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Israel Corporation Ltd.

Registrar Number: 520028010

Form 133

Securities of the Corporation are listed in the Tel Aviv Stock Exchange

Public

Sort name: Israel Corporation

Address: P.O.B. 20456, Tel Aviv 61204

Tel: 03-6844517, 6844500, Fax: 03-6844587

Email: NOGAY@ISRAELCORP.COM

Date of Transmission: 17/11/2009

Reference: 2009-01-286533

To:	To:
<u>The Securities Authority</u>	<u>The Tel Aviv Stock Exchange</u>
www.isa.gov.il	www.tase.co.il

Immediate Report on a Transaction between a Company and a Controlling Shareholder therein

According to Regulation 2 of the Securities Regulations (a Transaction between a Company and a Controlling Shareholder therein), 5761-2001

1. An Immediate Report on a transaction between a company and a controlling shareholder therewith is submitted herewith.
{Attached pdf file}
2. The date of transaction's approval by the board of directors *17/09/2009*.
3. Reference number of preliminary report 2009-01-235656, submission date 21/09/2009; the principal changes made to this Report in comparison to the previous draft of the preliminary report: N/A - the preliminary report was deposited with the Securities Authority and amended in accordance with its representatives' directive and final approval.
4. Type of the transaction

No	Type of Transaction
1	Other Share Purchase

5. Financial Statements according to regulation 6(f) have been attached to the report; Name of CPA Ziv Haft, BDO

A Review/ Opinion of a CPA for the attached Financial Statements, is identical to the originally signed copy that was submitted to the Company.

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If Financial Statements have not been attached, the reason shall be specified
the corporation is a public company _____

6. Professional opinions have not been attached to the report
7. Date of the meeting convening: 28/12/2009 at 12:00.
Address: 23 Aranha Street, Millennium Tower, Tel Aviv.
8. Stock Exchange security number entitling its holder to participate at meeting 576017,_____.
9. The effective date for determining entitlement to participate in and vote at the meeting: 26/11/2009.
10. Details on the Company's representative with regard to dealing with the transaction report, including the address of his office and the telephone and fax number

Advocate Noga Yatziv, and/or Advocate Jack Smith, from 23 Aranha Street, Tel-Aviv, telephone: 03-6844517 fax: 03-6844587

11. Attached: Wording of a written vote Statement of position

{Attached pdf file}

Internet website address where voting may be done: _____

The e-mail address to which a stock exchange member may deliver material which he is required to provide to the Company pursuant to Regulation 4 (c) (1) of the Companies regulations (*Written Vote* and *Statements of Position*), 5766 – 2005:

Reference of former documents in this regard (referring does not constitute incorporation by reference): 2008-01-184182

Former name of reporting entity:

The Israel Corporation Ltd.

Form structure updated 18/10/2009

Name of Electronic Reporter: Noga Yatziv. Position: Company's Secretary.
Aranha 23, Millennium Tower, Tel Aviv 61204. Phone – 03-6844517, Fax: 03-6844587, e-mail – nogay@israelcorp.com

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ISRAEL CORPORATION LTD.

WRITTEN VOTE

**Pursuant to the Companies Regulations (Written Vote and Statements of Position),
5766 - 2005 (hereinafter: "the Voting Regulations")**

First Part

1. **Company Name:** Israel Corporation Ltd. (hereinafter: "**the Company**").
2. **Type of Meeting, time and place of its convening:** Special General Meeting which is to be held at the Company's offices at 23 Aranha Street (Millennium Tower), Tel Aviv, on Monday, December 28, 2009 at 12:00 (hereinafter: "**the Meeting**") and at every adjourned meeting.
3. **Details of the Issues on the Agenda for which Voting May Be Made through the Written Vote:**

On the Agenda:

Approval of the Company's engagement with respect to the purchasing of 80% of O.P.C. Rotem's (hereinafter: "**OPC**") issued and paid-up share capital from Ofer Brothers (Energy Holdings) Ltd. (hereinafter: "**Ofer Energy**"), a company belonging to the controlling group of the Company, in consideration for the repayment of 80% of OPC's expenses funded by Ofer Energy at the dates and terms defined in the agreement between the Company and Ofer Energy, and all as detailed in the transaction report filed by the company simultaneously with this Written Vote (hereinafter: the "**Transaction**" and "**Transaction Report**" respectively).

A Brief Description of the Main Points of the Proposed Resolution:

It is proposed to approve the Company's engagement in the Transaction stipulated in the Transaction Report.

4. **Viewing of Documents:** Shareholders of the Company can view the Transaction Report and the other documents regarding the proposed resolution

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of the General Meeting, at the Company's offices, Sunday through Thursday, between the hours 09:00 - 16:00 after prior coordination at telephone 03-6844500, and on the website of the Securities Authority and the Tel Aviv Stock Exchange Ltd., as provided below.

5. **The Required Majority:**

The majority required at the meeting to approve the said resolution is a majority of the votes of those present at the meeting, by themselves or by a Proxy instruments, who are entitled to attend the vote, provided one of the following will obtain: (a) on reckoning votes of the majority at the special meeting there will be included at least one third of all the votes of the shareholders not having a personal interest in approving the resolution in question, and who are present at the meeting; on reckoning all the votes of those shareholders, abstentions will not be taken into account; (b) the total number of votes of those opposing from among the shareholders mentioned in sub-paragraph (a) above, will not exceed the rate of 1% of all the voting rights in the Company.

6. **Personal Interest:**

In the second part of the Written Vote, a place is left to mark whether a shareholder has a personal interest in the said vote and for a description of the nature of the personal interest. Where a shareholder has not marked the said place or not described the nature of the personal interest, his vote will not be taken into account.

7. **Validity of the Written Vote**

7.1 The Written Vote will only be valid if confirmation of ownership of the unregistered shareholder is attached to it (that is to say, someone in whose favor the shares are registered with a stock exchange member and those shares are included amongst the shares registered in the shareholders' register in the name of a nominee company), or a photocopy of an identity card, passport or certificate of incorporation, as the case may be, if the shareholder is registered in the Company's books.

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- 7.2 This Written Vote, plus the documents attached to it, must be delivered to the Company's offices up to 10:00 of the day of the meeting. In this matter the time of the delivery is the time at which the Written Vote and the documents attached to it reach the Company's offices.
8. **The Company does not allow voting through the Internet.**
9. **The address for the delivery of the written votes and statements of position:** At the Company's offices, at 23 Aranha Street (Millennium Tower), Tel Aviv.
10. **The last day for the delivering of the statements of position:** Statements of position of a shareholder may be submitted up to 10 days after the Effective Date for the determining of entitlement of a shareholder in the Company to vote at a general meeting, as stipulated in Section 182 of the Companies Law, which is on November 26, 2009. A statement of position which will include the response of the Company's board of directors may be submitted by no later than five days after the last date for the sending of position statements by shareholders as stated above.
11. **The addresses of the distribution Web site and the Internet Web site of the stock exchange on which the written votes and the position statements are to be found:**
- The distribution Internet Web site of the Securities Authority: www.magna.isa.gov.il
 - The Internet Web site of the stock exchange: maya.tase.co.il
12. **Additional comments as required under the Voting Regulations:**
- 12.1 A shareholder is entitled to receive the confirmation of ownership, as defined in Section 71 of the Companies Law, at a branch of a stock exchange member or to be sent by mail, if he requests this. A request in this matter will be given in advance to a specific securities account.
- 12.2 A shareholder who is not registered is entitled to receive a link by e-mail, without charge, of the wording of a Written Vote and statements of position on the distribution site from a stock exchange member

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through which he holds his shares, unless he has notified the stock exchange member that he is not interested in receiving such links or that he is not interested in receiving statements votes by mail in consideration for payment; his notice in the matter of the Written Vote will also apply in the matter of receiving the statements of position.

12.3 One or more shareholders holding shares at a rate that constitutes 5% or more of the total of the voting rights in the Company and also anyone holding the said rate out of the total of all the voting rights which are not held by a holder of control in the Company, as defined in Section 268 of the Companies Law, is entitled to view the Written Vote as detailed in Regulation 10 of the Voting Regulations.

12.3.1 As of the date of the sending of this Written Vote, the quantity of shares constituting 5% of the total of voting shares in the Company is: 381,988 ordinary shares at a par value of NIS 1 each of the Company.

13.3.2 As of the date of the sending of this Written Vote, the quantity of shares constituting 5% of the total of the voting shares in the Company which are not held by a holder of control in the Company are: 172,360 ordinary shares at a par value of NIS 1 each of the Company.

12.4 A shareholder will indicate the manner of his vote regarding every issue on the agenda and for which he can vote through this Written Vote, in the second part of the Written Vote.

**

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ISRAEL CORPORATION LTD.

WRITTEN VOTE

**Pursuant to the Companies Regulations (Written Vote and Statements of Position),
5766 - 2005 (hereinafter: "the Voting Regulations")**

Second Part

Part A:

1. **Company Name:** Israel Corporation Ltd. (hereinafter: "The Company").
2. **Company No.:** 52-002801-0
3. **Company Address (for delivery and dispatch of written votes):** 23 Aranha Str. (Millennium Tower), Tel Aviv.
4. **The Time of the meeting:** on Monday, December 28, 2009 at 12:00 and any adjourned meeting.
5. **Type of meeting:** Special General Meeting.
6. **The effective date:** on Thursday, November 26, 2009
7. **Voting on the internet:** The Company does not allow voting over the internet.

Part B (to be filled in by the shareholders);

1. **Shareholder's Details**

1.1 Shareholder's name: _____

1.2 ID No.: _____

1.3 Passport No. (if the shareholder does not hold an Israeli ID card):

1.4 The country in which the passport was issued (if the shareholder does not hold an Israeli ID card): _____

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1.5 The passport is valid until (if the shareholder does not hold an Israeli ID card): _____

1.6 The corporation No. (if the shareholder is a corporation): _____

1.7 The country of incorporation (if the shareholder is a corporation): _____

2. **Manner of Voting**

The Subject on the Agenda	The Manner of the Voting ¹			Are You a Holder of control or Someone on His Behalf ²	
	For	Against	Abstain	No	Yes*
Approval of the Company's engagement in the transaction to purchase 80% of O.P.C. Rotem's issued and paid-up share capital from Ofer Brothers (Energy Holdings) Ltd. as stated in the Transaction Report which was published by the Company simultaneously with the publication of this Written Vote.					

*** Please specify the nature of the relevant link:**

3. **Notes Pursuant to the Voting Regulations:**

¹ Not filling in this part will be deemed as abstention from voting on the subject.

² A vote of a shareholder who has not filled this column or who has filled it in "yes" without specifying will not be counted.

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- A. Shareholders holding shares through a stock exchange member (pursuant to Section 177 (1) of the Companies Law, 5759 – 1999) - this Written Vote is only valid if confirmation of ownership is attached.
- B. For shareholders registered in the Company's register of shareholders – a valid Written Vote together with a copy of a ID card/passport/ certificate of incorporation.

Date: _____

Shareholder's Signature

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17 November 2009

Israel Corporation Ltd. (hereinafter: the "Company")

Transaction Report according to the Securities Law Regulations (Transaction between a Company and a Controlling Shareholder therein), 5761-2001 (hereinafter: the "Report") and the convening of an extraordinary general meeting for approval of the Transaction contemplated under the Report

1. **Preamble** – on 25 August 2009, the Company's audit committee and on 17 September 2009 the Company's board of directors approved the Company's execution of a transaction for the acquisition of 80% (eighty percent) of the issued and paid-up share capital of O.P.C. Rotem Ltd. (hereinafter: "**O.P.C.**" and the "**Transaction**"), a private company holding the rights to set up a power plant of approx. 400 installed megawatts at Mishor Rotem, by virtue of its having won, in 2004, a tender published by the Ministry of National Infrastructures and the Ministry of Finance (hereinafter: the "**Mishor Rotem Plant**" and the "**Project**"). As of the date of the Report, the issued and paid-up share capital of O.P.C. is held by: Ofer Brothers (Energy Holdings) Ltd. (80%) (hereinafter: "**Ofer Energy**") and a subsidiary of Siemens GmbH (20%) (hereinafter: "**Siemens**"). Dalkia Israel Ltd. entered into an agreement dated 25.9.2008, for the acquisition of Siemens' holdings in O.P.C. (20%) (hereinafter: "**Dalkia**"). The agreement with Dalkia is conditional upon conditions precedent. The (indirect) controlling shareholders of the Company have a personal interest in the Transaction contemplated in this Report or are liable to be considered as having a personal interest therein, considering that the controlling shareholders of the Company (which is the purchaser in the framework of this Transaction), indirectly, are also the controlling shareholders, indirectly, of Ofer Energy (which is the vendor in the framework of this Transaction).
2. **Summary of the essentials of the Transaction** – For the purpose of executing the Transaction, the Company has executed the following agreements: an agreement between the Company, O.P.C. and Ofer Energy, according to which the Company will purchase from Ofer Energy, the shares of Ofer Energy in O.P.C., constituting 80% of the issued and paid-up share capital of O.P.C. (hereinafter: the "**Sold Shares**" and the "**Purchase Agreement**"). b. In accordance with the Purchase Agreement, Ofer Energy undertook to assign in favor of the Company various agreements which were signed between Ofer Energy, on the one hand and Dalkia, on the other hand; which regulate the relations between the shareholders of O.P.C. (hereinafter: the "**Shareholders Agreements**") and the Company undertook to accept such assignment of the agreements. In accordance with that was stated in the Purchase Agreement, the Company will be purchasing the Sold Shares from Ofer Energy on a date which falls seven days after fulfillment of the conditions precedent under the Purchase Agreement, as set out below (hereinafter: the "**Share Transfer Date**").

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The Sold Shares are to be purchased by the Company in exchange for their nominal value and in addition, the Company will provide a loan to O.P.C. in a sum equal to the amount of the owners' loans which Ofer Energy provided to O.P.C. for the purpose of advancing the project in setting up the Mishor Rotem plant thereby (in addition to linkage to the CPI and annual interest at the rate of 4%). The Company's aforesaid loan will be made available to O.P.C. on two different dates, the first part thereof on the Share Transfer Date and the balance thereof, on the date of the Project's financial closing. The loan by the Company will serve O.P.C. in order to repay the owners' loans provided to the Company by Ofer Energy, as aforesaid. The amount of the owners' loans provided by Ofer Energy, as of the date of publishing this Transaction Report, totals a sum of roughly NIS 15.5 million and is expected to reach, according to the Project budget, a sum of almost NIS 16.5 million, by the end of 180 days from the date of signing the Purchase Agreement (the end of the period of the conditions precedent).

The Purchase Agreement is contingent upon approval, by the Company's general meeting, of the Transaction contemplated in this Report, by the end of 180 days of the date of signing the Purchase Agreement.

3. Personal interest in the Transaction and nature of the personal interest

- a. The controlling shareholders which are considered or are liable to be considered as having a personal interest in approval of the Transaction, are Millennium Investments Elad Ltd. (hereinafter: "**Millennium**") and Ofer Investments Group Ltd. (hereinafter: "**Ofer Investments**").
- b. Millennium, which holds approx. 46.94% of the share capital of the Company, is owned by Mashat (Investments) Ltd. (hereinafter: "**Mashat**") and Ofer Investments (80% and 20%, respectively). Mashat is a private company which is indirectly held, through foreign corporations, by a foreign (discretionary) trust, of which Mr. Idan Ofer is a principal beneficiary. Ofer Investments is a private company which is wholly owned by Ofer Holdings Group Ltd. (hereinafter: "**Ofer Holdings**"), a private company that is held in equal shares by Orona Investments Ltd. (hereinafter: "**Orona**") (a company controlled indirectly by Mr. Ehud Angel) and Lynav Holdings Ltd. (hereinafter: "**Lynav**"). Mr. Ehud Angel holds a special share which confers on him, *inter alia*, under certain restrictions and for specific matters, an additional vote at the board of directors of Ofer Holdings. Lynav is controlled by a foreign (discretionary) trust of which Idan Ofer is a beneficiary. Similarly, Ofer Investments holds, directly, approx. 2.93% of the share capital of the Company and Mr. Idan Ofer holds, directly, approx. 3.85% of the share capital of the Company. It is further noted that Kirby Enterprises Inc. (hereinafter: "**Kirby**"), which is held, indirectly, by the foreign trust that owns Mashat, as aforesaid, of which Mr. Idan Ofer is a beneficiary, holds approx. 0.74% of the share capital of the Company.

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- c. Ofer Investments and Lynav hold, directly, approx. 75% and 25%, respectively, of the share capital of Ofer Energy, which is the vendor in the framework of the Transaction.
 - d. The personal interest of Ofer Investments in the Transaction's approval is due to its holdings in Ofer Energy and in the Company and due to its being held, indirectly, *inter alia*, by Lynav, which also has holdings in Ofer Energy.
 - e. The personal interest of Millennium, the controlling shareholder of the Company, is due to its being held by Ofer Investments and by Mashat, in respect of which Mr. Idan Ofer is a beneficiary of the trust that has an interest therein
 - f. The personal interest of Idan Ofer is due to his being a beneficiary of the trust that has holdings in Ofer Investments and in Lynav which, on their part, have holdings in Ofer Energy and due to his being the beneficiary of the trust which has indirect holdings (*inter alia*, through Mashat) in Millennium, the controlling shareholder of the Company.
 - g. The personal interest of Kirby the Transaction's approval, is due to Mr. Idan Ofer being a beneficiary of the foreign trust which has holdings in Kirby, indirectly.
 - h. In light of the possibility that Bank Leumi Le-Israel B.M. (hereinafter: "BLL") will finance and/or participate in the financing of the Project, the Company believes that for the purpose of approving the Transaction at the general meeting of the Company, BLL might be considered as having a personal interest in approving the Transaction contemplated in this Report.
4. **The personal interest of directors and the nature of the interest** – The directors Idan Ofer, Ehud Angel, Amnon Leon, Yossi Rosen and Ron Moskowitz have - or are liable to be considered as having – a personal interest in the Transaction. Mr. Idan Ofer is a beneficiary of the trusts which hold, indirectly, the controlling shareholder of the Company and is a principal beneficiary of the trust which holds Ofer Energy, indirectly and he also serves as chairman of the Company's board of directors and as a director of Ofer Energy. Mr. Ehud Angel has holdings, indirectly, in Ofer Investments, which has holdings both in the Company and in Ofer Energy and he serves as a director both of the Company and of Ofer Energy. Mr. Amnon Leon serves as a director both of the Company and of Ofer Energy. Messrs. Yossi Rosen and Ron Moskowitz are liable to be considered as having a personal interest by virtue of the positions which they fulfill at companies that are affiliated with the controlling shareholder of the Company. Mr. Moshe Vidman, who serves as a director of BLL, has a personal interest in the Transaction and possibly Mr. Zeev Nahari, who serves as a senior assistant general manager of BLL, is liable to be considered as having a personal interest (although he is not an interested party in BLL) in the Transaction.

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5. **Notice of the convening of an extraordinary general meeting** – Notice is hereby given of the convening of an extraordinary general meeting of the shareholders of the Company, to be held at the offices of Israel Corp. Ltd. at Millennium Tower, 23 Aranha Street, Tel-Aviv, on Monday, 28 December 2009, at 12:00 hours, whose agenda includes approval of the Transaction contemplated in this Report (hereinafter: the "**Meeting**").

The majority that will be required at the Meeting for approving the Transaction in accordance with the Report, including at an adjourned meeting, is an ordinary majority of those present at the meeting, in counting the votes of the shareholders, in person or through their proxies, provided that one of the following is fulfilled: (a) a count of the majority of votes, includes at least one-third of the votes of the shareholders that do not have a personal interest in approval of the Transaction, who participate in the vote (the votes of the abstainers will not be taken into account in the said count of all the votes); (b) the total of opposition votes amongst the shareholders referred to in paragraph (a) above will not exceed one percent of all the voting rights in the Company. The effective date for deciding the eligibility of a shareholder of the Company to vote at the general meeting, as provided in section 182 of the Companies Law, is on Thursday, 26 November 2009 (hereinafter: the "**Determining Date**").

