



ESG Report

| 2020-2019 |

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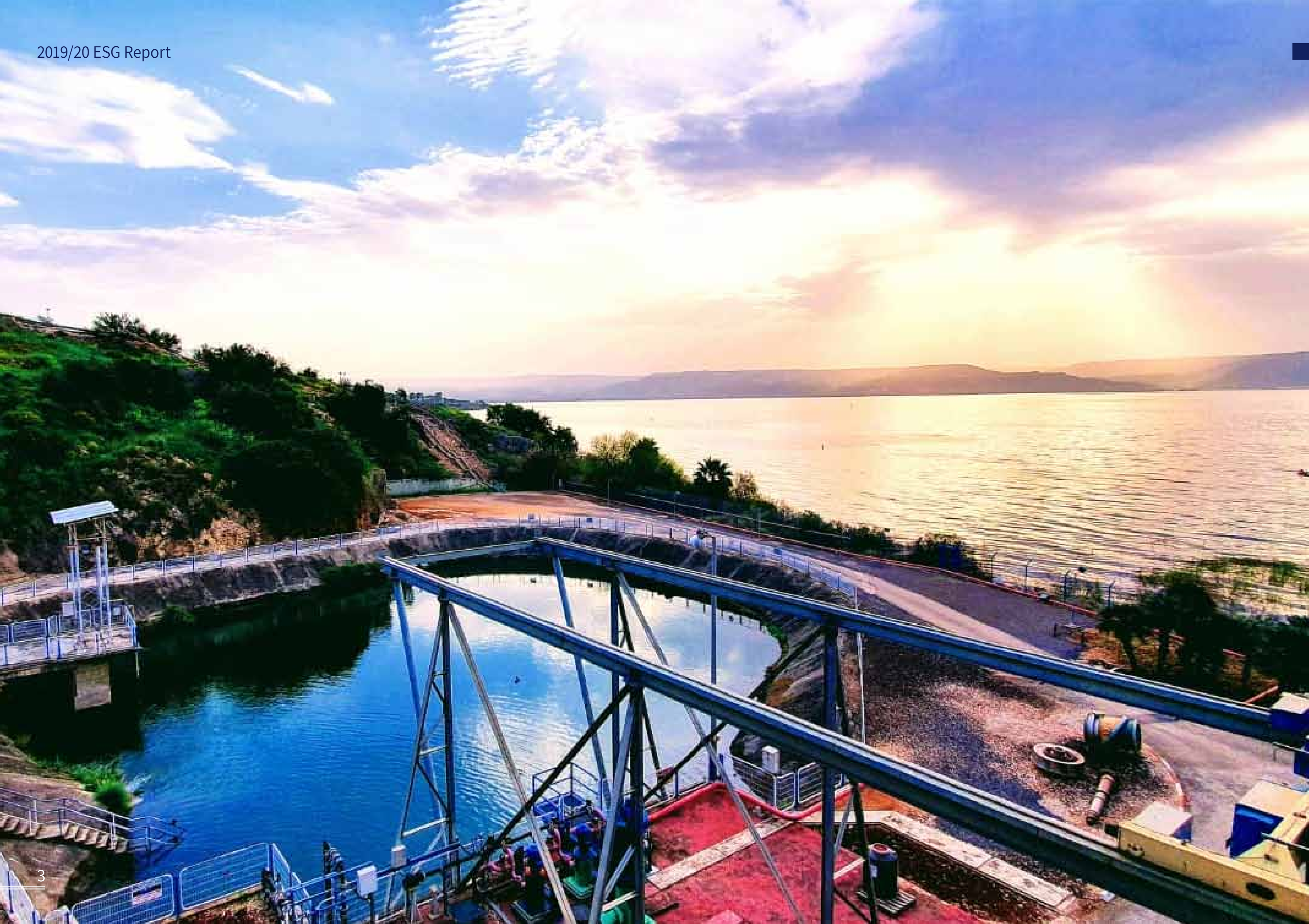
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Statements of the Board of Directors' Chairman

The Board of Directors of Mekorot is proud to present the first ESG report of the National Water Company of the State of Israel. The COVID-19 crisis, as well as the climate change that we have been experiencing in recent years and will continue to experience in upcoming years reiterate the need to strive to excellence and innovation on the one hand and safeguard the natural resources and treasures available to us on the other hand.

We have nearly 85 years of knowledge and experience and we are identified with technological innovation, inter-disciplinary professionalism, and economic resilience. Our proven advantages allow us to provide integrative management of the various water resources, develop mega-projects using a comprehensive overview, implement a circular water economy and lead advanced work procedures that support our operating and business goals.

The knowledge, experience and capabilities that we accrued in handling our various water resources are precious assets for the promotion of water challenges worldwide. Based upon such assets, and using technological innovation and leadership, we strive to realize the immense potential embodied in the resource of life, water, in four main fields: investing in start-up companies, business collaborations both in Israel and abroad, conducting applied research and developing of patents and intra-organizational innovation.

The tasks which are at the heart of our activity require that we invest efforts in sustainably reinforcing the Israeli water economy. The passing year has sharpened Mekorot's focus even more, the integration of ESG aspects in the business core of the Company, so that our extensive investment budget, which amounts to billions of NIS per year, is used in a manner showing responsibility for the environment and those that live in it, taking the long-term view to the benefit of the next generations.

Sincerely,

A blue ink handwritten signature, appearing to be 'Yitzhak', written in a cursive style.

Yitzhak Aharonovich
Chairman of the Board of Directors of Mekorot



Riki Mor
Head of Client Relations
and ESG Unit



Avi Malul
VP of Development
and Clients

Corporate Social Responsibility in Mekorot

We are honored submit the Mekorot ESG report for years 2019-2020, which summarizes two years of extensive activity and reviews the environmental, social and governance aspects of our activities. Our choice to manage our Corporate Social Responsibility and to provide transparent reports to our stakeholders, is a reflection of our belief that we must conduct our operations with maximum fairness while striving to maximize value to our stakeholders and to the public at large.

As a government-owned company, Mekorot understands that Israeli society, Israel’s environment and the Israeli economy are directly affected by the Company’s activities, and, therefore, the Company integrates aspects of sustainability into the Company’s entire value chain. During 2020, Mekorot began extending its activity and regulating sustainability management to major stakeholders, as part of the large-scale organizational change taking place in the Company. Extending our activity in the fields of sustainable development, is an integral part of the nature of the Company, of its values and vision, and we are committed to safeguarding and increasing our core values in the field of corporate social responsibility, including the following: responsible use of natural resources and protection of water sources, commitment and transparency towards all stakeholders, meticulous compliance with the strictest rules of business ethics, empowerment of our employees and of their work environment, impacting the community, striving for excellence in each and every field of activity, and binding compliance with international standards and with global reporting principles.

As part of this wide-reaching process, a client relations unit was established, operating as part of the development and client division, which is responsible for the issue of corporate social responsibility. The unit promotes dialog and transparency to the various Mekorot stakeholders, and is acting to encourage open dialog between the Company and the community, environmental organizations, employees, suppliers and regulating authorities. In addition, we held a hackathon on “sustainability and shared value” in which the Company employees took part and suggested ideas for the development of products and services offering added value to the community, to the environment and to people in general, in alignment with Mekorot’s business activities.

The subject of innovation is intertwined in every layer of our activity. The innovation unit initiates innovation activity at all of the units at the Company. Thanks to Mekorot’s knowledge and capabilities, and those of its employees, which were accumulated during its decades of activity, we develop advanced and smart products and services. We implement environmental and social considerations into the development of products in order to reduce the organization’s impact on the environment and reduce its carbon footprint, ensure the safe supply of high-quality water to consumers, etc., pursuant to the policy of shared values that guides us in our activities.





2020, the year in which the COVID-19 pandemic burst into our world, was a unique year that demanded solutions and adjustments to constantly changing requirements. Environmental and social considerations were intertwined with business decisions and were considered in decision making. Regular water production and supply activity continued unabated without having a negative impact on the consumers, while protecting the health of all Company employees. In addition, vendors were paid earlier in order to help them in these complex times.

As part of our environmental and social vision, we have adopted local and international standards in the field of corporate social responsibility:

- Since 2014, Mekorot has taken part in the Ma'alah rating, which rates companies in the Israeli economy according to their social-environmental performance, based on criteria of sustainability and corporate social responsibility, and provides companies with tools to manage their corporate social responsibility infrastructure while measuring, assessing and defining targets and goals for improvement. In the 2021 Ma'alah rating, which reviews the activity of the Company in 2020, we were awarded the highest rating of "Platinum+".
- This is the fourth consecutive year in which Mekorot chose to participate in a voluntary mechanism of recording and reporting carbon gas emissions to the Ministry of Environmental Protection. Within the framework of this reporting, the Company measures its carbon footprint according to generally accepted methodology in the field, as part of an analysis that was conducted as to the Company's overall environmental impact.
- As the national water company of the State of Israel, Mekorot assigns a great deal of importance to supporting and promoting the goals set by the United Nations for sustainable developments (the SDGs). As part of its business-social activity, we have chosen six goals aligning with our core strategy, which Mekorot will promote in realizing its social-environmental vision, and which it will include in its ESG report.
- In 2020, the Ministry of Strategic Affairs published the "Impact Nation" program. Mekorot applied to take part in this national initiative, the first of its kind in Israel, which encourages companies to present their activities in terms of ESG aspects, and we are proud to be one of the companies that won the initiative and received a grant that assisted is in preparing this report.

Riki Mor
Head of Client Relations and ESG Unit

Avi Malul
VP of Development and Clients

Sustainable Development Goals (SDGs)



In 2015, the State of Israel adopted, alongside 192 United Nations member countries, 17 sustainable development goals (SDGs). Those global goals, as well as their secondary-goals, refer to global environmental, social and economic sustainability challenges, and define the global agenda for this development until 2030.

As part of the sustainable development being promoted by Mekorot, we are proud to take part in the national effort to realize the SDGs. Out of seventeen goals, all of which are relevant to Mekorot’s activity, we have characterized six main goals that touch upon to our performance as a water infrastructure Company:

Goals Set by the United Nations	United Nations Goals Material to the Activity of Mekorot	Actions Taken by Mekorot to Achieve These Goals
<div>Clean Water and Sanitation</div> <div></div>	<ul style="list-style-type: none">> 6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all.> 6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, thus halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.> 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.> 6.6 Protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes.	<ul style="list-style-type: none">> Development of water infrastructure reaching remote regions and water supply agreements with the Hashemite Kingdom of Jordan, the Palestinian Authority and the Judea and Samaria regions;> Current operations to make water infrastructure more efficient and invest in advanced technologies.> Conducting environmental surveys and water sampling along the entire supply chain in order to ensure safe, pollutant-free water of the highest quality;> Planning, constructing and operating desalination facilities to accommodate the demand for water;> Rehabilitation of water sources and aquifers and planning efficient exploitation of water resources;> Formulation and promotion of National Infrastructure Scheme 100.





Goals Set by the United Nations	United Nations Goals Material to the Activity of Mekorot	Actions Taken by Mekorot to Achieve These Goals
<div>Affordable and Clean Energy</div> <div><div>7</div></div>	<div><ul style="list-style-type: none">› 7.2 By 2030, substantially increase the share of renewable energy in the global energy mix.› 7.4 By 2030, empower international cooperation in order to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.</div>	<div><ul style="list-style-type: none">› Setting multi-annual goals to reduce conventional energy consumption;› Production of green energy at Company sites;› Promotion of tenders to increase the use of solar energy on existing water infrastructure;› Promotion of hydroelectric power turbines.</div>
<div>Industry, Innovation and Infrastructure</div> <div><div>9</div></div>	<div><ul style="list-style-type: none">› 9.1 Develop high-quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and fair access for all.› 9.4 By 2030, upgrade infrastructure and retrofit industries to make them more sustainable, with increased resource usage efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries acting in accordance with their respective capabilities.› 9.5 Enhance scientific research, upgrade the technological capabilities of the industrial sectors in all countries, in particular in developing countries, including, and by 2030, encouraging innovation and substantially increasing the number of research and development workers per one million people by X% and public and private research and development spending.› 9.6 Support domestic sustainable and resilient technology development, research and innovation in developing countries, through enhanced financial, technological and technical support to African countries, LLDCs, LDCs, and SIDS.</div>	<div><ul style="list-style-type: none">› Investment in high-quality infrastructure that enhances efficiency and is highly resilient› Research and development in the water and infrastructure fields to investigate ways of improving existing technologies;› Collaborations and agreements with developing countries in order to improve water infrastructure and installations in their countries;› Technological collaborations to advance environmental issues: environmental treatment of desalination concentrates and treated wastewater, sustainable treatment of treated wastewater and reuse for agricultural purposes and floating solar power systems.</div>





Goals Set by the United Nations	United Nations Goals Material to the Activity of Mekorot	Actions Taken by Mekorot to Achieve These Goals
<div>Responsible Consumption and Production</div> <div></div>	<ul style="list-style-type: none">› 12.2 By 2030, achieve sustainable management and efficient use of natural resources.› 12.4 By 2020, achieve environmentally sound management of chemicals and all forms of waste throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release into air, water and soil in order to minimize their adverse impacts on human health and the environment”	<ul style="list-style-type: none">› Development of efficient water technologies in order to reduce water consumption from natural water sources;› Integration of sustainability considerations in water system planning and operation;› Advancement of research and implementation of new technologies for the treatment of sludge resulting from the wastewater reuse process in order to improve its quality and assign it to use in agriculture and in energy production.
<div>Climate Action</div> <div></div>	<ul style="list-style-type: none">› 13.1 Strengthen resilience and adapt capacity to climate-related hazards and natural disasters in all countries.› 13.2 Integrate climate change measures into national policies, strategies and planning.	<ul style="list-style-type: none">› Initiation of state-of-the-art technologies to combat the impact of climate change, with an emphasis on water scarcity arising from the effects of global warming;› Integration of environmental and social aspects in strategic planning in order to provide a response to the rising demand for water on the one hand and to global warming on the other hand;› Decreasing the carbon footprint by investing in energy efficient systems and transitioning to green energy.
<div>Life On Land</div> <div></div>	<ul style="list-style-type: none">› 15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and arid areas, as required by international agreements.› 15.4 By 2030, ensure the conservation of mountainous ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits essential to sustainable development.› 15.8 By 2020, introduce measures to prevent the introduction and significantly reduce the impact of invasive alien species on land and water ecosystems and control or eradicate the primary species.› 15.10 Mobilizing and significantly increasing financial resources from all sources to preserve and employ biological diversity and the ecosystem in a sustainable manner.	<ul style="list-style-type: none">› Collaboration with the Israel Nature and Parks Authority and the Jewish National Fund for infrastructure and maintenance works;› Integration of environmental aspects in infrastructure construction works;› A work plan to prevent the spread of invasive species at the Company sites when conducting works;› Rehabilitation of aquatic habitats by reducing water pumped from natural sources and returning water back to nature.› Performance of works pursuant to environmental surveys and safeguarding the biological diversity found at work sites.

About This Report¹

This ESG report is the fourth report published by Mekorot. It reviews the Company’s activity in the reported years of 2019-2020. The report was written in the spirit of reporting standard GRI:SRS at the core reporting level, with the Company’s last Corporate Social Responsibility Report published in 2017 and referred to the performance of the Company during 2015-2016. Mekorot has committed to publishing an ESG report on an annual basis, as an expression of its commitment to action in the field of corporate social responsibility and to reporting the results of its performance to its stakeholders. The report provides an overview of the Company’s activity in Israel, while making references to various economic, environmental and social aspects. This report reflects the activity of Mekorot Water Company Ltd., without referring to subsidiaries unless noted otherwise. In addition, sites that the Company operated while not

being owned by the Company, are not included in this report, unless noted otherwise. In 2020, Mekorot employed about 77% of the group’s employees. This report discusses processes, data and the progress of the Company in terms of ESG aspects, presents the Company’s engagement in facilitating the United Nation’s Sustainable Development Goals (SDGs) and features discussion of strategic goals for upcoming years as well. Pursuant to the GRI guidelines, in this report we focus on the material topics to our actions, while taking the expectations of various stakeholders into account. We define material topics as fields of activity in which we have a significant impact on our stakeholders in matters of corporate social responsibility and sustainability within and without the Company.

**For information on matters discussed in this report
and to conduct a dialog on the information presented in the report, please contact:**

Riki Mor

Head of Client Relations,
External Agents and ESG Unit
Mobile phone no.:
050-6312680
Email address:
rmor@MEKOROT.CO.IL

Anat Even-Chen

Head of Corporate Social
Responsibility and
Sustainability Unit, BDO
anatec@bdo.co.il

Irit Breiman

Consultant at the Corporate
Social Responsibility and
Sustainability Unit, BDO
iritbr@bdo.co.il

The report was written with support of BDO Consulting’s CSR & Sustainability Unit. The Unit is an exclusive training partner of GRI Organization in Israel, and the consultant team undergo special training for this.



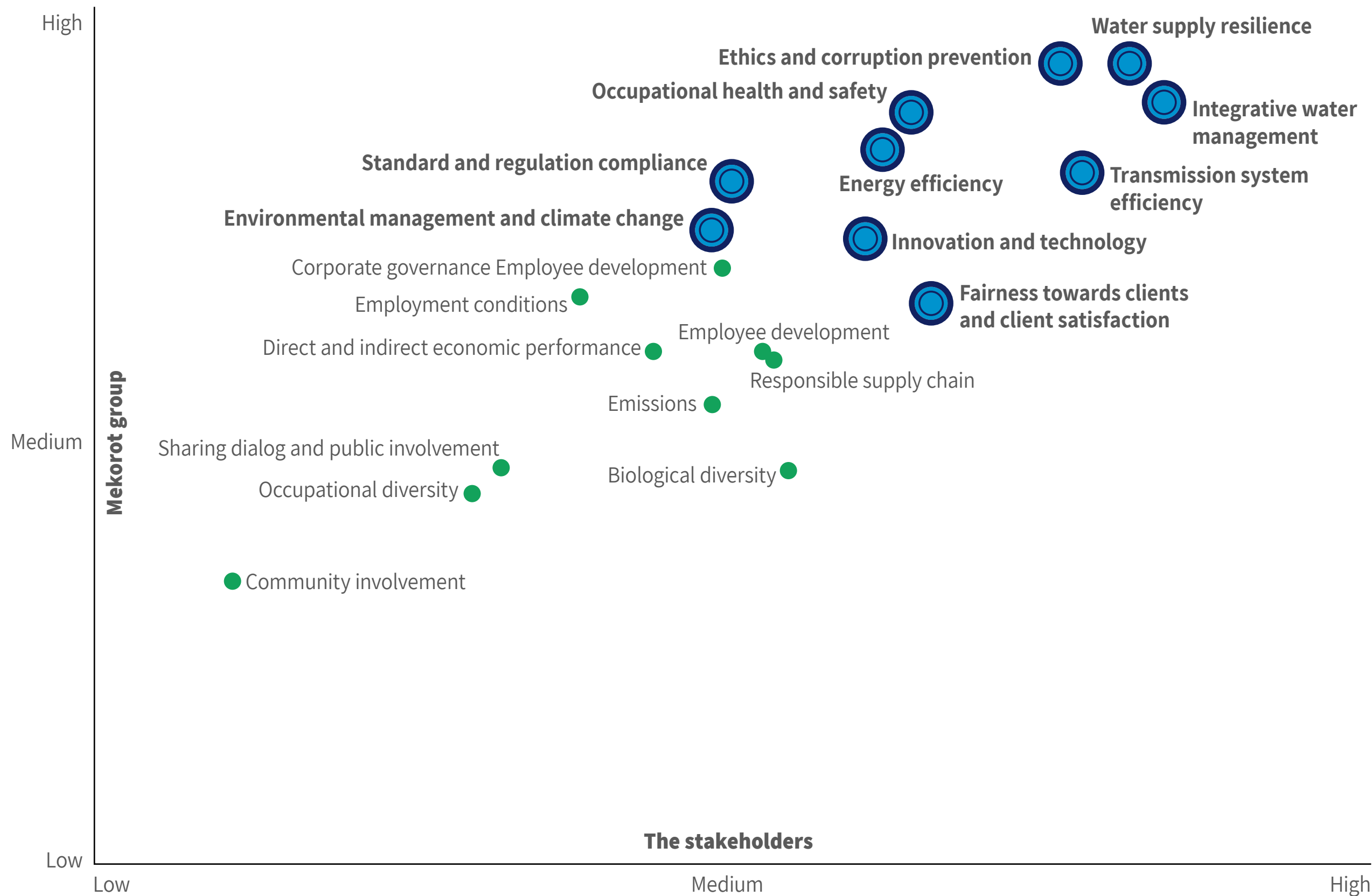
Selecting the Report's Material Topics

The process of identifying material topics was conducted using the GRI:SRS reporting standard methodology, and is divided into two main stages:

Sectoral review - in order to identify the material topics to Mekorot, a survey was conducted studying companies with characteristics similar to those of Mekorot, among them government-owned companies and infrastructure companies as well as leading companies in the global water sector. In addition, four analysis organizations reviewing corporate ESG performance were examined, as well as globally accepted reporting standards and initiatives (SDG, SASB, GRI).

Materiality rating - In view of the Company’s commitment to collaboration and open dialog, Mekorot contacted select stakeholders and asked for their opinion on the topics it needed to include in the report, using designated questionnaires. In the next stage, Mekorot, by way of members of management and of the Board of Directors, prioritized the various topics and the material topics were ultimately mapped out. The result of that process is shown in the chart below and constitutes the framework for the report.

¹102-46



The Materiality Matrix

The materiality matrix presents the 19 topics relevant to Mekorot’s activity, according to the level of importance assigned each topic by the various stakeholders (the horizontal axis) against the rating given to each topic by Mekorot (the vertical axis). At the end of the process, the 10 most material topics for the Report were selected, based on the highest weighted rating.

² The weighted rating was calculated by multiplying the score obtained from the stakeholders axis by the score obtained from Mekorot’s axis.



