

STATE OF ISRAEL
MINISTRY OF NATIONAL INFRASTRUCTURES
NATURAL GAS AUTHORITY

To: ICL Inc.
Att: Mr. Jonathan Shtibel

February 22, 2009

Re: Brief overview of the natural gas sector in Israel

Natural gas was first discovered in Israel in 1999 at the Mari B field, located offshore of Ashkelon, by a group of American and Israeli companies. In the wake of this discovery, the Knesset passed the Natural Gas Sector Law in 2002, establishing both the regulatory framework for industrial use of natural gas in Israel, as well as the Natural Gas Authority as the regulatory agency.

The Natural Gas Authority is tasked with a number of responsibilities, including supervision of license holders, approval of engineering specifications for the purpose of awarding building permits, approval of tariffs, formulation of a transportation agreement for all consumers, and both setting up arrangements and determining fees for connecting consumers to the gas transmission system.

To date, only a few industrial facilities in Israel have converted to natural gas. Among those, only one – Hadera Paper (formerly American Israel Paper Mills) – converted as a private industrial facility, and began using natural gas in August 2007. The remainder - the Ashdod Refineries, the IPP Delek Ashkelon desalination plant, and the national electric company Israel Electric Corporation (IEC) – all converted to natural gas as government-owned or government-financed companies.

In 2003, a government company, Israel Natural Gas Lines (INGL), was established as the sole company responsible for transporting the gas. In 2004, INGL received the license to both construct and operate the national transmission system, which was to be constructed in three segments - two in southern Israel, and one in northern Israel.

This is the first natural gas transmission system built in Israel, and INGL required local subcontractors to partner with a foreign contractor with experience constructing such systems.

Construction of the underwater coastal segment began in 2004, and natural gas first became available in Israel in February of that year following completion of a production platform and the pipeline to the Eshkol power station in Ashdod, which is owned and operated by the IEC.

In February 2005, INGL issued a tender for the construction of the first segment, a 97 km underground pipeline from Ashdod to Gezer, Kiryat Gat, and Ashkelon. Construction of this segment began in late 2005, and was scheduled to be completed by the end of 2006. In practice, the segment and the final connection to the IEC's Gezer power plant were completed in May 2008.

Construction of the next segment, a 135 km underground pipeline from Kiryat Gat to the southern factories in the Dead Sea area began at the end of 2006. The segment was scheduled to be completed by the end of 2007. The segment and the connection to the consumers are still not in place, with their completion expected by mid-2009.

A tender for the construction of the final segment, a 68 km pipeline from Hagit to Alon Tavor and Haifa Bay, was issued in February 2008. Construction began in Q3 2008, and is scheduled to be completed by Q4 2009.

STATE OF ISRAEL
MINISTRY OF NATIONAL INFRASTRUCTURES
NATURAL GAS AUTHORITY

The delays have been the result of the need to obtain statutory permits as well as other, unforeseen obstacles.

There are currently two suppliers of natural gas in Israel. Yam Tethys, which obtained a license to develop the Mari B field discovered in 1999, and Eastern Mediterranean Group, which supplies natural gas from reserves located in Egypt. Supply from Egypt commenced on May 1 2008 and has not yet fully stabilized.

A third potential supplier is British Gas (BG), which has obtained the license to develop reserves off the coast of the Gaza Strip. Currently, BG has yet to begin developing the reserve.

Miki Korner,
Chief Economist
The Natural Gas Authority

A handwritten signature in blue ink, consisting of a large loop followed by a series of smaller, connected loops and a final upward stroke.