In accordance with the Companies Regulations (Proof of Ownership of a Share for the purpose of Voting at the General Meeting), 5760-2000, a shareholder in whose favor a share is registered with a member of the Tel-Aviv Stock Exchange Ltd. and which is included amongst the shares of the Company which are registered in the register of shareholders in the name of a nominee company and who is interested in voting at the general meeting, shall provide the Company with confirmation from the stock exchange member with whom his right to the share is registered, of his ownership of the share, on the Determining Date, in accordance with form 1 of the Addendum to the said Regulations. A shareholder may appoint a proxy will be able to participate in the general meeting and vote on his behalf, in accordance with the provisions of the Company's articles of association. The proxies are to be deposited at the Company's registered office at least 48 hours before the time scheduled for the Meeting or for the adjourned meeting. The written vote will be carried out by means of the second part of the ballot, as published by the Company. The addresses of the Securities Authority and of the Tel-Aviv Stock Exchange Ltd. at which it is possible to find the wording of the ballot and the position papers, within their meaning in section 88 of the Companies Law, are as follows: - the distribution site of the Securities Authority: <http://www.magna.isa.gov.il> (hereinafter: the "**Distribution Site**").

The site of the Tel-Aviv Stock Exchange Ltd. is <http://maya.tase.il>. A stock exchange member is to send, via e-mail, free of charge, a link to the wording of the ballot and the ballots on the Distribution Site, to each shareholder who is not registered in the register of shareholders and whose shares are registered at such stock exchange member, unless the shareholder has informed the stock

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exchange member that he is not interested in receiving such link or has notified his wish to receive ballots by mail, in exchange for mailing fees only. The ballot and the documents which are to be attached thereto (hereinafter: the "**Attached Documents**"), as detailed in the ballot, must be delivered to the Company's offices up until 72 hours before the time of convening the Meeting. For this purpose, the "time of delivery" is the time at which the ballot and the Attached Documents arrived at the Company's offices. The final date for furnishing position papers is up to 10 days after the Determining Date. A quorum will be constituted when five shareholders, holding at least twenty five percent of the voting power at the Company, are present, in person or via proxy, within half an hour of the appointed time for commencing the meeting. If a quorum is not present within half an hour of the designated time of the meeting, the general meeting will be adjourned for one week, to the same day, time and venue, without any obligation to notify the shareholders to this effect. If a quorum is not present, at the adjourned meeting, within half an hour of the time scheduled for the meeting – the members present thereat will constitute a quorum.

6. **Examination of documents** – The shareholders of the Company may examine the Report and the other documents relating to the Transaction contemplated in the Report at the Company's offices, on Sundays through Thursdays, during normal office hours.

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Israel Corporation Ltd. (hereinafter: the "Company")

Transaction Report according to the Securities Law Regulations (Transaction between a Company and a Controlling Shareholder therein), 5761-2001(hereinafter, respectively: the "Controlling Shareholder Regulations" and the "Report") and the convening of an extraordinary general meeting for approval of the Transaction contemplated in the Report

1. Introduction and description of the fundamentals of the Transaction

- 1.1 On 25 August 2009, the Company's audit committee and on 17 September 2009 the Company's board of directors approved the Company's execution of a transaction for the acquisition of 80% (eighty percent) of the issued and paid-up share capital of O.P.C. Rotem Ltd. (hereinafter: "**O.P.C.**" and the "**Transaction**"), a private company holding the rights to set up a power plant of approx. 400 installed megawatts at Mishor Rotem, by virtue of its having won, in 2004, a tender published by the Ministry of National Infrastructures and the Ministry of Finance (hereinafter: the "**Mishor Rotem Plant**" or the "**Project**" and the "**Tender**", respectively). See also the summary report published by the Company in the matter on 21.9.09 (reference no. 235416-01-2009).
- 1.2 As of the date of the Report, the issued and paid-up share capital of O.P.C. is held by: Ofer Brothers (Energy Holdings) Ltd. (80%) (hereinafter: "**Ofer Energy**") and a subsidiary of Siemens GmbH (20%) (hereinafter: "**Siemens**"). Dalkia Israel Ltd.³ entered into an agreement dated 25.9.2008 for the acquisition of Siemens' holdings in O.P.C. (20%), at cost price⁴.
- 1.3 The consideration which the Company is to pay in the framework of the Transaction contemplated herein, is identical to the consideration that was agreed in the transaction with Dalkia, *mutatis mutandis* (resulting from the percentage shares of holdings being purchased by the Company, see section 3.2 below). For a breakdown of the total costs of the transaction to the Company, see section 3.6 below.

The agreement with Dalkia is conditional upon the following conditions precedent: the signing of an operation & maintenance agreement and the signing of a shareholders agreements in the operation & maintenance company; the signing of a power purchase agreement with the Israel Electric Corporation (hereinafter: "**IEC**") (this agreement was signed on 2 November 2009); approval of the

³ Dalkia Israel Ltd. is held by Dalkia International SA (100%), which is held by Dalkia SA (75.45%), EDF (Electricite de France) (24.14%) and others. Dalkia SA is held by Veolia Environment (66%) (a public company traded on the Paris stock exchange) and EDF (34%).

⁴ The agreement was actually signed with Ofer Energy, which assumed responsibility, on behalf of Siemens, for completing the transaction for the sale of its holdings in O.P.C.

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State that was received on 4 November 2009, approval of EIC (received on 2 November 2009) and the Anti-Trust Commissioner (to the extent necessary) for a transfer of the shares.

- 1.4 In accordance with the terms of the Transaction, during a period of 16 months from the date of signing the power purchase agreement with EIC, which, as mentioned, was signed on 2.11.2009 (hereinafter: "**PPA**"), the Company does not have any significant financial exposure due to the Transaction (see section 3.5.4 below), except to reimburse Ofer Energy in a sum of approx. NIS 1.6 million, which Ofer Energy has borne in the recent months (see section 3.2 below) and to bear around 80% of the Project's development costs, which in relation to this period (16 months) are estimated in an amount of NIS 12 million. The Company's financial exposure in the case of O.P.C. terminating the PPA in the period **after** the end of the said 16 months and up until the date designated for commercial operation of the plant, is 80% of the liquidated damages which O.P.C. is to pay under the PPA, an amount estimated, as of the date of the Transaction Report, at approx. NIS 5.5 million and will not exceed NIS 75 million (linked to the Index), all as specified in section 23.1.8 of the Profile.

Section 3.6 of the Transaction Report details (in a table) the Company's costs and exposure during the different stages of the Transaction and of setting up the Project.

- 1.5 In the Transaction contemplated hereunder, the controlling shareholders (indirectly) of the Company have a personal interest or are liable to be considered as having a personal interest, considering that the controlling shareholders of the Company (which is the purchaser in the framework of this Transaction), indirectly, are also the controlling shareholders, indirectly, of Ofer Energy (which is the vendor in the framework of this Transaction).
- 1.6 O.P.C. is described in accordance with the Controlling Shareholder Regulations, in the profile attached hereto as **Appendix 'A'** (hereinafter: the "**Profile**").
2. A copy of O.P.C.'s financial statement as of 30.6.2009, is attached hereto as **Appendix 'B'**.
3. **The essence of some of the provisions of the agreements and their principal details are presented below:**

The Purchase Agreement

- 3.1 On 17 September 2009, an agreement was signed between Ofer Energy, O.P.C. and the Company, according to which the Company will purchase from Ofer Energy 80% (eighty percent) of the issued and paid-up share capital of O.P.C. (hereinafter: the "**Sold Shares** " and the

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"Purchase Agreement") on the date of transferring the shares, which will fall seven days after fulfillment of the conditions precedent under the Purchase Agreement, as set out below (hereinafter: the **"Share Transfer Date"**).

- 3.2 The Sold Shares are to be purchased by the Company in exchange for their nominal value (80 shares of NIS 1.00 nominal value each) and in addition, the Company is to provide a loan to O.P.C. in a sum equal to the amount of the owners' loans provided to O.P.C. by Ofer Energy⁵, according to its share (80%), for the purpose of advancing the project for setting up the Mishor Rotem plant thereby (hereinafter: the **"Costs"** and the **"Company Loan"**, respectively). The Company Loan will be made available to O.P.C. on two different dates. The Company will provide the first part of the loan on the Share Transfer Date, in an amount equal to the total Costs on 1 April, 2009 and up to the Share Transfer Date (an amount of NIS 1.6 million). The second part of the Company Loan, in an amount equal to the amount of the balance of the Costs, will be provided to O.P.C. on the date of the Project's financial closing. The Company Loan will serve O.P.C. for the purpose of repaying the owners' loans provided to the Company by Ofer Energy, as aforesaid. The amount of the owners' loans provided by Ofer Energy as of the date of publishing this Transaction Report, totals a sum of approx. NIS 15.5 million and it is expected to reach, according to the Project budget, a sum of approx. NIS 16.5 million, by the end of 180 days from the date of signing the Purchase Agreement (the end of the period of the conditions precedent) (hereinafter: the **"Refund Amount to Ofer Energy"**).
- 3.3. Ofer Energy and by O.P.C. made various representations to the Company in connection with O.P.C.'s competency to execute the Agreement, the Sold Shares and the accuracy of the financial statements. It was further stipulated that the said representations would remain in force for up to 30 days after the date of approval of O.P.C.'s financial statements for 2009 (hereinafter: the **"Representations Period"**). Insofar as the Company bears any losses as a result of a breach of the representations during the Representations Period, Ofer Energy will indemnify the Company for these losses, up to the amount of the Refund Amount to Ofer Energy. Nevertheless, insofar as a claim is filed against O.P.C. during the Representations Period, due to a representation made to the Company having transpired to be a false and the Company's share in the claim (by virtue of its interest in O.P.C.'s shares) exceeds a sum of 4,000,000 US dollars, the Company will have the right to terminate the PPA and demand the refunding of the owners' loan which it provided to O.P.C., together with interest at an annual rate of Libor + 2%. In the alternative, as opted by Ofer Energy, the PPA will remain in force and Ofer Energy will bear the full costs of the claim to the Company.

⁵ The loan provided by Ofer Energy is linked to the CPI and bears annual interest at the rate of 4%.

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- 3.4 The PPA is contingent on the following conditions precedent being fulfilled by the end of 180 days from the date of signing the PPA: approval by the general meeting of the Company of the Transaction contemplated herein and the signing of an assignment to the Company of the following agreements, which were signed between Ofer Energy, on the one hand and Dalkia, on the other hand that regulate the relations between the shareholders: the agreement between the shareholders of O.P.C. signed on 25.9.2008; the agreement between the shareholders of the operation and maintenance company which is planned to be established; a share transfer agreement regulating the manner in which the parties are allowed to sell their shares in O.P.C. and in the operation and maintenance company (hereinafter: the "**Shareholders Agreements**") (see section 24.1 of the Profile attached hereto);

Insofar as the conditions precedent are not fulfilled by the end of 180 days of the date of signing the PPA, then each party will be entitled to inform the other, by written notice, of the termination of its execution of the agreement.

The Anti-Trust Commissioner approved the Transaction on 30.9.2009⁶ and on 4.11.2009 the State approved the transfer of the Shares.

- 3.5 Additional undertakings of the parties -
- 3.5.1 The Company released Ofer Energy of any obligation to continue to provide working capital to the Project.
- 3.5.2 The Company will provide O.P.C. with 80% of the resources required by O.P.C. in order to provide the State with the tender guarantee in the sum of 1 million US dollars (hereinafter: the "**Tender Guarantee**"). The amount of the original tender guarantee stood at 3 million US dollars prior to signing the PPA and was reduced on the date of signing the PPA to an amount of 1 million US dollars (hereinafter: the "**Tender Guarantee**").
- 3.5.3 On the date of signing the PPA, O.P.C. provided, in addition to the Tender Guarantee, a bank guarantee in favor of IEC, in a sum of approx. 9.5 million US dollars (hereinafter: the "**PPA Guarantee**").
- 3.5.4 Insofar as the Company elects to withdraw from the Mishor Rotem Power Plant Project, in the period commencing from

⁶ See the merger approval – merger 7887 on the Anti-Trust Authority site - <http://archive.antitrust.gov.il>

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the signing of the PA and during sixteen months thereafter and in accordance with its terms and conditions, Ofer Energy: (a) will indemnify the Company to the extent of 80% of the amount forfeited (inasmuch as forfeited) under the Tender Guarantee; (b) will pay the Company the amount of the liquidated damages for which the Company is rendered liable (inasmuch as rendered liable) under the PPA, provided the amount paid by Ofer Energy to the Company, as mentioned, does not exceed the Company's share (80%) of the total liquidated damages under the PPA, which total, as of the date hereof, a sum of (up to) NIS 5.5 million. The Company's board of directors specified in its resolution that the Company's decision as to whether to withdraw from the Project or to advance it (within the said sixteen months), will be subject to the approval of an independent board committee of the Company, comprised of directors who are not interested parties in approval of the Transaction at the time.

3.5.5 During the interim period between the signing of the PPA until the Share Transfer Date, Ofer Energy will not bear any expense or liability in connection with O.P.C., without obtaining the Company's prior approval.

3.6 In summary, the overall exposure/costs of the Transaction to the Company, by virtue of the PPA, insofar as it is given effect and during the period of setting up the Project, are as follows (all, as detailed in this section 3 above):

Cost/Exposure	Estimated date of the payment/exposure
The providing of 80% of the resources required by O.P.C. in order to provide the State with the Tender Guarantee (80% of 1 million dollars)	On the Share Transfer Date
The providing of 80% of the resources required by O.P.C. in order to provide IEC with the PPA Guarantee. As of the date of signing the PPA, the guarantee stood at 80% of approx. NIS 9.5 million dollars. This amount is updated as detailed in section 23.1.10 of the Profile.	On the Share Transfer Date (approx. 9.5 million US dollars) and on the dates specified in section 23.1.10 of the Profile.
The providing of 80% of the Project's development budget, from the Share Transfer Date until the date of the financial closing, amounting to approx. NIS 12 million	Commencing from the Share Transfer Date.
Payment of the Refund Amount to Ofer Energy – the amount is expected to total, according to the Project budget, a sum of	On the date of the Project's financial closing, except for an amount of NIS 1.6 million, which is to be paid to the

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approx. NIS 16.5, up until the end of 180 days from the date of signing the PPA	Company on the Share Transfer Date (see section 3.2 above).
The providing working capital for the Project, in accordance with the Company's <i>pro rata</i> share in O.P.C. (80%).	Commencing from the date of the Project's financial closing.
In the event of termination of the PPA within 16 months from the date of its signing, the Company has no exposure/costs, because Ofer Energy has undertaken, in the framework of the Transaction, to indemnify the Company in the amount of the applicable liquidated damages (see section 3.5.4 above).	_____
In the event of termination of the PPA after the elapse of 16 months from the date of its signing - the providing of 80% of the liquidated damages, in an amount of approx. NIS 75 million (linked to the Index), as stipulated in the PPA and as set out in section 23.1.8 of the Profile	On the date of actual termination of the PPA.

Shareholders Agreements

For a description of the Shareholders Agreement and additional arrangements between the shareholders of O.P.C., see section 24.1 of the Profile attached hereto as Appendix 'A'.

4. **A recently purchased asset [in accordance with regulation 8 of the Securities Law Regulations (Transaction between a Company and a Controlling Shareholder therein), 5761-2001]**

On 25.9.2008, Dalkia entered into an agreement for the purchase of 20% of O.P.C.'s shares from Siemens. The agreement with Dalkia is conditional upon the conditions set out in section 1.2 above. The consideration that was agreed with Dalkia is identical to the consideration that was agreed with the Company in section 3.2 above, *mutatis mutandis* (a refund of 20% of O.P.C.'s costs, according to Dalkia's *pro rata* share in the shares of O.P.C.).

5. **The consideration and the method by which it was fixed**

5.1 The Sold Shares are to be purchased by the Company in exchange for their nominal value and in addition, the Company will pay Ofer Energy the Refund Amount to Ofer Energy (according to the mechanism specified in section 3.2 above with regard to the Company Loan), totaling, as of the date of publishing this Transaction Report, a sum of approx. NIS 15.5 million, on the dates set out in section 3.2 above. It is noted that the main part of the Refund Amount to Ofer Energy will be paid by the Company only on the date of the Project's financial closing (namely, on a date on which it will already be clear that O.P.C. has not

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exercised the right to withdraw from the Project, as detailed in section 3.5.4 above).

- 5.2 The consideration in the Transaction was fixed in negotiations between a willing buyer and a willing seller and it is derived from the actual costs which Ofer Energy has incurred in connection with advancing the setting up of the Mishor Rotem power plant (and without payment for promotion fees or any additional payment).
- 5.3 The negotiations with Ofer Energy on behalf of the Company were conducted by the Company's CEO, Mr. Nir Gilad.

6. **Personal interest in the Transaction and the nature of the personal interest**

The controlling shareholders who are considered or who are liable to be considered as having a personal interest in the approval of the Transaction, are Millennium Investments Elad Ltd. (hereinafter: "**Millennium**") and Ofer Investments Group Ltd. (hereinafter: "**Ofer Investments**").

Millennium, which holds approx. 46.94% of the share capital of the Company, is owned by Mashat (Investments) Ltd. (hereinafter: "**Mashat**") and Ofer Investments (80% and 20%, respectively). Mashat is a private company which is indirectly held, through foreign corporations, by a foreign (discretionary) trust, of which Mr. Idan Ofer is a principal beneficiary. Ofer Investments is a private company which is wholly owned by Ofer Holdings Group Ltd. (hereinafter: "**Ofer Holdings**"), a private company that is held in equal shares by Orona Investments Ltd. (hereinafter: "**Orona**") (a company controlled indirectly by Mr. Ehud Angel) and Lynav Holdings Ltd. (hereinafter: "**Lynav**"). Mr. Ehud Angel holds a special share which confers on him, *inter alia*, under certain restrictions and for specific matters, an additional vote at the board of directors of Ofer Holdings. Lynav is controlled by a foreign (discretionary) trust of which Idan Ofer is a beneficiary. Similarly, Ofer Investments holds, directly, approx. 2.93% of the share capital of the Company and Mr. Idan Ofer holds, directly, approx. 3.85% of the share capital of the Company. It is further noted that Kirby Enterprises Inc. (hereinafter: "**Kirby**"), which is held, indirectly, by the foreign trust that owns Mashat, as aforesaid, of which Mr. Idan Ofer is a beneficiary, holds approx. 0.74% of the share capital of the Company. Ofer Investments and Lynav hold, directly, 75% and 25%, respectively, of the share capital of Ofer Energy, which is the vendor in the Transaction.

The personal interest of Ofer Investments in the Transaction's approval is due to its holdings in Ofer Energy and in the Company and due to its being held, indirectly, *inter alia*, by Lynav, which also has holdings in Ofer Energy.

The personal interest of Millennium, the controlling shareholder of the Company, is due to its being held by Ofer Investments and by Mashat, in respect of which Mr. Idan Ofer is a beneficiary of the trust that has an interest therein. The personal interest of Kirby the Transaction's approval, is due to Mr. Idan Ofer being a beneficiary of the foreign trust which has holdings in Kirby,

This is an English convenience translation from the original Hebrew version. In case of any discrepancy, the binding version is the Hebrew original. indirectly. The personal interest of Idan Ofer is due to his being considered a controlling shareholder of the Company and his being a beneficiary of the trust which owns Ofer Investments and Lynrav which, on their part, have holdings in Ofer Energy.

In light of the possibility that Bank Leumi Le-Israel B.M. (hereinafter: "BLL") will finance and/or participate in the financing of the Project, the Company believes that for the purpose of approving the Transaction at the general meeting of the Company, BLL might be considered as having a personal interest in approving the Transaction contemplated in this Report.

7. **The Company's plans with regard to the purchased asset**

The Company intends, as an integral part of its activity in the energy field, to continue to advance the setting up and operation of the Mishor Rotem power plant and in the scope thereof, it has executed the PPA with IEC, according to which IEC undertakes to purchase the available power from the power plant over a period of twenty years, from the date of the plant's commercial operation.

Similarly, it is the Company's intention to use the safety net provided by the PPA, while taking advantage of the mechanisms stipulated therein and which facilitate the refunding of the Project's setting up costs and fixed costs and in the appropriate circumstances, to employ these mechanisms in order to supply electricity also to private consumers, at higher prices than those fixed under the PPA (with respect to the sale of electricity to IEC).

For further details see sections 4.3.5, 5.3 and 6.2.4 of the Profile attached hereto as Appendix 'A'.

8. **The necessary approvals for executing the Transaction hereunder**

Approval of the extraordinary meeting of shareholders of the Company, which has been convened as detailed in section 11 below. In addition, the Transaction is subject to fulfillment of the conditions precedent as detailed in the description of the PPA above.