Details on the selected topics and the topic boundary (according to rating order)³:

Material topic	The GRI indicator	Main impact point
1. Water supply resilience	-	External organization
2. Integrative water management	-	Internal as well as external organization
3. Ethics and corruption prevention	GRI 205: Anti-corruption	Internal as well as external organization
4. Efficiency of transmission system	-	Internal organization
5. Occupational health and safety	GRI 403: Occupational Health and Safety	Internal organization
6. Energy efficiency	GRI 302: Energy	Internal as well as external organization
7. Innovation and technology	-	Internal as well as external organization
8. Fairness toward clients and client satisfaction	-	External organization
9. Compliance with standards and regulation	GRI 419: Socioeconomic Compliance	Internal organization
10. Environment and climate change management	GRI 305: Emissions; GRI 307: Environmental Compliance	Internal as well as external organization

³ 102-47

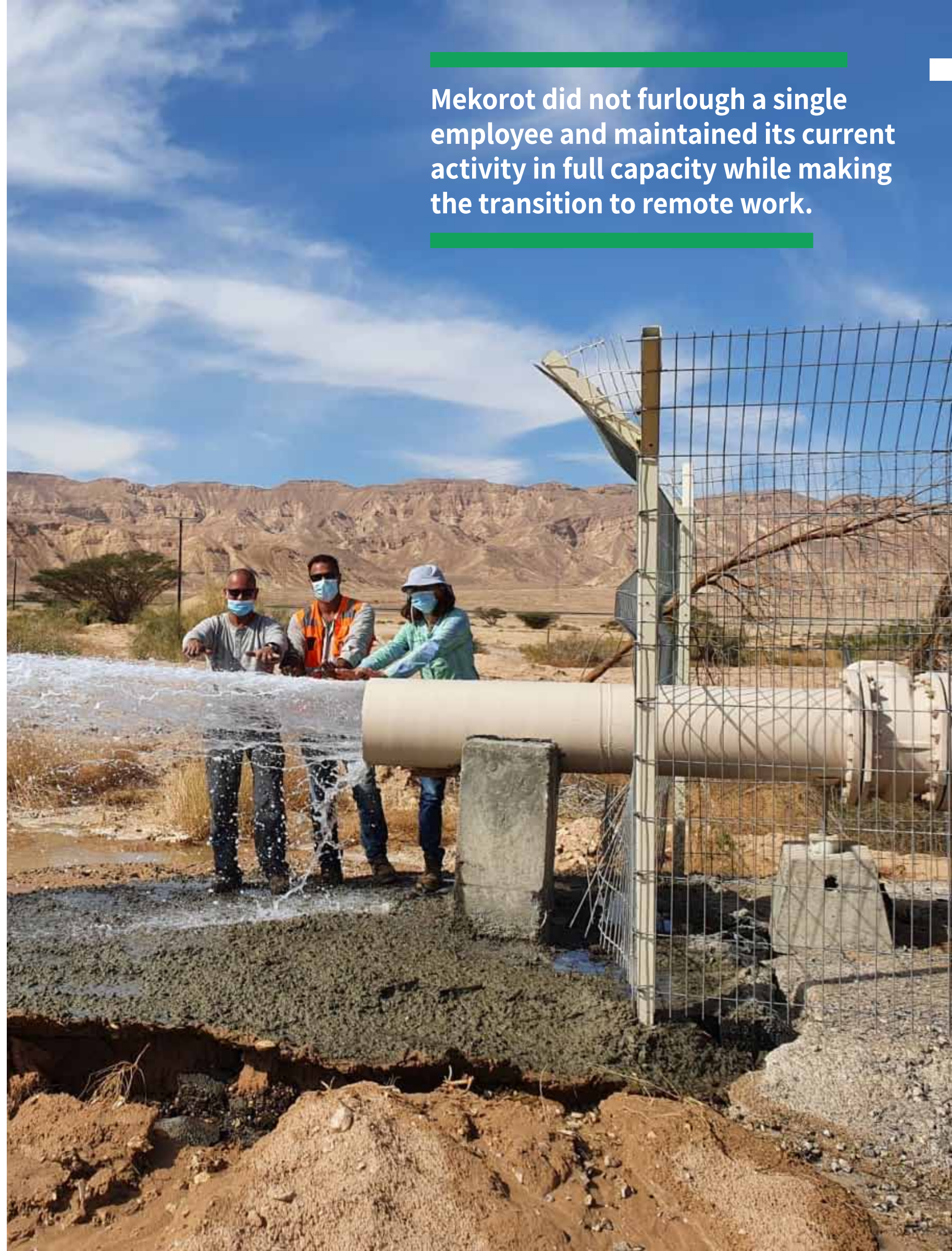


Dealing with the Impact of the COVID-19 Pandemic

Mekorot is the national water company and the Company's proper functionality in routine as well as in emergency activities is a significant layer of the resilience of the Israeli economy. Accordingly, and as part of the Company's preparations for extreme scenarios, Mekorot updated its pandemic procedures and acquired the necessary protective equipment in 2019, and in January 2020, prior to the outbreak of the pandemic in Israel, a preliminary assessment of the situation at that time was conducted taking the possibility of a pandemic into account, in which four primary goals were set for how such an event would be handled:

- › **Operational and business continuity must be ensured** - the continued supply of water to all clients, the continued performance of maintenance work, and the ongoing activity of the Company's headquarters.
- › **Company employees' health and safety must be protected** - procedures and guidelines issued by the Company and the Ministry of Health must be put in place to safeguard the health and safety of employees as they perform the Company's core activities: in the field, in control rooms, in information systems, in laboratories, in desalination facilities and in wastewater treatment facilities;
- › **The organizational resilience and the occupational security of Company employees must be maintained** - ensuring the mental resilience of Company employees and their occupational security;
- › **Continuation of the development plan according to the Company's strategic plan.**

Mekorot did not furlough a single employee and maintained its current activity in full capacity while making the transition to remote work.





When the pandemic reached Israel, the Company established a command and control center to track, monitor and control the Company’s operating activity. The control center received reports on the status of the organization’s, the impact of the state of emergency on the Company’s cash flow, the operations, new processes and work routines that allow for the utilization of the state of emergency to advance the organization’s development plans. Executive management, headed by the Board of Directors, held online meetings on a daily as well as on a weekly basis to receive current updates and approve the development processes of the organizational work plan. At the end of each meeting, an assessment of the current situation as it pertains the Company’s functionality and its condition was distributed to all the Company’s employees, to the Chairman of the Company’s Board of Directors and the Company’s Board of Directors, and to various regulators, among them the Water Authority, the Corporations Authority, the Ministry of Finance and the Ministry of Energy.

In addition, we took further action in order to ensure the resilience of the public’s water supply and to safeguard the employees' health:

Protecting employees and establishing a hygiene team

Hygiene supplies are provided to employees on a monthly basis in order to maintain and protect their health, and in addition, a team was established the purpose of which was to prepare health guidelines for the employees and to examine protective measures.

Training epidemiological investigation personnel

About thirty employees, the members of the Hygiene Team, received training in conducting epidemiological investigations in order to break the chain of COVID-19 infection.

Establishing the resilience team

As the COVID-19 pandemic persisted, the Resilience Team was established, consisting of external professionals for the purpose of mapping any gaps and difficulties that may impair the Company’s resilience. The recommendations made by the team are implemented in practice by Company management.

Individual care

The Company invests considerable efforts in the individual wellbeing and care of its employees in aspect of the COVID-19 crisis.

Core activities

Guidelines were issued for the protection of five sensitive core activities at the Company, harm to which might jeopardize the Company's functional and business continuity: control rooms, laboratories, information systems, Sewage treatment facilities and the desalination facilities

Public relations

Distribution of the guidelines issued by the Ministry of Health to all the employees and the Hygiene Team guidelines; distribution of video clips on a weekly basis with the CEO of the Company or the deputy CEO of the Company that include explanations as to the state of affairs and current updates to employees; distribution of communications and guidelines on a current and continuous basis to all employees at the Company; opening an information portal for employee Q&A.

Maintaining current activities

The workers at the desalination facilities and the wastewater treatment facilities were separated in order to safeguard their health and ensure functional continuity. In addition, field workers and employees from the professional departments in the operating division were integrated into activity in order to provide effective back-up if need be.

Cyber security

The cyber security alert level was raised in light of the global COVID-19 panic, which led to an increase in cyber security incidents in Mekorot.

Business continuity

Mekorot has adjusted procedures and systems in order to be able to carry out remote payment (in favor of paying wages as well as to the benefit of its vendors) and to manage the remote payment process.





Apart from that, we ensured that a safe work environment was created for Company employees, in order to protect their physical and mental resilience and well-being, and to adapt the work environment to the new reality:

Open communication – the Company’s executives kept in regular contact with their employees, by initiating conversations and discussions as well as by operating an “open line” in order to respool to any questions and inquiries that may arise. In addition, senior management toured the various Company and psychological support was made available to employees who required it.

Financial support - the Mekorot financial support fund was enhanced in order to provide assistance to families in need as a result of the COVID-19 crisis, and in addition a “designated furlough fund” was established to which executive management members contributed vacation days in order to provide support to employees placed on involuntarily furlough. In addition, a designated page was opened in the organizational portal to promote the businesses of employee family members.

Creating a sense of certainty - messages promising occupational future and care for employees were reinforced, special attention was given to investigating not only the employees, personal

As part of Mekorot's support of the Israeli economy, we increased procurement from local vendors during the state of emergency, we paid vendors early and accelerated the Company’s development and maintenance works Company in 2020.

well-being and resilience but their families as well, and current updates were also provided using channels and tools developed during that period in order to ensure that employees remained connected to the Company’s essential activity during the time of crisis.

Preventing disease transmission - the employees received protection packs and webinars were held on maintaining workplace hygiene. Employees received regular instructions and updates and in addition a team was established that received training in conducting epidemiological investigations, thereby cutting the infection chain short. Workers who contracted the disease or who entered quarantine received “encouragement and care packages” and psychological counseling.

Reinforcement of resilience and employee appreciation - management video clips showing appreciation of divisions and employees were broadcast to all employees. In addition, gift packages were given to employees on holidays and weekends in order to show appreciation and raise morale.

Transition to working from home - the option to work from home on a partial basis was given to employees for whom working from home was a viable option. For this purpose, the Company adjusted its work processes to include the option of working from home, provided its employees with all the necessary equipment and implemented a work routine adjusted to remote work. Company employees and former employees in retirement, underwent remote training in order to acquire the tools they needed to adapt to the new situation and the new workplace conditions.

Online learning - the implementation process of the learning management system (LMS) was accelerated, and using that system dozens of educational software-based lessons on various subjects were distributed across the organization, and most of the learning process was adapted to online learning and/or hybrid learning. In addition to the professional content, webinars were held on subjects of health, leisure, physical fitness and more.

Among the research projects that were carried out at the Company’s research and development center Company was the “Volkani Corona Nofar” research project, in collaboration with the Volkani Institute, the purpose of which was to locate COVID-19 pathogens in the sewage system and in wastewater treatment facilities.

The welfare activities benefitting employees all relied on local artists and vendors, who employ workers with special needs or with disabilities.



Organizational Profile and Economic Performance

Mekorot, the national water company, has contributed since its establishment in 1937 to developing life and strengthening the economic and national fortitude of the State of Israel. The Mekorot Group is producing water, drilling, water collection, treating water quality, water transportation and supply to all the citizens of the State of Israel, while protecting and securing water sources. In addition, the Company deals in the construction and maintenance of various water installations used for supplying water and provides consulting services, construction, operating services and initiates projects in the field of water. Mekorot is considered a unique Company

at the global level thanks to the scope of its activities and expertise in a wide variety of areas, all under the one roof:

- The development of water sources and the delivery system, including increasing survivability
- Supplying high-quality water to all sectors of society on a 24/7 basis, always and under all conditions
- Integrative management of all types of water using an integrative system
- Water treatment
- Water quality enhancement
- Water quality monitoring according to regulations and beyond
- Water production - desalination of sea water and brackish water
- Management and operation of an advanced treated wastewater system
- Water security - water safety, security of water sources and supply processes and cyber threats
- Hydrology and drilling

- Capturing flood water
- Command and control
- Protecting the environment and sustainable development



Mekorot is the primary water supplier in the State of Israel. The Company produces about 40% of the total amount of water produced, treated and desalinated in Israel, delivers and supplies about 70% of the total water supply in Israel (including water supplied to the Hashemite Kingdom of Jordan and to the Palestinian Authority) and about 81% of the total domestic consumption in Israel. Mekorot maintains availability, reliability and optimal water quality by way of integrative and educated management. The Company acts in a responsible manner with a national and sustainable viewpoint of the various water sources.





Mekorot creates value.

- › Supply of around 1.7 billion cubic meters a year to approximately 4,800 clients and 8 million end-consumers.
- › 3,000 facilities for water production, supply and treatment, which include 13,000 kilometers of pipelines, 1,200 drilling sites, 800 facilities for water quality enhancement, disinfection and treatment, about 1,000 pools and reservoirs, and 10 automatic operation and control centers for offsite control.
- › Conducting about 271,000 water quality tests and 71,000 water samplings a year at the central water testing laboratory and at five regional laboratories. The laboratories perform chemical, bacteriological testing of water sources (drilling, spring water and water from the Sea of Galilee) of the conduction system, the reservoirs and at town intake points.
- › Operating 24 brackish water desalination facilities and 4 sea water desalination facilities in Israel and worldwide, including by way of a desalination facility of a subsidiary of the development Company in Ashdod.
- › World leader in recovery of wastewater for agricultural purposes - 60% of the wastewater treated in Israel is recovered.
- › Extraordinarily deep drilling to depths of up to 1.5 kilometers, using world-class hydrological expertise.
- › A world leader in yearly water loss, at 3%.
- › Maintaining water security and water quality according to the highest global standards.
- › Development and implementation of new and groundbreaking water technologies by way of a designated entrepreneurship and collaboration center in the field of water technologies.
- › Construction and operation of a central filtration factory - the fourth largest in the world - in a total cost of 550 million NIS. The plant, which located Israel in the forefront of western countries in the field of water treatment, streamlines the treatment processes and provides a high-quality ecological solution for supplying water.



Since 2011, the Mekorot economic model has been based upon the regulatory rules made by the Water Authority Commission within the framework of the Water Law. The status of these regulatory rules is different than the set of agreements that previously had been in place between the parties until then, as the regulations qualify as secondary legislation. Note that since 2008 the State budget has no longer served as a budgetary source to cover the differences between the Company's recognized costs Company and its recognized income. It was decided that if a positive difference or a negative difference occurs, such a difference would be handled by way of updating the water rates, so that all of the Company's recognized costs are covered by income from the sale of water to customers (a "closed water economy").



Mekorot is the main factor in the development of the national water system, investing about one and a half billion NIS a year in production, intake, transportation and water treatment infrastructure. Mekorot is not supported by the national budget and finances its activity independently from its own sources and from debentures. Until 2019, offerings were made on the institutional market, including by way of foreign financing. Starting 2019, after Mekorot became a publicly traded Company listed on the Tel Aviv Stock Exchange, the Company held its first round of financing that was also made available to the general public. We constantly act to preserve and reinforce the Company's financial fortitude.





We display financial fortitude with an annual income turnover assessed at 4.9 billion NIS, with equity to the amount of 4.0 billion NIS and total assets valued at 17.6 billion NIS. Mekorot’s responsible conduct in terms of financing and maintaining suitable financial relations, have awarded Mekorot the highest possible credit rating issued since 2003 by the rating company Standard & Poor’s-Mailot - ilAAA, allowing it to double the Company’s development activity in the upcoming years, in order to strengthen the water system against the risk of extended drought periods.

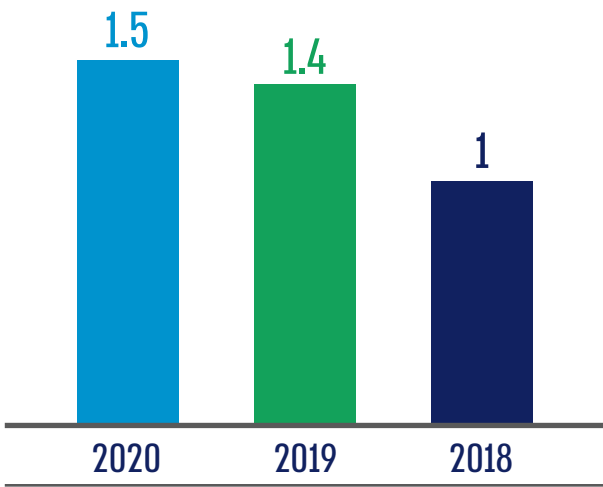
The main projects in Mekorot’s 2020 development plan:

- > The fifth water system to Jerusalem
- > Connecting the Sorek desalination facility, the largest desalination facility in the world, which operates using the reverse osmosis method
- > Connecting a supply pipeline from the northern Dead Sea to the Jordan Valley
- > Construction and development of infrastructure for supplying water to Judea and Samaria
- > Development of water sources, delivery systems and lakes in the Arava region
- > Delivery of desalinated water to the north of the country

The Company’s development plan and the construction of water works reflect water supply needs. The Water Authority Commission approved a basket of new projects for the Company’s tri-annual development plan for 2020-2022 at a scope of some 230 million NIS. Based on Resolution 4514 of the Israeli government as to the “creation of infrastructure to increase the scope of development of the water system in order to handle periods of extended drought”, it was decided that Mekorot would extend the scope of its development plan. Accordingly, the Company Board of Directors approved the Company’s development plan for 2019 - 2021 – to the sum of 1.5 billion NIS per year.



Investment in Development Project (billion NIS)



Organizational Structure⁴

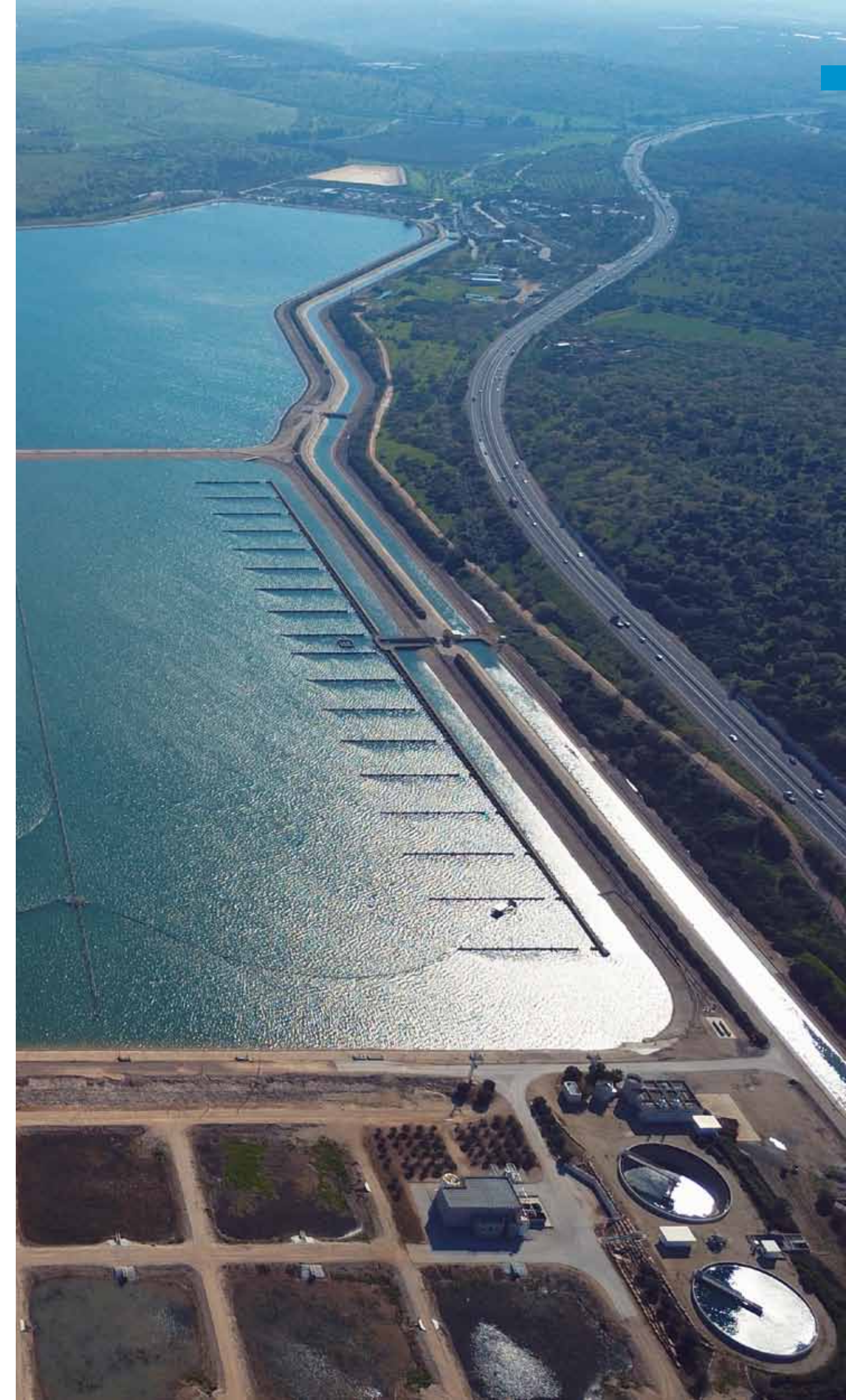
Mekorot is a government-owned private Company operating under the Ministry of Energy and the Ministry of Finance. The Company is defined, in accordance with the Water Law, as the national water Company, and it operates under the supervision of the Water Authority, which is the regulator that supervises its activity on behalf of the State of Israel.

Following the restructuring agreement reached with the Israeli government in 2007, Mekorot was restructured into a group of several companies. The parent Company, Mekorot Water, heads the group, and is involved in all aspects of water supply, construction, operation and maintenance of water enterprises. The Company's organizational structure includes the central headquarters located in Tel Aviv-Jaffa, and four national operating regions - North, Center, South and the National Water Carrier. **Two subsidiaries operate under Mekorot Water:**

Subsidiary Shaham Mekorot Performance is the implementation-contracting arm of the group and mainly deals in carrying out development and renewal projects for water enterprises for Mekorot, maintenance works for Mekorot and additional works for outside elements, including manufacturing works, electro-mechanical works, rain increase work, drilling, laying water pipes at a diameter of up to 118", construction of pumping stations, rehabilitation of pools, structures and more.

