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APPENDIX E – SIMULATIONS ON SELECTED DEPOSITS

Main Results

Deposit A (16 BCM) – The investment in this deposit, which is relatively small, stands at about NIS 3.2 billion (50% more than the amount invested by Yam Thetis in the Mari-B field relative to the amount of gas contained in the deposit, which is one-half less than the original quantity of gas in the Mari-B reservoir). The first year in which an oil and gas profits levy will be collected on Deposit A is the twelfth year after the start of production from the deposit, out of 14 years of overall production. When the levy comes into effect, the rate of return on the project will stand at 11% from the start of the project. The maximum rate of the levy that will be collected on this deposit is just 30%, and this, too, only for a short period. Under the Committee's recommendations, the total rate of return on the project will stand at 11.6%, 0.7% lower than the rate obtained in the present system. This effect is limited relative to the turnover and is due solely to the cancellation of the depletion allowance (since the combination of the accelerated depreciation with the low rates of the collected levy does not affect the project ROR in this deposit). Given the transitional provisions, no levy at all will be collected on this deposit. The GT rate for this deposit will stand at 48%, and upon application of the transitional provisions will be reduced to 43%. The change in the cash flow compared to the present system amounts to no more than a few percentage points until the tenth year of production.

Deposit B (100 BCM) – The amount of gas in this deposit stands at 100 BCM. The initial investments in this deposit are higher, reaching NIS 11.7 billion, similar to the anticipated scope of investments in the Tamar field (in which the amount of producible gas is expected to be at least double the amount of this deposit). An oil and gas profits levy will first be collected on this deposit after about 10 years of production, when the project's rate of return will stand at 11%. The levy will attain its

maximum rate after 16 years of production, out of 22 years of the deposit's life, and therefore will be collected at this rate during a relatively short period. The proposed system will reduce the project's internal rate of return from 16.2% to 14%. Insofar as the transitional provisions apply to the deposit, the levy will be collected only after some 12 years of production and will reach its maximum value after 21 years of production. The project's rate of return will increase to 14.9%. In this case as well, the cash flow is virtually not affected until the tenth year of production.

Deposit C (250 BCM) – This deposit has a high profit potential. The scope of the initial investment in this deposit amounts to NIS 12 billion (similar to Deposit B), but the quantity of producible gas is two and a half times that of Deposit B. In this deposit, collection of the levy will begin after some 8 years of production. Upon the application of the levy, the project's rate of return will stand at 12%. The levy will reach its maximum rate already after 12 years of production and will remain at this level over a relatively long period until the end of the project's life, 32 years after the start of production. The rate of return on the project when the levy reaches its maximum rate is 15%. The project's rate of return under the present system, which stands at 21.2%, will be reduced following the implementation of the proposed system to 17.9%. Given the transitional provisions, collection of the levy will begin only after 10 years of production, when the project's rate of return stands at 15%. The cash flow is first affected after some 7 years of production, to a small extent; and given the transitional provisions – only after 9 years.