9. **Transactions of the type involving the controlling shareholder**

To the best of the Company's knowledge, there are no transactions of the type of or similar to those contemplated hereunder, between the Company and the controlling shareholder, or in which the controlling shareholder has a personal interest and which have been signed in the two years preceding the date of the board's approval of the Transaction, or which are still in force on the date of approval of the transaction contemplated hereunder by the Company's board.

10. **Reasons of the audit committee and the board of directors**

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- 10.1 The members of the audit committee, Messrs, Moshe Vidman, Mr. Yaakov Amidror, Prof. Gideon Langholz, Mrs. Zahavit Cohen, Mr. David Brodet, participated in the audit committee's approval, of 25 August 2009. The directors, Messrs. Idan Ofer, Amir Elstein, Udi Angel, Moshe Vidamn, Prof. Gideon Langholz, Ron Moskowitz, Zeev Nahari, Yaakov Amidror and Yossi Rosen participated in the board resolution of 17 September 2009.
- 10.2 The following reasons can be listed among the other considerations that were before the Company's audit committee and board of directors, which approved the Company's execution of the Transaction contemplated hereunder:
 - 10.2.1 The Company is active in the energy field through companies of the Group, Inkia Energy Limited and Oil Refineries Ltd. ("**Oil Refineries.**").
 - 10.2.2 In recent years, the State has encouraged the entry of private electricity producers to the market and the Company sees a business opportunity in being one of the largest and primary electricity producers in the sector.
 - 10.2.3 The PPA with IEC, by virtue of the Tender, enables O.P.C. to reduce the power intended for IEC and sell it to the consumers, at higher prices than those at which O.P.C. undertook to supply the power to IEC. Similarly, the PPA allows O.P.C., should it so require, to re-sell the power to IEC, such that in fact, the PPA will guarantee reimbursement of the setting up costs (including capital), while O.P.C. can benefit, at a marginal risk, from higher prices in the sale of electricity to private consumers.
 - 10.2.4 Two companies affiliated with the Company – Israel Chemicals Ltd. and Oil Refineries also plan on setting up power plants (which are designed primarily for their internal needs) and the Company considers size to be an advantage in a united entry into the field of setting up power plants and electricity production.
 - 10.2.5 The conditions offered to the Company by Ofer Energy were based on the terms that were agreed, "at arm's length", with an independent third party – Dalkia – which executed an agreement for the acquisition of 20% of the shares of O.P.C. (see section 1.2 above).
 - 10.2.6 Execution of the PPA is based on indications that the power plant project is in compliance with the conditions to recognize it as a Clean Development Mechanism, which is eligible for receiving Certified Emission Reductions under the Kyoto

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Convention.

10.3 Having regard for the provisions of section 278(b) of the Companies Law, 5759-1999, according to which if the majority of members of the board have a personal interest in approving the transaction, each director (even if he has a personal interest) is entitled to be present at the discussion at the board and participate in the voting and taking into account that the majority of the Company's directors have a personal interest in the Transaction, directors having a personal interest in the Transaction, as mentioned in section 11 were present at the discussion and participated in the voting.

11. **Personal interest of a director in the Transaction and the nature of the interest**

The directors Idan Ofer, Ehud Angel, Amnon Leon, Yossi Rosen and Ron Moskowitz are or are liable to be considered as having a personal interest in the Transaction. Mr. Idan Ofer is a principal beneficiary of the trust which holds, indirectly, Ofer Energy and he also serves as chairman of the board of directors the Company and as a director of Ofer Energy. Mr. Ehud Angel has an indirect stake in Ofer Investments, which has holdings both in the Company and in Ofer Energy and he also serves as a directors both of the Company and of Ofer Energy. Mr. Amnon Leon serves as a director both of the Company and of Ofer Energy. Messrs. Yossi Rosen and Ron Moskowitz are liable to be considered as having a personal interest by virtue of the positions which they fulfill at companies affiliated with the controlling shareholders of the Company. Mr. Moshe Vidman, who serves as a director of BLL, has a personal interest in the Transaction and possibly Mr. Zeev Nahari, who serves as a senior assistant general-manager of BLL, is liable to be considered as having a personal interest (although he does not have a personal interest in BLL) in the Transaction.

12. **Notice of the convening of an extraordinary general meeting**

12.1 Notice is hereby given of the convening of an extraordinary general meeting of the shareholders of the Company, which will convene at the Company's offices at Millennium Tower, 23 Aranha Street, Tel-Aviv, on Monday, 28 December 2009, at 12:00 hours, whose agenda includes approval of the Transaction subject of this report (hereinafter: the "Meeting").

12.2 The majority that will be required at the Meeting for approving the Transaction in accordance with the Report, including at an adjourned meeting, is an ordinary majority of those present at the meeting, in counting the votes of the shareholders, in person or through their proxies, provided that one of the following is fulfilled: (a) a count of the majority of votes, includes at least one-third of the votes of the shareholders that do not have a personal interest in approval of the Transaction, who participate in the vote (the votes of the abstainers will not be taken into account in the said count of all the votes); (b) the total of opposition votes

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amongst the shareholders referred to in paragraph (a) above will not exceed one percent of all the voting rights in the Company.

- 12.3 The effective date for deciding the eligibility of a shareholder of the Company to vote at the general meeting, as provided in section 182 of the Companies Law, is on Thursday, 26 November 2009 (hereinafter: the "**Determining Date**").
- 12.4 In accordance with the Companies Regulations (Proof of Ownership of a Share for the purpose of Voting at the General Meeting), 5760-2000 (hereinafter: the "**Regulations**"), a shareholder in whose favor a share is registered with a member of the Tel-Aviv Stock Exchange Ltd. and which is included amongst the shares of the Company which are registered in the register of shareholders in the name of a nominee company and who is interested in voting at the general meeting, shall provide the Company with confirmation from the stock exchange member with whom his right to the share is registered, of his ownership of the share, on the Determining Date, in accordance with form 1 of the Addendum to the said Regulations.
- 12.5 A shareholder may appoint a proxy will be able to participate in the general meeting and vote on his behalf, in accordance with the provisions of the Company's articles of association. The proxies are to be deposited at the Company's registered office at least 48 hours before the time scheduled for the Meeting or for the adjourned meeting.
- 12.6 In addition, a shareholder may vote at the general meeting by means of a ballot. The written vote will be carried out by means of the second part of the ballot, as published by the Company.
- 12.7 The addresses of the Securities Authority and of the Tel-Aviv Stock Exchange Ltd. at which it is possible to find the wording of the ballot and the position papers, within their meaning in section 88 of the Companies Law, are as follows: - the distribution site of the Securities Authority: <http://www.magna.isa.gov.il> (hereinafter: the "**Distribution Site**"); the site of the Tel-Aviv Stock Exchange Ltd. is <http://maya.tase.il>.
- 12.8 A stock exchange member is to send, via e-mail, free of charge, a link to the wording of the ballot and the ballots on the Distribution Site, to each shareholder who is not registered in the register of shareholders and whose shares are registered at such stock exchange member, unless the shareholder has informed the stock exchange member that he is not interested in receiving such link or has notified his wish to receive ballots by mail, in exchange for mailing fees only.
- 12.9 The ballot and the documents which are to be attached thereto (hereinafter: the "**Attached Documents**"), as detailed in the ballot, must be delivered to the Company's offices up until 72 hours before the time of convening the Meeting. For this purpose, the "time of delivery" is the

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time at which the ballot and the Attached Documents arrived at the Company's offices.

12.10 The final date for furnishing position papers is up to 10 days after the Determining Date.

12.11 A quorum will be constituted when five shareholders, who together hold at least twenty five percent of the voting power at the Company, are present, in person or via proxy, at the meeting (hereinafter: the "**Quorum**"). If a quorum is not present within half an hour of the designated time of the meeting, the general meeting will be automatically adjourned for one week, to the same time and venue, or to some other day and time, as specified by the board in the notice to the shareholders (hereinafter: the "**Adjourned Meeting**"). If a quorum is not present, at the Adjourned Meeting, within half an hour of the time scheduled for the Adjourned Meeting – the members present thereat will constitute a quorum.

13. **General**

13.1 Directive issued by the Securities Authority: In accordance with regulation 10 of the Securities Regulations (a Transaction between a Company and its Controlling Shareholder), 5761-2001, the Securities Authority may, within 21 days of filing this Report, direct the Company to furnish, within the timeframe stipulated, an explanation, details, information and documents relating to the bid or to the contract, as the case may be, contemplated in the Report and instruct the Company to amend the Report, in the manner and within the timeframe stipulated thereby; and in such a case, the Authority may order a deferral of the date of the extraordinary general meeting to a date no earlier than three business days and no later than 21 days from the date of publishing the amendment to the Report.

13.2 The representatives of the Company for the purpose of dealing with this Report are; Mr. Jack Smith, Adv. and Ms. Hagar Alon, Adv. of Gornitzky & Co., Attorneys & Notaries whose address is: 45 Rothschild Blvd., Tel-Aviv, Tel: 03-7109191, fax: 03-5606555 and Ms. Noga Yatziv, Adv. Secretary of Israel Corp., whose address is at 23 Aranha Street, Tel-Aviv, Tel: 03-6844500; fax: 03-6844587.

13.3 The shareholders of the Company may examine the Report and the other documents relating to the Transaction at the Company's offices, on Sundays through Thursdays, during normal office hours.

Sincerely yours,

Israel Corporation Ltd.

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Appendix 'A' – Profile

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Appendix 'A'

O.P.C. Rotem Ltd.

Profile

In accordance with the Second Addendum of the Securities Regulation (a Transaction between a Company and its Controlling Shareholder), 5761-2001

General

A description appears in this Profile of the business of O.P.C. Rotem Ltd. (hereinafter: "O.P.C.") for the period commencing from 1 January 2007 and culminating on the date of the Transaction Report to which this Appendix is attached.

1. Activity of the corporation and description of the development of its business

1.1 **Background**

O.P.C. is a private company, which was incorporated in 2002 for the purpose of submitting a bid in a tender published by the Ministry of National Infrastructure and the Ministry of Finance, in 2001, to set up a dual-fuel power plant at Mishor Rotem, with an overall power of 370 – 490 MW in a combined cycle, to be operated by natural gas (hereinafter: the "**Tender**"). O.P.C. won the Tender and will act towards setting up and operating the power plant, with installed power of approx. 400MW (and approx. 370 MW, net⁷)⁸ in accordance with the Tender (hereinafter: the "**Plant**" or the "**Power Plant**"). O.P.C. will operate as a special purpose vehicle and will not engage in other activity other than the project for setting up and operating the Power Plant.

In accordance with the terms of the Tender, O.P.C. executed, on 2 November 2009, a power purchase agreement (Power Purchase Agreement) (hereinafter: "**PPA**") with the Israel Electric Corporation (hereinafter: "**Electric Corporation**" or "**IEC**"), by virtue of which O.P.C. undertakes to set up the Plant within 52 months of the date of the parties' signing of the PPA. The term of the PPA is twenty (20) years from the date of commencing the Plant's commercial operation. The PPA is a "Capacity and Energy" type of agreement, the meaning of which is an undertaking by O.P.C. to place at IEC's disposal, the Plant's full net available power (i.e., the Plant's full net production capacity) and to produce electricity in the quantity and at the times required by IEC. In exchange for O.P.C.'s compliance with its undertakings, IEC undertakes to pay O.P.C., during the term of the PPA, a fixed payment (which is meant to cover all the fixed costs involved in setting up and operating the Plant, including capital

⁷ The installed power embodies the theoretical production capacity of the plant (under optimal conditions); the net power is the production capacity adjusted to the conditions on the ground and the climate conditions at the plant site (primarily, the range of temperatures) and takes into account electricity losses due to self-consumption of the plant).

⁸ The plant's power is liable to change due to the equipment that is to be purchased – see section 17.1 below.

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expenses and interest), for providing IEC with the net available power of the Plant, whether or not IEC has demanded electricity production, as well as to pay O.P.C. a variable monthly payment for the power which the plant has supplied to IEC, as demanded thereby in the previous month, that covers certain variable costs of O.P.C. in energy production. In relation to the costs involved in the consumption of natural gas, the PPA provides that, in principle, these costs are refunded to O.P.C., in full (see section 6.2.1 and 6.2.2 below).

In accordance with the PPA, O.P.C. may inform IEC that it is to reduce the available power at IEC's disposal, so that O.P.C. can execute energy sales to private consumers.

For a detailed description of the other principal provisions of the PPA, see section 23.1 below. For a description of the regulatory arrangement for the sale of electricity to consumers and adjustment of the PPA resulting from the sale of power to consumers – see section 6.2.4 and 23.1 below.

1.2 **Legal proceedings that were held in connection with the Tender**

O.P.C. submitted its bid in the Tender in June 2002 and it was the sole bidder in the Tender. O.P.C. received notice that it had been awarded the Tender on 4.11.04, but O.P.C. was involved in a series of legal proceedings with the State in relation to its winning bid., A compromise agreement was signed with the State, on 21.5.2008, whereby all the disputes between the State and O.P.C. were settled and by virtue of which, the State agreed that O.P.C. would set up the Plant in accordance with its bid in the Tender.

1.3 **The adding of Dalkia Israel Ltd. as a shareholder of O.P.C.**

Prior to the negotiations and the contractual agreement between Ofer Energy and Israel Corp., as contemplated in the Transaction Report, Ofer Energy entered into an agreement with Dalkia Israel Ltd. (hereinafter: "**Dalkia**"), a subsidiary of Dalkia International S.A. which specializes in the operation and maintenance of power plants, to add it as a shareholder of O.P.C., in a percentage share of 20%. With regard to the terms of the agreement with Dalkia and the terms for the entry into force thereof – see section 24.6 below.

1.4 **Current activity of O.P.C.**

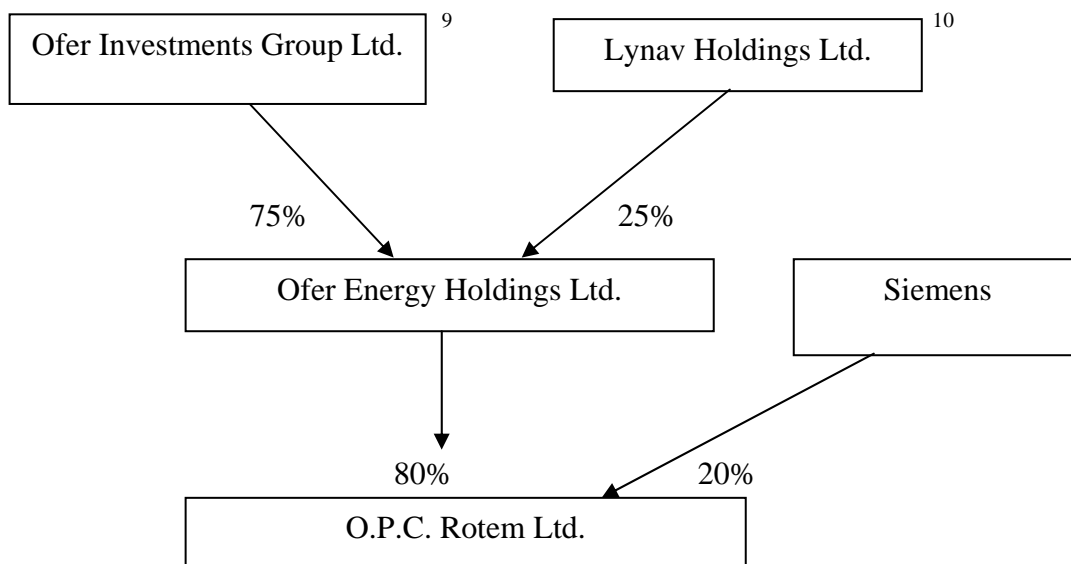
In accordance with the PPA, O.P.C. undertook to carry out a financial closing of the Project within twenty four (24) months from the date of signing the PPA. O.P.C. will therefore act, in the immediate stage, in executing all the acts and contracts that are involved in achieving a financial closing of the Project including, the obtaining of a building permit for the Plant, the execution of a contractual agreement with a power plant supplier and the execution of a contractual agreement with a natural gas supplier.

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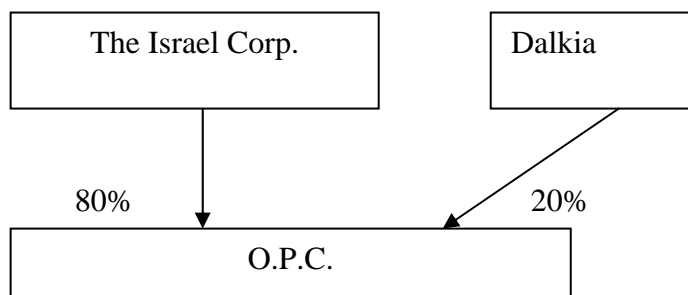
1.5 Structure of holdings

O.P.C.'s current structure of holdings is as follows:

Prior to the transaction with the Company



After the Transaction with the Company:¹¹



2. Investments in the corporation's capital and its transactions in shares

2.1 Investments in O.P.C.'s capital in the past two years

No investments have been made in the past two years in O.P.C.'s capital.

⁹ Ofer Investments Group Ltd. holds 20% of the shares of Millennium Investments Elad Ltd. (hereinafter: "**Millennium**"), the controlling shareholder of the Company. Ofer Investments Group Ltd. is held (10%) by Ofer (Ship Holdings) Ltd., which is held in equal shares by Orona Investments Ltd. (a company controlled by Mr. Ehud Angel, who serves as a member of the Company's board of directors) and Lynav Holdings Ltd.

¹⁰ The Company is controlled by a foreign trust, the principal beneficiary of which is Mr. Idan Ofer. Idan Ofer serves as chairman of the Company's board of directors and is one of the main beneficiaries of a foreign trust which holds, indirectly, 80% of the shares in Millennium.

¹¹ On the assumption that the transaction with Dalkia is consummated, see section 24.6 below.

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2.2 **Transactions in O.P.C.'s shares in the past two years**

On 25.9.08, Dalkia signed an agreement to purchase 20% of the shares in O.P.C.¹² in exchange for reimbursing Ofer Energy for 20% of the costs which it had financed on behalf of O.P.C. up until the share purchase date. With regard to the terms of the agreement with Dalkia and the conditions for its entry into force – see section 24.6 below.

2.3 **Restrictions on distributing dividends**

The Project for setting up the power plant will be financed according to the model of "Project Finance"¹³ and accordingly, the lenders might impose restrictions on O.P.C.'s right to distribute dividends, if the distribution is liable to impair O.P.C.'s ability to service the debt to the financiers.

3. **Financial information relating to the corporation's field of activity**

As of the date of the Transaction Report, O.P.C. does not have any income or operating profit in the field of activity and all the costs borne thereby are solely for the Project.

4. **General environment and influence of external factors on the corporation's activity**

4.1 **The Electric Corporation**

O.P.C. will operate as a private electricity producer. The electricity sector in Israel is controlled, exclusively, by the Electric Corporation, which has about 98% of the electricity production capacity in the State of Israel¹⁴ and it also owns the electricity transportation and distribution system. In accordance with the Electricity Sector Law, 5746-1996 (hereinafter: the "**Electricity Sector Law**"), the Electric Corporation was defined as the "essential service provider". The Electricity Sector Law imposes the performance of basic obligations and acts on an essential service provider, for the proper management of the electricity sector, including the submitting of a development plan of the electricity sector, management of the electricity system, management of the electricity transportation and distribution system, the providing of back-up and infrastructure services to private electricity producers and to consumers and the purchasing of electricity from private electricity producers.

¹² The agreement was actually signed with Ofer Energy, which assumed responsibility for completing, on behalf of Siemens, the transaction for the sale of its holdings in O.P.C.

¹³ The Project Finance model is a common model for financing local and international projects. According to this model, a special purpose vehicle is formed, which is financed both by means of equity from one or more sponsoring companies and by debt (loan or bonds), which is returned to the lender by the project company, in most cases without recourse to the sponsors (non-recourse debt). According to this method, the lenders limit the movement of cash and assets into and out of the special purpose vehicle and there are consequently restrictions on companies of this type.

¹⁴ Based on a periodic report of the Electric Corporation for 2008.