Subsidiary Mekorot Development and Entrepreneurship

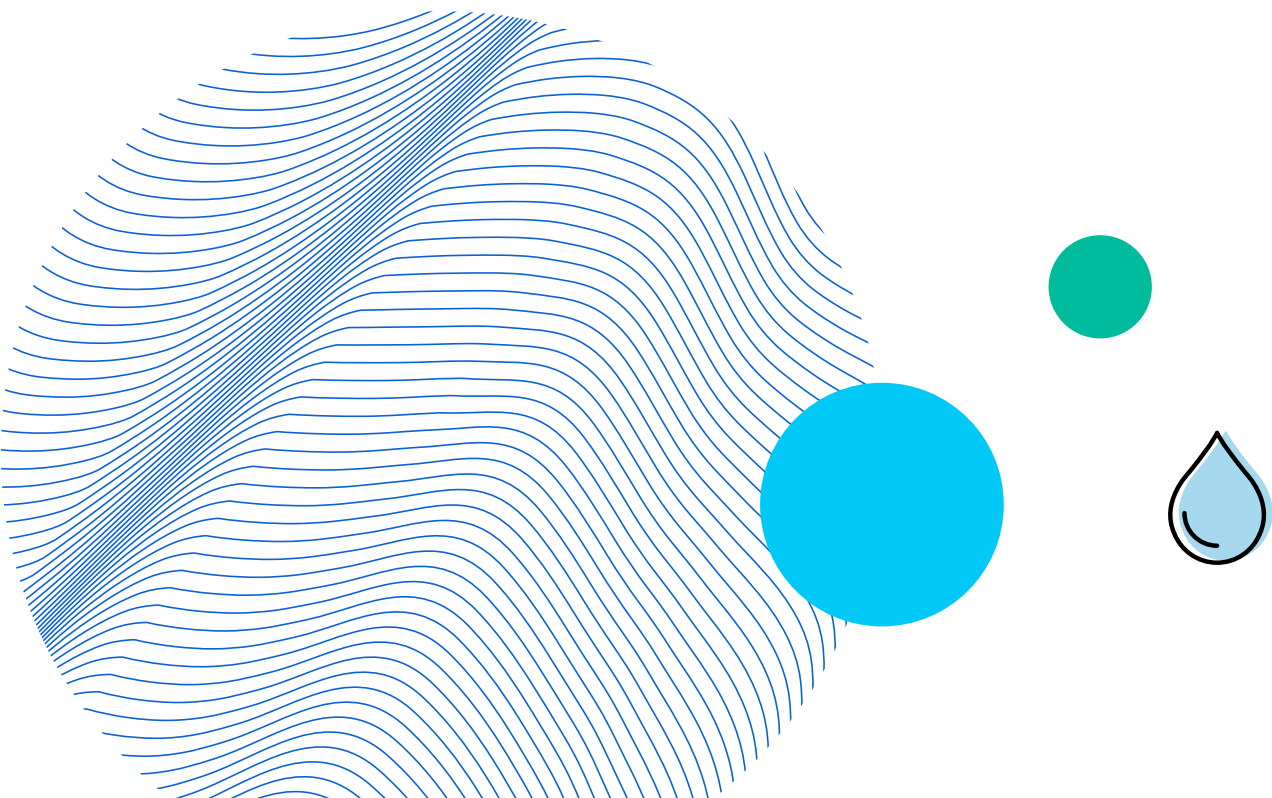
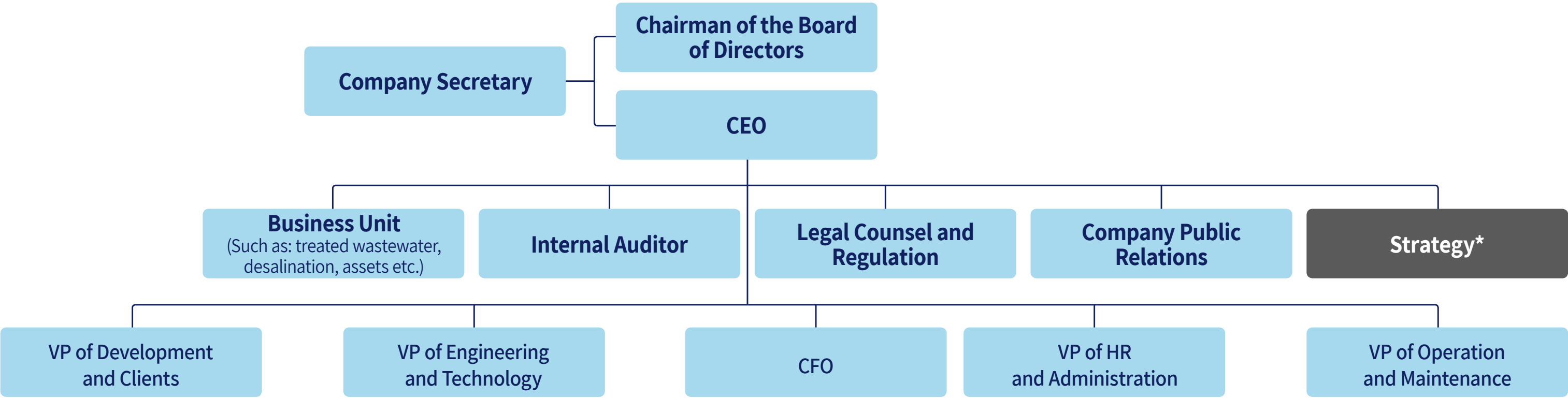
is the Group's international business arm and deals in entrepreneurship, promotion and advice for water projects in the fields of desalination and wastewater treatment in Israel and around the world, including in: Argentina, Mexico, Cyprus, Malta, Romania, Guinea and more. In 2019, the Israeli Government passed Resolution 4514. It deals, among other things, in the organizational change in Mekorot. Within the framework of the restructuring of Mekorot's management structure, three new divisions and one new unit were established: the Strategy Division (to which the authorities of the Development Division were also transferred), the Technology Division (to which the Information Systems Unit will be reporting) and the Operation and Maintenance Division, which integrates all the work being done at the regional level, with two additional functions exist operating under it, which are in charge of operation and maintenance management on the national level as well as a business unit, which reports directly to the Company CEO. Later in 2020, structural adjustments were made. Merging the Engineering and Technologies Divisions, removing the Strategy Field from the Development Division which became the Development and Customers Division, and more. In June 2019 and January 2021, special collective bargaining agreements were signed with the Company employees' committee regarding the restructuring.



For more information about the structure of the Company's holdings, see the Company's 2020 Financial Statements, page 8.

⁴102-45





*The deputy manager of the Engineering and Technology Division will be responsible for the issue of strategy, reporting directly to the CEO.



Mekorot Leads Innovation

22-25 →

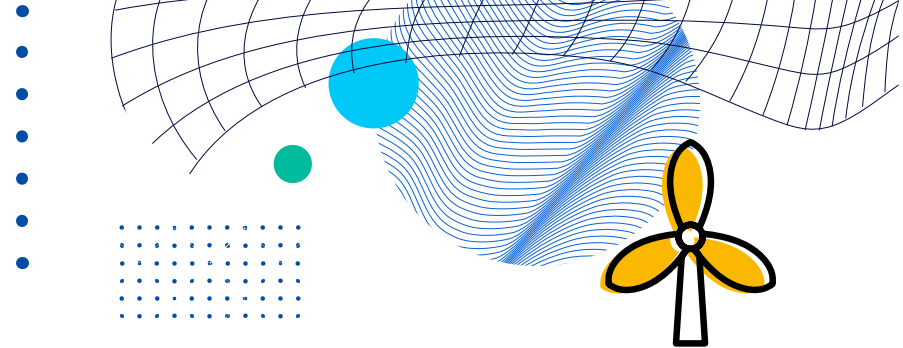
In our decades of activity, we have accumulated knowledge, experience and capabilities in the field of water which put us at the forefront of water companies around the world. Based on the connection between the professional knowledge and technological leadership, we strive to develop advanced technologies in the water field in four main areas: investments in start-up companies, business collaborations, applied research, development of patents and intra-organizational innovation.

Developing innovation is a key focal point of the Company's business strategy and is integrated into all our fields of activity. In order to manage an innovative and leading water system, Mekorot has adopted the use of cutting-edge technologies – supply forecasts, smart control rooms, big data analysis and cyber security. Climate change, which is expected to cause desertification and droughts, and population increase, are all expected to lead to a water scarcity crisis. We are constantly acting to find solutions for the future by creating new sources of water and looking after water quality and health using innovative and advanced means. We promote entrepreneurship and creative thinking among Company employees in order to provide solutions and respool to the needs of all our stakeholders.

The innovation field is headed by the Innovation Unit Manager, who reports to the VP of the Engineering and Technology Division on an ongoing basis. The relevant matters are also discussed by the Company Board of Directors.

We proactively solve future water needs by creating new water resources of the highest quality and cleanliness through cutting edge and innovative technologies





Our innovation activity pertains to all Mekorot’s areas of activity, and allows us to lead, develop and provide a better response to our clients:

Investments in Start-Up Companies

Starting 2019, after the ratification of Government Resolution 3837, which allows government-owned companies to invest in start-up companies starting 2018, Mekorot has been developing a start-up investment plan. Mekorot is at the leading edge in this field among all government-owned companies and provides a framework for the companies in which it invests that allows them to conduct pilots at Company sites and to use its resources. According to the government resolution, we implement the start-up’s product in the Company’s activity. Such cooperation generates “shared value” - Mekorot benefits from developments in the Company’s systems and from improvements in the quality of the water it provides, and the start-up company wins a strategic client.

As part of the process of selecting technologies for investment, two committees were established: the Investment Committee and the Consulting and Technology Committee, the members of which are the CEO and the VP of Engineering and Technology, which are responsible for outlining the investment strategy and recommending possible investments to the Board of Directors. During 2019 - 2020 Mekorot invested in the following projects:

- **CQM Water** - an Israeli start-up that has developed a mechanism for sanitizing water supply systems by the independent manufacture of chlorine at Company sites using electrolysis. This technology makes the use of chemicals unnecessary, significantly decreases the transportation of materials (and as a result, air emissions) and reduces costs for the Company.
- **IXDEN** – an Israeli start-up company that provides advanced systems for identifying cyberattacks and provides water security to Israeli residents. The system provides assistance

both in terms of information security and in operational terms by protecting all IOT components installed at Mekorot stations and integrates AI and machine learning models to predict operation or maintenance problems.

International Collaborations

We at Mekorot work in conjunction with governments around the world and a wide variety of corporate entities and make valuable knowledge assets available in order to provide solutions for water challenges around the world. Thanks to our technological leadership and the Company’s proven development capabilities throughout the years and with the support and backing of the Israeli government, Mekorot has been leading cross-continental collaborations and helps local water economies reach extraordinary achievements. The following are several leading projects that were carried out during 2019 - 2020 in the framework of the international activities:

- **Maharashtra State, India** - Mekorot consults and provides planning for a master plan for the Maharashtrian government for the supply of drinking water that will be able to meet the expected demand for 2050 and handle challenges related to climate change.
- **Punjab State, India** - the Company consults and is providing a master plan for the local water system to the government, in order to halt the loss groundwater and to present a long-term plan for the management of a sustainable water system by 2050.
- **Peru** - Mekorot is conducting an initial survey for the water Company in Lima, with the goal of developing an exploitation plan for the water resource for the purpose of irrigation and for producing water at qualities needed for domestic, industrial and agricultural uses.





Research and Development

The Innovation and Collaboration Unit – in order to advance knowledge and to find new water technologies, we initiate research and development activities within the framework of a multi-annual plan. Over the course of the year, about 40 applied research studies are conducted by professional research teams in cooperation with leading academic institutes in Israel and around the world, as well as international research funds and well-respected companies in their fields. The research takes place at three advanced research and development centers - the Eshkol site at Beit Netofa valley for surface water research, laboratories and analytical equipment; the Shafdan site in Rishon Lezion for the study of wastewater, treated wastewater and reclaimed water; and the Sabha site in Eilat for research of brackish water and sea water desalination. In addition, further research is being conducted at various test sites throughout Israel. As part of our commitment to the environment, we have been investing significant research resources in the field of sustainable development and are acting vigorously to find environmentally friendly water technologies, with the optimal use of fullest non-perishable natural resources. Once per year this research is reviewed by the Research Committee, which is comprised of senior management and is headed by the VP of Engineering and Technology. Most of the research focuses on seven main fields: hydrology, desalination, water quality, modeling, engineering services, command and control and wastewater treatment. Each of those topics are managed by a sub-committee that supervises research in its field.

These studies include, among others, undergraduate students who are offered a scholarship to take part in research for a period of six months. Students who participate

in the research are given the opportunity to experience a real working environment in the water industry while conducting interesting and innovative research as necessary, closely accompanied by a Mekorot researcher. We assign a great deal of importance appreciate the synergy in the integration of students in research being carried out by the Company and we strive as much as possible to employ all of the students who have excelled in their research at the Company. In 2019 - 2020, 9 students participated in research projects, most of them from colleges located in the country's periphery, and one of them was even employed by Mekorot after the successful completion of research at the Lahat desalination facility.

In view of the COVID-19 pandemic, the Volkani Institute and Mekorot have initiated a collaboration on the subject of "Locating the pathogen in the sewage system", in this way hoping to identify the dissemination pattern of the virus in time and space.



European Union research programs - we are active partners in the European Union research programs "Horizon 2020" and "PRIMA". In 2019 - 2020 we took part in six research groups comprised of some 20-30 research institutions, start-up companies and water companies from several European countries, among them ULTIMATE, STOP-IT, AQUAness, SMART-PLANT, SUWANU, FIT4REUSE. These programs helped develop technologies in the field of treated wastewater for agricultural use, technologies for treating wastewater and improving of water companies' ability to withstand cybersecurity events and physical attacks.

The Nofar Program - Mekorot, in collaboration with the Innovation Authority by way of the Nofar Program, supports

Biological disposal of drilled nitrates from drinking water:

Mekorot participates in two international programs that promote innovation and sustainability in the water field. The Ultimate project, which is financed within the framework of the EU Horizon 2020 research and innovation program, also the Israeli-American CoWERC program, which in the framework of the Bird Foundation. In coming years, we will be carrying out several pilots as part of such projects, which will investigate and demonstrate various technologies designed to reduce energy consumption in wastewater treatment by using advanced membrane-based anaerobic systems, and the production and betterment of bio-gas, innovative processes to reduce concentrates, desalination of brackish water and more.



through cooperation with Israeli academic bodies, the development of emerging technologies and participates by providing funding to the amount of about 50,000 NIS in research funding. The projects within this framework focus on the development of new knowledge on "green" subjects. In 2019-2020, Mekorot supported two academic-originating developments for advanced treatments in the field of water quality and tracking the COVID-19 virus.





Collaborations Between Companies in Israel

The Innovation Unit strives to foster collaborations with large business corporations with characteristics similar to those of Mekorot, in order to promote activities in the field of innovation and research. The main collaboration in 2019-2020 was with Microsoft. In addition, Mekorot was in contact with many additional companies such as Amazon, Strauss Water, accelerators and more, to promote additional innovative collaborations.

> **Microsoft** - the Mekorot Innovation Unit has an ongoing relationship with Microsoft, in the framework of which in 2020 we issued a joint public appeal designed to locate software companies interested in operating in the field of water, and in addition, Mekorot took part in Microsoft’s hackathon. The purpose of these activities is for Microsoft or the software companies that respoled to the call to find technological solutions in the water field, and to promote them.

Encouraging Employee Initiatives

We see our employees as the key to our success, and we encourage them to suggest innovative ideas for developments in all our fields of activity. As part of this, we have established an innovation administration featuring representatives of all the divisions, we have held two innovation activities in which think tanks were established for developing the technologies, accompanied by mentors, for the venture’s business development. In addition, a digital system was launched for the purpose of sharing knowledge, from the idea gathering stage, allowing brain-storming, screening and evaluation of ideas, bringing ideas forward to implementation and work according to advanced KPI reporting and tracking. Moreover, the organization’s veterans are invited to share their extensive knowledge and professionalism in the field and make suggestions as part of our marathons.



Further Goals

- Increasing employee involvement in the topic of intra-organizational innovation at the Company by way of publication of two new challenges that encourage employees to propose innovative enterprises.
- Renovating the Mekorot Eshkol visitor center of, which highlights the Company’s innovation and technologies.
- Conducting two research projects in 2021 on subjects promoting environmental protection.
- Expanding investment in Israeli start-ups that contribute to the Israeli and global water industry while performing collaborative pilots to implement the proposed technologies - investment in two new start-ups in 2021.



The Environment

27-50 →

As a Company that at its essence manages the most basic resource needed for life, environmental protection and responsible use of natural resources are fundamental principles in the management of our Company. We integrate environmental considerations into our work processes when developing and adopting advanced technologies and environmental innovation, with the purpose of reducing our environmental impact and providing high-quality water in the most efficient manner possible. We believe in the direct connection between our actions and the environment and humanity, and we have been leading changes inside and outside our organization to ensure that the values of sustainability, the environment, the community and society are part of the foundation of Mekorot's activity. The Company honors the unwritten agreement between the Company and the environment by safeguarding values of fairness, integrity, respect for nature and for the ecosystem, and care for humanity and for the environment wherever they are, and it acts to produce and reinforce the positive impact and the reciprocal relationships between the community and the environment while maximizing value to the Company and to its employees.

We have set a goal of leading energy efficiency and streamlining and increasing the use of renewable and user-friendly energy sources. Our strategic plan focuses on sustainable development and streamlining, and we invest significant resources in the realization of our multi-annual goals as defined in it.

We initiate and promote cross-organizational environmental innovation. That activity is intertwined into the Company's strategy and is material to the national water economy and is part of Mekorot's ongoing global leadership. Mekorot has world-renowned experts in water treatment, and it promotes research and development both independently and by way of collaborations not only with Israeli academia and industry, but internationally as well.

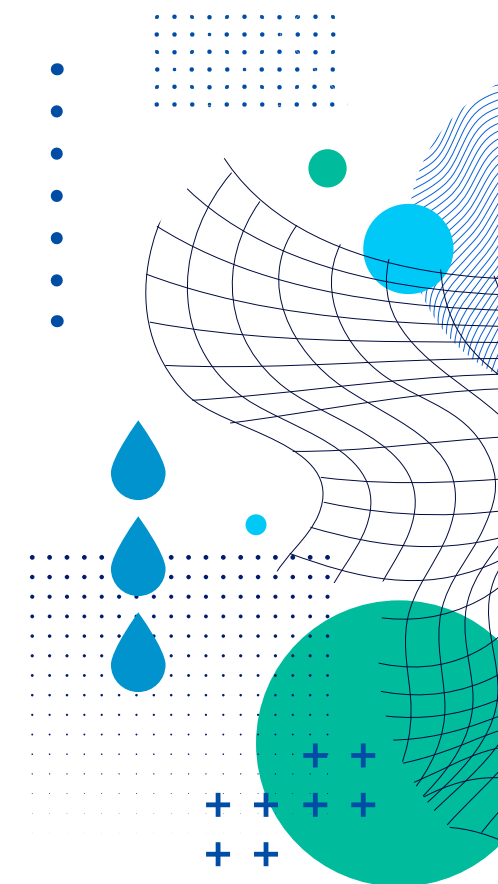
Integrative Water Management

Mekorot is responsible for supplying about 70% of Israel's total water consumption and 80%-90% of the country's potable. The health of the residents of the State of Israel is dependent on the availability and quality of this water. For that purpose, Mekorot takes care to produce and improve its quality, while reducing the potential risk of contamination of water and soil resources.

In order to accommodate the various needs of the residents of the State of Israel, in view of the scarcity of the country's natural water sources, we strive for systemic management of the water system while conducting ongoing controls and finding alternatives to the conventional water supply. Accordingly, and as part of Mekorot's strategic plan, the Company acts to produce water through a variety of different channels in order to supply the needs of households, agriculture and industry in Israel, and produces, purchases and supplies potable water from several sources:

- **Groundwater:** water production by way of drilling to the various aquifers - Yarkon Taninim, the coastal aquifer, the Kineret basin, Western Galilee, Carmel, the eastern mountain range, the Negev and the Arava.
- **Surface water:** production from the Kineret and from springs, mainly in the northern part of the country.
- **Desalinated water:** facilities producing desalinated water from sea water and from brackish water, including the purchase of desalinated water from private producers.

We are acting to increase the scope of desalination on the one hand and to reduce the production of water from natural sources on the other. This subject is managed by the Deputy CEO, the VP of Operation and Maintenance, the VP of Development and the VP of Engineering and Technologies.





Manufacture and Production of Water

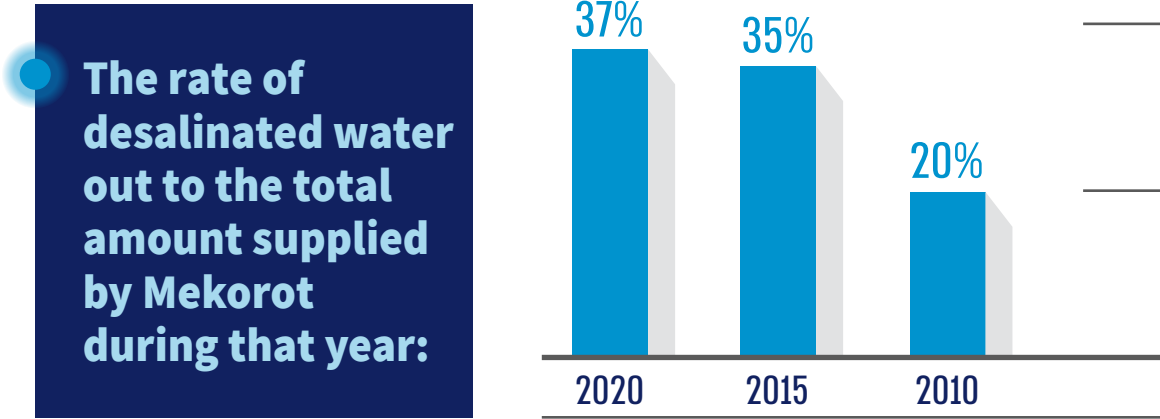
Production of Water from Natural Sources

The main natural sources Israel’s water supply is based on are the Sea of Galilee, the Mountain Aquifer (Yarkon-Taninim), the Coastal Aquifer and the Western Galilee basin. In order to protect the water sources and prevent over-pumping, water pumping is carried out in accordance with amounts dictated by the Operating Committee. In addition, water levels of the aquifers are tracked, both by Mekorot and by the Water Authority, in order to ensure that over-pumping does not occur. Mekorot restricts pumping activities if necessary.

Desalination and Membrane-Based Systems

The arid Israeli climate, its population increase and the increase in water consumption require finding and developing creative and innovative solutions to the problem of water scarcity. In addition to reducing water consumption, a solution being promoted by Mekorot in its education and public relations activities, membrane-based systems in general

and desalination systems in particular are the primary and optimal solutions for an alternative water sources. We have more than 50 years of experience in sea water and brackish water desalination and are currently one of the world’s leading water companies - in the planning, construction, operation and maintenance of desalination facilities. Our desalination facilities are run to provide a functional, efficient and high quality water supply, and operate under Ministry of Health and of the Ministry of Environmental Protection regulation. The investments made by Mekorot in the field of desalination will allow the desalination of water from various sources in upcoming years, including recycled water and polluted water, for maximum exploitation of the water resources and rehabilitation of natural water sources in Israel. Moreover, investment in desalination allows the facilities to be utilized as reservoirs for emergency situations in which sea water desalination facilities provided by private suppliers are inoperative.





