

The Israel Electric Corporation Ltd.
(the “Company”)

June 4, 2020

To:
Israel Securities Authority
www.magna.isa.gov.il

To:
The Tel Aviv Stock Exchange Ltd.
www.tase.co.il

Via MAGNA

Re: Immediate Report - Decision of the Electricity Authority regarding Recognition of Costs of Emission Reduction Facilities in Electricity Corporation's Coal Units

Further to that said in notes 2ab2i and 3k of the financial statements of the Israel Electric Corporation Ltd. (hereinafter: the “Company”) as of December 31, 2019 (reference number: 2020-01-027093), and to that said in note 3e to the Company's financial statements for the three months ended March 31, 2020 (reference No. 2020-01-045232), regarding a decision proposal for a hearing published by the Electricity Authority on October 2, 2019, regarding the costs of emissions reduction facilities at the Company's coal units (production units 5-6 at Orot Rabin site and production units 1-4 at Rotenberg site), which sets out principles for calculating recognition of construction costs of the emission reduction facilities and reflects under-recognition of investment and interest rates, compared to the Company's assessment of approximately NIS 670 million, and after the Company delivered on November 3, 2019 its response to the decision proposal and also presented on March 1, 2020, before the Authority's plenum, its position regarding the hearing, which is based on an examination conducted by professionals in the Company and is supported by the opinion of a reputable international expert in the field , and according to which the Company is entitled to full recognition of the project's costs within the tariff, which according to its opinion was executed at reasonable internationally accepted costs, and after a discussion was held at the Authority plenum on June 1, 2020, the Company respectfully announces that on June 4, 2020, the Electricity Authority published its decision at the hearing from June 1, 2020.

The Authority's decision regulates the rate recognition of construction costs (investments and interest during construction) of NIS 8.326 billion, fixed operating costs of NIS 86.3 million (for all facilities) and the recognized lifespan of the facilities, which is, according to the decision, 25 years. The decision reflects under-recognition in investment and interest rates during construction

(including future investments and interest rates for completion of the project), compared with the Company's assessment of approximately NIS 560 million.

The Company is considering the decision, its meanings and its implications for the Company. However, the Company expects that the under-recognition of investment and interest rates during construction, in accordance with the above decision, will have a material impact on balances of regulatory deferral accounts and a possible impact of impairment of the assets of the Company according to the instructions of International Standard IAS36.

The full version of the Authority's decision (in Hebrew), with its attachments, can be viewed at the following link:

<https://www.gov.il/he/departments/policies/58103>

Sincerely,

The Israel Electric Corporation Ltd.

By:

Ofer Bloch, CEO

Adv. Yael Nevo, SVP and General Counsel