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4.2 **The reform in the electricity sector**

The government is planning a reform in the electricity sector, which is designed to end the Electric Corporation's monopoly over all the electricity production and supply sections in the Israeli market. The reform will be carried out mainly through a structural change of the Electric Corporation and the foundations of the reform in the electricity sector were legislated in the Electricity Sector Law. In accordance with the Electricity Sector Law, the reform will become effective on 1.7.2010. Nonetheless, according to the Company's best knowledge, negotiations have been held between the State and the Electric Corporation for a long time regarding the timing of the reform's implementation and the nature thereof. As far as the Company knows, the negotiations with the Electric Corporation regarding the method of implementing the reform are continuing and the Company cannot estimate whether implementation of the reform will be delayed and/or if changes will occur in the nature of the reform.

4.3 **Regulatory environment**

4.3.1 **The Public Utilities Authority – Electricity (the "Electricity Authority")**

The Electricity Authority was established under the Electricity Sector Law and was empowered to perform the lion's share of the regulatory control over the electricity sector. The Electricity Authority's primary powers are the issuing of licenses, the fixing of rates which the essential service provider is allowed to charge for supplying electricity and providing services, the establishing of criteria for services that are rendered by the essential service provider and supervision over the performance of its duties.

4.3.2 **The Ministry of National Infrastructures**

The Electricity Sector Law also grants certain executive powers to the Minister of National Infrastructures, which are, primarily, the stipulation of conditions for issuing licenses, the approval of licenses that were issued by the Electricity Authority, amendment of the license conditions, authorization to pledge or transfer a license, approval of the acquisition of control in a licensee, the establishing of rules that will be applicable to transactions between a private electricity producer and the essential service provider and implementation of the reform in the Electricity Sector.

4.3.3 **Production license**

A private electricity producer is obliged to obtain a production license from the Minister of National Infrastructures. The conditions for obtaining a production license were prescribed in the Electricity Sector Regulations (Conditions and Procedures for Granting a License and the Obligations of a Licensee), 5758-1997 (hereinafter: the "**Licensing**

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Regulations"). In accordance with the terms of the Tender, O.P.C. will be issued a production license on the date of the Power Plant's commercial operation.

4.3.4 **Supply license**

In accordance with the Electricity Sector Law, an electricity producer is obliged to obtain a supply license in order to sell electricity produced at the plant to others. Further details regarding a supply license are in section 22.2 below.

4.3.5 **The sale of electricity to private customers**

The relevant legislation applying to O.P.C., permits O.P.C. to sell electricity that is produced at the Plant to private customers. The Electricity Authority lays down criteria pertaining to the rights and obligations of a private electricity producer vis-à-vis the essential service provider in all respects of transactions between the private electricity producer and private customers (in this regard, see in detail, section 6.2.4 below).

4.4 **Private electricity producers**

The State is trying to encourage electricity producers to enter the electricity sector through a number of legislative initiatives which are based on the granting of production licenses, without a tender; however, to date these initiatives have not produced concrete results and a private electricity producer has yet to succeed in realizing a project on the scale of the Plant which O.P.C. is planning to set up

5. **General information concerning the sphere of activity**

5.1 **Structure of the sphere of activity and the changes occurring therein**

5.1.1 **Structural change of the Electric Corporation**

The Electric Corporation is the owner of approx. 11,650 MW of installed capacity, constituting nearly 98% of the electricity production capacity in the country. In accordance with the Electricity Sector Law, the Electric Corporation's license to engage in the production, transportation and sale of electricity will end on 1 January 2010 and after this date, a structural change will be introduced at IEC, by virtue of which the Electric Corporation will be split into separate corporations dealing in the production, transportation, distribution and management of the electricity system.¹⁵ The major structural changes as were enacted in the Electricity Sector Law, are as follows:

Production

Electricity production will be carried out through a

¹⁵ In accordance with the Electricity Sector Law, the date of termination of IEC's license may be extended for one year each time.

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government company or a government subsidiary which will receive production licenses, while each licensee will not hold, through one corporation, more than 30% of the production capacity in the electricity sector. Each such holder of a production license will maintain power plants on the basis of a combination of different types of fuel, including diesel oil, natural gas and coal. By 1 July 2013, a government company will not hold more than 51% of the shares of the holders of the production licenses.

Transportation

Electricity transportation will be carried out through the holder of a transportation license that is owned by a government company. By 1.11.2011, the State will decide whether a controlling shareholder in the holder of a production or transportation license can also hold means of control, as holder of the transportation license.

Distribution

The distribution section at the Electric Corporation will be split into different holders of distribution licenses holding, respectively, not more than 25% of the scope of distribution in the electricity sector. By 1 January 2013, no government company will hold more than 51% of the shares of the holders of distribution licenses.

Management of the system

In October 2008, a government company was formed for purposes of administering the electricity system ("**System Manager**"). The Electricity Manager will deal with performance of the actions that are required of the holder of a license to manage the system, which include, *inter alia*, management of the production and transportation sections, balancing the demand and supply of electricity, synchronization of maintenance, management of trading in electricity, on competitive, egalitarian and optimum conditions, including the execution of agreements for the acquisition of available capacity and energy from electricity producers. According to the Company's best knowledge, the System Manager has not yet commenced its activity and the above-mentioned activity is still being carried out through IEC.

5.1.2 **Encouragement of private electricity producers to enter the electricity sector**

Parallel to the formulation and implementation of the structural change at IEC, the State initiated legislation designed to encourage private entrepreneurs to enter the electricity production industry in several principal ways;

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5.1.2.1 Electricity Sector Regulations (Private Conventional Electricity Producer), 5765-2004 ("Conventional Electricity Producer Regulations")

The Conventional Electricity Producer Regulations are designed primarily to encourage the setting up of a power plant operated by natural gas in capacity and energy type transactions. In accordance with the Regulations, an entrepreneur (who is in compliance with the licensing requirements of the Licensing Regulations) may receive, without a tender, a conditional license to set up and operate a power plant. The conditional license stipulates, for the most part, that if the entrepreneur meets the milestones stipulated in the conditional license, the entrepreneur is entitled to receive a production license and execute a capacity and energy agreement with the holder of a transportation license for a period of 20 years, according to which the entrepreneur is entitled to a refund from the holder of a transportation license, of a percentage of the fixed costs in setting up and operating the plant and a refund of most of the costs entailed in purchasing the natural gas, according to a standard rate to be set by the Electricity Authority.

5.1.2.2 Electricity Sector Regulations (Cogeneration Producer), 5765-2004 ("Cogeneration Regulations")

A cogeneration plant is an electricity production plant which is planned such that the residual heat from the electricity production process serves to produce steam that is designated for industrial consumers. A cogeneration plant is usually set up next to factories whose key inputs are electricity and steam, where the plant's output and steam are primarily designed for the factory's use. Under the Cogeneration Regulations, an entrepreneur (who meets the requirements of the Licensing Regulations) may receive, without a tender, a conditional license to set up and operate a cogeneration plant with an electricity production power exceeding the power required by the factory. The conditional license provides, particularly, that if the entrepreneur meets the milestones stipulated in the conditional license, the entrepreneur is entitled to receive a production license and execute an agreement with the holder of a transportation license, according to which the holder of a transportation license is obliged to purchase

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between 50% - 70% of the electricity power during the plant's main operating hours, according to a normative rate which has been fixed by the Electricity Authority in this regard, over a period of 12 or 18 years.¹⁶

5.1.2.3 **Renewable energy**

The State also encourages the setting up of power plants that are to be operated by renewable energies (such as: solar, wind) and on 29.1.2009, a government decision was passed that set a goal for building solar power plants which will supply 10% of the installed electricity power in the country, by 2020. The State will realize this goal by means of publishing tenders and awarding conditional licenses, according to the format of "feed in tariff".

5.2 **Operation of O.P.C.'s plant by IEC**

The plant which is to be set up by O.P.C. will be part of the State's electricity production system and therefore, its operation will be controlled by the Electricity System Manager which is currently a part of the Electric Corporation. Under the PPA, IEC has no obligation to operate the Plant, although the Project's profitability is chiefly derived from the capacity payments which are due and payable under the PPA and these are paid, as mentioned, independent of IEC's actual operation of the Plant.

5.3 **Sale of electricity to private customers**

O.P.C. is governed by the Electricity Sector Rules (Transactions with the Essential Service Provider), 5760 – 2000 (hereinafter: the "**Electricity Sector Rules**") which provide that commencing from the date of commercial operation, O.P.C. may inform IEC that it is releasing itself, in full or in part, from the PPA and that it is removing power from the PPA's application, in order to sell it to private consumers (for a description of the mechanism of being released from the PPA, pursuant to the provisions of the Electricity Sector Rules, see section 6.2.4 below).

The economic viability of selling energy to private consumers is based, *inter alia*, on the fact that according to the Electricity Sector Law, the tariff paid to the Electric Corporation for energy that is supplied thereby, is fixed by the Electricity Authority. According to the Electricity Sector Law, IEC's tariff is designed to guarantee the covering of IEC's costs and an adequate return on capital and it is therefore comprised of all the production costs of all IEC's plants and the costs involved in maintaining and operating the transportation and

¹⁶ The percentage of electricity which the holder of a transmission license is obliged to purchase and the term of the contract, are as elected by the entrepreneur on the date of contracting with the holder of a transmission license.

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distribution systems of the Electricity Sector. The assumption is that the costs embodied in IEC's tariff are higher than the production costs of a single private producer and therefore, a sale to the consumer at a discount, compared with IEC's tariff will be profitable to a private electricity producer. Nevertheless, in accordance with the Electricity Sector Law, the Electric Corporation is not allowed to give the consumers discounts. Consequently, as long as the restriction on giving discounts by IEC is in existence, private entrepreneurs will have a certain competitive advantage over the Electric Corporation in the sale of energy.

Yet, this advantage might be affected largely by the following factors:

(a) **Structural change of IEC**

As part of IEC's structural change, all or some of the production companies might receive authorization to extend discounts on the IEC tariff.

(b) **Supply during off-peak hours**

The IEC tariff is termed "T.O.U." (Time of Use Tariff) which fixes different tariffs for the different seasons of the year and the different times of use. The times of use are divided and charged according to a "group of demand hours" which divides the day into three unequal units ("shoulder", "peak" and "non-peak" hours which are set, in principle, according to the level of consumption during the different parts of the day and the seasons of the year). The regulation by virtue of the Electricity Sector Law provides that when a private electricity producer and a consumer execute a private transaction for the supply of electricity, the consumer stops being a consumer of IEC and the private electricity producer becomes the exclusive electricity supplier of the consumer and is responsible for supplying it with electricity during all hours of the day. In view of the contract with the private consumer, O.P.C. will be obligated to supply energy to the private consumer also during off-peak hours. From a technical point of view, the Plant cannot drop below a production level of approx. 240 MW and for this reason, if during off-peak hours, there is no demand from IEC and the demand of consumers is less than 240 MW, O.P.C. will be required to choose between operating the Plant at a loss or shutting down the Plant while paying IEC the T.O.U. for the electricity which is to be supplied thereby to the Plant's private consumers.

(c) **Cost of natural gas**

One of the Plant's chief operating inputs is natural gas. Insofar as O.P.C. is able to obtain a gas price which is competitive with

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IEC's natural gas prices, O.P.C.'s profitability in the sale of electricity to end users will improve.

(d) **Limited experience in private electricity sale transactions**

As of the date of the Report, there is limited experience in Israel in private transactions between a private electricity producer and a consumer. Likewise, O.P.C.'s ability to contract with consumers will be affected by the level of competition in the electricity market by other private electricity producers and by the Electric Corporation, following implementation of the structural change in the electricity sector (see section 11 below, competition).

(e) **Price restriction in a sale to private consumers**

As explained above, the competition of private electricity producers versus IEC is conducted by way of giving a discount on the IEC tariff. Therefore, the IEC tariff effectively constitutes a maximum limit for the purpose of pricing sales to end users.

5.4 **Planning and licensing procedures**

In the immediate stage, O.P.C. will act towards advancing the Plant's planning and licensing procedures, on the conclusion of which a building permit will be issued for the Plant. The licensing of the Plant involves, first of all, the amendment of National Planning Scheme 10 (hereinafter: "**NPS 10**") (which defines the sites that are designated for the setting up of power plants), such that the Plant site will be incorporated in the framework thereof. The Company is unable to estimate how long the handling of the amendment of NPS 10 will take. Equally, also following the approval of a national planning scheme in relation to the Plant site, O.P.C. cannot estimate whether hold-ups will occur in the planning committees which are to handle the issuing of a building permit, as a result of which the timetable of the Project will be delayed.

5.5 **Financial closing**

The banking system in Israel operates under the Bank of Israel's restrictions in relation to "an individual borrower/a group of borrowers". Both the Company's standing in the banking system with regard to these restrictions and the need to encumber the Company's rights in favor of the banks, by virtue of the PPA, which might be considered as the extension of credit against a risk to IEC, give rise to O.P.C.'s belief that it will have to raise most of the Project's sources of finance from the institutional market (in this regard, see also sections 22.7 and 29 below).

To the best of the Company's knowledge, to date no financial closing has been completed in Israel in relation to the setting up of a power plant by a private electricity producer, in the scope of the planned Plant and/or on the basis of a PPA with IEC.

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5.6 **Connection to the electricity system**

The Plant must be connected to the transportation network. Pursuant to the PPA, IEC is obliged to connect the Plant to the transportation network in exchange for the payment of a cost which is not substantial to the Project. Under the PPA, IEC is obliged to complete the connection works to the transportation network by the date of the Plant's commercial operation.

5.7 **Connection to the natural gas transportation system**

The Plant must be connected to the natural gas transportation system. Israel Natural Gas Lines Company Ltd. (hereinafter: "INGL") which is setting up the transportation system, is obliged to connect the Plant to the natural gas transportation system, in exchange for the payment of a cost which is not substantial to the Project. In accordance with INGL's plan, the transportation system to Mishor Rotem will be completed towards the end of 2009 and O.P.C. reckons it will be able to order the connection works on a date which will allow the transportation of gas to the Plant within the requisite timetables for purposes of complying with its undertaking vis-à-vis the date of commercial operation. The above-mentioned estimation is forward-looking information since its fulfillment depends on compliance with a schedule by a third party (INGL).

5.8 **Entry and exit barriers**

Entry barriers

The introduction and setting up of a power plant requires the location of a site that is incorporated within the boundaries of NPS 10, which defines the areas in which power plants may be constructed (or an amendment of NPS 10 in order to incorporate a specific site therein), the completion of licensing procedures, including the completion of a study of the environmental impact involved in setting up and operating the Power Plant, the ability to engage suppliers and contractors with experience in the production industry and in setting up power plants and the execution of an agreement for the supply of natural gas for a period of between 15 to 20 years. On the financial level, the entrepreneur must obtain bank or institutional financing for setting up the Project but since the Licensing Regulations limit the financial leveraging of a project for setting up a power plant to a maximum rate of 80% of the value of the plant, the entrepreneur must also have capital resources for financing the working capital that is necessitated for the Project. Because IEC controls all sections of the electricity sector, on the one hand, and is also the party with whom a producer executes a purchase contract, on the other hand, the inherent conflict of interests with IEC, its infinite strength in the state economy, in general and in the electricity sector, in particular, the entrepreneur's exclusive dependency on IEC in relation to the licensing procedures (planning of the transportation lines) and the Plant's connection to the electricity network, etc., are liable to create many, continuing and unanticipated

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difficulties in realizing the Project for the purpose of setting up a power plant.

Exit barriers

In accordance with the Electricity Sector Law, the transfer of control in a corporation that holds a production license requires the approval of the Minister of National Infrastructures and under the PPA, IEC's approval is also required, while IEC must consider the potential buyer's compliance with the professional criteria which guided the State in selecting O.P.C. as the successful bidder in the Tender. Therefore, one of the main exit barriers will be finding a buyer who has the financial strength and the professional competence to receive the Minister of Infrastructure's approval to hold a production license and to receive IEC's approval under the PPA. In addition, the Company believes that in the framework of the Project's financing arrangements, the Company will be required to encumber its shares in O.P.C. and therefore, the transfer of control will further require approval of the financiers.

5.9 **Critical success factors**

O.P.C.'s critical success factors are:

In the context of the PPA provisions: the ability to advance the licensing process within the timeframes specified in the PPA, the ability to execute an agreement, within a relatively short space of time, with an equipment supplier at a competitive price, the closing of financing for the Project, primarily in the institutional market and at attractive interest and the ability to achieve cooperation with IEC.

In the sale of energy to consumers section: the ability to secure a long-term gas supply agreement at a price which will facilitate future competition versus other private electricity producers and versus the Electric Corporation, marketing ability and effective management of the Power Plant, a stable regulatory regime and the ability to secure multi-annual sale contracts with consumers having a credit level that is satisfactory to the financiers.

In all respects of raw materials and suppliers of the Plant: the project of setting up a power plant in the State of Israel by a single entrepreneur is characterized by the entrepreneur's having to deal with a limited number of suppliers.

6. **Products**

6.1 O.P.C. will sell energy that is produced at the Plant. Likewise, the project is liable to entitle O.P.C. to credits on account of reducing pollution in the framework of the Kyoto Convention (Clean Development Mechanisms or CDM's) which is can be traded on the international market.

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6.2 O.P.C. will sell the energy in three ways:

The providing of capacity to the Electric Corporation pursuant to the PPA, the supply of energy to the Electric Corporation under the PPA [in this regard, see also the description of the PPA in section 23.1 below] and the supplying of energy to private consumers.

6.2.1 **The providing of capacity**

In the framework of the PPA, O.P.C. undertakes to place the Plant's full power at IEC's disposal. In exchange for compliance with this undertaking, IEC will pay O.P.C. a fixed monthly payment for each net megawatt of capacity which is provided thereto by O.P.C. from the Plant. The amount due to O.P.C. for each net megawatt of capacity under the PPA was fixed at NIS 48.173 per hour, as of 10 February 2004. In accordance with the PPA, the capacity price will be adjusted on the date of the financial closing according to the following parameters: the PPA stipulates that the interest rate on 10 February 2004 was 4.25%. On the date of the financial closing, the capacity price will be adjusted, upwards or downwards, according to the interest rate which is calculated as the weighted average of index-linked, long-term maturity government bonds (7 to 15 years) (hereinafter: the "**New Interest Rate**"), such that if the New Interest Rate is higher than 4.25%, the capacity price will be adjusted upwards in accordance with the table contained in the PPA and if the New Interest Rate is less than 4.25%, the new capacity price will be adjusted downwards, in accordance with the table. Linkage differentials to the Euro and to the CPI will be added to the capacity price, following its adjustment to the New Interest Rate, from 10 February 2004, such that 1/3 is linked to the CPI and 2/3 is linked to the Euro. Subsequent to the date of the financial closing, the capacity price will be linked, in full, to the CPI and will be updated on the date on which the Electricity Authority revises the tariffs of the Electric Corporation. The fixed price was calculated by O.P.C. in the framework of the Tender, with a view to covering all the fixed costs in setting up and operating the Plant over a period of twenty years, including capital, financing and profit costs.

6.2.2 **The sale of energy to IEC pursuant to the PPA**

In accordance with the PPA, when IEC demands operation of the Plant, IEC will pay O.P.C. the amount stipulated in the PPA for starting-up the Plant, which in O.P.C.'s estimation covers the start-up costs and IEC will pay, for each hour of operation, a variable payment (which covers, in O.P.C.'s estimation, most of the variable costs) in the amount specified in the PPA, linked to the CPI.

6.2.3 **The fuel costs**

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In accordance with the PPA, IEC will pay O.P.C. for the costs of consuming natural gas or diesel fuel (excluding exceptions originating primarily from problems in the natural gas transportation system), adjusted to an efficiency table undertaken by O.P.C. in the PPA.

6.2.4 **The sale of energy to consumers**

(a) **Tariff structure in a sale of energy in a private transaction**

In a sale to private consumers, the Company anticipates that O.P.C. will receive payment for the energy that is actually supplied, this payment to also include the cost of IEC's transportation and back-up services.

(b) **The mechanism of removing power from the PPA pursuant to the rules of the Electricity Sector**

In accordance with the PPA, O.P.C. may remove power from the PPA for a sale to consumers, in accordance with the Electricity Sector Rules. Pursuant to the Electricity Sector Rules, if the power removed does not exceed 25 MW or 25% of the scope of power under the PPA, according to the higher (hereinafter: the "**Minimum Capacity**"), O.P.C. must give IEC 12 months' prior notice regarding removal of the power and if the power so removed is higher than the Minimum Capacity, O.P.C. is obliged to give prior notice of 24 months. The Minister of National Infrastructures is authorized to reduce the advance notice periods for removing power or to extend them for a period of up to 12 months.