Groundbreaking Projects

As part of the understanding that desalination and membrane-based systems are of national importance and offer a significant increase in water supply, we are investing in the research and development of new technologies in this field. The purpose of this activity is to constantly improve the production process and reduce its impact on the environment. The leading projects include:

- > **Geulat Hayarkon project**
- > **Ariel 1 drilling site**
- > **Adding of calcium and magnesium to desalinated water using innovative technology provided by the OMYA Company**
- > **A project for membrane-based treatment of the Shafdan wastewater in combination with ROTEC reverse flow technology to increase the reclamation rate**
- > **A project to decrease boron levels in the water being supplied to the city of Eilat**
- > **The eastern drainage project**
- > **A unique project for the removal of concentrate (brine) from desalination facilities**
- > **Small desalination facilities in the Middle Arava**
- > **Development of the ability to add magnesium to desalinated water**
- > **Implementation of AI capabilities deigned to reduce chemical consumption and increase energy efficiency**
- > **Investigation of the use of phosphorus-free antiscalants**
- > **Energy streamlining of the Lahat installation - refurbishment of the turbocharger energy reclamation device and adding boosters to the energy reclamation array.**

Furthermore, demonstration facilities were constructed at Mekorot desalination facilities to carry out pilot projects at Company sites, thereby encouraging and developing new initiatives on the Company’s premises.

Minimizing environmental impact

Mekorot acts to minimize the possible impact of brine created as part of the desalination process on the marine environment. We are investigating new technologies and conducting advanced research in various fields, which include locating environmentally friendly chemicals, examining technologies for the reduction of nitrate levels in brine and reduction of brine quantities released back to the sea, in order to minimize our environmental impact as much as possible. Beyond that, are constantly promoting reduction in chemical use, energy streamlining and process streamlining at our installations, this, among other things, by replacing pumping equipment or energy reuse equipment with equipment that is more energy efficient, replacing of membranes with types that consume less energy, and cleaning membrane using unconventional detergents.



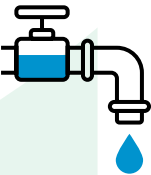
24 brackish water desalination installations with an output of some **60** million cubic meters per year

5 demonstration facilities for promoting innovation on Mekorot premises

4 patents in the field of desalination owned by Mekorot

10 research projects in the field of desalination carried out in 2019-2020





Capturing flood water

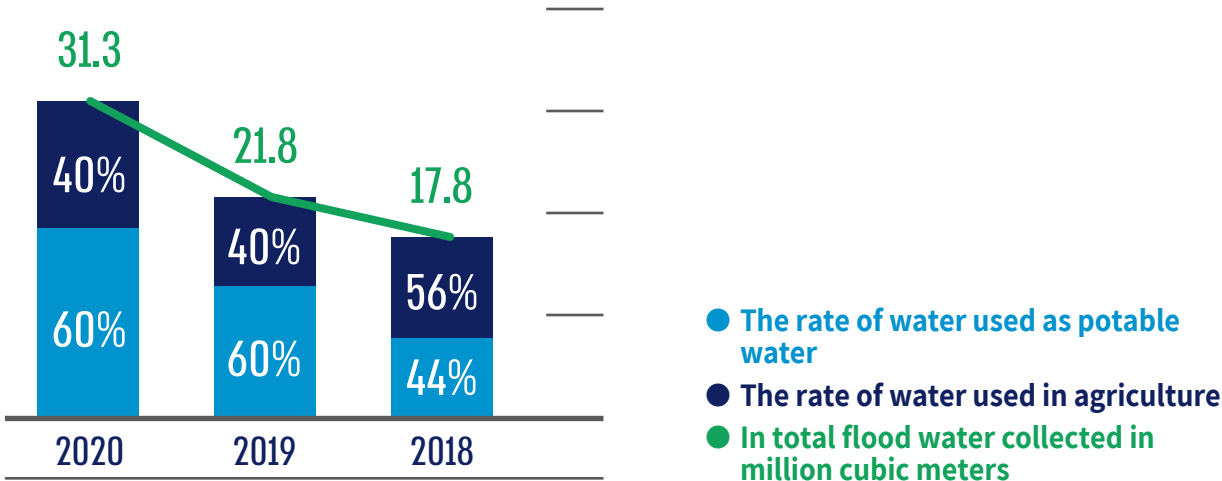
One of the actions taken by Mekorot in order to increase the availability of water and improve the balance of the water system is capturing flood water. Floods and stream water flow are of high value and relate directly to the health of streams and the integrity of the ecosystem. In order to preserve natural systems, Mekorot acts in most cases to capture flood water downstream, after it has passed a certain distance in the stream. Further, some of the floodgates constructed allow water to flow during floods in order to protect the continued existence of the stream's ecosystems.

Mekorot has two types of manufactories designed for capturing flood water:

- > **Manufactories for the potable water supply** - flood water is diverted to settling basins and seepage basins and is inserted into the aquifer. This process, which allows natural filtration, does not require the use of energy, enriches the quantity and quality of ground water, and allows the water's integration into the national water supply system during high demand months.
- > **Irrigation manufactories** - flood water is captured and integrated into treated wastewater reservoirs and used for irrigation of agricultural areas as needed. Capturing flood water for agricultural purposes allows the regular supply of agricultural water, reduction of salinity levels by diluting it with treated wastewater and cheaper water supply, which increases the financial viability of various forms of agriculture.



Capturing Flood Water and its Use:





Effluent and Treated Wastewater

Untreated wastewater is an environmental and health hazard and can contaminate natural water sources. Mekorot has developed unique capabilities in the fields water recycling and reclamation for agricultural purposes throughout Israel and in the desert in particular, and strives to continue to develop these advanced technological capabilities. We integrate mechanical, biological and technological processes that are at the cutting edge of processes currently available worldwide when treating wastewater, thus converting this wastewater from an environmental nuisance to a water resource that is provided as treated wastewater for agricultural irrigation purposes and provides potable water for domestic use. Moreover, using unique technology, the treated wastewater undergoes an additional biological upgrade in the ground which results in reclaimed water of the highest quality. Reuse of treated wastewater includes all the activities complementary to the secondary and tertiary treatment being carried out at the wastewater treatment facilities, the purpose of which is to allow the use of treated wastewater for irrigation. Such activities include:

> Planning and construction of pumping stations and pipelines to carry treated wastewater to its consumption location;

- > Planning and construction of operating and seasonal reservoirs to optimize treated wastewater consumption, between the storage season during the winter and consumption during the summer;
- > Treatments and maintenance required in order to maintain the reservoirs' engineering;
- > Treatments and maintenance required to maintain the quality of water in the reservoirs and to prevent algae bloom and zooplankton reproduction that might clog irrigation systems, and also chemical treatments against clogging agents as needed.
- > Monitoring water quality in the reservoirs to supervise its suitability for the quality requirements of agricultural use according to current regulation;
- > Installation of pumping stations and filtration systems at the outlets of reservoirs to remove any clogging agents;
- > Supply of treated wastewater to consumers while performing sanitation as required by regulation.

Operating the Shafdan

the Shafdan (the Dan Region wastewater treatment facility) is the largest and most advanced plant in Israel and in the Middle East for treatment of wastewater and sludge. The Shafdan wastewater treatment facility is owned by Igudan (the Dan cities' union for environmental protection infrastructure) and is operated by Mekorot. The facility serves some 2.5 million residents, to the amount of some 150 million cubic meters a year – which constitutes about a quarter of the total amount of wastewater treated in Israel and represents an increase of about 9% in treated wastewater compared to 2016.

The treated wastewater undergoes tertiary treatment to bring it to the highest quality, and is subsequently used to rehabilitate streams or used in agriculture, with no restrictions on the irrigation of certain crops.

Two main byproducts are created in the wastewater treatment process - sludge and biogas. As part of Mekorot's sustainable development approach, we ensure that those two byproducts are "made reusable", thus making a positive impact. In 2016, eight anaerobic thermophilic digestion plants were introduced to the Shafdan, and as a result the dumping of sludge into the sea was discontinued and a transition was made to more environmentally-friendly energy production. The sludge is treated in the anaerobic digestion plants until type A sludge is received, which is redirected to agricultural use as fertilizer or as an agricultural soil improvement agent, whereas the biogas, the byproduct produced in the digestion process, is collected and used to generate power.

A pilot designed test the feasibility of an industrial Shafdan process - due to the expected increase in wastewater effluent, deriving from the population increase in the cities connected to the plant and from the expected connection of additional cities and areas to the plant in coming years, the Water Authority has ordered Mekorot to investigate the feasibility and to construct an advanced industrial treatment plant for secondary wastewater, which will produce water at an excellent quality, equal or better to the water defined as "Shafdan water" produced today. The industrial Shafdan installation process will be based upon a combination of technologies widely used around the world, mainly for indirect reuse purposes (IPR) and direct reuse of treated wastewater (DPR) as potable water. The treatment technologies that were selected for implementation in the pilot installation include, in process order: a low pressure membrane-based biological array (LLMBR), oxidation using ozone (O3), biologically active carbon absorption and break-down (BAC) and disinfection using ultra-violet light (UV).





The environmental and social advantages of wastewater treatment and reuse of treated wastewater:

- > Increasing quantities of water for thriving agricultural, even in the most arid areas.
- > Creating nutritional security and independence
- > Directing more potable water to domestic use
- > Delaying the need to construct additional desalination facilities, which increase energy consumption and the emission of greenhouse gases
- > Protecting the environment in general and water sources in particular by reducing the ecological damage caused by untreated wastewater and wastewater effluents
- > Using sludge produced by the wastewater treatment facilities as fertilizer reduces, on the one hand, the amount of waste sent to waste disposal sites, and on the other hand, lowers the need to produce fertilizers and thus decreases Mekorot's carbon footprint
- > The manufacture of biogas offers savings in energy consumption in the operation of wastewater treatment facilities
- > Decreasing the potential spread of disease in the population
- > Decreasing the potential of odor nuisances for residential areas
- > Decreasing water costs and agricultural produce costs for consumers, both by reducing the amount of potable water used in agriculture as well as by reducing the use of fertilizers

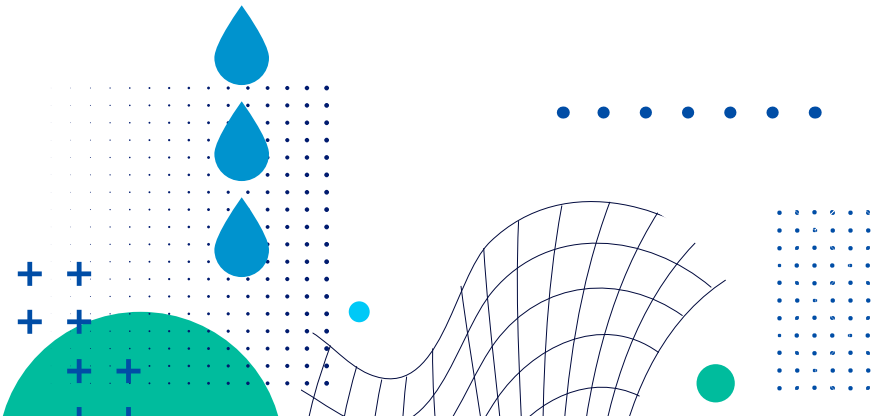


Mekorot treats about **30%** of the wastewater treated in Israel

Mekorot supplies about **60%** of the treated wastewater currently being provided for agricultural use

About **170 million** cubic meters of treated wastewater is provided for agricultural use, thereby allowing the redirection of an identical amount of potable water to domestic use

Over **80%** of water is reused for agriculture, making Israel as world record holder in water reuse





Wastewater treatment facilities operated by Mekorot:

- Shafdan
- Ashkelon
- Carmiel

Wastewater reuse plants operated by Mekorot:

- The Third Line (Shafdan)
- The Kishon Concern
- Carmiel
- Zefat
- Heffer Valley
- Hedera
- Ayalon Latrun
- Gush Etzion
- Galgal-Bika
- Geulat Hayarkon*

*The plant is in last stages of construction



Efficiency of the Distribution System

Effective Water Supply Management

Water as a resource and the efficiency of the distribution system is the core business of Mekorot. We act to lower our environmental impact by increasing the efficiency of water use, investing in technologies to increase infrastructure efficiency and prevent of leaks, and educating consumers to save water. These streamlining measures lower energy consumption, operating costs and the need to expand the infrastructure.

The distribution system is the main component of the ability to supply water to all the Company's consumers. We maintain the distribution pipelines in good working order on the one hand, thus significantly reducing water loss during delivery, and on the other hand we maintain the efficiency of the pumping units at water sources and pumping stations in the delivery system, which has a direct impact on the Company's energy consumption. The VP of Operation and Maintenance is responsible for the distribution systems. The subject of efficiency and loss is tracked by management and is presented to the Board of Directors as part of the BSC indices. In addition, monthly controls are carried out by the Engineering Unit and the regional managers, and the VP of Development and Customers is responsible for determining the diameters of lines and the development of distribution systems.

Initiatives for increasing efficiency, decreasing water loss and increasing financial savings:

- Integration of automated systems in control rooms to track pool and reservoir water levels and operate pumping equipment efficiently.
- Reliance upon computerized models to predict consumption and increase the efficiency of energy consumption by water systems in an optimal manner.
- Proper use of the energy rates that vary throughout the day by diverting pumping from peak hours to off-peak hours and by the optimal use of reservoir volumes and concurrently by increasing them.
- Maintaining the maximum efficiency of pumping equipment via ongoing supervision, in accordance with the regulations issued by the Ministry of Energy and in accordance with the guidelines issued by the Engineering and Technology Division.
- Replacement of dozens of pumps each year to increase energy efficiency.
- Replacement of motors and transformers.
- Tracking of water balance in irregular pressure areas on a monthly basis to locate leaks or other malfunctions.
- Operating teams to prevent water theft and locate concealed leaks.

We use computerized mathematical models to achieve optimal operation of water supply systems both in terms of energy efficiency and in terms of efficiency of use of water resources:

Models for the optimal planning of yearly activities that allow the investigation of various scenarios of yearly production from natural water sources (the Sea of Galilee and the aquifers) and analysis of their implications in terms of water supply reliability and energy investments in the system.

A real-time optimal operating model of water supply systems that allows the translation of annual operating guidelines into daily operating guidelines, optimal system operation in terms of energy efficiency by way of hourly water consumption forecasts, calculation of optimal combinations of pumping units and correct management of water levels of pools and reservoirs.

Grid solvers and hydraulic simulators for planning and control of pressures in the supply system and consequently, lowering the number of leaks and reducing water loss.

Models for planning optimal operation of wastewater treatment plants that allow planning the filling of seasonal water reservoirs and supplying water to agricultural consumers during the consumption season. The purpose of these models is to optimize the reliability of the water supply, save energy and minimize water loss to seepage and evaporation in reservoirs.

Mekorot reports to the Ministry of Energy on an annual basis on the efficiency results of pumping equipment, including irregular pumping units that deviate from regulatory requirements. Mekorot has more than 1,000 drilling sites and more than 2,000 boosters (pressure increase units) with varying structural characteristics. According to the regulations issues by the Ministry of Energy, the minimum allowable efficiency for drilling is 55% and 65% for the pressure boosters. In 2020, 882 new field tests were conducted, which found that the average efficiency/capacity of all the pumping units is 74.1%, of which the drilling units constitute 64.4% and the booster units constitute 76.6%.





The Water Carrying System

"The National Water Carrier" and "the New National Water Carrier" are part of the national supply system. The National Water Carrier, a Mekorot flagship project, was constructed in the sixties in order to carry water from the northern part of the country to the center and to the arid parts in the south, and currently carries more than half of the drinking water in the State of Israel for a distance of some 130 kilometers.

Following the escalation in climate change, the increase in population and the rising standards of living, water consumption has increased. With the entire nation in mind and thinking ahead towards the future, for the current generation and for future generations, during the second decade of the 21st century Mekorot has carried out a project of heroic proportions – "the New National Water Carrier". The purpose of the project is to take desalinated sea water from the five facilities constructed along the shore of the Mediterranean Sea, and as well as a substantial portion of the products of drilling from various aquifers, and integrate it into the national water grid, while redirecting the direction of water supply in the country from west to east and to other directions and while integrating cutting-edge technologies. Over the years, we have connected additional regions and reinforced existing connections with the aim of carrying water to new regions, thus facilitating their development. We are making great efforts to connect additional regions to the grid and provide operating flexibility and reinforce supply to regions in which the local water supply is insufficient.

"The New National Water" Carrier will also supply desalinated water to the Jerusalem region and the surrounding area by way of "the fifth system for supplying water to Jerusalem", which is intended to provide a solution to the expected increase in water consumption in the region in coming decades. The new system will allow us to rehabilitate the mountain aquifer by reducing water pumping at drilling sites in the mountains and the maximum utilization of desalinated water. The national supply system is supervised and managed using state-of-the-art control rooms that operate using advanced technologies and allow a real-time response to the varying needs of the various water consumers (among them households, factories, and agriculture) while taking the production capacity of the desalination facilities into consideration.

Water Loss

We are constantly acting to decrease water loss in water systems via integrated activities to locate, repair and prevent leaks. The distribution system is constantly and continually monitored both in terms of output as well as in terms of pressure, thereby allowing the instant identification of leaks. We constantly investigate new technological means to help us maintain low water loss rates and reduce these rates even further. Means being investigated include leak identification and monitoring technologies, submersibles that pass along pipelines to identify leaks in their early stages, fiber optic sensors, and use of satellites and systems to prevent hydraulic shocks.

In addition, we make sure to replace aging pipelines and segments that manifest cumulative malfunctions. Mekorot carries out pipe procurement in accordance with stringent codes that comply with international standards, in order to ensure that pipes are preserved in the ground for a period of 40--50 years.





Company activity intended to reduce water loss:

- We act track and analyze data on a daily basis, analysis of water consumption characteristics at an hourly level, comparison of monthly consumption in different years to identify changes and trends, extended analysis of extreme changes in monthly consumption figures, development of water balance models, real-time analysis of water balance and more. For the purpose of ongoing tracking activities, we use AMI systems that are continuously analyzed by the water supply engineers and monthly data from inspections made by inspectors in the field. This tracking decreases waster loss by instantly spotting unusual consumption and/ or measurement, reduction of water theft, the ability to make more accurate assessments if need be and so forth.
- Installation of double consumer connections allow us to perform more accurate assessments using control meters. Moreover, double connections allow continuous tracking of any differences in measurements between the two meters installed in that type of connection, thus allowing quicker detection of malfunctions.
- Reducing water theft and water leaks to the minimum by way of patrols and data tracking performed by the

Company's security unit and using the AMI system.

- The pressure monitoring project in the Scada system, which operates on a continuous basis to track any bursts in the pipelines.
- The optic fiber array senses any bursts on the pipeline and issues an alert accordingly.
- Holding tracking meetings with the participation of the Water Resources Unit on a quarterly basis.
- Using designated applications to record and track water loss.
- Installations of water meters at installations that do not have a water measurement system installed, adding balance water meters between operating zones and replacing of water meters so that they are compatible with the quantities of water being consumed for the purpose of accurate measurement.
- Testing and calibrating water meters according to required standards.
- Reducing water levels in pools prior to cleaning.
- Reducing evaporation in treated wastewater reservoirs using a floating cover/solar cells/experiments with floating balls on the water surface.

The water loss rate at Mekorot over the years is about **3%** of the water carried by the water lines deployed along some **13,000 kilometers**

About **20 kilometers** of water lines are replaced each year

150-250 new kilometers of water lines are installed each year

Mekorot has more than **700 pumping stations** with more than **1,800 pumping units**



Environmental Management and Climate Change

Mekorot is an infrastructure Company, the main business of which is the production and delivery of water to a broad geographical area. Mekorot's main environmental impact originates from two processes. The first is performing infrastructure works, which include the construction of facilities, installation of water lines, construction of water reservoirs and drilling. The second impact arises from the ongoing operation of the water supply systems, which consume a considerable amount of energy and introduces water into the environment. We at Mekorot are acting to promote environmental protection, protect natural water sources and ensure the optimal utilization of water sources, including treated wastewater, in the long term and while promoting green technologies. We have set four goals for ourselves with the aim to reducing our carbon footprint and protecting the environment, and these guide us in our activities: **energy efficiency; increasing the use of green technology; reducing water loss and reducing the use of chemicals and their transportation throughout the country.**

The Company's energy consumption is a consequence of the water supply and the output of its installations, with most of the energy consumption originating from water pumping using water pumps. We are working to increase the efficiency of our energy use at all of the installations throughout the country, and the focus on the subject of energy consumption control and energy efficiency exists in all of the departments at the Company. In addition, we constantly promote initiatives intended to reduce consumption of materials and to reduce their transportation. Accordingly, Mekorot strives to purchase the equipment it uses



from local vendors, thereby reducing air emissions as a result of transportation and supporting local vendors. Furthermore, the Company constantly acts to streamline the use of chemicals at processing installations and to reduce the amount of concentrate allowed into the environment.

Environmental issues at the Company are the responsibility of the VP of Operation and Maintenance and the VP of Engineering and Technology. As part of the environmental management at Mekorot, an environmental enforcement plan was created, and was approved by management in 2021. As part of the formulation of the enforcement plan, a compliance survey was carried out that mapped regulatory requirements pertaining to the environment including

Mekorot's activities and the control mechanisms existing at the Company, as well as instructions and procedures regarding compliance with legal requirements. Beyond the regulatory aspects, Mekorot acts proactively and conducts a risk assessment in the subject of environmental protection once every three years. A cross Company risk assessment was completed in 2017 on the subject of environmental protection which was validated in 2020. The Company is expected to form an enforcement plan to increase compliance with regulatory requirements applicable to the Company on environmental issues and reduction mechanisms for their management, and in addition, to take action to assess changes that may arise from climate change, which is an emerging risk.



Energy Efficiency

Mekorot consumes some 3% of the total national power consumption and is one of the largest power consumers in the country. The Company has set a goal to continue to act to promote sustainable development, take a leading role in increasing energy efficiency as much as possible and reduce the use of conventional energy sources. In order to save energy, Mekorot has been investing considerable resources in increasing efficiency in this area.