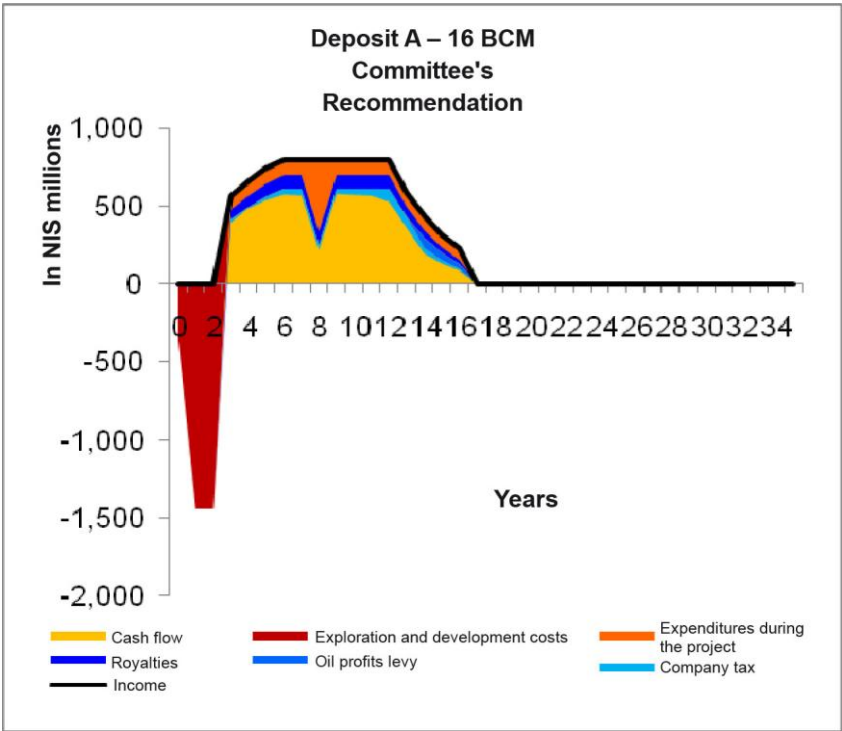
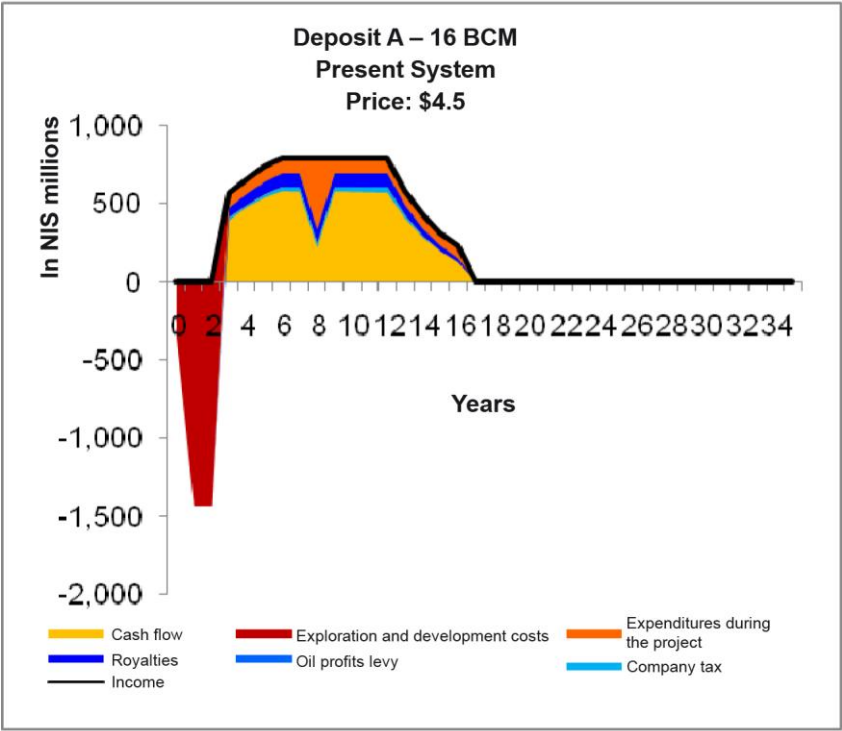
The three examples illustrate the operative trend in the proposed system. As a general rule, the system's impact on the deposits in their first years is limited and, essentially, even positive (due to the accelerated depreciation). The effective date of the levy is deferred the lower the profitability of the deposit. When the levy becomes effective, the prevailing rate of return is above the minimum rate required in the industry. The levy does not reach its maximum rate in low-profit deposits, and is levied at its maximum rate over many years only in deposits with high profitability. The proposed system's effect on the rate of return of the projects increases as their profitability rises. In all three deposits, the proposed fiscal system does not impact negatively on the

cash flow during approximately 7 years of production. Where the transitional provisions apply to a project, this period is extended to 9-11 years.

Deposit A: Small deposit with medium investment

Simulation's assumptions	
Assumptions	Deposit A
Gas price (in the year of start of development)	4.5 \$/MMBTU
Total quantity sold	16 BCM
Annual volume of sales	In the first year 1 BCM Gradual increase up to 1.4 BCM in the 4th year of production Decline starting from the 11th year
Investment in exploration	\$100 million (NIS 360 million)
Investment in development and construction	\$800 million (NIS 2.9 billion)
Additional investments in the course of the project	\$100 million (NIS 360 million)
Current expenses	\$20 million per annum + \$0.15/MMBTU
Financing expenses	75% debt; interest: 7%
Inflation rate (rate of increase of all the prices in the simulation)	2% per annum
Dollar exchange rate	\$1 = NIS 3.6

Fiscal assumptions	
Company tax	18%
Royalties	11% (net)
Interest during the construction period by the levy index	6%