(c) **Mechanism of restoring power to the PPA and reduction of the capacity price**

In accordance with the Electricity Sector Rules, a private electricity producer, who removes power from the PPA for sale to private consumers, as aforesaid, may inform IEC, by 12 months' prior notice, that it is restoring the power which was removed (or part thereof) to the PPA (the providing of capacity and power to IEC). In this case, the PPA reiterates the provisions of the Electricity Sector Rules and provides that if the power is restored by the end of 10 years from the date of commercial operation, then the capacity price for the restored power, which exceeds the Minimum Capacity, will be reduced at a rate of 4% and if the power is restored after the end of 10 years from the date of commercial operation – then such capacity price will be reduced by 8.8%.

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(d) **Provisions of the PPA and tariffs of the Electricity**

Authority in relation to private electricity sales

The PPA includes an appendix which defines the reciprocal relations between IEC and O.P.C. in all respects of the execution of private transactions for the sale of electricity by O.P.C. The appendix provides that from the moment of engagement between a consumer and O.P.C., O.P.C. becomes the sole electricity supplier of the consumer. In accordance with the appendix, IEC is obligated to supply electricity to the private customers to whom O.P.C. is unable to supply, in exchange for payment by O.P.C. of a rate which is to be fixed by the Electricity Authority for this purpose. Similarly, the appendix provides that O.P.C. is required to monitor the electricity consumption of its customers and to adjust the production level to the fluctuations in consumption by its customers. The PPA provides that if O.P.C. fails to carry out such monitoring of consumption by its customers, O.P.C. will be rendered liable for discrepancy payments to IEC, in accordance with the rates that were specified for this purpose in the PPA.

(e) **Transportation and back-up agreement with IEC**

An appendix is supposed to be attached to the PPA, involving a transportation and back-up agreement which obliges IEC to provide O.P.C. and its consumers with transportation and back-up services for private transactions executed between O.P.C. and its consumers. The content of the above-mentioned agreement is currently under discussion between the Electricity Authority and O.P.C. O.P.C. believes that the principles of the above-mentioned agreement will allow O.P.C. to use IEC infrastructures services in connection with private transactions executed by O.P.C. with its customers. O.P.C. will pay a rate that is fixed by the Electricity Authority for transporting the electricity which it sells to the consumers, that is decided on a standard basis, regardless of the distance between O.P.C.'s Power Plant and the geographical location of the consumer (for a further description of the transportation and back-up agreement - see section 23.2 below).

6.2.5 **Trading in CDMs**

As a result of the increasing pollution of the environment and the global recognition of the far-reaching implications resulting therefrom, including the phenomenon of global warming, a United Nations framework convention on climate

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change was signed in 1991 and it was ratified by a relatively large number of countries (the Climate Convention). The object of the Convention is to lead to the stabilization of concentrations of greenhouse gases in the atmosphere, to a level which will prevent dangerous intervention in the climate system. Further to legislation of the Convention, as aforesaid, in 1999 the Kyoto Protocol was signed, which constitutes a binding legal agreement as signed by 55 countries, including the countries of the European Union, Canada, Japan and China, but not by the United States, which refrained from signing it in view of the economic implications arising therefrom. The aim of the Protocol was to produce, among the industrialized countries, a significant reduction in the scope of emission of greenhouse gas (carbon dioxide, methane, nitrogen oxide, sulfur hexafluoride, hydrofluorocarbons). In the framework of the Protocol, quotas were set for reducing greenhouse gas emissions which are binding on the industrialized nations.

Appendix 12 of the Kyoto Protocol defines the clean development mechanism, as an essentially financial mechanism, which allows international trading in greenhouse gases. The object thereof is to make it easier for developed countries to meet the greenhouse gas emission reduction targets that were imposed on them in the framework of the Climate Convention.

The mechanism enables the developed countries to purchase, from emerging countries, "emission reduction rights" which replace emission reductions "at home". These rights are issued by the board of directors of the secretariat of the convention concerning the mechanism, after it was convinced that a reduction has been achieved in greenhouse gas emissions or in the absorption of greenhouse gases, in the framework of a specific project that is being carried out in a developing country.

The State of Israel was classified in the Kyoto Protocol and in the Climate Convention as a developing country. Therefore, merchandisable "emission reduction rights" may be produced from Israeli projects, resulting in a reduction of greenhouse gas emissions which increase the economic viability of executing the Project. In accordance with the Kyoto Protocol, the Project of setting up the Mishor Rotem Power Plant is likely to be registered at the UN institutions in the framework of the Clean Development Mechanism (CDM) and if so, following such registration, it is possible that clean emission

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rights (CERs)¹⁷ will be derived from the Project, which may be traded and sold on the international market. The above-mentioned estimation is forward-looking information and it might not be realized or be realized in part. O.P.C. has no measure of certainty that the Project will be recognized as a project that is eligible for CERs. Similarly, the CERs are traded on the international (carbon) market, as mentioned and their price might be subject to fluctuations.

7. **Division of the revenues and profits of products and services**

7.1 As long as O.P.C. does not remove power from the PPA for sale to end-users (section 6.2.4 above), the decisive part of its revenues will derive from providing IEC with capacity under the PPA.

7.2 On the date of publishing the Report, O.P.C. does not have data with regard to the gross profit from the sale of its products. The gross profit will be influenced primarily by the cost of setting up the Plant and O.P.C. has not yet chosen the equipment supplier and in any case, it has yet to settle the price of the equipment supply contract.

8. **Customers**

O.P.C. is dependent on the Electricity Corporation, to which O.P.C. undertook, in the PPA, to provide the Plant's full capacity and to produce energy whenever it was required to do so by IEC. As long as O.P.C. does not exercise its right to sell energy to private consumers, all O.P.C.'s revenues will derive from the Electricity Corporation.

9. **Marketing and distribution**

When O.P.C. seeks to sell energy to consumers, O.P.C. will be required to engage employees or contractors who will be engaged in marketing the energy to private consumers.

10. **Backlog of orders**

As of the date of publishing the Report, O.P.C.'s backlog of orders, subject to compliance with its undertaking to set up the Plant, is comprised of IEC's undertaking (according to the terms of the Tender) to pay for the Plant's capacity over a period of 20 years, from the date of commercial operation. On the assumption that in a specific year O.P.C. will place all the Plant's capacity at IEC's disposal, then O.P.C.'s projected income in this theoretical year will amount to NIS 190 million (according to the prices that are currently known to the Company).

11. **Competition**

11.1 As of the date of publishing the Report, it is difficult to estimate the competitive environment in which O.P.C. is to operate at the time of

¹⁷ A unit equal to one metric ton of carbon dioxide whose emission to the atmosphere has been prevented, directly or indirectly, and which was approved in advance by the suitable institutions at the UN and in Israel as a saleable unit, and which is termed in the Kyoto Protocol: Certified Emission Reduction (CER)

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commencing the Plant's commercial operation, which is expected to occur, at the earliest, in another three years. The scenarios concerning competition in the sale of energy to consumers can range between two extreme situations; one extreme situation is a situation of a lack of real competition and it is based on the assumption that the Electricity Corporation's structural change will be delayed or carried out without the Electricity Corporation's production division joining the competition in the sale of electricity to consumers and on the assumption of a continuation of the present situation in which substantial private electricity producers find it difficult to enter the sector. According to this scenario, as long as the tariff at which the Electricity Corporation can sell energy to the consumer is fixed by the Electricity Authority and the Electricity Corporation is precluded from giving the consumer a discount, O.P.C. can, in the Company's opinion, find itself up against modest competition. On the other hand, a different extreme situation is possible, in which the structural change at Electricity Corporation is completed and the production division is also split into a number of subsidiaries which will compete against private electricity producers for the sale of electricity to consumers and, if by such date, private electricity producers succeed in building plants with a similar power to O.P.C.'s Plant, the electricity market is expected to be a competitive one.

- 11.2 O.P.C.'s main potential competitors are the Electricity Corporation (even if it is not split-up), entrepreneurs who seek to set up plants with a similar or higher power than O.P.C.'s Plant, according to the Conventional Producer Regulations and to a lesser extent, entrepreneurs who set up cogeneration plants. As of the date of this Report, in accordance with data of the Electricity Authority as of 27.4.2009, 16 permanent production licenses have been given in relation to an aggregate power of approx. 400 MW (all the licenses, together), conditional licenses have been given to 3 corporations for the setting up of power plants by virtue of the Conventional Electricity Producer Regulations, at an aggregate power of approx. 600 MW and to 7 corporation by virtue of the Cogeneration Regulations, at an aggregate power of approx. 640 MW. In addition, Dorad Energy Ltd., which plans to set up an 800 MW power plant in Ashkelon (and is not included in the number of holders of conditional licenses), is anticipated to be a competitor of O.P.C. It is noted that the geographical location of the plants which are to be set up by the potential competitors, as mentioned, is of no importance, since the cost of transporting electricity is calculated in accordance with the quantity of electricity which flows in the system, without any connection between the producer and the consumer and therefore, each producer availing itself of the national electricity network, is in the sense of a potential competitor of the Company, wherever its geographical location may be.

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- 11.3 The details presented with regard to competition is forward-looking information and might be influenced primarily by the format of IEC's structural change as detailed above, the timing of the structural change, the entry of additional private electricity producers to the electricity sector and the price at which O.P.C. is to purchase natural gas.
12. **Seasonality**
O.P.C.'s operations may be affected by seasonality in the sense that traditionally, there are seasons in the year (mainly, in autumn and spring), during which the demand for electricity is relatively low compared with the entire year. During these seasons, as long as O.P.C. provides capacity to IEC under the PPA, IEC's demand to operate the Plant is expected to be low. Also, if O.P.C. removes power from the PPA and makes sales to consumers, consumer demand during these seasons might also drop.
13. **Production capacity**
The Plant's production capacity is 370 MW net. The Plant is operated by dual-fuel technology (gas and diesel oil as back-up). If the Plant is required to work with diesel oil, the production capacity will be marginally limited, in O.P.C.'s estimation, because of environmental restrictions. In the Company's opinion, the Plant will be operated by diesel oil in rare cases, such as hitches in the supply of natural gas.
14. **Fixed assets and installations**
The Plant will be set up on a plot of approx. 50 dunams at Mishor Rotem belonging to the Israel Lands Administration, which was designated for this purpose in the Tender. O.P.C. is expected to sign a development agreement with the Israel Lands Administration, which will become a lease agreement upon completing construction of the Plant. The costs of leasing the plot is not substantial to the Project for setting up the Power Plant.
15. **Intangible assets**
O.P.C. is not expected to require licenses to use intellectual property rights of third parties for purposes of realizing the Project.
16. **Human capital**
O.P.C. will carry out the Project for setting up the Power Plant on a project management basis. Therefore, aside from the appointment of senior officers to the positions of CEO, CFO, commercial manager and project manager, O.P.C. is expected to receive most of the work input which it will require from sub-contractors who will be engaged, from time to time, for each section or position that is required. The ongoing operation and maintenance of the Plant will be carried out through an operation company which the Company is to establish, together with Dalkia (see section 24.1 below).
17. **Raw material and suppliers**
17.1 **Equipment suppliers**
O.P.C.'s principal engagement at this stage of setting up the Power Plant will be the signing of an "EPC Agreement" (Engineering,

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Procurement and Construction) with a contractor company which will supply the Plant, on a "turn key" basis. The number of power plant suppliers worldwide is comparatively limited. In recent years, a trend has developed of a rise in equipment prices compared with the price which served as a basis for O.P.C.'s bid in the Tender. O.P.C. has informed the Company that recently, the feeling in the market is that the prices of equipment for power plants are liable to drop as a result of the slump that was caused due to the global economic crisis. The above-mentioned estimation is forward-looking information and the price of the equipment will be influenced by a number of factors, such as the level of demand for power plants, the level of demand for raw material that is intended from power plants (such as steel). Therefore, at this stage, O.P.C. cannot estimate whether the suppliers' offers will be compatible with the level of prices that were in force at the time of submitting O.P.C.'s bid in the Tender, in 2002. O.P.C.'s bid in the Tender included a model of equipment which, due to the vast period of time which has elapsed, is no longer manufactured under the specification that was attached to the Tender. Consequently, O.P.C. will need to obtain IEC's approval of the equipment which is chosen thereby and the Plant's power might change compared with the power that was specified in O.P.C.'s bid in the Tender.

17.2 **The supply of natural gas**

In order to realize the Project, O.P.C. will have to execute a long-term supply agreement with a natural gas supplier. In accordance with the PPA, the cost of the gas is paid to O.P.C., in full, but only with respect to the quantity of gas which IEC approves for O.P.C. once every five years (in this regard, see also section 6.2.4 above). In Israel, there are three long-term natural gas suppliers; the "Tamar" Group which discovered extensive gas reserves, British Gas, which has an off-shore gas field concession opposite Gaza, whose development has yet to be commenced and the Egyptian EMG, which has a right to supply Israel with natural gas from Egypt. O.P.C. executed a cooperation agreement for the purchase of natural gas, in negotiations with two companies belonging to the Israel Corp. Group - Israel Chemicals Ltd. and Oil Refineries Ltd., consumers of substantial quantities of gas in the private sector. O.P.C. hopes that the cooperation with Israel Chemicals and Oil Refineries will allow it to purchase natural gas, on competitive terms. The above-mentioned estimation is forward-looking information and is based, *inter alia*, on the ability of the various gas suppliers to produce natural gas and on O.P.C.'s ability to secure a competitive gas price for the Plant.

17.3 **Transportation of the natural gas – Israel Natural Gas Lines Company Ltd. (hereinafter: "INGL") and the Gas Authority**

The transportation of the gas from the gas supplier to the Plant will be carried out through a natural gas transportation system which is being set up by INGL, a government company that was established towards

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this end. INGL's activity is regulated by the Natural Gas Sector Law, 5762-2002. This law established the Natural Gas Authority, which oversees the natural gas sector, in general and the activity of INGL, in particular. In exchange for the transportation services, INGL collects, from gas consumers, transportation tariffs that are fixed by the Gas Authority. INGL began to operate the gas transportation system in 2003, on a small scale and therefore, INGL does not have experience in operating a transportation system on a national basis, on a large scale.

18. **Working capital**

18.1 **Supplier credit**

In accordance with the PPA, the Electricity Corporation will pay O.P.C. for capacity and energy that were provided in a specific month, within 15 business days of the end of that month. O.P.C. has yet to execute agreements with regular suppliers and consequently, it cannot be estimated at present whether there will be significant discrepancies between the supplier credit which it extends to the Electricity Corporation under the PPA compared with its current liabilities.

18.2 **Fuels**

In accordance with the PPA with the Electricity Corporation, O.P.C. is required to keep a stock of diesel oil for operating the Plant for two hundred hours, in containers at the Plant site, in case of a problem in the supply of natural gas to the Plant.

18.3 **Spare parts**

As is customary in a contract with the suppliers of power plants, O.P.C. will purchase, in advance, a stock of strategic spare parts which are to be stored at the Power Plant site, for the sake of carrying out unplanned maintenance at the Power Plant. In addition, O.P.C. will keep a stock of spare parts at the site for purpose of performing ongoing maintenance.

19. **Finance**

19.1 The setting up and operation of the Power Plant will be financed according to the model of "project finance". The global economic crisis caused a significant downturn in the financing of long-term projects. The Company cannot estimate, at this stage, the affect of the global economic crisis on its ability to finance the Project (in this regard, see also section 29.10 – sectoral risk factors).

19.2 For the purpose of obtaining financing for the Project, O.P.C. will need to attain a credit rating for the Project. Due to the formative stage of the Project, O.P.C. has decided not to request a credit rating of the Project for the time being.

20. **Taxation**

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On 25 July 2005, the Knesset passed the Income Tax Amendment Law (No. 147 and Temporary Order), 5765-2005, according to which the rate of companies tax will be gradually reduced in the following manner: in the tax year 2007, a tax rate of 29% will apply, in 2008 – 27%, in 2009 – 26% and from 2010 onwards, a tax rate of 25% will apply. Losses, for tax purposes, which are incurred by the Company during the initial years of activity will be transferred to years in which there are taxable profits, until the losses have been fully set-off.

21. **The environment**

The Power Plant must comply with the environmental standards which limit the permitted level of pollution and noise and the way in which the sewage and toxins that are involved in operating the Power Plant are treated.

22. **Restrictions and supervision of the corporation's activities**

22.1 **The Electricity Sector Law**

The activity of private electricity producers is regulated in accordance with the Electricity Sector Law and the regulations that were promulgated thereunder. Similarly, private electricity producers are subject to regulation of the Electricity Authority in all respects of the execution of transactions involving the private sale of electricity to consumers (with regard to the regulation applying to O.P.C., see section 5.1.2 above).

22.2 **Licensing**

A private electricity producer is obliged to obtain licenses for the production and sale of energy. A draft of the production license which is to be given to O.P.C. on the date of commercial operation was attached to the Tender. The license will be given for a period of 30 years from the date of commercial operation. The draft license provides, *inter alia*, that the hypothecation or sale of the Plant require the agreement of the Minister of National Infrastructures.

In addition to the production license, the Company is required to obtain a supply license for the sale of energy. In the Company's estimation, in the event of its compliance with the requirements of the Licensing Regulations for obtaining a production license, it will be able to obtain the supply license.

22.3 **Environment, hazardous substances and toxins**

The setting up and operation of a power plant is subject to a series of laws relating to protection of the environment, reduction of pollution, noises, safekeeping of hazardous substances and toxins.

22.4 **The sale of energy to consumers**

The provisions of the PPA that allow O.P.C. to sell electricity to consumers, are based on the rules of the electricity sector which determine the principles that are applicable to the removal of capacity from the PPA for the sake of its sale to consumers and to restoration of

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the capacity that was intended for the consumers, to the PPA (see section 6.2.4 above).

22.5 **Director of the Electricity Administration**

In accordance with the Electricity Law, 5714 – 1954, the setting up of a power plant also requires a permit of the Director of the Electricity Administration.

22.6 **The Planning and Building Law, 5725 – 1965**

The setting up of the Plant is subject to obtaining a building permit under the Planning and Building Law and the commercial operation of the Plant will be subject to receiving a certificate of completion ("Form 4").

22.7 **Individual borrower**

The Company and some of its affiliated companies are affected by the "Proper Conduct of Banking Business Regulations" of the Control of Banks, which include, *inter alia*, restrictions on the scope of loans which a bank in Israel can provide to an "individual borrower", to one "group of borrowers" and to the six largest borrowers and "groups of borrowers" of the banking corporation [as these terms are defined in the said regulations]. The Company, some of its affiliated companies and the controlling shareholders of the Company (including some of their affiliated corporations) are defined as one "group of borrowers" for purposes of the "Proper Conduct of Banking Business Regulations". Under certain circumstances, this might affect, the ability of the Company and the affiliated companies, including O.P.C., to borrow additional amounts from banks in Israel for the sake of the Project.

23. **Substantial agreements**

23.1 **The PPA**

23.1.1 **Milestones in setting up the Plant**

In accordance with the PPA, O.P.C. is responsible for obtaining all the approvals and permits necessary for setting up the Power Plant and is fully responsible for setting up and operating the Power Plant. The central milestones stipulated in the PPA for setting up the Plant are as follows: (a) the receipt of a building permit for construction of the Power Plant – within a period of 23 months from the date of signing the PPA; (b) the execution of financial closing – within a period of 24 months from the date of signing; and (c) commercial operation of the Project within a period of 49 to 52 months from the date of signing.

On the date of commercial operation, O.P.C. is required to conduct acceptance tests, as stipulated in the PPA, in order to prove that the Plant's power is equal to the power that was undertaken by O.P.C. in the PPA. Upon the Plant reaching

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commercial operation, IEC undertakes to purchase capacity and energy from the Plant, over a period of 20 years. With regard to a description of the capacity and energy payments, see section 6.2 of the Profile.

23.1.2 **Construction of a connection to the electricity network**

In accordance with the PPA, IEC is responsible for construction of the Plant's connection to the electricity network and construction of the transportation lines from the Plant to the closest substation ("**Substation**"), in Dimona, and the construction of additional works to the Substation in Dimona, which are required for receptivity of the electricity produced at the Plant. Construction of the connection to the electricity network and the execution of additional works at the Substation in Dimona (hereinafter: the "**IEC Works**") (as distinct from construction of the transportation lines) is being carried out by O.P.C., at a cost which is not material to the Project. IEC is obliged to complete the IEC Works within 24 months of the date of approving the NPS in relation to the Plant site by the National Planning and Building Committee, with the possibility of a deferral of 4 months if the NPS approval involves a change in the route for construction of the transportation lines. If the IEC Works are not completed by the date of commercial operation and are the only reason for causing a delay in the date of commercial operation, IEC is obliged to compensate O.P.C. in limited amounts, in accordance with the mechanism specified in the PPA.