As part of the strategic energy, efficiency plan approved in 2019 by Company's management, we are acting on several levels to reduce energy consumption:

- > **Technology innovation** - the use of advanced of learning and AI tools in order to increase the efficiency of national energy consumption.
- > **Green energy** - in order to supply green power for private use, thereby reducing the Company's carbon footprint, the Company has been advancing the construction of green energy installations on its premises. Mekorot is focusing on power production from water energy and from solar energy. Accordingly, hydroelectric turbines were constructed, the purpose of which is to exploit pressure surpluses in the system to produce energy. In addition, Mekorot is constructing solar installations at or near Company facilities, it has signed an extensive agreement to purchase power from a photo-voltaic installation located near the fence at the Beer Tuvia region and is expected to install solar panels on the Company's reservoirs.
- > **Power production from natural gas** - projects are being advanced at sites with significant and stable year-round power consumption all to generate power from natural gas for their own consumption. Mekorot has

won a competitive tender process from the Electricity Authority to encourage power production from natural gas and is expected to advance projects of this type at Tifrach Station and at Almog Station, with a production capacity of some 2-3.5 megawatts per station.

- > **Energy efficiency equipment** - the Company continuously measures the efficiency of its pumps and acts to repair and replace energetically inefficient pumps, thereby contributing to reducing power consumption. **In 2019-2020, the replacement rate of pumps at Mekorot increase, and an average of some 20 million NIS per was allocated to the project. This rate of replacement allowed a reduction in energy consumption at an average scope of some 20 million kWh.**

Use of Diesel Generators

Mekorot uses diesel-powered generators as part of its emergency preparations. These diesel-powered generators provide Mekorot with systemic backup for periods of power shortage. To ensure the operational readiness of the array the diesel-powered generators are operated once every month for 30 minutes and every six months for six hours on an exercise basis. In addition, Mekorot uses these generators as part of its arrangement with the IEC. According to this arrangement, at times where the demand for power is high, the IEC disconnects the power supply to Mekorot installations included in the arrangement, and the Company relies upon independent power production using the generators in order to reduce the load on the national power grid.

Mekorot supplies **1.6 billion** cubic meters of water per year, and its energy consumption is **2.2 billion kWh** per year

The transition to renewable energy has saved energy consumption generated by the IEC estimated at about **16.3 billion kWh**, which is equivalent to about **8,883 tons** of CO2

About **29%** of the Company's vehicles are hybrid or electric-powered vehicles

⁵Calculated using the emissions coefficients used in the voluntary mechanism

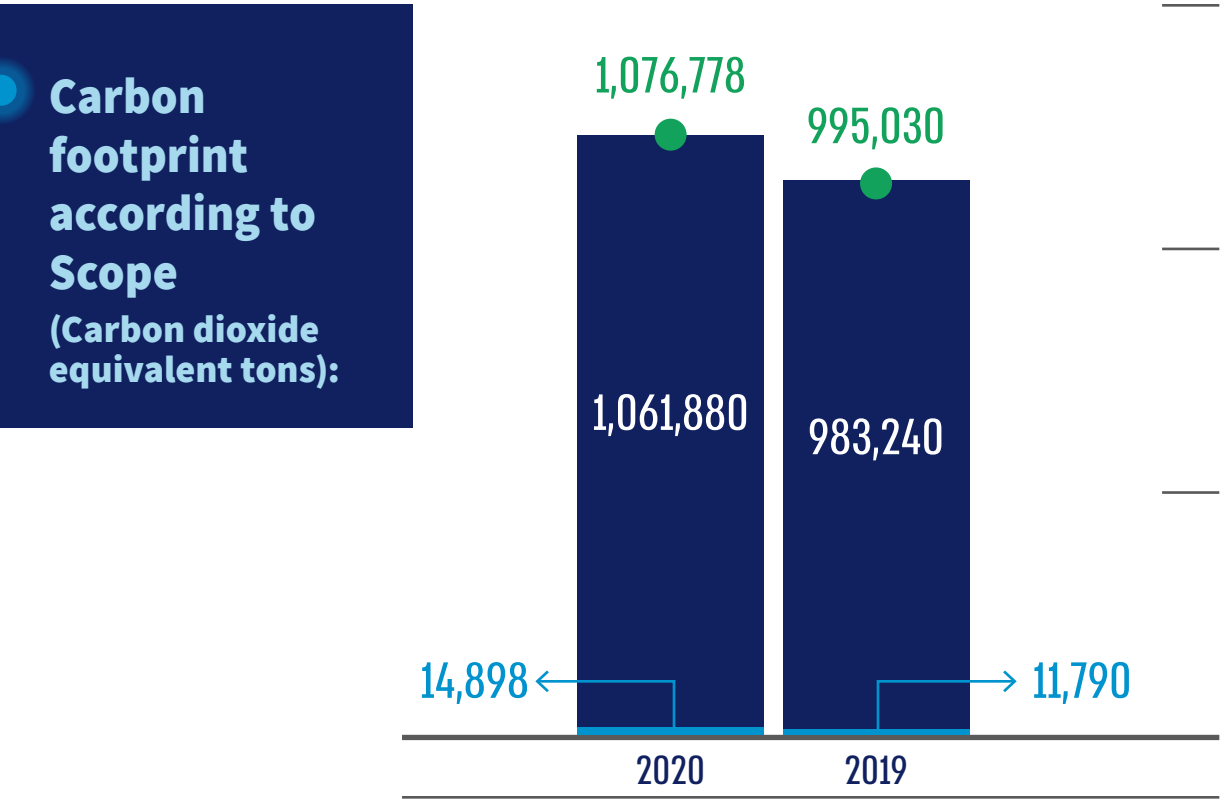




Carbon Footprint

We measure our carbon footprint according to methodology customary in the field, as part of the internal analysis carried out regarding the Company’s overall environmental impact. The data on Mekorot’s greenhouse gases emissions covers direct emissions as well as indirect emissions deriving from energy consumption.

- > **Direct emissions:** Mekorot’s direct emissions (Scope 1) largely derive from fuel consumption by the organization’s fleet of vehicles, from fuel consumed by the generators as part of the agreements with the IEC and the Company’s emergency preparations, and emissions created during the wastewater purification process.
- > **Indirect emissions:** Mekorot’s indirect emissions (Scope 2) derive from power consumption and depend upon the fuel mix and the required water supply.



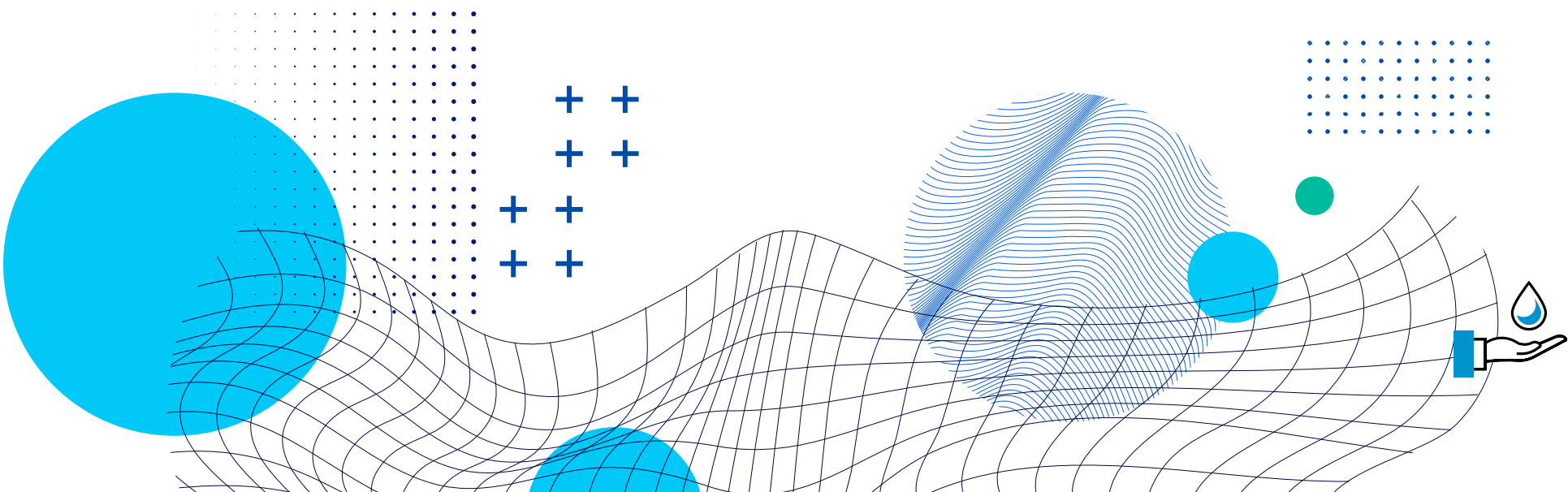
Compared to 2013, Mekorot’s carbon footprint decreased by 0.9%. This decrease is significant in view of the population increase and the increase in the standard of living in Israel, which have led to a constant increase in the demand for water, and in the quantity of water being supplied by the Mekorot. These have a direct impact on the increase in energy consumption, which constitutes a material factor in Mekorot’s carbon footprint. This achievement is a direct outcome of Mekorot’s strategic plan, which highlights a transition to self-production of renewable energy.





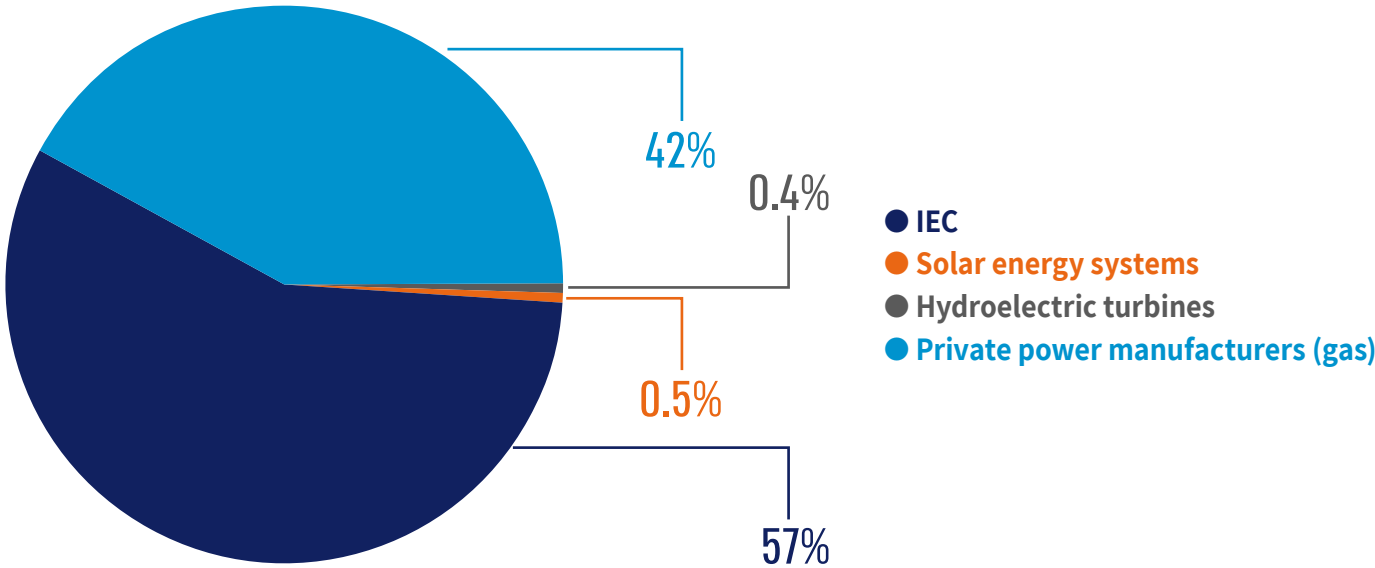
Energy Renewable at Mekorot:

	Hydroelectric energy:	Solar energy:	Pumped energy:
Existing projects	Use of pressure surplus created by the transfer of water from a high pool to a lower pool thereby allowing the production of energy. The turbines are active at the following sites: Kfar Yehoshua, Tavor Reservoir, Mezer Site at the Jordan Valley and "Sabha" Site in Eilat. The total average capacity is 1.7 megawatts and the annual production level is about 9.6 million kWh.	The use of photo voltaic systems (PV) installed on rooftops of structures located at Mekorot desalination facilities, at the "Sabha" Site in Eilat, on the rooftops of potable water pools in the Jerusalem water system, at the "Northern Emek Heffer" Station, at the "Menashe" Station and on the rooftops of office structures in the Negev and the Arava. The annual production level is about 6.3 million kWh.	—
Future projects	Turbines in planning, permit and construction stages: Turbines at the Zafit Pools site in the south of the country with a capacity of about 0.5 megawatts with an annual production level of about 3 million kWh per year, a turbine at the Katef Zofim site in the Jerusalem region with an average capacity of 0.4 megawatts and with an annual production scope of about 3 million kWh.	Construction of solar installations (land-based as well as systems floating on open water reservoirs) on the Company's premises and at its installations at a scope of some 40 megawatts. Construction of a solar installation at the Granot site with a capacity of about 7.5 megawatts and an annual production level of about 12.5 million kWh.	Operating a pumped storage hydroelectric power station at Manara Cliff with a capacity of 156megawatts.

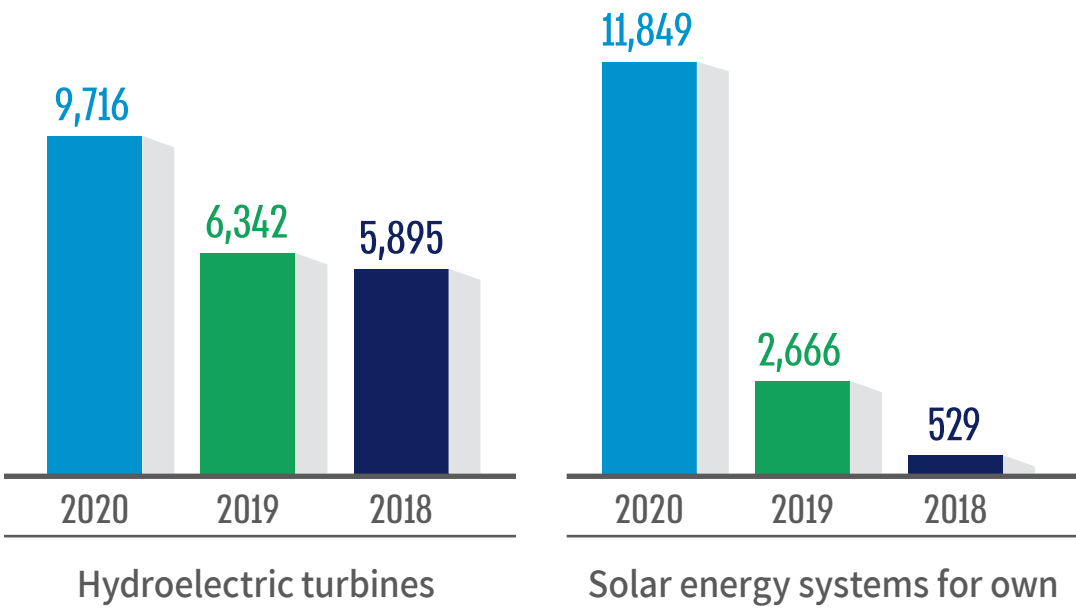




Cross-Sectioning of Energy Consumption by Source



Power Production from Renewable Sources by Year (thousand kWh)





Acting Green and Acting Sustainably

Based on the understanding that our works today affect future generations, Mekorot has set a goal for itself to manage its organizational activity and the services that it provides in a sustainable manner. We are committed to the ongoing integration of activities and projects that advance our green concept and in order to make the values of sustainability, environment, community and society the cornerstone of our operations. Mekorot’s green vision requires the long-term implementation of ongoing sustainable processes, and as part of this activity we are leading a “shared value” strategy that is intertwined with our business goals to achieve national, social and environmental benefits. In view of this, we are committed to the continuous integration of activities and projects that advance the green concept in a holistic manner in all fields of research, development and entrepreneurship, in all of our installations, in order to benefit the public, the environment and Company employees.

Our vision is based on the values of fairness, integrity, respect for nature and for the ecological system, and care for people and the environment wherever they may be. We are acting to make a positive impact that reinforces reciprocity with the community and the environment and maximizes value for the Company and for its employees.





Mekorot is advancing the following green initiatives:

- Mileage reduction – the “road to value” campaign intended to change transportation habits; encourages online meetings and a transition to work from home
- Remote working and learning
- A decrease in amounts of printed materials (mail, deliveries, the finance department)
- Scrapping printers – decreasing the number of personal printers and a transition to printing at printing centers
- Cost-effective gardening
- The use of hybrid vehicles and investigation of the transition to electric-powered vehicles

Consumption of Resources

As a water infrastructure Company, the main waste produced by Mekorot is hazardous waste created as part of the water treatment and quality testing processes, which is mostly removed to authorized waste disposal sites, and the sludge created in the wastewater treatment process.

In 2019-2020 Mekorot produced 117.7 and 139.4 tons of hazardous waste, respectively. Large amounts of waste were created from the removal of flood water from the Shizafon desalination plant. In addition, the increase in 2020 is mainly the result of a specific mechanical failure incident that required the removal of acids and flushing of containers to the amount of about 45.5 tons.

The total amount of sludge waste from the Carmiel facility in 2020 was 8,069 tons. This waste includes mulch, grit, fats and sludge after thickening and about 90% of it is sent to be used as agricultural fertilizer. Biogas is created during the process of turning liquid sludge into sludge suitable for use as compost. In 2020 the amount of biogas was about 1.08 million cubic meters.



Within the framework of activities intended to prevent environmental nuisances, Mekorot protects the environment by:

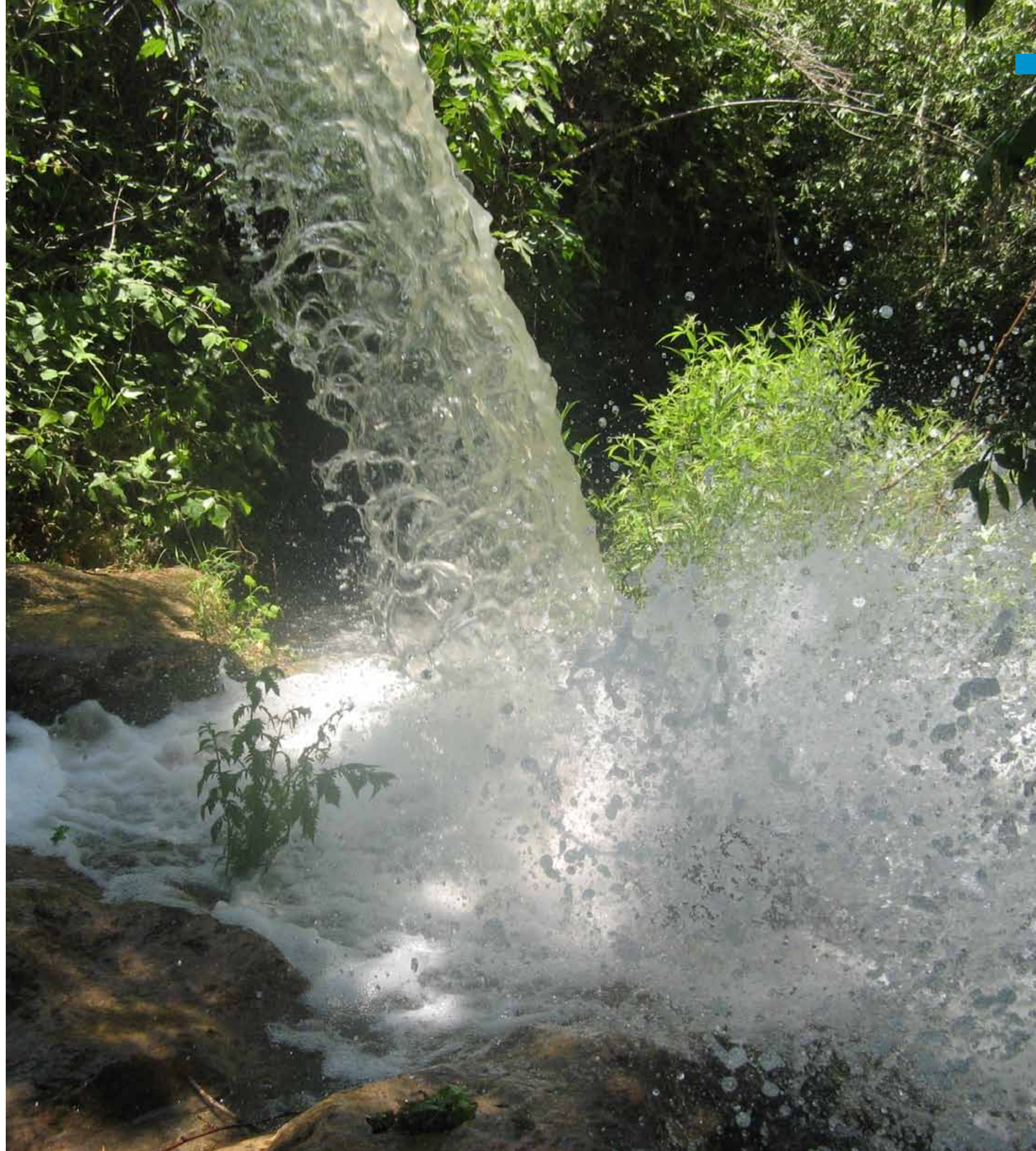
- **Using environmentally-friendly pesticides that do not pollute water sources**
- **Treatment of odor nuisances and prevention of emissions of pollutant into the air**
- **Use of phosphorus-free antiscalants**
- **On-site chlorine production and prevention of transportation and shipping of hypochlorite**
- **Minimizing noise nuisances**
- **Reducing the use of chemicals and transition to biological pesticides**
- **Cooperation with the Ministry for Environmental Protection in the matter of hazardous materials**

Protecting Ecosystems

Mekorot is an infrastructure Company with facilities throughout Israel. As part of Mekorot's sustainable management concept, the Company acts to preserve ecosystems and biological diversity.

Landscape Rehabilitation and Protection of Natural Values

Mekorot attaches a great deal importance to the protection of natural and landscape values. This is manifested in infrastructure works that are carried out on an ongoing basis and in complex engineering projects. We have created a lateral guideline document, which forms the basis for detailed planning by installation engineers and landscaping architects. Mekorot has been acting in accordance with this document in reducing the area being occupied by the Company's facilities alongside activity to integrate these facilities into the natural environment. This, by planting trees, environmental development, painting installations so that they blend into the landscape, underground facilities and so forth. Based on the nature of the works, in certain cases Mekorot provides "environmental compensation" and constructs observation sites, bicycle paths and treated wastewater reservoirs that are made accessible to the public.