Deposit A – Main Results:

	Present System	Committee's Recommendation	Transitional Provisions
ROR from exploration	12.3%	11.6%	12.0%
IRR in the development year	14.4%	13.7%	14.2%
NPV in NIS billions (discounted to the exploration year at 9%)	0.62	0.46	0.54
Undiscounted profit in NIS billions	4.0	3.6	3.7
Government take	37%	48%	43%

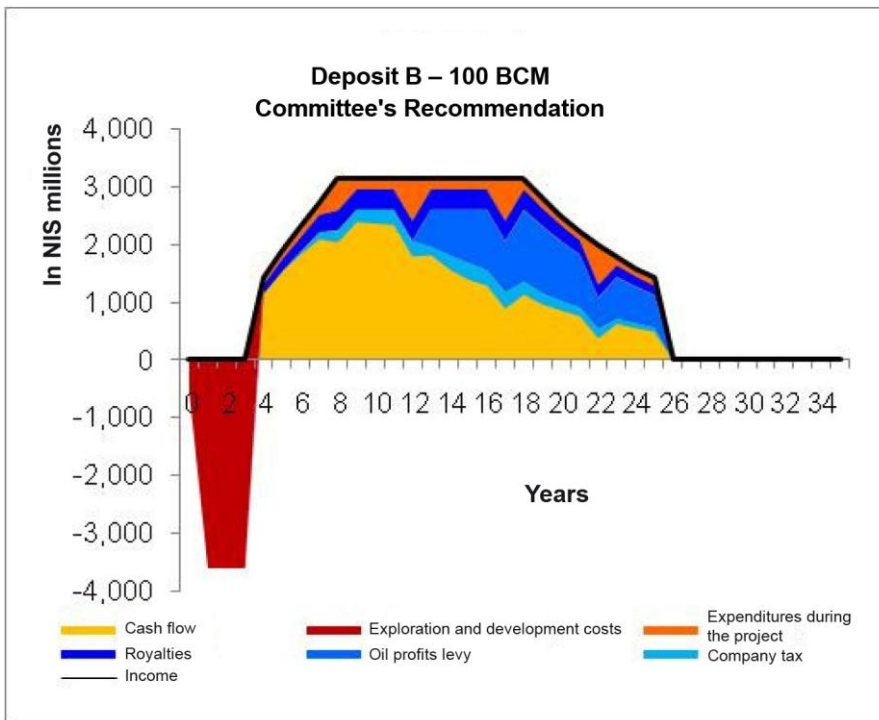
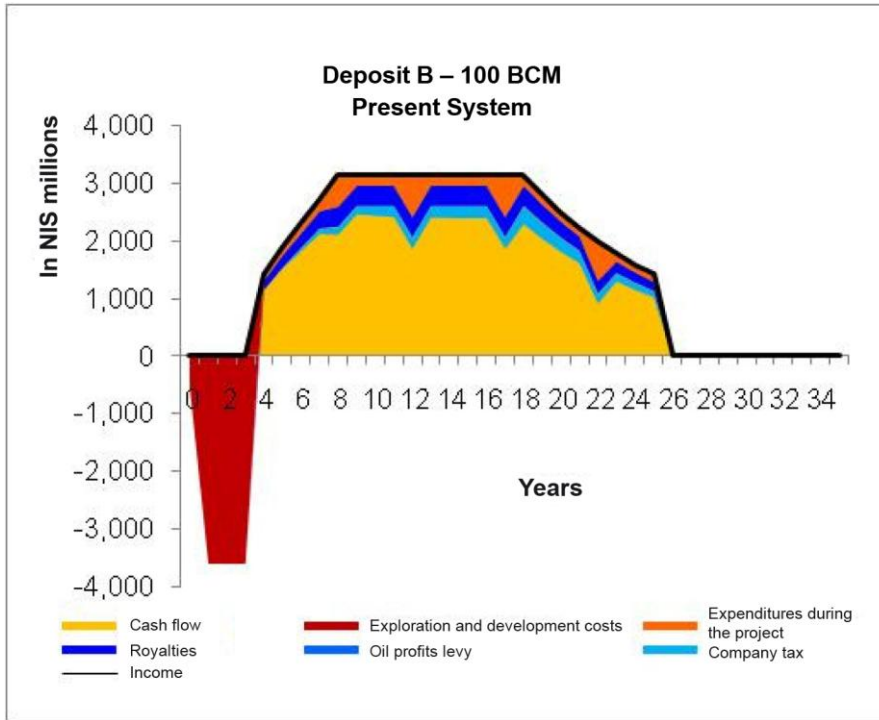
Effective date of the levy:

	Committee's Recommendation	Transitional Provisions
Years of production until the levy goes into effect	12	-
Years of production until the levy reaches the maximum rate	-	-
ROR from exploration up to the start of development	11%	-
ROR from exploration until the levy reaches the maximum rate	-	-
IRR from the year of start of development up to the effective year of the levy	13%	-
IRR from the year of start of development until the levy reaches the maximum rate	-	-

Deposit B: Medium to large deposit with deep-water investment characteristics

Simulation's assumptions	
Assumptions	Deposit B
Gas price (in the year of start of development)	4.5 \$/MMBTU
Total quantity sold	100 BCM
Annual volume of sales	In the first year 2.5 BCM Gradual increase up to 5.5 BCM in the 5th year of production Decline starting from the 17th year
Investment in exploration	\$150 million (NIS 540 million)
Investment in development and construction	\$3 billion (NIS 10.8 billion)
Additional investments in the course of the project	\$550 million (NIS 2 billion)
Current expenses	\$20 million per annum + \$0.15/MMBTU
Financing expenses	75% debt; interest: 7%
Inflation rate (rate of increase of all the prices in the simulation)	2% per annum
Dollar exchange rate	\$1 = NIS 3.6

Fiscal assumptions	
Company tax	18%
Royalties	11% (net)
Interest during the construction period by the levy index	6%



Deposit B – Main Results:

	Present System	Committee's Recommendation	Transitional Provisions
ROR from exploration	16,2%	14,0%	14.9%
IRR in the development year	16.9%	14.8%	15.6%
NPV in NIS billions (discounted to the exploration year at 9%)	7.8	4.4	5.4
Undiscounted profit in NIS billions	31	19	22
Government take	27%	57%	50%

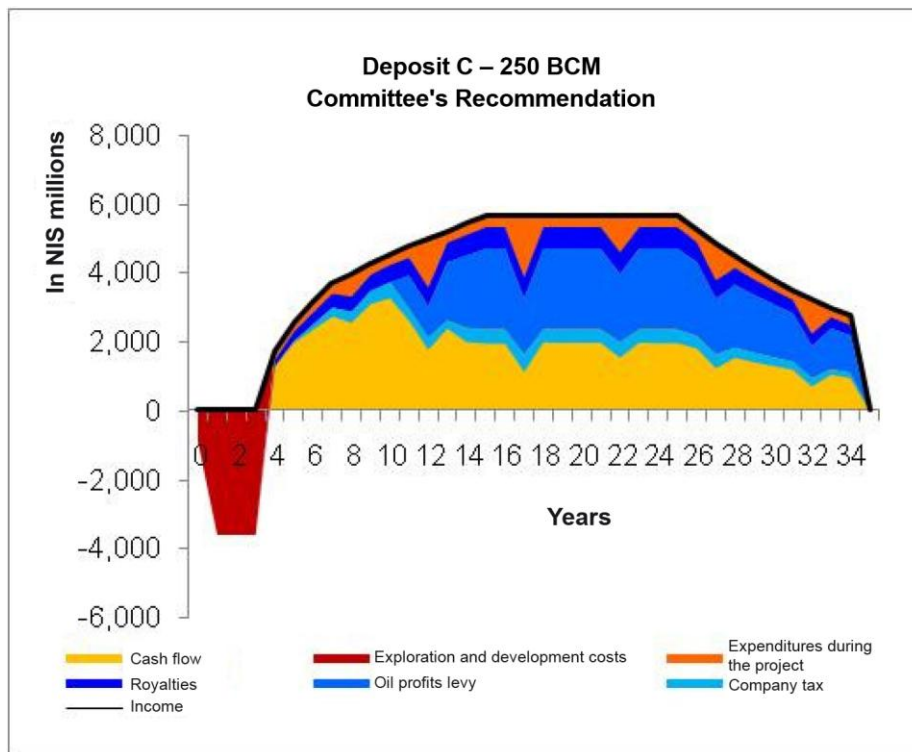
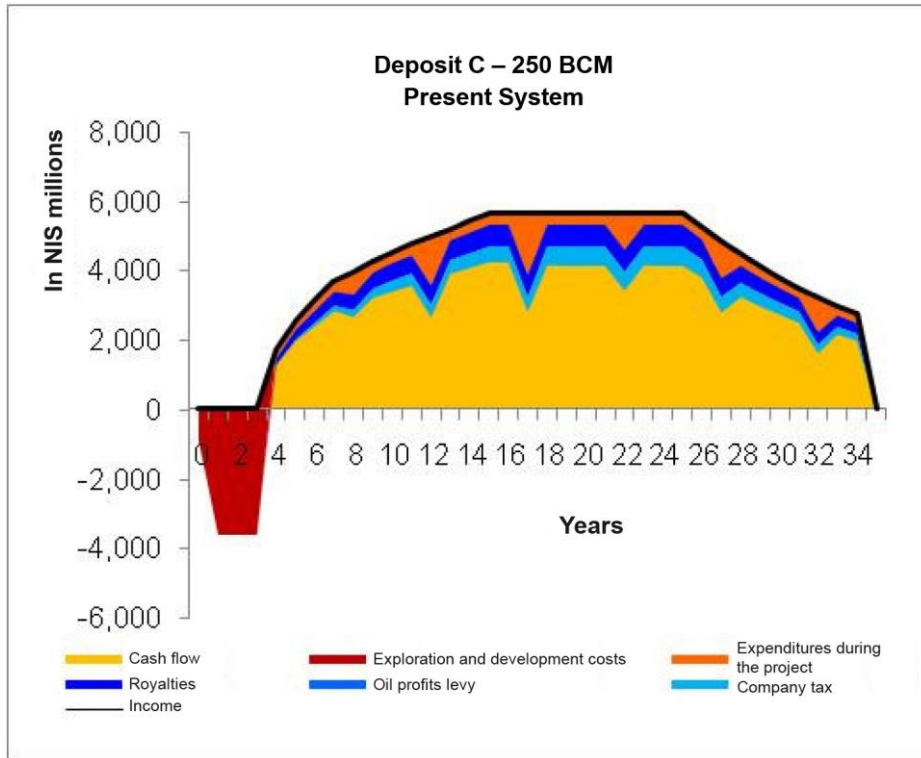
Effective date of the levy:

	Committee's Recommendation	Transitional Provisions
Years of production until the levy goes into effect	10	12
Years of production until the levy reaches the maximum rate	16	21
ROR from exploration up to the start of development	11%	13%
ROR from exploration until the levy reaches the maximum rate	13%	15%
IRR from the year of start of development up to the effective year of the levy	12%	14%
IRR from the year of start of development until the levy reaches the maximum rate	14%	16%

Deposit C: Very large deposit with deep-water investment characteristics

Simulation's assumptions	
Assumptions	Deposit C
Gas price (in the year of start of development)	4.5 \$/MMBTU
Total quantity sold	250 BCM
Annual volume of sales	In the first year 3 BCM Gradual increase up to 10 BCM in the 12th year of production Decline starting from the 24th year
Investment in exploration	\$250 million (NIS 900 million)
Investment in development and construction	\$3 billion (NIS 10.8 billion)
Additional investments in the course of the project	\$1.4 billion (NIS 5 billion)
Current expenses	\$50 million per annum + \$0.15/MMBTU
Financing expenses	75% debt; interest: 7%
Inflation rate (rate of increase of all the prices in the simulation)	2% per annum
Dollar exchange rate	\$1 = NIS 3.6

Fiscal assumptions	
Company tax	18%
Royalties	11% (net)
Interest during the construction period by the levy index	6%



Deposit C – Main Results:

	Present System	Committee's Recommendation	Transitional Provisions
ROR from exploration	21.2%	17.9%	18.8%
IRR in the development year	22.6%	19.2%	20.2%
NPV in NIS billions (discounted to the exploration year at 9%)	21.8	11.2	12.5
Undiscounted profit in NIS billions	89	46	49
Government take	24%	62%	59%

Effective date of the levy:

	Committee's Recommendation	Transitional Provisions
Years of production until the levy goes into effect	8	10
Years of production until the levy reaches the maximum rate	12	13
ROR from exploration up to the start of development	12%	15%
ROR from exploration until the levy reaches the maximum rate	15%	17%
IRR from the year of start of development up to the effective year of the levy	13%	17%
IRR from the year of start of development until the levy reaches the maximum rate	17%	19%