23.1.3 **The supply of natural gas to the Plant**

The supply and transportation of natural gas to the Plant is under O.P.C.'s responsibility. IEC will give O.P.C. a forecast once every 5 years in respect of the projected gas consumption for the next 5 years. The PPA provides that subject to obtaining the agreement of the Minister of Finance and the Minister of Infrastructures (as required according to the Natural Gas Sector Law)¹⁸, to the extent there is a deviation in the gas consumption at the Plant (above or below) IEC's forecast – and provided O.P.C. was in compliance with the terms of the PPA relating to the Plant's efficiency and capacity (see section 23.1.4 below) – IEC will purchase the gas from O.P.C. (in the case of a downward deviation) or will supply the deficient gas to O.P.C. (in the case of an upward deviation), where the acquisition or supply of the gas, as the case may be, will be at the price (of the natural gas) that was fixed between O.P.C. and its gas supplier. In principle, all the fuel costs in respect of electricity production as requested by IEC, are refunded in full to O.P.C., subject to the Plant being

¹⁸

The Ministers' agreement was given on 18.6.2009.

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in compliance with the efficiency requirements which it has undertaken in the PPA (namely, the quantity of gas units necessary for producing each kilowatt of electricity) and that there were no delays in supplying the gas for which the gas supplier or the gas transporter is responsible. In cases in which the supply of gas to the Plant is precluded due to an act or omission of the gas supplier or transporter, IEC will be entitled to demand that O.P.C. operate the Plant by means of diesel oil and will pay O.P.C. for the fuel consumed according to the price of natural gas (which might be significantly lower than the price of diesel oil) and in those cases, O.P.C. will need to claim the difference from the gas supplier or transporter, as the case may be (see, with regard to this section, section 29 below – risks).

23.1.4 **Term of operation**

During the term of commercial operation, O.P.C. has undertaken that the Plant's capacity will be 80% in the first year and 92% for the balance of the term of the PPA.

The PPA contains provisions pertaining to the installation of meters and the method of measuring the electricity supplied, the rules and the technical procedures for operating and maintaining the Plant, IEC's right to refuse to accept electricity which fails to meet the quality required by IEC, IEC's right to disconnect the Plant from the electricity network in the event of maintenance works on the electricity network or security risks, the obligation to coordinate shutting down the Plant with IEC, the parties' liability in torts for the property and insurance obligations applying to O.P.C.

23.1.5 **Force Majeure**

The PPA contains a *Force Majeure* clause which releases a party which is subject to *Force Majeure* from fulfilling its obligations. IEC is released from payment for the Plant's capacity during the existence of an event of *Force Majeure* which has caused the Plant to be disconnected from the electricity network, other than as a result of a breach by O.P.C. If an event of *Force Majeure* continues for 9 consecutive months (or 12 months, in the event of O.P.C. providing confirmation that it requires 3 additional months to reinstate the Plant), each party may terminate the PPA.

23.1.6 **Changes in law**

In accordance with the PPA, if there is a change in law which requires O.P.C. to made additional investments in equipment, in excess of 1% of O.P.C.'s revenues in the preceding year, from the sale of capacity to IEC, IEC will indemnify O.P.C. for the investments, less 1% of its aforesaid revenues.

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23.1.7 **Breach and termination**

The PPA stipulates a list of events that are in the sense of agreed fundamental breaches, which include non-compliance with the date of commercial operation (subject to a cure period of one year and subject to conditions and restrictions for compliance with the cure period): a drop below the Minimum Capacity, as defined in the PPA, in the period subsequent to the commercial operation; failure to supply electricity in accordance with IEC's demand, for 180 cumulative days, over a period of 365 consecutive days; failure to comply with any of the provisions of the PPA which has an adverse material impact on IEC and a continuing two-week breach of a non-fundamental provision. In the event of a fundamental breach of the PPA, IEC is obliged to give O.P.C. a suitable cure period to cure the default, if a special cure period was not given (save for cases of winding-up, insolvency and so forth). In the event of O.P.C. failing to cure a breach within the cure period, IEC is entitled to terminate the PPA.

23.1.8 **Liquidated damages**

In accordance with the PPA, O.P.C. will pay IEC liquidated damages in the following cases and amounts:

23.1.8.1 **O.P.C.'s right of termination up until the date of the Plant's commercial operation**

In accordance with the PPA, O.P.C. is entitled to initiate termination of the PPA up until the date that was set for commercial operation of the Plant, subject to the payment of liquidated damages, as follows:

- (a) If the PPA is terminated up until the end of 16 months from the date of signing the PPA, O.P.C. will pay IEC liquidated damages in the sum of NIS 4.4 million, linked to the CPI of 12/000 (as of the date of the Report, the above-mentioned amount is estimated at NIS 5.5 million);
- (b) If the PPA is terminated by O.P.C. during a period after the end of the said 16 months and up until the date that was set for commercial operation of the plant, O.P.C. will pay liquidated damages of NIS 4.4 million linked to the CPI of 12/00 (estimated, as of the date of the Report, at approx. NIS 5.5 million, as mentioned), plus

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liquidated damages¹⁹ for a period of three (3) years, less the time remaining until the date of commercial operation, subject to an total cap amount of 15,000,000 US dollars, calculated according to the representative rate of exchange as of 1 December 2000 and linked to the CPI of 12/00. As of the date of the Transaction Report, this amount (maximum) totals an amount of approx. NIS 75 million;

23.1.8.2 **Damages on account of failure to prove power or a decrease in the power**

The PPA contains an obligation of O.P.C. to pay liquidated damages subject to an aggregate maximum of approx. NIS 75 million, in cases of failure to prove power on the date of commercial operation or a post commercial operation decrease in power, subject to a cure period and additional criteria that are specified in relation to each case. The exact liquidated damages to be paid in each individual case (subject to the above-mentioned maximum), will be determined according to the damage to the system for a period of three (3) years, calculated according to the formula specified in the PPA.

23.1.8.3 **Liquidated damages on account of non-compliance with the undertaking vis-à-vis capacity**

The PPA specifies further significant liquidated damages which are not limited by a cap amount in the event of the installation's capacity being lower than 92% (or 88% in the first year of operation). In such a case, O.P.C. will pay IEC damages in respect of the deviation, in accordance with the calculation specified in the PPA. In O.P.C.'s estimation and based on data which IEC has conveyed thereto (which has yet to be verified), the liquidated damages may reach an amount of approx. 320,000 US dollars per 1% of decrease in capacity.

23.1.9 **Liquidated damages – exhaustive relief**

In any case in which O.P.C. is liable for liquidated damages by virtue of the PPA (whether on account of termination

¹⁹ The exact amount of the damages is calculated according to the formula specified in the PPA, which is based on the damage that was caused to the system on account of delaying the commercial operation.

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initiated by O.P.C. or on account of a breach and/or termination by IEC), the liquidated damages payable to IEC constitute exhaustive relief for IEC vis-à-vis O.P.C.

23.1.10 **Bank guarantees**

In accordance with the PPA, O.P.C. is obliged to give IEC bank guarantees to secure fulfillment of the PPA, in the amounts and on the dates as set out below: on the occasion of signing the PPA, a performance bond in the sum of approx. NIS 38 million (that has been given to IEC), which is replaced by a performance bond of approx. NIS 77 million on the date of receiving the building permit and which is once again replaced by a performance bond of approx. NIS 96 million on the date of the financial closing. On the date of commercial operation, the performance bond is reduced to an amount of approx. NIS 38 million for the first 10 years of operation and increases once again to NIS 77 million during the last 10 years of operation²⁰.

IEC may draw down the guarantees to cure any fundamental breach on the part of O.P.C. and O.P.C. is obliged to supplement any amount that is drawn down from the guarantee.

23.1.11 **Transfer of rights and charges**

A transfer of rights at the Plant or a transfer of shares at O.P.C. or any hypothecation of the Plant and/or the PPA require IEC's approval.

23.2 **Transportation and Back-up Services Agreement**

For a description of the Transportation and Back-Up Services Agreement, see section 6.2.4(e) above.

23.3 **Arrangement for cooperation in purchasing natural gas**

On 16.8.09, O.P.C. signed a cooperation agreement with Israel Chemicals Ltd. and Oil Refineries Ltd. (both of which belong to the Israel Corp. Group) in negotiations with natural gas suppliers. The agreement is limited to the negotiations stage and each party will sign a separate gas supply agreement. The agreement may be terminated by any of the parties, by prior notice of twenty one (21) days.

24. **Cooperation agreements**

On 25.9.2008, Ofer Energy signed a set of agreements with Dalkia in relation to the ownership and operation of the Power Plants. In the framework of the

²⁰

In accordance with the PPA, the guarantee amounts are derived from a calculation for each KWh of power at the Plant and the above-mentioned calculations are based on a plant with a 400 MW capacity. The guarantee amounts are linked to the CPI of 5/09 and this linkage continues up until the date of furnishing the guarantee.

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transaction between Ofer Energy and the Company, the following agreements are being assigned from Ofer Energy to Dalkia.

24.1 **Shareholders agreements**

24.1.1 **Background**

The partnership with Dalkia will apply to two companies:

24.1.2 **The Asset Company (which will be O.P.C.) – this company signed the PPA with the Electricity Company** will own the Project, bear the set up cost and be entitled to the Project's profits. Dalkia is purchasing 20% of this company.

24.1.3 **The operation and maintenance company (the "Operation Company")**

This company will engage in the ongoing operation and maintenance of the Project in accordance with the services contract that is to be signed between it and the Asset Company. Dalkia will hold 65% of this company and Ofer Energy / Israel Corp. will hold 35% of this company.

The description below will refer to the shareholders agreement **in the Asset Company** and it assumes that the Company will hold 80% of the O.P.C. shares.

24.1.4 **Structure of the board of directors**

The Company – 5

Dalkia – 2

24.1.5 **Appointment of officers**

The Company has the right to appoint the CEO and CFO of the Company and Dalkia has the right to appoint the COO and the CTO of the Company.

24.1.6 **Minority protection**

As long as Dalkia holds 15% of the shares in O.P.C., it will have a right of veto over resolutions on the following matters: amendment of the articles of association, winding-up, interested parties transactions, a change in the field of activity, the sale of all O.P.C.'s assets or a merger, an allotment of shares to a third party, new exceptional capital investments in excess of 10% of the Project budget (unless the investments are required in accordance with law or by the Project's financiers) and the replacement of O.P.C.'s accountants. Correspondingly, **prior to** the financial closing, Dalkia will have a right of veto regarding an increase of the Project's development budget by more than 15%, a financing structure that requires equity of more than 30% of the cost of the Project and other material resolutions in technical areas.

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24.1.7 **The rendering of services to the Project**

Israel Corp. will supervise the services which third parties are to render in the area of finance, licensing, land purchase, law and the sale of electricity to end-users and Dalkia will supervise the third parties that provide planning and engineering services in the Project. Each party will charge O.P.C. for its services at a rate of 15% of the value of the contracts for which it is responsible and the service fee will be paid on the date of the financial closing.

24.1.8 **Promotion fee**

On the date of the financial closing, the parties will draw a promotion fee from the Project, in an amount of \$10,000,000, to be divided *pro rata* between the parties.

24.1.9 **Dilution**

24.1.9.1 The Agreement includes a dilution mechanism with regard to a party who fails to inject its share in the financing. The dilution will be made according to a valuation of the Project, less 10%, or as elected by the diluting party, by providing a loan at preferential interest.

24.1.9.2 In addition, if Dalkia's percentage share of holdings is diluted below 15%, the maintenance agreement with the Operation Company may be cancelled.

24.1.10 **Non-competition**

24.1.10.1 Each party is obliged to offer the other party the opportunity of participating in an investment in a power plant in Israel which is being promoted by that party, according to a format that was specified in the shareholders agreement with regard to O.P.C. If the other party refuses, there is no restriction on the project's execution by the offering party. If the investment in a power plant is offered by a third party, the party is obliged to offer the other party the opportunity of participating in the investment based on the same conditions that were offered by the third party. Where the other party has refused such offer, no investment will be made in the power plant. This provision is valid as long as the party is a shareholder of O.P.C. or until 31.12.13, **according to the earlier date.**

24.1.10.2 Each party is allowed to invest in a cogeneration plant without any obligation to make an offer to the other party.

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24.1.10.3 In the event of the privatization of plants of the Electricity Company, each party is allowed to invest, alone, in the power plants specified, without any obligation to make an offer to the other party.

24.1.11 **Right to withdraw**

24.1.11.1 Up until the date of signing the Project's finance agreement, each party has a right to withdraw from the Project.

24.1.11.2 A party who has withdrawn, is responsible for covering its relative share of any compensation amount for which O.P.C. will be rendered liable, as of the date of the party's withdrawal and it must deposit the compensation amount, in cash, with O.P.C. on the date of withdrawal.

24.1.11.3 If a party has withdrawn and the financial closing of the Project has subsequently been achieved, the compensation amount deposited by that party will be refunded thereto and, subject to the financiers' agreement, the owner's loans amounts provided to O.P.C. by that party will be returned at the financial closing or on some other date to be approved by the financiers for repayment of the Company's debts.

24.2 **Shareholders agreement in the Operation Company**

The shareholders agreements in the Operation Company will effectively be a mirror of most of the provisions of the agreement in relation to the Asset Company (namely, in this company, Dalkia will enjoy a majority status and Israel Corp. will be entitled to the minority protections). Since this agreement refers to the commercial operation stage onwards, the provisions pertaining to payment for services, promotion and withdrawal fees are naturally not incorporated in this agreement.

24.3 **Agreement for the sale of shares in both companies**

24.3.1 In light of the connection between the Asset Company and the Operation Company, an agreement will be signed stipulating the rules that affect the sale of shares in one company, on the continued holdings in the other company. The guiding rule is that whenever Israel Corp. sells shares in the Asset Company, Israel Corp. can compel Dalkia to choose one of the following alternatives:

24.3.2 The sale of Israel Corp.'s share in the Operation Company to a buyer, without a right of refusal by Dalkia.

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24.3.3 The acquisition of Israel Corp.'s share by Dalkia, at a pre-contracted price.

24.3.4 Termination of the Operation Agreement between the Asset Company and the Operation Company (in effect, the winding-up of the Operation Company).

Each alternative is applicable to the conditions and circumstances of the terms of the transaction between Israel Corp. and a third party buyer.

24.4 Subject to the foregoing, the parties were given a mutual right of first refusal at the time of selling shares **in the Asset Company**; Dalkia was given a Tag-Along Right and Israel Corp. was given a Drag-Along Right **in the Asset Company**.

24.5 In addition, Dalkia is prohibited from selling less than its share (20%) in the Asset Company and the Israel Corp. is prohibited from selling less than its share (35%) in the Operation Company.

24.6 **Conditions precedent**

The entry into force of the set of agreements with Dalkia is stipulated by conditions precedent – approval of the merger by the Anti-Trust Authority (to the extent necessary) and the signing of an O&M (operation and maintenance) Agreement between the Asset Company and the Operation Company.

The State's approval in relation to adding Dalkia as a shareholder of O.P.C. was given on 4.11.2009.

25. **Legal proceedings**

As of the date of this Transaction Report, O.P.C. is not involved in legal proceedings.

26. **Goals and business strategy**

O.P.C.'s goal is to be the first significant private electricity producer in the electricity sector. O.P.C.'s business strategy will be directed to the private consumers market, which in the Company's opinion, might produce significantly higher profitability than the profit embodied in the PPA, such that the PPA will serve mainly as a safety net for repayment of the debt to the financiers.

27. **Projected development in the coming year**

The Company believes that in the coming year, O.P.C. intends to complete the licensing procedures for setting up the Plant, to sign an EPC Agreement, a natural gas supply agreement and to secure a financial closing, the aforesaid being about one year before the date on which it is required to do so under the PPA. The above-mentioned estimation is forward-looking information based on

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the Company's estimation of completion of the procedures set out above. This estimation might not be realized or might be realized on a partial basis, compared with what is predicted at this point. The primary factors which might affect the above are set out in section 29 below.

28. **Information regarding an extraordinary change in the corporation's business**

There is none.

29. **Discussion of risk factors**

Below are threats, weaknesses and risk factors to which the Company is exposed:

<u>Risk</u>	<u>Nature of the risk</u>	<u>Effect</u>
Licensing	Low	Substantial
Cost of investment	High	Substantial
Set up works	Medium	Substantial
Operation and maintenance	Medium	Substantial
Gas purchase	Low	Medium
Cost of gas	Medium	Substantial
Gas transportation	Low	Medium
Sale of energy to consumers/competition	Low	Substantial
Structural change of IEC	Medium	Minor
Linkage of IEC contract prices until the financial closing	High	Minor
Linkage of IEC contract prices from the date of the financial closing	High	Minor
Raising of credit for the Project	Medium	Substantial

29.1 **Licensing risk**

The licensing procedures in Israel are liable to involve many delays. In accordance with the PPA, O.P.C. was given a timeframe of 24 months to obtain a building permit. Under the PPA, delays that are caused by acts or omissions of government institutions are in the sense of *Force Majeure*. In general, an EPC agreement specifies a target date for issuing a work commencement order and for its entry into force and therefore, if there are protracted delays in the planning procedures – even if they are in the sense of *Force Majeure* – they are liable to cause the EPC contractor to demand an increment for the delay in the agreement's entry into force. Pursuant to the PPA, until the date of commercial operation, O.P.C. has a right to give notice of termination of the PPA, while paying liquidated damages which increases gradually from a sum of one million US dollars (if the termination occurs by the end of 16 months from the date of signing and up to a maximum of approx. NIS 75 million, if the termination occurs 52 months from the date of signing). Consequently, in the event of a significant delay in the licensing (which is not caused by *Force*

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Majeure), O.P.C. can limit its exposure by exercising the said right of termination.

29.2 **Cost of investment**

O.P.C.'s bid in the Tender was based on the cost of equipment (which constitutes the principal cost of the Project), in an overall amount of approx. 220 million Euros. In the time that has elapsed since the date of submitting O.P.C.'s bid in the Tender, changes have occurred, in the Company's estimation, in the parameters that formed the basis of O.P.C.'s calculation in the Tender, including, the price of the equipment and the interest rates. The Company reckons that the cost of the Project will not be less than the original cost and there is also a strong likelihood of price increases – even substantial – occurring in some - and perhaps, even in all - of the main parameters. O.P.C. is currently in the process of making final preparations towards obtaining quotations from set up contractors, gas suppliers and financiers. As mentioned above, most of the set up cost is expressed in the EPC agreement and thus, the EPC prices have a substantial effect on the economic feasibility of the Project. As stated above, O.P.C. can exercise its right to terminate the PPA if an adverse substantial change occurs in the cost of the equipment. On the other hand, the PPA is a BOO (Build, Own, Operate) contract and there is no contractual undertaking to execute refund payments to O.P.C. in the case of termination of the agreement. Accordingly, if the PPA is terminated before the setting up of the Plant has been completed, inasmuch as O.P.C. executes advance payments to the set up contractor, the refunding of these payments to O.P.C. is not guaranteed.

29.3 **Set up works**

O.P.C. will transfer most of the risks involved in setting up the Plant to the EPC contractor. The Company believes that O.P.C. will remain responsible, during the set up period, for limited risks that are involved primarily in the Power Plant site (such as: the attaining of rights of passage to the site, the finding of antiquities at the site, etc.).

29.4 **Risk of operation and maintenance**

O.P.C. will transfer the risks involved in the operation and maintenance to the EPC contractor and to the O&M Company. In the Company's opinion, the EPC contractor will perform repairs in the framework of the warranty that is to be given in respect of the Plant, during a comparatively short warranty period which is to be agreed and it will provide long-term maintenance services (current and periodic services) in the framework of a long-term maintenance agreement to be signed between it and O.P.C. The joint O&M Company which is to be formed together with Dalkia will bear the risks involved in the Plant's ongoing operation (see section 24.1.3 above).

29.5 **Risk in purchasing gas**

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As stated in PPA, the covering of O.P.C.'s gas costs by IEC is conditional upon O.P.C. purchasing a quantity of gas in accordance with IEC's forecast, to be given once every five years. If the gas suppliers fail to agree on the execution of a supply agreement for the above-mentioned period, O.P.C. is likely to be forced to give notice of early termination of the PPA.