The fifth system to Jerusalem

The fifth water system to Jerusalem is intended to provide a response to the demand for water in the Israeli capital, the largest city in the country, coming in addition to the four existing system, with the goal of solving the problem of supplying water to Jerusalem in the next fifty years. This is a complex multi-annual project, at a cost of about 2.5 billion NIS, which is intended to provide a response to the water supply needs of the city of Jerusalem and the surrounding area in the future, by constructing pumping stations, large-diameter pipelines, water pools and reservoirs, a tunnel and connection that system to the municipal system.

Within the framework of this project, which constitutes a clear example of the environmental sensitivity of Mekorot and

how it considers protection of the environment a supreme value, the Company has dedicated extensive resources to protect the environment and the landscape and it has carefully observed several principles:

➤ **Integration of environmental considerations in preliminary planning** – prior to the start of construction on the project, we integrated all environmental aspects into our planning and studied alternatives, while analyzing the environmental impact of the proposed plans. When selecting alternatives, special attention was paid to environmental aspects, in order to minimize the environmental impact involved in the construction of infrastructure. Accordingly, a construction route adjacent to existing infrastructure was selected, in order to minimize



the disruption of open areas as much as possible. In addition, in order to minimize the damage to nature and to the landscape, Mekorot is digging a tunnel in the mountain, the first of its kind in Israel, to a length of some 13.5 kilometers and with a diameter of about 4 meters, using a TBM machine.

➤ **Dialog with the community** – in areas with high environmental sensitivity, Mekorot is conducting a public dialog with residents and the community in order to present and explain the importance of the projects, how their environmental aspects are emphasized during their planning stage, as well as the development of an inclusive discussion to promote insights from all parties. Representatives of the JNF, the Nature and Parks Authority and environmental organizations were present at the joint meetings in order to form productive work collaborations. In addition, as part of promotion of public relations in the community, alongside to the hiking trail passing through the area where the pipeline from Hamorim pool to Mevaseret is being constructed, signs with QR codes were placed that can be scanned to provide information about the works and the status of the pipeline.

➤ **Green construction and landscape preservation** – landscape preservation is a top Company interest and our water infrastructure is constructed based on a vision of sustainability. Accordingly, when constructing the fifth system to Jerusalem, several actions were taken so that the new construction will not disrupt the environment and to the local community. When constructing the





pump structure, an acoustic survey was conducted to investigate noise nuisances to ensure that it complies with the strictest legal requirements and geophones were placed to measure noise levels from the works. In order not to create a nuisance for residents, hospitals and schools in the area, the use of machinery for construction works was restricted to hours during which they not cause a disruption and three stations were constructed nearby to monitor the dust created during quarrying. In the event of any deviation, we performed moisturization actions according to the guidelines.

For the construction of the Hamorim pool, a large pool with a volume of 50,000 cubic meters, it was decided to bury it underground in order to minimize its visibility, based on an understanding of the importance of integrating the pool harmoniously with the environment, all this in view of the high costs involved. After holding dialog with the local residents, Mekorot decided to restrict the hours during which trucks could travel in order not to disrupt the traffic in the densely populated region and allow residents to continue as much as possible with a comfortable living routine. The location of the Ein-Kerem station was considered with about 15 different alternatives at hand, until an option was selected that allows the use of the old Jerusalem wastewater treatment center. This alternative was more advantageous as the area has already been disturbed. In addition, above the pool, which has a volume of some 30,000 cubic meters, a roof was constructed according to the original slope incline, which includes the vegetation reconstructed from it.

➤ **Energy efficiency** – Mekorot is acting to lower energy consumption and reduce its carbon footprint on various levels. Accordingly, equipment is selected according to its energy efficiency, with an emphasis on pumps, which



are the main consumers of energy. The materials used are materials that reduce friction, thereby increasing efficiency. The new planning was adapted to the mountainous area by construction of Hamorim pool, which supplies water by gravitation and removes the need to operate pumping stations. This new facility replaces an existing process, by which water is carried to Jerusalem first, and from that point it is delivered downhill to nearby settlements, an action that generates a high level of wasteful energy use. In addition, in order to exploit the large area of the accumulation pools, Mekorot is constructing solar panel installations on the roofs of the reservoirs, thus creating renewable energy with maximum utilization of the space available to it.

➤ **Maintaining bio-diversity** – prior to the start of works, a geophyte survey was performed as part of a flora survey, to locate rare and protected plant species in the area of activity. The geophytes are marked, collected and stored by the construction contractor, who replants them in their original location after works are completed.

➤ **Planting trees** – trees grow in part of the areas selected for construction of the system. In order to preserve these trees, Mekorot relocates trees in accordance with instructions from the Forestry Clerk. As part of the compensation given



to area residents, the Company has proposed to plant some of the trees in their settlement or alternatively, to plant them in a common area. A unique project being carried out within this framework – the "High Road Monument". As part of the project, tens of thousands of carob trees were relocated from the Hanassi forest to the Combat Engineering Corps memorial forest in Mishmar David, in conjunction with the JNF and the Combat Engineering Corps commemoration association. In addition, Mekorot holds four Tu B'shvat ceremonies to which the local school children are invited, to plant trees along the route of the pipeline.

➤ **Quarry rehabilitation** – Mekorot has formed a collaboration with the Quarry Rehabilitation Fund and the Nature and Parks Authority at the site of the Hanetifim Cave Nature Reserve, which is located within the area of an old quarry. Due to the quarry's historical activity, large pits were dug at the site. These pits were backfilled using excess dirt created by the excavation of the tunnel, and where the pits once were a parking lot was built for visitors to the nature reserve. The environmental value of this activity is high, as on the one hand it makes transporting dirt to remote locations unnecessary, and on the other hand makes its disposal redundant as well.





Protection of Water Sources

Water sources (drilling, springs and surface water) as well as water distribution systems (pipelines, pools and stations) are exposed to contaminants as a result of various hazards. Mekorot has about 3,000 facilities spread out across the country, some of which are near potential environmental hazards such as industrial plants, gas stations, sewage pipelines and waste disposal sites. Contaminants from these sites can seep into the soil, penetrating and contaminating groundwater. Mekorot has set a goal of preventing and minimizing the contamination of water sources.

The actions taken to protect the water sources are anchored in the Nation Health Regulations (Hygienic Quality of Potable Water), 2013. In addition, the Company has an established work procedure in this regard, the purpose of which is to establish uniform guidelines for locating, reporting, tracking and handling environmental hazards in areas containing supply systems and potable water sources. An environmental engineer is active in each region, and is responsible for this subject and for defining the risk levels of the hazards and for coordinating inquiries in this issue.

As Mekorot is an infrastructure Company, its activity has the potential to contaminate the soil: use of lubricants during deep drilling, use of generators to maintain continuous water supply and flushing and disinfecting of pipelines and water pools as required by National Health Regulations. Mekorot is acting to reduce effluent water levels as much as possible and to reduce the use of materials that pose a hazard to the environment, such as replacing oil-based lubricants with water and expansion of this use to drilling of to 400 meters, managing a limited inventory of diesel fuel and its storage on secondary spill containment pellets that prevent soil contamination and

allow ongoing reports of any deviations. In addition, Mekorot is acting to minimize the environmental hazards to water sources in order to protect the national resource, and in cases in which it does not have the regulatory authority to handle and regulate the hazards, it initiates contact the regulators to get them to exercise their authority to regulate hazards, out of a responsibility for the protection of national water resources. This subject is of national importance, and therefore we at Mekorot challenged ourselves to reduce the contamination of sources of drinking water as much as possible. Therefore, Mekorot has initiated a national program of carrying out environmental surveys within the framework of an orderly engineering methodology, in order to locate potential sources of contamination that might harm and contaminate the groundwater, at all of the Company's potable water drilling sites. Beyond that, we monitor locations that might potentially lead to the contamination of source of drinking water, among them sewage systems, wastewater treatment facilities, waste disposal sites, waste burial sites, quarries, gas stations, animal farming areas, industrial zones with the potential for environmental pollution and more, and continuously monitor the quality of the water.

Biological removal of nitrates from potable water drilling sites:

In 2020, Mekorot started a pilot for the biological removal of nitrates from potable water drilling sites. The southern coastal aquifer and the northern coastal area features is a risk of contamination, as these areas are being used for agriculture involving the use of fertilizer. In order to purify the water in those areas and reduce the nitrate concentrations in groundwater used for drinking water, Mekorot has started a Biotta™ FBR (fixed bed reactor) pilot, which includes two reactor arrays in closed containers, an anoxic reactor followed by an aerobic reactor. This state-of-the-art biological process has clear advantages. As a result of this process no salty concentrate is being produced, the recovery rate is particularly high, at 96%-98%, and the quantity of flushing water is small and is not chloride-enriched, which allows the disposal of the water into the sewage system without impairing the quality of the treated wastewater being produced at the wastewater treatment facilities.





Performance of Environmental Surveys

As part of the Mekorot's efforts to prevent contamination of water sources, drinking water supply systems and treatment facilities, the Company has initiated preventive environmental surveys in order to locate potential sources of contamination to the water sources. The surveys investigate the physical, statutory and sanitary aspects of the water systems, provide assistance in protecting water quality and complement efforts to handle and monitor water pollution. It must be emphasized that the findings set presented below do not reference water supplied to consumers, which is meticulously monitored and the quality of which is in compliance with all applicable standards and is good and appropriate.

The surveys are carried out at the frequency required by potable water regulations; a preventive survey must be carried out on each water treatment facility (except for facilities used for disinfection only) once a year, on facilities that produce potable water once every five years and on systems that supply potable water at a frequency of once every ten years. All the systems surveyed were found to be in good working order and are being maintained under a preventive maintenance plan, so that all repairs are being carried out on a current basis according to requirements in the field. During 2018-2020, 411 drinking water drilling sites were surveyed.

Rehabilitation of Aquifers

Due to its importance, the rehabilitation of aquifers has been defined as a national project. Mekorot started inserting water proactively into aquifers after they were damaged by the seven years of drought that Israel underwent. The purpose of inserting water is to rehabilitate these aquifers and improve the quality of the water they contain. Concurrently, Mekorot is operating drilling sites that are intended to rehabilitate and purify water that has become contaminated by saline

or other contaminants. A prominent example of this is the "Eastern Drain" project, a flagship project intended to stop the salinization process and to rehabilitate the coastal aquifer. The construction of desalination facilities is done as a complementary step for the rehabilitation of the aquifers, which is needed in order to provide a replacement for the source of the drinking water supply, and allowed the rehabilitation process to begin, which requires a decrease in pumping and the addition of water into the aquifer.

Mekorot serves as the State's representative in aquifer rehabilitation projects, and is responsible for the construction and operation of contaminant treatment pumping facilities. This rehabilitation process requires a state budget and implementation instructions from the regulator.

Returning Water to Nature

Mekorot assigns a great deal of importance to the protection of natural and landscape values. The existence of natural water reservoirs and aquatic habitats, and their long-term preservation and rehabilitation, is one of the most significant and important challenges for the sustainable management of the water system. These natural reservoirs are essential to the water system on several levels: the reservoirs provide high quality natural water at low cost, their geographical distribution throughout the country decreases the risk of centralized harm and allows operational flexibility, reduces transmission distances, and most importantly – the reservoirs' volume allows storage and seasonal and multi-seasonal regulation of water on a national scale. Based on a vision that sees returning water to nature as one of the components of sustainable behavior, actions are being taken to return water to nature.

Geulat Hayarkon Project

following an initiative by the Yarkon Stream Authority, which was supported by the government, it was decided to initiate the Yarkon stream project and to turn it into a perennial stream in which high quantities of high-quality water would flow year-round. Accordingly, in 2013 Mekorot started construction of the process installations – a collection installation and a pumping station for receiving water. Upon completion of the project, the system that will be constructed will allow water to be captured from the Yarkon stream at the "Sheva Tahanot" area, and carried to a treatment facility that will be constructed near "Bereshit Forest", and from there they will be distributed for agricultural and municipal gardening irrigation purposes. The unique project encourages the reuse of treated wastewater to rehabilitate the Yarkon stream and subsequently also for irrigation and landscape rehabilitation purposes, at the end of which the region will become developed and will offer a unique landscape to be used for leisure and recreation for the entire population. In addition, in order to create a pleasant and healthy environment for the local community, Mekorot is investigating the impact of its installations in terms of hazards and environmental protection. Mekorot has issued an acoustic report that found that no noise hazard is expected in the area, and in terms of the nature of the activity, which does not require water treatment, there is no concerns of odor nuisances. In coordination with the Tel Aviv Municipality Forestry Clerk, it was decided to expose the terrain by removing the topsoil layer, to relocate the trees for the purpose construction of the station and to plant new trees to create a green envelope around the site.





Rehabilitation of Streams and Aquatic Habitats

As part of its commitment to landscape rehabilitation and to protecting natural values, Mekorot is acting in accordance with the regulator's instructions and in collaboration with environmental organizations and authorities to return water to nature, while highlighting the rehabilitation of streams and aquatic habitats. In addition, Mekorot is acting to reach an agreement with the Water Authority and the Nature and Parks Authority in this matter. Within the framework of that activity, and in accordance with to the approvals of the Water Authority, Mekorot is returning quantities of water to nature that are expected to grow according to Water Authority allocations/rations of the and the quantity of desalinated water that will be made available to the water system. Mekorot returned some 20 million cubic meters of water to nature in each of the years of 2019 and 2020. Note that the Group is also carrying out deep water drilling the purpose of which, among other things, is to return water to nature and to divert it to streams in which the flow of water has been halted, as part of their rehabilitation. Such activities are taking place in the Galilee and in the Golan Heights.

Discharging Water to the Environment

As part of the ongoing operation of Mekorot's water infrastructure, sometimes water is discharged into the environment, which poses a potential source of contamination for soil and water sources. Mekorot operates in accordance with an orderly yearly permit order. We acting in cooperation with the Water Authority and the Ministry for Environmental Protection to ensure that water discharge is only carried out in accordance with the requirements defined and the permits obtained. Accordingly, Mekorot has applied to obtain a designated permit order for discharges that are not included in the annual order. The matter is being managed and controlled at Company HQ, under the direct supervision of the CEO. Most of the discharges by Mekorot originate from freshwater drilling sites, and these do not hold any risk of soil contamination. For more information about the discharge of water into the environment see the 2020 periodic report, pp. 119-120.

Reduction of Light Pollution

The plan to transition to environmentally and nature-friendly lighting at Mekorot installations is part of the sustainable development policy that the Company has been leading in recent years, with the aim of protecting the natural environment and natural resources today as well as for future generations. Within the framework of the plan, which is being carried out in conjunction with the Nature and Parks Authority, the Society for the Protection of Nature in Israel, the Ministry for Environmental Protection and the Water Authority, most of the lights at the Company's facilities will be turned off after dark, and facilities will be illuminated, when necessary, with the aim of reducing adverse effects deriving from such illumination of flora and fauna. In addition, illumination planning will be carried out for the maintenance purposes in order to prevent light leakage, and at locations where lighting is necessary the bulbs were replaced with soft light (LED light). In 2020, after a two-year pilot at the Eshkol site, which is one of Mekorot's largest sites, it was decided to implement the plan at the Company's various facilities. According to insights that were obtained during the process, a Company policy on this subject was defined, and in addition, a work plan was decided upon (according to a list of priorities for handling illuminated facilities located at locations with high ecological sensitivity first) according to which various procedures were determined for the purpose of its implementation (an illumination planning procedure, a procedure for the inspection of illumination planning for facilities, adjustment of illumination intensity for various uses, a procedure for the inspection of photometric planning and more). This project is the product of ecological risk management being carried out by the Company and has significant contributions in other aspects as well, among which are saving time and

134 facilities
located in areas
that are ecologically
highly sensitive were
darkened

Energy savings
in as a result of this
step were circa
364,500 NIS
per year

resources in illumination planning processes, reducing maintenance costs, improving the efficiency of power consumption and reducing in the emissions of greenhouse gases as a result. That project is the result of the Company's collaboration strategy, according to which Mekorot strives to collaborate with various companies in the Israeli economy by accepting "calls for proposals" and initiating proposals independently, which is managed by the Innovation Unit in collaboration with content leaders from the Environmental Protection Unit. Considering the project's success and the great importance of regulating the matter of light pollution in outdoor areas, the Water Authority now seeks to impose the policy formed by Mekorot on all of its water suppliers.





Prevention of Invasive Species

Invasive species pose a material threat to biological diversity and to biological systems. As part of our commitment to preserve the unique biological diversity of the Land of Israel, Mekorot has regulated a four-party agreement with the Society for the Protection of Nature in Israel, the Nature and Parks Authority, the Ministry for Environmental Protection and the Water Authority that establishes guidelines for preventing invasive plant species from taking hold and for dealing with them within the framework of the construction, development and operation of Mekorot's facilities and pipelines. Pursuant to the joint project, orderly work processes were established for cases where, as part of the Company's activity, an environmental landscape appendix is needed or in cases where the activity is taking place inside a nature preserve.

Projects in which Mekorot has acted to prevent the introduction of invasive species into the "Western Yarkon pipeline", the "Kochav Yair 30 pipeline", and "Michmoret". As part of its activity in preventing the introduction of invasive species to such projects, Mekorot has conducted tours with the Nature and Parks Authority and in addition, has ensured that these areas were trimmed and sprayed according to the agreements.

Biological Extermination Using Barn Owls

Mekorot is a partner in a national project to employ barn owls and falcons as biological exterminators in agricultural areas, led by the Society for the Protection of Nature in Israel, the Duchifat Fund and the plant protection and control services at the Ministry of Agriculture. As part of the sustainable development activity promoted by Mekorot, dozens of nesting boxes were installed in the Company's water reservoirs in order to help in the struggle against rodents and reduce the need to use toxic materials that are pose a risk to people as well as to the environment. Barn owls, the main food source of which is rodents, serve as a main component of the biological extermination program, and assist in reducing the number of rodents near facilities and farmlands. The rodents harm embankments of water reservoirs and power and communications infrastructure and reducing in their number assists with the regular water supply and with protecting groundwater.

Further Goals

Integrative water management - desalination and membrane-based systems:

- Expansion of the Sabha desalination array by an additional capacity of 10 million cubic meters per year.
- Construction of water hardening arrays at the Lahat and Neve Zohar desalination facilities.
- Construction of a cutting-edge stabilization array at Granot that uses micronized limestone.
- Construction of data collection and processing systems for all of the desalination facilities for the purpose of increasing the efficiency of chemical use, energy consumption and membrane replacement dates.

Efficiency of the transmission system:

- Increasing the efficiency and improving the levels of water loss at the Company by developing applications to report water loss data such as discharges into the environment, which allows the control and analysis of operating loss data.
- Further investigation of water loss quantities in all the regions on a quarterly basis and preparing a work plan for improvement according to the findings.

Environmental management and climate change:

- Increasing energy efficiency by developing and implementing of operating models and replacing pumping equipment.
- Expanding the use of green energy with an emphasis on solar energy – issue of two tenders in 2021.
- Establishment of the cross-Company ESG administration, which will prepare a strategic plan on this topic.
- Reduction in the use of chemicals by developing independent chlorination capability using electrolysis.
- Reducing in the transportation of disinfectants.

Protecting ecological systems:

- Implementation of the "Light Pollution Project" pilot across the Company.



The Company

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Public Water Supply Resilience

We at Mekorot view supplying regular high quality drinking water as the cornerstone of our success. Climate change and global warming are causing, on the one hand, a reduction in water availability from natural water sources, and an increase in the demand for water on the other. Based on an understanding that water is a finite resource, we manage water resources in a prudent and sustainable manner, in order to supply water according to the current demand of our customers as well as protect their long-term needs. In Israel, where a process of desertification is expected to occur as a result of climate change, the best solution for the consumption of drinking water from natural water sources is a massive transition to sea water desalination facilities. This alternative requires a change in water supply systems, a reinforcement of the distribution array and production facilities, and a decrease in the production of potable water from natural sources.

As part of the preparations Mekorot carries out for every scenario and possibility, including security threats, the Company is working diligently to develop some of the most advanced means and processes in the world for water purification, water safety, and the management of water events, thus reducing dependency on external agents. Company employees work in

a dedicated and faithful manner in any terrain and under any weather condition, and provide personal, professional and reliable service with the aim of supplying water with the best possible quality, availability and reliability. This subject is managed in an integrative manner by the Operating and Maintenance Division, the Engineering and Technology Division and the Development and Clients division, with each division is being responsible for the operating in accordance with to its core activity. The Finance and Risk Management Committee of the Board of Directors is entrusted with this topic.

As a governmental water Company, Mekorot reports to the Water Authority, which manages the water economy in Israel according to water rations that are granted to consumers, according to which Mekorot supplies water to its customers. In addition, the Water Authority attaches great importance to the subject of the "fortitude of the drinking water supply" and operates a department that deals in managing this subject. In 2021 the Company received approval a detailed plan to upgrade the water quality monitoring array, open a national control room, upgrade its cyber array, and establish an alternative disinfection array that will increase the reliability of the water supply and decrease dependency on chemical suppliers.





Water Supply Continuity

In order to ensure the safe, regular and reliable supply of high-quality water to various users and for many needs, we operate 10 command and control centers on an integrative basis that remotely control in real time about 3,000 facilities, including drilling sites, pools, reservoirs, pumping stations and pipelines. All this, by way of computerized and technologically-advanced systems that allow effective and energy-efficient operation. The command-and-control centers receive thousands of pieces of data items the field every day that reflect the state of the water's quality, its safety and its supply - both at the individual installation level as well as at the level of all of the Company's facilities. In addition, the systems are able to alert us to irregular situations, allowing immediate such situations to be responded to immediately. The control rooms are active 24/7, year-round. In addition, we are using local systems that allow the command center to operate automatically without intervention. If necessary, the systems allow the control center to remotely intervene in current operations by creating a secure online

connection from the control centers. Control is carried out over several communication channels, including land-lines, wireless communication, cellular communication and satellite communication. In addition, Mekorot operates a remote water meter reading system, which allows meters to be read remotely and in addition, issues alerts on any sabotage, harm and failure of the water meters. The control systems allow us to obtain a comprehensive real-time picture of the water system at any given moment, to remotely control all of the Company's water facilities, and ensure the reliability and availability of the water supply.

