

INTERVIEW WITH
Mr. Mordechai Friedman

**Chairman of the Israel Electric Company
(IEC)**

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PANORAMA
R E P O R T S L T D

***“Israel: The World’s Greenhouse of
Innovation”***

PANORAMA REPORTS: How would you assess the energy sector in Israel?

MR. MORDECHAI FRIEDMAN: In order to assess the development of the Israeli energy sector, it is best to focus more on the strategic and long term frames and less on the immediate and current status, which I assume that our CEO will regard.

The state of Israel is one of the leaders in high technology throughout the world. In the New York stock exchange, in which large international high tech companies are traded, Israel is ranked as 3rd among foreign issuing countries.

The international perception that Israel is a leading high-tech country, combined with the fact that Israel is a sunny state (The Ministry of Tourism's slogan for many years being: "Follow the sun to Israel") creates a new international perception that places us as leaders in the green energy sector, particularly that of solar power.

This leadership in solar power, enables us to penetrate international markets, by offering a variety of services (IEC, currently a monopoly, is subjected to limitations and regulations which prevent her from competing in these areas of expertise in Israel. I believe that these limitations will reduce as reform in the Israeli electricity market takes effect). At the moment we are collaborating with some of the leading high tech solar power companies in Israel like "Sollel", building solar power stations in Spain and other places in the world. In addition, we have formed a special project called "high tech incubators" in which we spot new and innovative ideas, even in their "seed" stage.

Our engineers and scientists check for the technological and financial feasibility of these ideas and decide how then to proceed. Some ideas will be supported and developed into their final stages. It's important to understand that IEC has many engineers with second or third University degrees (over 100 PhD's) that practice in all fields of the electricity chain (generation, transportation, distribution). IEC is a vertically integrated company that engages in planning and building power plants, generating electricity and supplying it to its client's national wide.

In my opinion, Green Energy - in particular solar, along with new innovative technologies, will lead the sector in Israel over the next decades, by producing electricity domestically, but mainly penetrating new markets worldwide.

PANORAMA REPORTS: Israel has plans to produce 600 MW of renewable energy by 2011. What steps have been taken to increase the supply of renewable energy?

MR. MORDECHAI FRIEDMAN: As I mentioned before, power generation by renewable energy is growing quite naturally in Israel, thanks to our capabilities, know-how and the climate conditions. Entering the Green Energy sector usually involves large capital investments, that at first seem may seem unprofitable. In order to make meaningful progress, it is crucial to show leadership and guidance from the state. Unfortunately, Israeli government authorities didn't make the necessary preparations to support this issue in Israel. This is why IEC had to look for foreign markets and find

opportunities abroad. We decided to invest in Green Energy projects mainly abroad. Lately, the Israeli authorities modified their approach and began to accelerate their plans and investments in this market, especially in solar energy (both thermal solar and photovoltaic). I believe that by changing the states approach, by using our technological abilities and due to the rising business initiative in this sector, we will find several hundred megawatts of renewable energy in Israel within a few years. IEC which is the national and sole transporter and distributor of electricity in Israel, has made and keep on making the necessary preparations to transport this energy that will be produced generally in the desert regions of Israel, to central and more populous areas of the state. We are also ready to add any renewable energy IPP (independent private producer), onto the national grid, hoping there will be thousands of them. It is important to remember that adding a lot of private power producers to the grid will be quite a challenge to the system operator that will have to take them all, manage the system objectively, in a way that ensures the electricity supply remains stable and reliable.

PANORAMA REPORTS: In terms of partnerships, what can IEC bring to the table?

MR. MORDECHAI FRIEDMAN: I believe that the experience that we gained by building solar power plants, the knowhow that we have in our laboratories and our links to the new inventions in this area, make us one of the main candidates for such collaborations.

Being a vertically integrated company gives us a wider perspective in terms of the entire chain of electricity operations, from the time generated to the time supplied to the consumer. As such, we bring a broader perspective and a deeper kind of expertise of all aspects of electricity. Unlike IEC, most of the energy companies around the world usually engage in a specific part of the chain separately. There are companies that produce and generate electricity whilst others specialize in distribution or billing. IEC on the other hand, handles everything from start to finish. That's the reason why we understand the needs of all the players in this arena, from the ones handling the grid to the end-customer. This makes us better partners for ventures in this sector.

PANORAMA REPORTS: One of US President Obama's policies is to increase energy efficiency and reduce emissions. As you know, 30% of the electricity in the US is produced with coal. This also results to a significant amount of CO₂ emissions. Given your expertise, how can you compete in the US?