29.6 **Gas transportation risk**

INGL has limited experience in operating a natural gas transportation system. In accordance with the PPA, in certain cases in which O.P.C. is required to operate the Plant by means of diesel oil as a result of a problem in the transportation system, IEC will pay O.P.C. the cost of the fuel in accordance with the price of natural gas. O.P.C.'s ability to be reimbursed by INGL in these cases is limited to relatively low maximum amounts, as specified in the transportation agreement in relation to INGL's liability.

29.7 **Risk of selling energy to consumers/competition**

29.7.1 **Cost of the gas**

If O.P.C. is unable to purchase gas at a competitive price approximating the price at which IEC purchases gas, its competitive ability, versus IEC, in selling to consumers will be negatively impacted.

29.7.2 **Customers risk**

The Plant's clientele might be limited. The potential consumer who is liable to execute a private transaction to purchase electricity from the Plant, must be one who requires a relatively large amount of electricity and who will meet the credit rating requirements presented by the Project's financiers. In the event of the existence of competition between private electricity producers, the discount percent which consumers will request is likely to increase, as a result of the supply of several private electricity producers. In addition, the profitability of sales to end-users will also be affected by the profile and specific needs of the private consumers, where consumers with a fluctuating profile might cause the plant to lower production that corresponds to the consumers' consumption or to supply electricity during operating hours that are not economically viable, in order to meet consumer demand.

29.8 **Risk of linking IEC's contract prices until the financial closing**

In accordance with the PPA, up until the date of the financial closing, the capacity price is linked 1/3 to the CPI and 2/3 to the Euro (see section 6.2.1 above). If the composition of costs of setting up the Plant, as denominated in NIS and in Euros, is not divided according to this ratio, the capacity price will be eroded. As of the date of this Report, O.P.C.'s estimates that it will be able to hedge its above-mentioned

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exposure by means of financial protections. The above-mentioned information is forward-looking information and is liable to be affected by the costs of hedging the above-mentioned exposure.

29.9 **Risk of linking IEC's contract prices from the date of the financial closing**

29.9.1 **The capacity payment**

(a) In accordance with the PPA, the capacity prices which IEC is to pay the Plant are linked to the CPI but they will only be updated on the date on which the Electricity Authority updates IEC's tariffs. For this reason, on the one hand, the capacity price will not be updated until the date on which the Electricity Authority updates the electricity rates, as mentioned and on the other hand, O.P.C.'s debt to the financiers (in the Company's estimation) will be linked largely to the CPI, which might create a discrepancy between the actual value of O.P.C.'s cash flow and the actual value of its debt to the financiers.

(b) **Payment of the variable costs**

Some of the variable costs are specified in foreign currency, while the payments of the variable costs are linked, under the PPA, to the CPI.

29.10 **Sectoral factors**

29.10.1 **Raising of credit for the Project**

The Company, some of its affiliated companies and the controlling shareholders of the Company (including, some of their associated companies) are defined as one "group of borrowers" for purposes of the "Proper Conduct of Banking Business Regulations". Under certain circumstances, this might affect the ability of companies in the Group, including O.P.C., to borrow additional amounts for the Project from banks in Israel.

29.10.2 **Structural change of IEC**

In the framework of the Tender, a letter of undertaking was given on behalf of the Ministry of National Infrastructures, stipulating that if the Electricity Corporation is split-up, the corporation which is to replace the Electricity Corporation in the agreement with O.P.C. will have a BBB+ rating by an international rating company. In light of the above-mentioned letter to O.P.C., there is a certain level of protection against the effect of the splitting-up of the Electricity Corporation, on the economic strength of the purchaser of energy under the agreement between IEC and O.P.C. Nonetheless, the implementation of the structural change in the electricity sector is forward-looking information and the Company is unable to assess the effect on the electricity sector, in general and on O.P.C., as a private electricity producer, in particular

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and specifically, to what extent the corporations engaging in electricity production will be permitted to compete, directly, with private electricity producers and to sell electricity to consumers.

29.10.3 **Global economic crisis**

Towards the end of 2008, a grave crisis erupted in the global financial markets. At this stage, the extent of the economic implications of the crisis, worldwide and in Israel and the duration thereof cannot be estimated. This crisis is liable to have negative affects on the Company's activity and results, as well as on the ability to raise the necessary capital for the Project. Similarly, the crisis is liable to negative impact O.P.C.'s ability to obtain the necessary funding for the Project. In addition, the capacity price is linked to the interest rate of 10-year Israeli government bonds (see section 6.2.1 above) and therefore changes in the interest rate will increase or decrease the capacity payment [and, conversely, will increase or decrease repayment of the debt on the Project].

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APPENDIX B – FINANCIAL STATEMENTS

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O.P.C. Rotem Ltd.
Financial Statements
as at 30 June 2009
(unaudited)

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To

The shareholders of O.P.C. Rotem Ltd.

Dear Sir/Madam,

Re: **Auditor's Review to the Shareholders of O.P.C. Rotem Ltd.**

Introduction

We have reviewed the accompanying financial data of O.P.C. Rotem Ltd. (hereinafter: the "**Company**"), which includes the Balance Sheet as at 30 June 2009 and Statements of Comprehensive Income, Changes in Equity and the Statements of Cash Flow for a period of six and three months then ended. The board of directors and management are responsible for the preparation and presentation of the financial information for this interim period, in accordance with the International Financial Reporting Standards (IFRS) and they are responsible for the preparation of financial information for this interim period in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 5753-1993. Our responsibility is to express an opinion on this financial information for this interim period, based on our review.

Scope of the review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods as prepared by the Auditor of the Entity". A review of financial information for interim periods is comprised of inquiries mostly with the persons responsible for the financial and accounting matters and of the implementation of analytical and other review procedures. A review is significantly more limited in scope than an audit that is conducted in accordance with accepted accounting standards in Israel and it therefore does not guarantee that we shall be apprised of all the significant matters that could have been identified in the audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, no matter was brought to our attention that leads us to think the aforementioned financial information does not fairly present, in accordance with the International Financial Reporting Standards, in all material respects, the financial position of the Company as at 30 June, 2009 and the results of operations, changes in equity and cash flows of the Company for the period of six and three months, then ended.

In addition to what was stated in the previous paragraph, based on our review, no matter was brought to our attention which leads us to think that the aforementioned financial information referred, is not in compliance, in all material respects, with the provisions of the Securities Regulations (Preparation of Annual Financial Statements), 5753-1993.

Emphasis

We direct attention to what was stated in Note 1.b of the Financial Statements, according to which the Company is dependent on the continued receipt of financing

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from the Interested Parties for the purpose of continuing to finance its business activity and that there is dependence on finding bank financing for construction of the power plant.

We agree that this Review be included in the framework of the Transaction report which Israel Corp. Ltd. is to publish in November 2009.

Ziv Haft
Certified Public Accountants

Haifa, 15 November 2009

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Independent Auditor's Report to the shareholders of O.P.C. Rotem Ltd.

We have audited the accompanying Balance Sheets of O.P.C. Rotem Ltd. (hereinafter: the "**Company**") as at December 31, 2008 and 2007 and the related Statements of Comprehensive Income, Changes in Equity and the Statements of Cash Flows for each of the years then ended. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audits in accordance with generally accepted accounting principles including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements, present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of operations and cash flows of the Company, for each of the years then ended, in conformity with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Preparation of Annual Financial Standards), 1993.

Without reserving our abovementioned opinion, we direct attention to what was stated in Note 1.b of the Financial Statements, according to which the Company is dependent on the continued receipt of financing from the Interested Parties for the purpose of continuing to finance its business activity and that there is dependence on finding bank financing for construction of the power plant.

We agree that this Review be included in the framework of the Transaction report which Israel Corp. Ltd. is to publish in November 2009.

Ziv Haft
Certified Public Accountants

Haifa, 15 November, 2009

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O.P.C. Rotem Ltd.

Balance Sheets (in thousand NIS)

	<u>Note</u>	<u>30.06.2009</u> <u>Unaudited</u>	<u>30.06.2008</u> <u>Unaudited</u>	<u>31.12.2008</u> <u>Audited</u>	<u>31.12.2007</u> <u>Audited</u>
Assets					
Current assets:					
Cash and cash equivalents		240	150	156	136
Accounts receivable		159	63	92	69
Total current assets		<u>399</u>	<u>213</u>	<u>248</u>	<u>205</u>
Non-current assets:					
Long-term pre-paid expenses		-	-	10	-
Fixed assets:	3	<u>8,888</u>	<u>2,695</u>	<u>6,700</u>	<u>946</u>
Total non-current assets		<u>8,888</u>	<u>2,695</u>	<u>6,710</u>	<u>946</u>
		<u>9,287</u>	<u>2,908</u>	<u>6,958</u>	<u>1,151</u>
Liabilities and equity					
Current liabilities:					
Suppliers and service providers		68	89	25	118
Accounts payable	4	<u>1,201</u>	<u>62</u>	<u>986</u>	<u>2</u>
Total current liabilities		<u>1,269</u>	<u>151</u>	<u>1,011</u>	<u>120</u>
Fixed liabilities:					
Interested parties	5	<u>15,475</u>	<u>8,721</u>	<u>13,404</u>	<u>8,488</u>
		<u>15,475</u>	<u>10,214</u>	<u>13,404</u>	<u>8,488</u>
Contingent liabilities and commitments					
Capital deficiency attributed to holders of capital rights in the Company:					
Capital deficiency	7	<u>(7,457)</u>	<u>(7,457)</u>	<u>(7,457)</u>	<u>(7,457)</u>
		<u>9,287</u>	<u>2,908</u>	<u>6,958</u>	<u>1,151</u>

15 November 2009

**Date of approving
Financial Statements**

**Idan Ofer
Director**

**Avi Levi
Director**

**Giora Almogy
CEO**

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

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O.P.C. Rotem Ltd.

Statement of Comprehensive Income (in thousand NIS)

	<u>Note</u>	<u>For the period of six months ended on</u>		<u>For the period of three months ended on</u>		<u>For the year ended on</u>	
		<u>30.06.2009</u>	<u>30.06.2008</u>	<u>30.06.2009</u>	<u>30.06.2008</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
		<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Audited</u>	<u>Audited</u>
Financing expenses, net	8	-	-	-	-	-	(308)
Revenues from previous years		-	-	-	-	-	240
Loss before deduction of taxes on income		-	-	-	-	-	(68)
Taxes on income	9	-	-	-	-	-	-
Net loss		-	-	-	-	-	(68)
Other comprehensive income		-	-	-	-	-	-
Total comprehensive loss		-	-	-	-	-	(68)

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O.P.C. Rotem Ltd.

Statements of Changes in Equity (in thousand NIS)

For the six-month period ended on 30.6.2009

	<u>Issued share capital</u>	<u>Deficit</u>	<u>Total</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
Balance as at 1 January 2009 (audited)	1	(7,458)	(7,457)
Changes in the six-month period ended on 30 June 2009:			
Total comprehensive loss for the period	-	-	-
Balance as at 30 June 2009	1	(7,458)	(7,457)

For the six-month period ended on 30.6.2008

	<u>Issued share capital</u>	<u>Deficit</u>	<u>Total</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
Balance as at 1 January 2008 (audited)	1	(7,458)	(7,457)
Changes in the six-month period ended on 30 June 2008:			
Total comprehensive loss for the period	-	-	-
Balance as at 30 June 2008	1	(7,458)	(7,457)

For the period of three months ended on 30.6.2009

	<u>Issued share capital</u>	<u>Deficit</u>	<u>Total</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
Balance as at 1 April 2009 (unaudited)	1	(7,458)	(7,457)
Changes in the six-month period ended on 1 April 2008:			
Total comprehensive loss for the period	-	-	-
Balance at 30 June 2008	1	(7,458)	(7,457)

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

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O.P.C. Rotem Ltd.

Statements of Changes in Equity (in thousand NIS)

For the three-month period ended on 30.6.2008

	<u>Issued share capital</u>	<u>Deficit</u>	<u>Total</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
Balance at 1 April 2008 (unaudited)	1	(7,458)	(7,457)
Changes in the three-month period ended on 30 June 2008:			
Total comprehensive loss for the period	-	-	-
Balance at 30 June 2008	<u>1</u>	<u>(7,458)</u>	<u>(7,457)</u>

For the two years ended on 31.12.2008

	<u>Issued share capital</u>	<u>Deficit</u>	<u>Total</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
Balance at 1 January 2007	1	(7,390)	(7,4389)
Changes during 2007:			
Total comprehensive loss for the year	-	(68)	(68)
Balance at 31 December 2007	<u>1</u>	<u>(7,458)</u>	<u>(7,457)</u>
Changes during 2008:			
Total comprehensive loss for the year	-	-	-
Balance at 31 December 2008	<u>1</u>	<u>(7,458)</u>	<u>(7,457)</u>

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

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O.P.C. Rotem Ltd.

Statements of Cash Flows (in thousand NIS)

	<u>For the six-month period ended on</u>		<u>For the three-month period ended on</u>		<u>For the year ended on</u>	
	<u>30.06.2009</u>	<u>30.06.2008</u>	<u>30.06.2009</u>	<u>30.06.2008</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Audited</u>	<u>Audited</u>
Cash flows from operating activities						
Net loss according to Profits and Loss Statements	-	-	-	-	-	(68)
Adjustments required to reflect cash and cash equivalents from operating activities:						
Changes in assets and liabilities:						
Decrease (increase) in debts in accounts receivable	102	6	72	(20)	(33)	(50)
Decrease (increase) in accounts payable and credit balances	(96)	60	(1)	(93)	94	(171)
Increase (reduction) in liability due to employee benefits	-	-	-	-	-	(148)
Cash from operating activities, net	<u>6</u>	<u>66</u>	<u>71</u>	<u>(113)</u>	<u>61</u>	<u>(437)</u>
Cash flows from investment activities						
Capitalization of costs for fixed assets	(2,559)	(1,805)	(2,181)	(1,284)	(5,432)	(964)
Cash from investment activities, net	<u>(2,559)</u>	<u>(1,805)</u>	<u>(2,181)</u>	<u>(1,284)</u>	<u>(5,432)</u>	<u>(964)</u>
Cash flows from financing activities						
Increase in interested party balance	2,637	1,725	2,294	1,475	5,391	1,439
Cash from financing activity, net	<u>2,637</u>	<u>1,725</u>	<u>2,294</u>	<u>1,475</u>	<u>5,391</u>	<u>1,439</u>

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Increase (decrease) in cash and cash equivalent	84	(14)	148	78	20	38
Balance of cash and cash equivalents - beginning of the period	156	136	92	72	136	98
Balance of cash and cash equivalents – end of the period	<u>240</u>	<u>150</u>	<u>240</u>	<u>150</u>	<u>156</u>	<u>136</u>
Appendix A – Investment activity not involving cash flows:						
Change in suppliers and other service providers against capitalization of costs of fixed assets	43	(29)	63	(52)	(93)	(26)

The accompanying notes constitute an integral part of the Financial Statements

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O.P.C. Rotem Ltd.

Notes to the Financial States as at 30 June 2009

Note 1 – General:

- A. The Company was incorporated in Israel in June 2002 and commenced its operations in 2003.

The parent company of the Company is Ofer Brothers (Energy Holdings) Ltd. and the ultimate parent company of the Group is Ofer Holdings Group Ltd.

The object of the Company is to engage in the setting up and operation of a power plant at Mishor Rotem in the Negev, having a capacity of 400 MW. Further information with regard to formation of the Company – see Note 6.

- B. As at the date of the Balance Sheet, the Company has a capital deficiency of approx. 7 million. The Company's principal activity is through loans Interest from Party and its continued business activity depends on the continued receipt of financing from them and there is dependence on finding bank financing for construction of the power plant.
- C. The Financial Statements as at 31 December 2008 are the first financial statements in accordance with International Financial Reporting Standards (IFRS). These Financial Statements were drawn up in accordance with International Financial Reporting Standards (IFRS), which were published by the International Accounting Standards Board (IASB) and initially, as at December 31, 2008. See also note 2(a) below. The transition to International Financial Reporting Standards (IFRS) was made in accordance with International Financial Reporting Standard 1 regarding the adoption, for the first time, of International Financial Reporting Standards. Prior to the transition to International Financial Reporting Standards (IFRS), the Company prepared its financial statements in accordance with generally accepted accounting principles in Israel.

D. Definitions:

In these Financial Statements:

International Financial Reporting Standards

- standards and interpretations that were adopted by the International Accounting Standards Board (IASB), including international financial reporting standards (IFRS) and international accounting standards (IAS), as well as interpretations of these standards that were determined by the international financial reporting interpretations committee (IFRIC) or interpretations determined by the Standing Interpretations Committee (SIC), respectively.

Date of Transition to International Financial Reporting Standards

- the beginning of the earliest period in respect of which the Company will present full comparative information in

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accordance with International Financial Reporting Standards in its first financial statements, in accordance with International Financial Reporting Standards, namely, 1 January 2007.

- | | |
|--------------------------|--|
| the Company | - O.P.C. Rotem Ltd. |
| Index | - The Consumer Price Index, as published by the Central Bureau of Statistics. |
| Currency of Presentation | - the currency in which the Financial Statements are presented. |
| Currency of Operations | - the currency of the primary economic environment in which the Company operates. |
| Related Party | - within the meaning thereof in International Accounting Standard 24 with regard to Related Parties. |
| Interest Party | - as defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993. |

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O.P.C. Rotem Ltd.

Notes to the Financial Statements as at 30 June 2009

Note 1 – General (continued):

E. Details regarding foreign currency rates and the Index:

Below are details of the Index, the exchange rates of major currencies and the rates of change, in the reporting periods:

	<u>30.6.2009</u>	<u>30.6.2008</u>	<u>31.12.2008</u>	<u>31.12.2007</u>		
The Index (in points)	108.7	104.9	106.4	102.5		
	The rate of change in percentages					
	For the six-month period ended on		For the three-month period ended on		For the year ended on	
	<u>30.06.2009</u>	<u>30.06.2008</u>	<u>30.06.2009</u>	<u>30.06.2008</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
The Index (in points)	2.14	2.34	2.27	2.24	3.8	3.4

Note 2 – Significant Accounting Policies

a. Declaration of compliance with International Financial Reporting Standards (IFRS):

As stated in Note 1.c above, the Financial Statements were drawn up in accordance with International Financial Reporting Standards (IFRS).

b. Principles of drawing up financial statements:

The annual financial statements are in compliance with the provisions of the Securities Regulations (Preparation of Annual Financial Statements), 1993.

The accounting policy presented in this Note was consistently applied during all the reporting periods presented in the Financial Statements.

The Financial Statements were prepared while implementing the cost principle.

c. Key assumptions in employing substantial estimates:

The preparation of the Company's Financial Statements in accordance with International Financial Reporting Standards (IFRS) requires the management to make estimations and assumptions that affect the amounts presented in the Financial Statements.

These estimations at times require discretion in an environment of uncertainty and they have a substantial effect on the presentation of data in the Financial Statements.

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O.P.C. Rotem Ltd.

Notes to the Financial Statements as at 30 June 2009

Note 2 – Significant Accounting Policies (continued):

A description is given below of the key assumptions in employing the substantial accounting estimations which serve in the preparation of the Company's Financial Statements, in respect of which, at the time of their formulation, the Company's management was required to make assumptions with regard to circumstances and events that involved significant uncertainty. The Company's management relies, in its discretion in determining the estimations, on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances of each estimation. The actual results are liable to differ from the management's estimations.

d. Key assumptions in employing substantial estimations (continued):

Useful life of fixed assets and intangible assets with a defined life – useful life is based on the management's assessments of the period during which the assets will generate revenues, which are reviewed periodically for purposes of examining the correctness of the above-mentioned assessments. Changes in the management's assessments are liable to cause substantial changes in the book values and in the depreciation costs attributed to profit and loss.

d. Currency of Activity and Currency of Presentation:

The Currency of Activity and Presentation: the currency of activity that presents the economic impacts of transactions, events and circumstances, in a true and accurate manner, is the NIS currency.

e. Linkage:

Assets and liabilities which are linked to the Index were included according to the index applying to the respective asset or liability.

Index-linked loans are calculated at reduced cost when the balance at the balance sheet date is linked.

f. Cash equivalent:

Short-term investments with a high level of liquidity, which are easily convertible into known amounts of cash and which are exposed to an insignificant risk of changes in value, with a short period remaining for payment, up to three months from the date of purchase, are considered as cash equivalents.