Preparations for Supplying Water in Times of Crisis

As the national water company, Mekorot is ready to handle any emergency occurring in Israel. The Company has a management array backed by procedures for the management of water crises, including as a result of climate risks, earthquakes or security threats, and in emergency situations Mekorot will

serve as the implementation arm of the Water Authority and will be required to secure a regular supply of water to its consumers, including to essential enterprises and livestock farms. In order to fulfill its obligations, Mekorot has established a special unit for periods of emergency and emergency situations. This unit serves as the core of Mekorot's permanent headquarters for preparing the system to handle emergency situations. In case of concerns of an approaching crisis, Mekorot acts according to procedures and adjusts its measures at its disposal making it able to handle the expected crisis in all its fields of activity - water supply, water safety, water quality, information security, communications, personnel and emergency inventories, all in compliance with applicable regulation. In addition, our water supply system has been developed for maximum consumer reliability. Mekorot operates on three levels in order to allow the optimal use of the water sources and provide backup in the event of a supply breakdown: connecting consumers to more than one water system, reduction the number of regions being fed by a single water source and connecting additional regions to the national grid. Our water supply system allows us to continue operate and to take advantage of water surplus even in times of crisis and load shedding, which can lead to a shut-down of desalination facilities. If load shedding by the IEC is expected, Mekorot will prepare in advance, increasing the Company's water and activating alternative water sources. In addition, as part of Mekorot's emergency response array and the minimization of its dependency on the IEC, the Company has hundreds of diesel fuel generators to serve as system backup for periods of power shortage, and it purchases power from private power manufacturers as well.





Water Security

The geopolitical history of the State of Israel has led Mekorot to develop a security strategy for water sources and for the water supply systems – drinking, agriculture and industry. We have developed methods for responding threats to water security, which include among other things an advanced system for risk assessment, an incident management array, an alarm and protection system for preventing incursions and harm to Company facilities, the ability to prepare for scenarios and training professional teams. The security concept implemented by the Company minimizes the risk of water supply failure as a result of the various scenarios and increases protection against sabotage and harm to equipment.

In this framework, the Company takes various actions - from the water sources to the supply to consumers – key of which are:

- > **System planning in security terms**
- > **Installation fencing and security**
- > **Integration of advanced technologies in physical and electronic protection**
- > **Operating hazard detection and identification measures**
- > **Installation of a sophisticated and contiguous monitoring, command and control array throughout the supply system in order to provide early warning of any deterioration in water quality**
- > **Development and implementation of strategies that include procedures and means for responding to contamination events**

Water Supply to Arava Settlements

We are constantly working to develop new solutions for the purpose of increasing the number of water sources in the Arava, in order to support the advancement of settlement in the region, the accelerated development of agriculture and improvements to residents' quality of life. The national water enterprise connects the northern part of the country to the southern part, with the southernmost settlement connected to that system being Mizpeh Ramon. For the residents of the Arava, who are not connected to the national water carrier, water is currently being supplied by local drilling with a high level of salinity for use in agricultural irrigation and water produced from brackish water at water desalination facilities for domestic consumption. By constructing new brackish water desalination installations and connecting the settlements in the Arava to the national water supply system and to the Sabha desalination facility in Eilat, Mekorot strives to provide a long-term solution for the water scarcity from which the region has been suffering for many years. As part of our multi-annual plan, we have set a goal of supplying 32 million cubic meters of water to the southern part of the Arava and 70 million cubic meters to the central part of the Arava by 2030, thus achieving our yearly consumption goal. Within the framework of preparations for permanent high-quality water supply in the future, we are investing in the research and development of new water desalination and membrane-based treatment technologies for the purpose of maximum utilization of water resources.



Regional Cooperation

By virtue of the peace agreements signed by the Israeli government, Mekorot also supplies water to its neighbors, the Hashemite Kingdom of Jordan and the Palestinian Authority.

The Kingdom of Jordan – as part of the peace agreement between the State of Israel and the Kingdom of Jordan, the parties agreed on a water allocation arrangement. In accordance with this agreement, the Company supplied some 47 and 56 million cubic meters of water in 2019 and 2020, respectively. In addition, as part of the agreement with the Kingdom of Jordan to strengthen its water supply, for several years extensive development activities have been taking place that will allow Jordan to be supplied with up to 100 million cubic meters per year, with an additional 25 million cubic meters currently being. In years featuring heavy rainfall, in which the water inventory in the Sea of Galilee is sufficient, the quantities of water carried to Jordan are increased. In addition, within the framework of the agreement both countries undertook to protect the common water sources under their jurisdiction, the Jordan and Yarmuch rivers as well as the groundwater in the Arava, from any contamination, harm or unauthorized use of the allocations to the other country.

The Palestinian Authority - the Company supplies water to the Palestinian Authority by virtue of the water costs agreement. The amount being transferred to the Palestinian Authority has constantly risen in the past decades and the current yearly quantity supplied to the Authority is 86.3 and 55.5 million cubic meters during 2019 and 2020 respectively, which is larger than the amount that Israel is required to supply by virtue of the agreements, which is 46.16 million cubic meters per year.

Judea and Samaria - due to the water scarcity in Judea and Samaria and to help with the development of these regions, in accordance with instructions from the Minister of Energy, under the supervision of the Water Authority, and in coordination with the Civil Administration,





Mekorot is preparing to supply large quantities of water according to the demand predicted by 2030. The proposed plan provides a response to the supply of water to the Palestinians and to Israeli Jewish settlements, including additional water for agriculture in Jewish settlements and pursuant to this, routes have been upgraded and enlarged in order to meet demand.

Water Quality

The Mekorot water supply system is planned to ensure maximum reliability by operating a large number of water sources that supply the national water system with potable-quality water. Therefore, we do our best to protect the quality of water and public health. In order to ensure the supply of water of the required quality, we apply controls and ongoing tracking to examine quality throughout the supply chain, from the water source to the terminal supply point, according to a sampling plan in compliance with the Potable Water Regulations requirements and approved by the Ministry of Health. The sampling plan is implemented both at production facilities as well as in the water supply system, with each sample serving for testing several (microbial or chemical) agents by an authorized laboratory and/or in the field. In order to protect water sources and the areas of impact of the production facilities against environmental contamination, the Ministry of Health has established protected regions around drilling sites. Mekorot conducts sanitary environmental surveys in an impact zone that includes the protected areas plus 100 meters. This activity complements Mekorot's treatment and monitoring activity, and highlights the Company's water quality security concept.

The control actions include, among others:

- Preventive sanitation surveys;
- Routine water quality testing carried out at production facilities, procurement facilities, treatment facilities and in the supply system;
- Disinfection of water at the outlet of production and procurement facilities in order to maintain the water quality in accordance with Ministry of Health requirements and continuous monitoring of substance concentrations;
- Monitoring using continuous monitoring devices, such as turbidity meters, installed in the supply systems and at the outlets of treatment and disinfection installations, for continuous monitoring of water quality;
- Supervision of the water systems is carried out by manned control rooms operating 24/7 that receive data on the water supply and water quality from measurement devices as well as immediate alerts in the event that the measurement thresholds are crossed and concerns exist of malfunctions.

Any alert featuring concerns of a malfunction is handled immediately by way of corrective actions and if necessary is reported in real time to the Ministry of Health. Such corrective actions may include adjustment of disinfection levels, diverting water deviating in turbidity levels to turbidity settling tanks, changing potable water sources to alternative sources, pipeline flushing and drainage and repeat testing of water in order to monitor the effectiveness of actions taken.

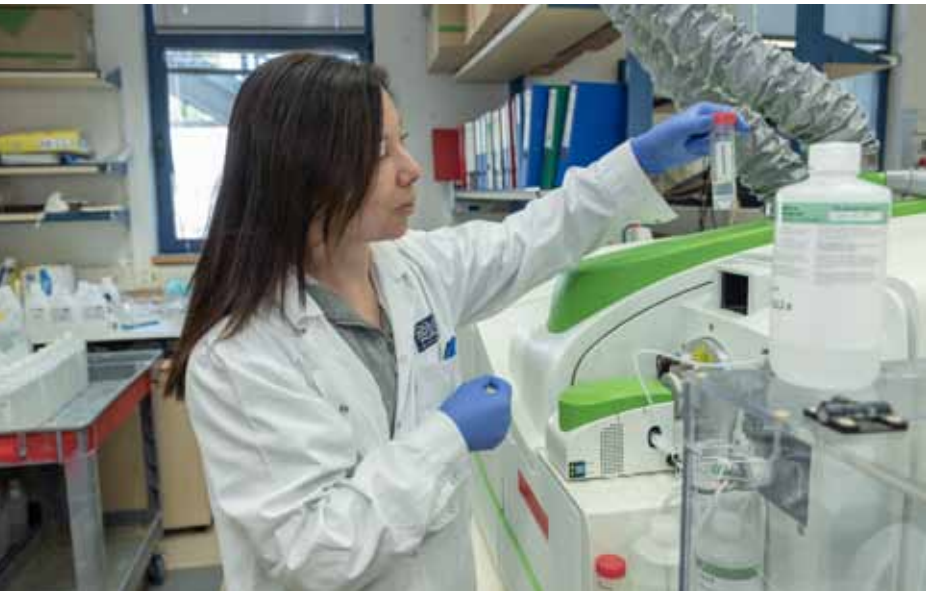


Every year Mekorot publishes a "Potable Water Quality Report" in accordance with to the Potable Water Regulations, which is made available to the public and describes the quality of water during the past year as well as unusual events. As presented in the report, the rate of bacterial deviations is minimal and reflects a multi-annual trend of low deviation levels compared to the guidelines issued by the World Health Organization and those of the EPA, which accept deviations of up to 5%.

Every year, about **10** research projects in the field of water quality are conducted, including finding solutions to water treatment, wastewater treatment, investigation of new monitoring measures and more.

For the purpose of betterment, disinfection and treatment of water Mekorot operates more

than **800** designated treatment facilities, which were built according to advanced planning, which perform water treatment in accordance with the highest norms practiced in the Western world.





In total, the number of tests performed at Mekorot laboratories* during 2018 - 2020:

	2018	2019	2020**
Chemistry	91,046	91,711	84,779
Bacteriology	27,342	28,749	31,358
Total not including drainage basins	118,388	118,388	116,137
Drainage basins	45,150	47,576	36,659
Total carrier	163,538	163,538	152,796
Rosh Ha'ain	26,839	27,171	27,577
Ashkelon	19,946	20,969	18,053
Shafdan	30,139	29,089	6,416
Eilat	11,818	10,102	10,157
In total	252,280	255,367	214,999

*The data does not include the performance of the Biology Department due to the system recording settings.

**The decrease during 2020 arises from a change in the nature of activity at the laboratories following government instructions in view of the COVID-19 crisis.

Mekorot has **6** laboratories that perform about **380** thousand tests per year for Mekorot as well as for private companies. The laboratories are recognized by the Ministry of Health, qualified by the Laboratories Qualification Authority and are in compliance with **ISO 17025**.

Less than **0.5%** of cases with exception in water quality, both in microbial and chemical tests.



Responsible Conduct Towards Our Employees

We at Mekorot see our employees as the foundation of our success and take care to create a safe and respectful work environment for them. The values guiding Mekorot in general and Company management in particular are cooperation, mutual respect, transparency and effective communication. We assign great importance to protecting the health and safety of our employees and to creating a workplace that promotes equal opportunity and our employees' personal and professional development. The relationship between the union and the management is managed by the VP of Human Resources and the union chair and we consider our employees to be our partners and our collaborators

As of the end of 2020, some **99.4%** of Mekorot's employees are employed on a full-time basis.

99.3% of Mekorot's employees are unionized, with collective bargaining agreements⁶

87.6% of employees are tenured (including local tenure)

In 2019, **51** employees, men and women, took maternity leave, out of whom 48 were women and 3 were men. and they returned to work at Mekorot after their leave.

In 2020, **28** employees, men and women, took maternity leave, out of whom 26 were women and two were men. Two of the women elected not to return to work at the conclusion of their maternity leave.

⁶102-41

100% of Mekorot's employees including senior management are Israeli citizens.

The average age of Mekorot's employees in 2020 was **47.6** years.

The average tenure of Mekorot's employees in 2020 was **17.2** years.

23% of the Company's employees have an academic degree

8 employees in 2020 graduated from an institute of higher education and were subsidized by the organization.





Employee Retention

Intra-organizational communication

We assign a great deal of importance to intra-organizational communication and work extensively to promote multilateral communication channels between units. We encourage our employees to conduct dialog between the professionals who are experts in their fields, and we believe that systemic thought and cooperation among the various units has significant value both to employees as well as to the Company. Such dialog allows employees to understand the big picture, to learn from one another and to deepen interpersonal relationships. In addition, we make sure to hold open discussions between the Company management and the CEO, and our employees and executives through various channels: the CEO Cafe, round table meetings, the 100 Conference, intra-organizational communication, HR welfare activities, innovation platforms, professional forums in varied and diverse fields, intra-organizational applications and more. In addition, in 2020 Mekorot performed a pilot for an assessment and feedback process for Company employees, in which some 500 employees from various divisions took part. During 2021, an orderly assessment and feedback process by way of a computerized system will begin, and will take place once per year, allowing the creation of a mutual dialog between managers and employees.

In order to measure employee satisfaction levels, Mekorot conducted an intra-organizational service satisfaction survey in 2019 and 2020. In addition, the Company took part in the “Best 100 Companies to Work For” rating and was rated 14th, a significant 12-place increase from last year.



Employee Welfare and Benefits

Mekorot strives to provide its employees with the best possible conditions for an appropriate work-life balance. Therefore, look after our employees' welfare in several ways:

- › Setting flexible working hours
- › Setting days with no afternoon meetings
- › Defining of working parents with adjusted work hours
- › Providing vacation days beyond the mandatory legal requirements and encouraging employees to take those vacation days in an orderly manner
- › Periodic inspections to find employees working more than 50 hours a week
- › Providing an option to work from home, subject to approval of management and regulators.
- › Subsidies for medical check-ups and health insurance policies
- › Encouraging of physical activity by assimilating a healthy lifestyle at the Company
- › Making ergonomic adjustment of work terminals to employees according to his or her needs
- › Providing support for life events and aid in times of crisis to employees and to their family members
- › Providing aid to employees who have experience financial difficulties
- › Reimbursement of expenses to eligible employees for day-care centers and kindergartens
- › Participation in academic tuition fees for children of eligible employees

Preparation toward retirement

Mekorot relies upon experienced, professionally qualified workers. As part of its fair employment duty and obligation to create a safe and respectful working environment, Mekorot also takes care to develop knowledge and prepare its employees for retirement, among other things by way of a "retirement seminar" held some six months prior to retirement, in which the employee is provided with tools for handling the transition. The additional tools being provided retiring employees include:

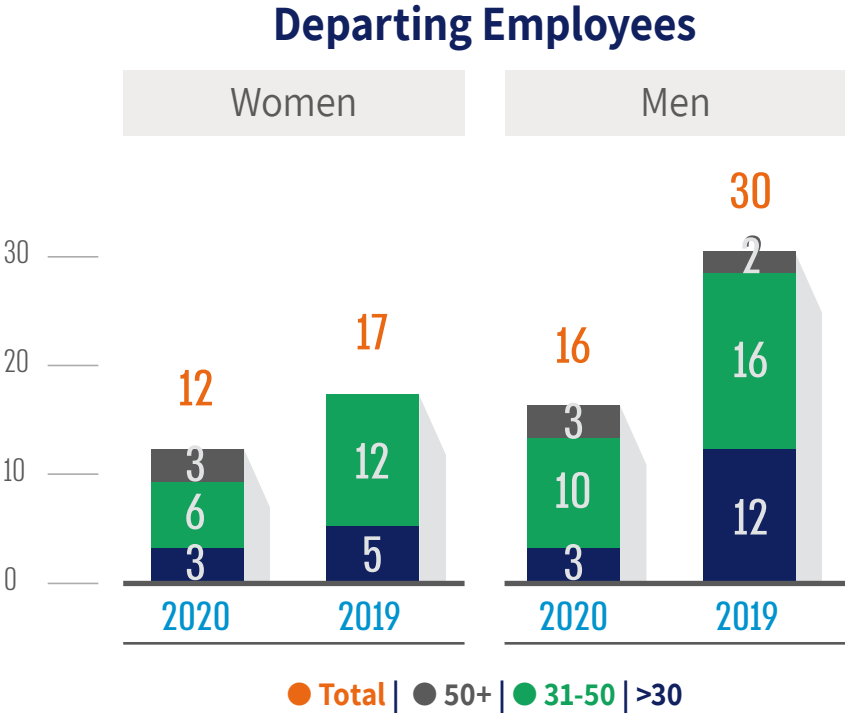
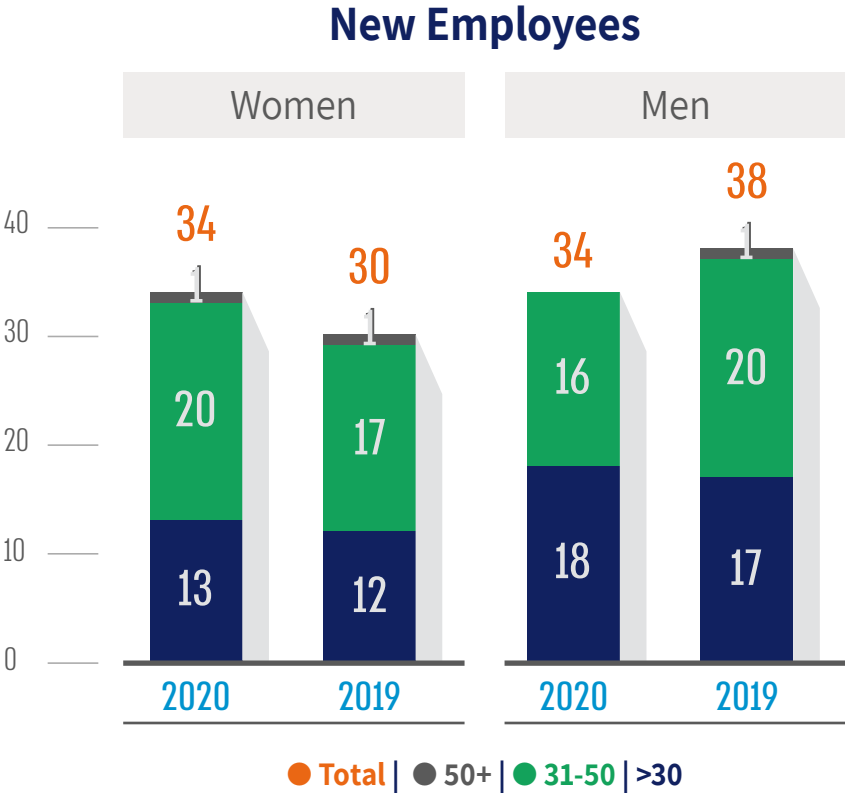
- › Providing knowledge and useful information on a wide range of relevant aspects of employee life during retirement such as: financial sources and budgets during retirement, rights with the National Insurance Institute, pension rights, aspects of taxation and more;
- › Some the employees are given the option to continue work after retirement age as consultants;
- › Promoting of leisure and other activities for Company retirees.

We provide fair retirement benefits to all Company employees and the rights of retirees are anchored in collective bargaining agreements. Most Company employees retire with a pension as part of an early retirement plan or due to age and are awarded benefits and grants in addition to the preparation program to mentioned above.



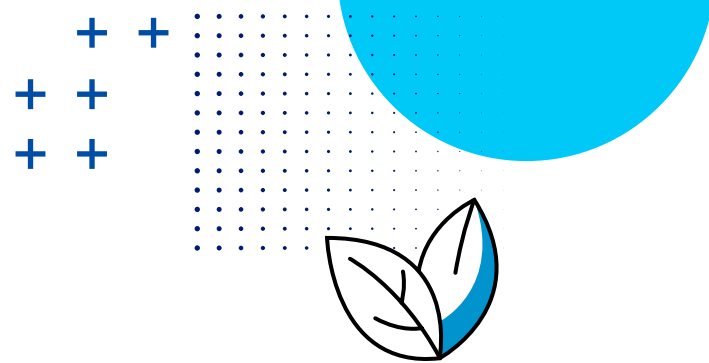


Employee Turnover by Gender⁷



⁷“Departing employees” data refers to employees who have resigned or were dismissed and does not include employees who retired.





Occupational Health and Safety

Mekorot is committed to protecting the health and safety of its employees, suppliers, contractors, clients and community, and does so in accordance with a safety policy approved by Company management. The occupational health and safety policy, which advances of the physical and mental health of its employees, forms an integral part of the Company’s strategy and we at Mekorot take care to administer this subject in accordance with the highest standards. The VP of the Operating and Maintenance Division is responsible for safety management in the Company and manages the safety unit administration, and five regional safety supervisors who are registered with the Ministry of Labor report to the VP of the Operating and Maintenance division and are in responsible for consulting and assisting the managerial staff in all matters pertaining to safety, hygiene and occupational health. Mekorot has joint management/employee Safety and Hygiene Committees (half of the committee members are representatives of the employees and half – representatives of management). The committees are active by geographical location, by regions, as well as on the corporate level, which reviews these matters at the national level. In 2019, a safety diagnostics report was issued, in consultation with an external Company, and in addition, an evaluation was made regarding the Company’s policy in the field of occupational health and safety, in accordance with to ISO 18001:2007, pursuant to which it was found that no change is required. In 2020, internal and external safety inspections took place in order to receive certification under Israeli Standard 45001, an occupational health and safety standard, and several units received partial certification under the ISO 9001 quality standard. The Company’s safety policy was updated according to the new standard’s requirements. Every new employee undergoes training on the policy, which is published on regional bulletin boards. In addition, field employees undergo annual safety

training as required by regulation, consisting of 8 hours of training, and in addition, these employees undergo designated training according to their duties. In addition, in order to protect employees’ health and minimize the risk potential in work processes, Mekorot conducts medical check-ups and monitoring at the workplace, for employees at positions with higher potential risk. The Company provides personal protective equipment in good working order, which is compliant with standards, adapted to employees’ needs and meeting the highest safety requirements, and we publish information bulletins during extreme weather conditions.

In order to increase awareness of the importance of this subject, Mekorot initiates various activities:

- Enforcement inspections to verify compliance with applicable legal requirements;
- Employee and contractor training on safety issues;
- Investigating safety incidents and publishing the findings and lessons learned;
- Publication of a monthly report on matters of safety distributing it to all Company employees.
- Conducting safety tours by members of regional management at Company installations in development areas and inspection of work teams;
- Holding a supervisor forum to promote professional standards in the field of safety at the Company;
- Encouraging Company employees to achieve excellence in safety and granting awards to outstanding employees.

