand the reporting of data according to the SASB standard.
- To present the goals set in the 2020 report and the Company's compliance with them in each chapter, and set new goals for 2022/3. If the goals were not met - to explain why.

GOOD VISION
Corporate Responsibility Consultants

Ivri Verbin, CEO
Good Vision - Corporate Responsibility Consultants
September 2022

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1 *Ratio of the annual total compensation for the organization's highest-paid individual to the median annual total compensation for all employees.*

2 *Ratio of the percentage increase in annual total compensation for the organization's highest- paid individual to the median percentage increase in annual total compensation for all employees.*

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