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O.P.C. Rotem Ltd.

Notes to the Financial Statements as at 30 June 2009

Note 2 – Significant Accounting Policies (continued):

g. Fixed assets:

1. A fixed asset is a tangible item which is held for use in production or in the supply of goods or services, for rental to others or for administrative requirements and which is expected to be used for more than one period.
2. A fixed asset is recognized, initially, according to cost, including costs that are attributable, directly, to acquisition of the fixed asset and to bringing it to the location and situation that are required for purposes of its operation. The cost of an item defined as a fixed asset is the amount equal to the cash price at the time of recognition.
3. In the periods subsequent to the initial recognition, the fixed asset is presented according to the cost, less accrued depreciation and less losses that have accrued on the loss in value.
4. The fixed assets include costs in relation to the power plant project which was awarded to the Company. Costs for the project prior to publication of the Company's successful bid are incorporated in the Profit and Loss Statement.

5. Depreciation and method of depreciation:

The Company depreciates each item of the fixed assets separately, at a cost which is significant in relation to the total cost of the item. The depreciation costs for each period are acknowledged in the Profit and Loss Statement, unless they are included in the book value of some other asset. The Company uses the straight-line method for systematically allocating the deductible amount of the fixed asset over its useful life.

6. In respect of fixed assets that are being set up, which do not yet serve their purpose and whose preparation for use requires a substantial period of time, borrowing costs were capitalized in accordance with the provisions of International Accounting Standard 23.

H. Borrowing costs:

Borrowing costs are recognized as an expense in the period of their creation, except for cases in which they are attributable directly to the purchase, construction or production of qualifying assets, in which case these costs are capitalized to the cost of those assets over the construction period.

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O.P.C. Rotem Ltd.

Notes to the Financial States as at 30 June 2009

Note 2 – Significant Accounting Policies (continued):

The capitalization of borrowing costs as part of the cost of a qualifying asset will apply when expenses on account of the asset are created, borrowing costs are created and the activities necessitated for the sake of preparing the asset for its designated purpose or for its sale are in process. The Company discontinues the capitalization of borrowing costs when substantially all the activities necessary for preparing the qualifying asset for its designated use or for its sale have been completed. During protracted periods in which the active development is interrupted, the Company delays capitalization of the borrowing costs.

I. Impairment of assets:

The Company examines, on every balance sheet date, whether there are indicators showing impairment of its various assets to which International Accounting Standard 36 applies.

Insofar as there are indicators of an impairment of assets, the Company estimates the recoverable amount of the asset. A recoverable amount is the higher of the fair market value, less sale costs of the asset or the cash-producing unit and the value in use. The value in use is the discounted present value of estimated cash flows expected to arise from an asset or from a cash-generating unit.

In the event of the recoverable amount being lower than the asset's book value, the Company recognizes the loss in the decrease in value and reduces the book value of the asset to its recoverable cost. The Company recognizes losses from a decrease in value immediately in the Profit and Loss Statement, unless the asset was revalued in accordance with the revaluation model, in which case, the loss will be treated as a reduction of the revaluation.

J. Taxes on Income:

The Company and the consolidated companies adopt a system of tax attribution. The Company and the consolidated companies have not created a deferred tax asset in the absence of a forecast for its realization in the foreseeable future.

K. Transactions with Controlling Shareholders

A loan that was given to the controlling shareholder or a loan that has been received from a controlling shareholder is presented on the date of recognition, in the financial statements of the Company, for the first time, as an asset or liability, as the case may be, according to its fair value, where the difference between the amount of the loan that was received or given and its fair value on the date of recognition, for the first time, is attributed to equity.

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O.P.C. Rotem Ltd.

Notes to the Financial States as at 30 June 2009

Note 2 – Significant Accounting Policies (continued):

After the initial recognition, the loan is presented in the Company's financial statements at its reduced cost, while implementing the effective interest method.

L. The implementation of new accounting standards, for the first time

1. Amendment of International Accounting Standard with regard to the presentation of financial statements (hereinafter: "Amended IAS1"):

In accordance with Amended IAS1, a new report was added – "Statement of Comprehensive Income". This report is designed to present the changes which developed in the equity, over a period of time, as a result of transactions with third parties but without changes arose as a result of transactions with owners. The statements contains two parts – an itemization of all the expenses and earnings in a format identical to the Profit and Loss Statement and all those earnings and expenses that have not been recognized, to date, in the Profit and Loss Statement and which have been classified, directly, as equity (for example: a capital fund for the revaluation of a fixed asset, a capital fund for investments in commercial securities, etc.). The Statement of Comprehensive Income may be presented in one of the following two ways:

- a) in a single statement – a 'Statement of Comprehensive Income'.
- b) in two statements – a separate 'Income Statement' and a Statement of Other Comprehensive Income, deriving from the net income in the Profit and Loss Statement.

In addition, in annual financial statements, Amended IAS 1 provides that in cases in which there has been a change in accounting policy, which is implemented by way of restatement or reclassification, the balance sheet data should be presented also at the beginning of the period of comparative figures in respect of which the change was made.

Amended IAS 1 applies to the annual financial statements for the periods commencing on 1 January 2009 or subsequently thereto. The Company implemented the provisions of Amended IAS 1 for the first time in the interim financial statements for the first quarter of 2009, by way of presenting a Statement of Profit and Loss of comparative figures, in accordance with the provisions of Amended IAS 1 (Statement of Comprehensive Income).

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O.P.C. Rotem Ltd.

Notes to the Financial States as at 30 June 2009

Note 2 – Significant Accounting Policies (continued):

2. Amendment of International Accounting Standard 23 with regard to borrowing costs (hereinafter: "Amended IAS 23"):

Amended IAS 23 provides that the company should capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The possibility of the immediate attribution of these borrowing costs as an expense, has been cancelled.

Amended IAS 23 applies to the financial statements commencing from 1.1.2009 or subsequently thereto. The Company applied the provisions of Amended IAS 23 for the first time in the interim financial statements for the first quarter of 2009, by way of that point forward, from 1.1.2009, with respect to qualifying assets whose capitalization is commenced on the same date or on a later date. The implementation of the provisions of Amended IAS 23 had no substantial effect on the Company's financial position, the results of activity and changes in equity.

3. The International Standardization Improvement Project 2008:

In May 2008, the IASB published 35 amendments to international accounting standards and international financial reporting standards. The amendments were made in the framework of the international standardization improvement project for 2008. Some of the amendments refer only to terminology and preparation and some of the amendments deal with recognition, computation, presentation and disclosure and are liable to affect the existing accounting policy. Most of the amendments apply to annual financial statements for the periods commencing on or after 1 January 2009. With regard to the project's impact on International Accounting Standard 19 and International Accounting Standard 40, see notes 2(j) and 2(k), respectively.

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O.P.C. Rotem Ltd.

Notes to the Financial States as at 30 June 2009 (in thousand NIS)

Note 3 – Fixed Assets:

A. Composition as at 30.06.2009

	<u>Power Plant promotion costs</u>	<u>Computerization</u>	<u>Total</u>
Cost			
as at 1 January 2009	6,694	10	6,704
Additional costs	2,188	-	2,188
As at 30 June 2009	8,882	10	8,892
Accrued depreciation			
as at 1 January 2009	-	4	4
Depreciation for the period	-	-	-
as at 30 June 2009	-	4	4
Reduced balance as at 30 June 2009	<u>8,882</u>	<u>6</u>	<u>8,888</u>

B. Composition as at 30.06.2008

	<u>Power Plant promotion costs</u>	<u>Computerization</u>	<u>Total</u>
Cost			
as at 1 January 2009	938	10	948
Additional costs	1,749	-	1,749
As at 30 June 2009	2,687	10	2,697
Accrued depreciation			
as at 1 January 2009	-	2	2
Depreciation for the period	-	-	-
as at 30 June 2009	-	2	2
Reduced balance as at 30 June 2009	<u>2,687</u>	<u>8</u>	<u>2,695</u>

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O.P.C. Rotem Ltd.

Notes to the Financial States as at 30 June 2009 (in thousand NIS)

Note 3 – Fixed Assets (continued):

C. Composition as at 31.12.2008

	<u>Power Plant promotion costs</u>	<u>Computerization</u>	<u>Total</u>
Cost			
as at 1 January 2008	938	10	948
Additional costs	5,756	-	5,756
As at 31 December 2008	<u>6,694</u>	<u>10</u>	<u>6,704</u>
Accrued depreciation			
as at 1 January 2008	-	2	2
Depreciation for the year	-	2	2
as at 31 December 2008	<u>-</u>	<u>4</u>	<u>4</u>
Reduced balance as at 31 December 2008	<u>6,694</u>	<u>6</u>	<u>6,700</u>
Reduced balance as at 31 December 2007	<u>938</u>	<u>8</u>	<u>946</u>
Depreciation rate	<u>-</u>	<u>15%</u>	

D. Composition as at 31.12.2007

	<u>Power Plant promotion costs</u>	<u>Computerization</u>	<u>Total</u>
Cost			
as at 1 January 2008	-	10	10
Additional costs	938	-	938
As at 31 December 2008	<u>938</u>	<u>10</u>	<u>948</u>
Accrued depreciation			
as at 1 January 2008	-	1	1
Depreciation for the year	-	1	1
as at 31 December 2008	<u>-</u>	<u>2</u>	<u>2</u>
Reduced balance as at 31 December 2008	<u>938</u>	<u>8</u>	<u>946</u>
Reduced balance as at 31 December 2007	<u>-</u>	<u>9</u>	<u>9</u>
Depreciation rate	<u>-</u>	<u>15%</u>	

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O.P.C. Rotem Ltd.

Notes to the Financial States as at 30 June 2009 (in thousand NIS)

Note 3 – Fixed Assets (continued):

E. Composition of Promotion Costs of the Power Plant that were capitalized to fixed assets:

	30.06.2009	30.06.2008	31.12.2008	31.12.2007
Consultation and professional services	6,821	2,147	5,171	830
Wages and related expenses	412	82	412	-
Financing expenses	1,317	292	843	-
Others	332	166	268	108
Total	8,882	2,687	6,694	938

Note 4 – Accounts payable and debit balances:

The composition:

	<u>30.06.2009</u>	<u>30.06.2008</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
Employees	-	9	36	2
Institutions	-	53	60	-
Other accounts payable (*)	1,201	-	890	-
	<u>1,201</u>	<u>62</u>	<u>986</u>	<u>2</u>

(*) The shareholders of the Company entered into an agreement with Dalkia Israel Ltd. (hereinafter: "**Dalkia**") regarding the purchase of 20% of the Company's shares. As at the date of signing the Financial Statements, this transaction has not yet been consummated and therefore the balance is presented in the accounts payable section. The balance constitutes Dalkia's *pro rata* share in financing the Company's activity, as was agreed in the Agreement, from the date of signing the Agreement, prior to its being a shareholder of the Company.

Note 5 – Interested Parties:

The balances are linked to the Index and bear annual interest of 4%. The loans are not due for repayment within the next 12 months.

Note 6 – Contingent Liabilities and Commitments:

a. In November 2004, a tender committee of the Ministry of Infrastructures and the Ministry of Finance informed the Company that it had won a tender for setting up a power plant at Mishor Rotem, with a 400 MW capacity. The scope of the estimated investment is approx. 400 million dollars. The Company approached the Ministries of Infrastructures and Finance and expressed its willingness to execute the tender.

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O.P.C. Rotem Ltd.

Notes to the Financial States as at 30 June 2009

Note 6 – Contingent Liabilities and Commitments (continued):

This appeal was not answered. On 29 November 2005, the Company was given notice by the State regarding cancellation of the engagement therewith, in accordance with the tender for setting up the Power Plant at Mishor Rotem. On 17 January 2006, the Company filed an appeal to the High Court of Justice in the framework whereof different claims were raised in relation to the lack of reasonableness and illegality of the cancellation notice. As a consequence of the petition, the State removed its opposition to realization of the Company's right to set up a Power Plant at Mishor Rotem. An agreement between the Company and the Israel Electric Corp. Ltd. was signed on 2 November 2009. For further details on the agreement that was signed – see sub-section c. below.

- b. In accordance with the terms of the tender for setting up the Power Plant, a bank guarantee was given in favor of the Ministry of Infrastructures, in a sum of NIS 13 million. The guarantee was provided by Interested Parties for the Company's benefit. The commission on the guarantee is paid by the Company.

- c. In accordance with the terms of the tender for setting up the Power Plant, the Company executed a power purchase agreement (hereinafter: the "**Power Purchase Agreement**" or "**PPA**") with the Israel Electric Corp. Ltd. (hereinafter: the "**Electric Corporation**" or "**IEC**"), by virtue of which the Company undertakes to set up the Plant within 52 months of the date of signing the PPA and the Electric Corp. undertakes to purchase from the Company, capacity and energy from the Plant, in accordance with the terms of the PPA, over a period of twenty (20) years from the date of commencing the Plant's commercial operation. The PPA is a "Capacity and Energy" type agreement, the meaning of which is that the Company has the right to place the Plant's full net available power (i.e. the Plant's full net production capacity) at IEC's disposal and to produce electricity in the quantity and at the times required by IEC. In exchange, IEC undertakes to pay the Company a fixed payment (which is meant to cover all the fixed costs involved in setting up and operating the Plant, including capital expenses and interest), for providing IEC with the Plant's net available power, whether or not IEC has demanded electricity production, as well as to pay the Company a variable monthly payment for the power which the Plant has supplied to IEC, on its request, in the previous month, that covers certain variable costs of the Company in energy production. In relation to the costs involved in the consumption of natural gas, the PPA provides that these costs are refunded to the Company on a "pass through" basis and IEC reimburses the Company in the full amount of the costs which it bears in connection with the consumption of natural gas.

Under the PPA, the Company is responsible for obtaining all the approvals and permits that are necessary for setting up the Power Plant and is fully responsible for setting up and operating the Power Plant.

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O.P.C. Rotem Ltd.

Notes to the Financial States as at 30 June 2009 (in thousand NIS)

Note 6 – Contingent Liabilities and Commitments (continued):

The central milestones stipulated in the PPA for setting up the Plant are as follows: the receipt of a building permit for construction of the Power Plant – within a period of 23 months from the date of signing the PPA; the execution of financial closing – within a period of 24 months from the date of signing; and (c) commercial operation of the Project within a period of 49 to 52 months from the date of signing.

The PPA contains additional clauses governing the undertakings of each party for the period of constructing the Plant and supplying the electricity and a compensation mechanism in the event of failure of either party to meet its undertakings under the PPA.

In accordance with the PPA, the Company may inform IEC that it will reduce the available power at IEC's disposal, so that the Company can execute sales of energy to consumers.

Note 7 – Share Capital:

- a. **The composition of the share capital in nominal NIS (as at 31.12.2008 and 31.12.2007 – identical), is as follows:**

	<u>Registered share capital</u>	<u>Issued and paid-up share capital</u>
	<u>No. of shares</u>	<u>No. of shares</u>
Ordinary shares of NIS 1 nominal value each	100,000	100

- b. **Rights attached to the shares:**

Ordinary shares of NIS 1 vest in their holder voting rights, the receipt of dividends and rights to participate in a distribution of the Company's assets on winding-up.

Note 8 – Financing Expenses, Net:

The composition:

	<u>For the period of six months ended on</u>		<u>For the period of three months ended on</u>		<u>For the year ended on</u>	
	<u>30.06.2009</u>	<u>30.06.2008</u>	<u>30.06.2009</u>	<u>30.06.2008</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Audited</u>	<u>Audited</u>
Interest and linkage differentials	-	-	-	-	-	222
Interested parties						
Bank costs	-	-	-	-	-	1
Guarantee commission ⁷	-	-	-	-	-	85
Total	-	-	-	-	-	308

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O.P.C. Rotem Ltd.

Notes to the Financial States as at 30 June 2009 (in thousand NIS)

Note 9 – Taxes on Income:

Taxation under inflationary conditions:

- a. The Company is subject to application of the Income Tax Law (Inflationary Adjustments), which introduced computation of the results for tax purposes on a realistic basis. The different adjustments necessitated under the above-mentioned law are designed to adjust the taxable results, in nominal values, to shekel terms at the end of the year, according to the changes in the Index. The provisions of the aforesaid law were discontinued, as from 1.1.2008. Consequently, from 2008, this law has no affect on computing the Company's operating results (save for exceptions and transitional provisions).
- b. The Company has not recorded deferred taxes for taxable losses, in a sum of approx. NIS 7 million.
- c. The Company has tax assessments that are considered final, up to and inclusive of the tax year 2003.

Note 10 – Affects of transition to the adoption of International Financial Reporting Standards (IFRS):

a. General

As stated, in Note (1) above, the Financial Statements as at 31 December 2008 and for the period then ended were drawn up, for the first time, in accordance with IRFS. The transition to reporting in accordance with IFRS was carried out in accordance with the provisions of International Financial Reporting Standard 1 (hereinafter: "IFRS 1"), which prescribes the method of adopting International Financial Reporting Standards for the first time. IFRS 1 stipulates, *inter alia*, that an opening balance should be prepared for the date of transition to the international standardization, 1 January 2007, in which the Company will apply, retroactively, the accounting policy under the IFRS and throughout the periods presented in its initial financial statements, pursuant to IFRS. This accounting policy is in compliance with the requirements of each of the IFRS which will be in force on the date of reporting (namely, 31 December 2008) its initial financial statements under IFRS, excluding certain exceptions that were stipulated in IFRS 1.

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O.P.C. Rotem

Notes to the Financial Statements at 30 June 2009 (in thousand NIS)

Note 10 – Affects of transition to the adoption of International Financial Reporting Standards (IFRS):

b. Balance Sheet adjustment as at 1 January 2007 – opening balance:

	In accordance with Israeli accounting standardization	Adjustments	In accordance with IFRS
Assets			
Current assets:			
Cash and cash equivalents	98	-	98
Accounts receivable	19	-	19
Total current assets	<u>117</u>	<u>-</u>	<u>117</u>
Non-current assets:			
Fixed assets	9	-	9
Total non-current assets	<u>9</u>	<u>-</u>	<u>9</u>
	<u>126</u>	<u>-</u>	<u>126</u>
Commitments and equity			
Current liabilities:			
Suppliers and service providers	144	-	144
Accounts payable	175	-	175
Total current liabilities	<u>319</u>	<u>-</u>	<u>319</u>
Non-current liabilities:			
Interest parties	7,049	-	7,049
Commitment due to employer- employee relations	147	-	147
	<u>7,196</u>	<u>-</u>	<u>7,196</u>
Capital deficiency attributed to holders of capital rights in the Company:			
Capital deficiency	<u>(7,389)</u>	<u>-</u>	<u>(7,389)</u>
	<u>126</u>	<u>-</u>	<u>126</u>

This is an English convenience translation from the original Hebrew version. In case of any discrepancy, the binding version is the Hebrew original.

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Notes to the Financial Statements at 30 June 2009 (in thousand NIS)

Note 10 – Affects of transition to the adoption of International Financial Reporting Standards (IFRS) - (continued):

c. Balance Sheet adjustment as 31 December 2007:

	In accordance with Israeli accounting standardization	Adjustments	In accordance with IFRS
Assets			
Current assets:			
Cash and cash equivalents	136	-	136
Accounts receivable and debit balances	69	-	69
Total current assets	205	-	205
Non-current assets:			
Fixed assets	946	-	946
Total non-current assets	946	-	946
	1,151	-	1,151
Commitments and equity			
Current liabilities:			
Suppliers and service providers	118	-	118
Accounts payable and credit balances	2	-	2
Total current liabilities	120	-	120
Non-current liabilities:			
Interest parties	8,488	-	8,488
	8,488	-	8,488
Contingent liabilities and commitments			
Capital deficiency attributed to holders of capital rights in the Company:			
Capital deficiency	(7,457)	-	7,457
	1,151	-	1,151

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O.P.C. Rotem

Notes to the Financial Statements at 30 June 2009 (in thousand NIS)

Note 10 – Affects of transition to the adoption of International Financial Reporting Standards (IFRS) - (continued):

d. Adjustment of the Profit and Loss Statement for the year ended 31 December 2007:

	In accordance with Israeli accounting standardization	Adjustments	In accordance with IFRS
Financing expenses, net	(308)	-	(308)
Revenues from previous years	240	-	240
Loss before deduction of taxes on income	(68)	-	(68)
Taxes on incomes	-	-	-
Net loss	(68)	-	(68)