MR. MORDECHAI FRIEDMAN: First of all we are very good at both planning and building coal-powered stations and we are one of the most efficient companies in the world in terms of the maintenance and operation of coal-powered plants. One of the top world leaders of coal-power stations is "Alstom", which is involved in the building of a wide range of coal-powered stations in South Africa. "Alstom" called us to support them in the planning of those stations. At the moment, we are involved in the planning

of a 4.2 thousand MW coal station (that is 6 power units of 700 MW each). We are also discussing the possibility of providing the planning services to another coal-powered station of the same size. In addition to the fact that we are considered specialists in planning, building and operating coal power plants, we have also specialized in converting coal power plants into "clean" plants. In this issue we are installing all kinds of measures to reduce emissions in our stations, gaining a vast know-how and experience in this area. We believe that in the very near future the world will make a decision on this issue. Even while US President Obama decides to reduce emissions, the world is still suffering from the effects of coal-powered stations in some developing countries. I believe that one day soon, the world will take a more proactive stance in reducing these emissions, perhaps the western world will offer its financial support to this cause. Companies, like ours, with experience in the area will make a fortune because they will all be very busy installing these measures in the coal stations in the regions mentioned above.

PANORAMA REPORTS: Can you tell us about the reforms in the sector over the next 2 years?

MR. MORDECHAI FRIEDMAN: The electricity sector is in need of reform. Our employees, the union and ourselves all agree that this is a must. As such, we agreed to discuss the issue of reform amongst all parties. This includes the government as well as all kinds of government offices such as the Ministry of Finance, the Ministry of Infrastructure, the Public Utilities Authority and more. We have a wide range of government authorities and ministries under the name of government. For us, it is one party. In Israel, no reform can be conducted without the support and willingness of the Union. In a few months time, I believe that the 3 parties (the government, the company and its employees) will reach a mutual understanding, work together, and use the short window of opportunity to discuss reform. We should reach an agreement on the reform and coordinate the way of implementing it.

The electricity market will be managed by a separate government owned company and not by IEC. The IPPs (Independent Private Producer) will have the chance to act independently, using this business opportunity in a less regulated market. This will give the IPPs, as well as the IEC, the same, fair opportunity to act in this market. This means that this kind of reform could possibly provide the basis of future competition.

It's too early to discuss in detail the major components of reform. It is yet to be discussed between the 3 parties. However, I assure you that the reform will provide a win-win solution for us all. It's important to remember that this solution must be agreed on within a few months, because the window of opportunity is limited.

PANORAMA REPORTS: We'd like to touch upon the financial strength of IEC. At the beginning of the year, you mentioned that you issued bonds for \$500 million, which shows how promising the company is.

MR. MORDECHAI FRIEDMAN: IEC is a business corporation but it is also a government owned company, in charge of producing and supplying electricity nationally. Other infrastructure companies in Israel, dealing with roads, railways, water etc, are financially supported and entirely funded by the state. We on the other hand, are not financially supported by the government by any means, not even the state guarantees when we raise capital domestically and abroad. We are doing it on our own, relying on our own financial position, and I'm proud to say that even in times of international financial crisis, we are successful.

The financial market throughout the last year has been very troubling. We had to raise capital in a very turbulent market. In January, at the peak of financial crisis, we went to the market to raise \$500 million and succeeded. Five weeks later, at the beginning of March, we paid half a billion dollars to the Bank of America. When I compare IEC to some other business companies in Israel, I am proud that despite the financial turbulence, we are able to stick to the debt agreements and pay every penny on the due date.

It seems that the market has relaxed a little. I believe that in the next few years, we will not have any major problems in terms of raising money for our development needs. If we agree on the reform, part of the money required for development will be invested by potential partners. Under the reform, part of IEC's power generation will be divided amongst a few daughter companies/subsidiaries, where we will be able to collaborate with financial partners. It means that the future development in the power stations will be financed by our financial partners. This means that our future funding needs will decrease.

PANORAMA REPORTS: What message would you like to convey to the readers of the Wall Street Journal?

MR. MORDECHAI FRIEDMAN: IEC is a vertically integrated electricity company dealing with all aspects of electricity. As Israel is a small country, it can be considered a test-bed for the larger countries of the world. We have the high technology skills, a national grid and a national company dealing with everything involved in power generation.

I believe that the US can be a good future partner for Israel. They can use the country as a test-bed or beta site for innovations in energy, and business-wise, this is a very profitable idea.

The Israeli government is actively engaged in a lot of initiatives aiming to attract foreign investors, encouraging them to participate in the sector and possibly invest in the IPPs. IEC is supportive of this initiative and will assist any IPP as much as possible.

Foreign investors and entrepreneurs looking to participate in the Israeli energy sector are welcome to come to us for assistance: for strategic services, planning, technological services etc.

We would like to take this opportunity to invite American investors to come and work with us.

PANORAMA REPORTS: Thank you very much for your comments