	2018		2019		2020	
	Women	Men	Women	Men	Women	Men
Sick leave	5,201	7,352	5,228	7,623	2,101	5,056
Vacation	6,207	21,931	5,577	18,652	4,493	17,530
Reserves military service	12	1,305	15	949	56	643
Personal events	*11	*98	170	495	130	434
Employees that passed away	0	2	0	2	0	2
In total	11,431	30,688	10,990	27,721	6,780	23,664

*Due to the transition to a new attendance system in November 2018, the data on “personal events” during that year is partial.





Travel Safety

Mekorot sites are located throughout Israel, and as part of their ongoing work, employees and contractors are required to travel frequently between various Company facilities and infrastructure sites. Accordingly, the matter of traffic safety is of paramount importance to us, and we act in various ways to protect the safety of our employees:

- Publication of quarterly report to all the Company employees on the subject of road safety;
- Using original spare parts according to manufacturers' instructions;
- Initiation of vehicle safety inspections for heavy machinery and trailers, by regional safety officers
- Spot tests by the national traffic supervisor in matters of safety;
- Holding traffic accident committees;
- Investigating serious road accidents and lessons learned;
- Providing training to employee family members who drive Company cars and leased cars.





Diverse, Equal Opportunity and Respectful Employment

Mekorot believes that diverse human capital contributes to the Company’s fortitude and to creating an inclusive and pleasant working environment for all its employees, one free of violence and physical and/or verbal harassment and bullying. As a government-owned company, we assign great importance to promoting of diversity in employment and place an emphasis on the integration of underrepresented population segments in the labor market⁸. Occupational diversity increases the potential of human capital, allows quality recruitment from all sectors of the population, promotes our potential for innovation and creativity, and generates shared value for employees and the Company alike. In 2020, a supervisor was appointed for the issue of sexual harassment, bullying and prevention of discrimination at the workplace and in addition, rules of conduct and a supporting procedure were published on this subject. The issue is managed under the HR Division and the VP of the Division is issues regular reports to the Board of Directors. Mekorot insists on equal opportunity and fairness in recruitment, screening and employee promotion processes, and avoids discrimination due to background, religion, race, sex or nationality. All of the organization’s employees are entitled to equal rights, with the exception of representation by a workers’ union. The Company maintains ongoing relationships with associations and organizations specializing in the recruitment and placement of under-employed populations, among them Olim Beyahad, Sikun Shave, Rian Employment Centers and the K.M.CH Fund. In addition, employees coming from these populations are given precedence in participation in training and learning programs that include financing assistance. In addition, evaluations are conducted by internal and external agents for the purpose of establishing a policy and a work plan for advancing this issue.

Mekorot takes any incidents of discrimination or harm to employees extremely seriously and makes sure to deal with such incidents immediately. Various channels are available to employees for filing complaints, including an email mailbox, the employee portal and a physical mailbox, which allows them to submit an anonymous complaint if the employees choose to do so. Mekorot acts in accordance with an orderly procedure for handling complaints, and is advised by legal experts in the field. A complaint submission mechanism for sexual harassment issues is available to Company employees. Complaints received are transferred to the treatment of the sexual harassment supervisor, who acts according to an orderly procedure in handling the complaints, counseled by legal experts in the field. Contact is via email, through the portal or using physical mailboxes that allow anonymous complaints to be submitted. In 2019-2020 3 complaints were filed pertaining to employee discrimination, of which 0 were found to be justified. Workplace bullying - in 2019 several complaints were submitted, investigated and found unjustified. In 2020 two complaints were submitted and found to have factual basis. Mekorot investigated each case and dealt with them immediately according to an organized process for the prevention of the recurrence of these events.

Wage gaps between men and women by rank

21% of employees hired during 2020 were from of populations under-represented in the job market.

Promoting Gender Equality

We assign a great deal of importance to promoting gender equality at the workplace. Mekorot acts according to a policy of equal employment and takes care to safeguard women’s rights at the workplace. According to the collective bargaining agreement there is no difference in the remuneration of men and women, and Company employees are hired and promoted based upon their qualifications and according to the Company’s needs only. In addition, as part of the strategy supporting occupational diversity and gender equality at the Company, special emphasis is given on to subject of promoting women’s rights, which is re-emphasized at the level of plans and activities designed for the professional and personal development of female employees and executive, which includes defining quantitative and measurable goal definition. Every year, 10,000 NIS scholarships are awarded to female Mekorot employees for certificate studies, in order to encourage their professional and personal development. In 2019 and 2020 lectures and activities on female empowerment took place, among other things on the following topics: racism and gender equality, leadership, developing excellence and branding. In addition, lectures were held for women on increasing awareness of breast cancer early discovery and identification of signs of domestic distress and violence.

	Gap rate found in 2019	Gap rate found in 2020:
Senior management	16%	17%
Mid-level management	12%	8%
First level management	18%	18%
Non-executive employees	34%	39%





Employee Development

Mekorot regards its human capital as the key to its success and has set a primary goal to invest, develop and train its employees and executives. We believe that trained, professional, quality personnel are key to the survival of the Company in a market characterized by changes deriving from scarcity of resources, ecological changes, technological advancement and increasing competition in the field of water. Accordingly, a comprehensive training plan has been developed for employee development on several parallel learning paths by virtue of applicable laws and regulations, a professional development plan and a managerial-organizational development plan. Moreover, a central aspect of motivating Company employees lies in the Company's ability to develop employees' qualifications, to reinforce the sense of connection employees have to the organization and to realize their professional capabilities in order to carry out their duties in the organization in an advanced manner. Therefore, Mekorot encourages the completion and expansion of academic education among its employees, from engineering studies post-graduate degrees, and participates in the tuition expenses of eligible employees accordingly. The HR Division leads the subject of employee training and development of employees. The program for developing professional training tracks for various occupations in organizations began in 2019 and included workshops for regional managers, block supervisors and welders,

to provide soft management skills such as fulfillment of personal potential and improving performance. Supervisors took part in professional training that included personal counseling and coaching in order to obtain their certificate. In 2020, these groups participated in additional workshops that focused on interpersonal communication and conflict management, and in addition, a course was held for project managers to provide professional knowledge and soft skills, in collaboration with the Technion. In addition, in 2020, with the outbreak of the COVID-19 pandemic, development processes, creation of professional and managerial contents and development of advanced learning platforms were accelerated, initially through the organizational learning portal and concurrently the development of an organizational learning system, the LMS, was accelerated. In the LMS system, digital learning programs, learning content and professional training videos are made accessible and adapted to the employee. As part of its emphasis on managerial development, Mekorot has a work program that is adjusted to basic/advanced development and includes managerial forums, an executive club, a program for personal development and empowerment the organization's and more. As part of that, special emphasis is placed on the development and promotion of women, by way of mentoring plans for young female executives, which are expected to begin in 2022, and providing tools and support to their advancement in the Company.

The average number of training hours per employee in 2020 was **42.2** hours

92,606 training hours in 2019 and **66,265** training hours in 2020

4.6 – general average in the satisfaction index from the various training activities in 2020

*Total the training hours refers to every training program provided by Mekorot, divided into 3 categories: learning programs required by applicable laws and regulations, learning programs in the professional development axis and learning programs in the managerial-organizational axis.





We measure the effectiveness of training using a mechanized and anonymous feedback questionnaire provided at the end of each training activity. In relevant training, in addition, qualitative feedback is also given. Based on the responses obtained, the Company learns lessons to help it learn and improve future training activities.

In addition, Mekorot employees undergo training in the fields of safety, civil defense, toxic materials permits, hazardous materials, prevention of embezzlement and fraud, information security and more, according to their professional duties.



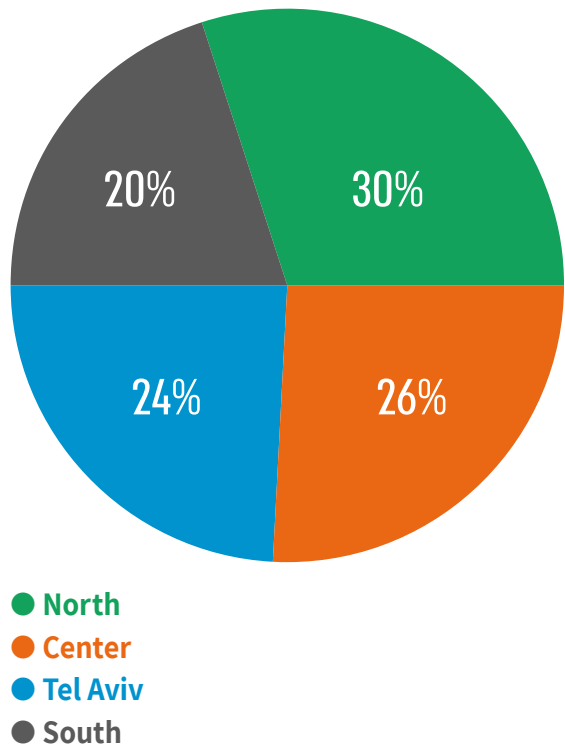
In recent years, following the organizational changes that took place in Mekorot and in light of the acceleration of the hybrid and digital learning processes following the COVID-19 outbreak, a revolution has begun in the training concept at the organization and many achievements were reached in the development of the Mekorot organizational training program. From a training concept that focused on legal training and is based on frontal studies to a hybrid training concept, which allows a combination of online training and frontal training according to the regulatory requirements and the nature of the training, which is focused past legal training on professional development, personal development and managerial development as well. Alongside innovation in professional and managerial training materials and in making them accessible through digital learning platforms, in the past year Mekorot has reached a breakthrough as a bureaucratic governmental Company with a large number of committees, by initiating two significant moves that are new to this kind of organization, an evaluation and feedback process and a future management training process.



Employee Status Segmentation by Age, Gender and Role

		2019			2020		
		Women	Men	In total	Women	Men	In total
Board of Directors	Up to 30	0	0	0	0	0	0
	31-50	2	-	2	1	0	1
	50+	3	2	5	3	3	6
	In total	5	2	7	4	3	7
Management/ senior management (senior management agreement)	Up to 30	0	0	0	0	0	0
	31-50	3	1	4	2	1	1
	50+	1	11	12	2	8	15
	In total	4	12	16	4	9	13
Mid-level management (unit leaders - managerial echelon C)	Up to 30	0	0	0		0	0
	31-50	6	12	18	11	12	23
	50+	3	21	24	7	18	25
	In total	9	33	42	18	30	48
First level management (department heads - managerial echelon B)	Up to 30	0	0	0	0	0	0
	31-50	26	28	54	25	24	49
	50+	10	68	78	10	71	81
	In total	36	96	132	35	95	130
Employees	Up to 30	26	50	76	22	45	67
	31-50	213	535	748	206	519	725
	50+	116	437	553	125	462	587
	In total	355	1,022	1,377	353	1,026	1,379
Total		409	1,165	1,574	407	1,169	1,576

Geographical Distribution of Mekorot Employees



Mekorot Activity with the Community and its Customers

Fairness Toward Customers and Customer Satisfaction



Within the framework of the organizational change at Mekorot, in 2019 a Customer Relations Unit was established in order to handle the challenge of improving service at the Company. Mekorot has adopted the concept of “the consumer as a customer” and is acting to implements norms of service approach, operating efficiency and technological tools for the Company’s customers. The new service concept that is being promoted has been adjusted to the new world, and allows its customers to be partners and be involved Mekorot’s activity and to receive the information and services they require quickly and easily.

Most of Mekorot’s activity is with its customers – the water and sewage corporations, moshavim and kibbutzim, local authorities, associations, the government and government-owned companies and the Palestinian Authority and the Kingdom of Jordan. Those customers distribute water to residents, the end-users. In addition, Mekorot’s customers include hospitals, hotels, private farmers, industrial plants and more, to whom Mekorot supplies water. Each region has its own customers and the service being provided to the customers is provided on the regional operating level and is reported to Company HQ. In addition, Mekorot has some 5,000 customers that include consumers, private producers, laboratory clients and external agents who employ Mekorot to perform one-time or ongoing work.

Initiatives and moves being promoted by Mekorot so that it can act fairly and in transparent manner and reinforce the ties with its customers:

- Maintaining a dialog and initiating discussions with customers
- Conducting a survey to measure “customer experience”
- Holding round tables and customers conferences in order to share events at the Company and to hear customer needs
- Mapping interface processes with the customers
- Adapting services to the business environment and to customer needs and making them accessible to customers and to the general public
- Development of infrastructure, tools and systems for providing access to information, to record inquiries and to deliver messages to customers
- Establishment of a new online website to make information accessible to Company customers
- Development of the “Tamar” digital system for coordinating infrastructure, which allows contacting the handling agent online both by way of Mekorot’s Internet website as well as through the Ministry of Transportation
- Process digitization and transition to smart forms
- Holding workshops for all relevant agents involved in customer service





Community Engagement

Out of a recognition of its impact on the environment and on the community in the area in which it is active, community empowerment is a central pillar of the core values of Mekorot, as well as of its activity in each one of its core fields.

As Mekorot sees it, the community is a key partner in advancing a sustainable reality and the general public is a significant agent in helping face environmental challenges. The Community Relations Unit, which is responsible for this topic, has set a goal of reinforcing and developing ties with Mekorot stakeholders and promoting the subject of “shared value” in Mekorot’s projects. The Company promotes its social activity in fields tangential to its core activity, thereby generating value for the community and the environment. In this way, the activity becomes a part of the Mekorot chain of value. The primary channels of activity strive to assist in promoting awareness and protecting environmental values in general and advancing the water challenge in particular. This, by harnessing the Company's resources, cooperating with a variety of agents in the community and by way of long-term projects, annual projects and incidental projects.





Environmental Education

In light of the national challenges faced by the Israeli water system, constant forward-looking thinking is required, including in the field of education. Over the years, from an awareness of the importance and the crucial role of education in achieving value goals, we have held many activities intended to increase awareness and knowledge in the environmental and water fields with various agents in academia and the community:

- **Public relations activity during Shavuot** - in Shavuot, the water holiday, the Company has its “water week”, in which extensive public relations activity takes place at a national level. Company employees visit preschools and schools and give lectures to increase awareness of the importance of conserving water.
- **Professional conferences** - Mekorot executives participate in various professional conferences in Israel and abroad, and present the Company’s activity in water economy

management, sustainable development and more. The Company’s extensive activity in producing safe, high quality water sources forms collaboration and exposes many new countries and companies to the variety of cutting-edge technologies employed by Mekorot.

- **Social networks** - in the past two years, with the increased use of social networks, Mekorot has begun to operate professional pages on social networks - Facebook, Instagram, LinkedIn and Twitter, in order to promote discussion in the matter.
- **Visitor centers** - our visitor centers are, to us, a way to connect with the community and the public at large and to show them our unique and advanced technology. The Mekorot visitor center has been active at the Eshkol site since 2009, free of charge, and sees some 20,000 visitors every year, including children, pensioners and families. Since 2020, and in order to allow people to visit the center during lockdown periods as part of the process of adjusting activities to the spirit of the times, Mekorot has started operating online tours. In addition, virtual tours are given place on the Company website that discuss the various topics in the field of water, which are presented to the public through social networks.
- **Academic research** - promotion of research in the water field in collaboration with research bodies and universities.
- **Collaboration with academia** - Mekorot collaborates with academic institutions and various programs including "Ort Brauda", "Atidim for Infrastructure", "Atidim for Industry" and its employees provide personal and professional advice to students. Most of these programs take place in the country’s periphery. In addition, from time to time Company experts give lectures to students in various academic frameworks.

➤ **Student scholarships** - granting scholarships to outstanding students in the engineering field in the Technion and at Ariel College.

➤ **Business cooperation** - we promote business activity with commercial companies, thus creating cooperation in the development of technology for monitoring and protect the quality and quantity of water for households, agriculture and industry.

➤ **Intra-organizational public relations** - in order to increase awareness among all Mekorot employees, the Company holds webinars, distributes communiques on the subjects and provides information to relevant employees about contents and conferences on topics pertaining to water and the environment according to their professional duties at the Company. In addition, Company employees receive weekly newsletters that discuss matters of sustainability and the environment, and in addition, employees are sent training videos that are available to them on the training portal as well from any location and at any time. In addition, lectures are given on these topics in various forums.

Employee Volunteer Work

In 2019 and 2020 our employees volunteered and took part in various social activities focusing on a variety of fields: education in the country’s periphery, encouragement of education in academia, helping people in need, increasing of awareness on economic water usage and more. As a government-owned Company, Mekorot is precluded from giving donations in cash and cash equivalents. We promote activities in the field of community involvement within the framework of work plans and in employees volunteer work (not during working hours) and employee initiatives.





Dialog with Stakeholders⁹

Mekorot is a government-owned Company that manages an essential resource and as such, it acts to a large number of stakeholders who influence its activity either directly or indirectly and maintain a dialog with them on several levels. The main part of the dialog pertains to the Israeli water system and to the Company’s ongoing activity.

In 2020, the Company started to put together processes designed to promote its policy or managing community relations and its relations with the general public, and an orderly work plan was laid out that regulates work methods and defines actions in all matters to management of the relationship, connections and communications with the various stakeholders: a strategy for managing stakeholder relationships; orderly implementation methods; effective tools for public relations and contact with the general public; added value to risk management; streamlining and regulating work processes. We are acting to increase cooperation and our professional dialog with environmental organizations and the community, thereby leading joint processes and programs to minimize our environmental impact and increase a sense of community. Therefore, in 2019 and in 2020 we maintained our relationships with our various stakeholders in a number of ways:

Stakeholder Groups	Description of Main Stakeholders	Dialog Channels with Stakeholder
Governmental ministries	<ul style="list-style-type: none">● Ministry of Energy● Ministry of Finance● Ministry of Environmental Protection● Ministry of Agriculture● Ministry of Health● Ministry of Defense● Knesset committees	Mekorot maintains daily contact with the entire managerial echelon as part of its ongoing conduct and as part of the ongoing professional discussion. The governmental ministries and statutory authorities are responsible for various aspects of Mekorot’s activity including permits, water allocation, infrastructure and more.
Statutory authorities	<ul style="list-style-type: none">● The Water and Sewage Governmental Authority● The Nature and Parks Authority● The Jewish National Fund (Keren Kayemet L’Israel)● The Israel Land Authority● Regional planning committees● The Antiquities Authority	
Local authorities	<ul style="list-style-type: none">● Authority heads● City engineers● Environmental planners● Environmental units	The dialog with these stakeholders is carried out as part of the Company’s ongoing work. The main themes raised in the discussions are development and statutory subjects.
Civil society	<ul style="list-style-type: none">● Academia● Environmental organizations	Academia: Mekorot maintains an ongoing dialog with academic institutions in Israel. This cooperation includes research and academic collaboration, joint initiatives, support for preparing courses in the water field, advising and mentoring students in their final projects. In addition, Mekorot supports, through scholarships, students engaged in the fields relevant to the group’s core activity.

⁹102-44, 102-43, 102-42, 102-40





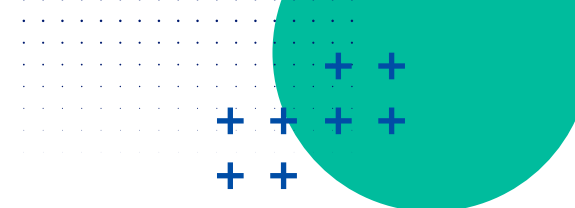
Stakeholder Groups	Description of Main Stakeholders	Dialog Channels with Stakeholder
Customers	<ul style="list-style-type: none">Local authoritiesWater and sewage corporationsAgricultural associationsIndustry	<p>Mekorot has some 3,000 customers. The Company maintains an ongoing dialog with its customers in various matters, among other things: water quality, water pressure, supply availability and more, as well as through the service interface with its customers; dispatching and handling water bills, collection, handling complaints and so forth. Relationships with customers are maintained in most cases directly by multiple elements in the operating region - engineering and operating personnel and finance and management personnel, as the case may be. Public inquiries are coordinated by the Public Inquiries Manager at the office of the Company Spokesperson.</p>
Company employees	<ul style="list-style-type: none">Employees at Mekorot sites and at headquarters departments	<p>Mekorot has an intranet portal and internal newspapers that publish information relevant to its employees, including issues in the field of labor relations as well as updates on activities and so forth. Several channels of communication with management are available to employees - both through the HR unit that coordinates employees' inquiries as well as through representatives of the employee union. In addition, the following meetings take place allowing open discussion between management and Company employees: CEO Cafe, round table meetings, the 100 conference. HR activity in the field of welfare, the innovation platform, professional forums in various and diverse topics and more, reinforce intra-organizational communications at Mekorot.</p>
Neighboring communities	<ul style="list-style-type: none">Environmental activistsSettlement committeesVolunteer organizations in regions where Mekorot has significant activity	<p>Dialog with such elements is carried out on an ad-hoc basis in cases where there is a request or demand on behalf of one of the elements. For example, dialog with the local community can be seen in the "Fifth System to Jerusalem" project, which includes areas with a high level of environmental sensitivity, in which Mekorot has held a public dialog with residents and the local community. For more details about the community activity that took place as part of the project, please see Page 45.</p>
Suppliers	<ul style="list-style-type: none">SuppliersContractor companies	<p>Mekorot maintains a dialog with such interested parties by way of supplier conferences, holding round tables, the procurement and tenders' units, as well as the regional representatives in charge of engagements.</p>

As part of its multi-channel dialog, in 2020 Mekorot held various meetings in order to promote cooperation and maximize "shared value":

- > The IEC - in 2020 a team was formed to lift barriers and promote cooperation between Mekorot and the IEC, with the team meeting once per quarter.
- > Netivei Israel - unique cooperation for infrastructure development,
- > The Social-Economic Forum - Mekorot takes part in the activity of the Forum in order to create "shared value" in the economy with a variety of other government companies, which work together in order to advance society and business in Israel. Within the framework of the forum, the companies create an activity discussion that generates cooperation, business innovation, joint learning, cooperation and creates solutions to social challenges.

We believe that only a comprehensive and sustainable point of view, while cooperating and maintaining a dialog with its stakeholders, will allow the Company to face the challenges of sustainability in the water system.





Further Goals

Public water supply fortitude – water quality:

- Achieving the targets of the annual sampling program - conducting 145,000 microbial and chemical tests.
- Maintaining high water quality – a deviation level of no higher than 0.5% in water quality both in microbial tests and in chemical testing.

Responsible conduct toward our employees:

- Working from home - a transition to a hybrid model in accordance with the guidelines of the Salary Supervisor at the Ministry of Finance.
- Employee experience - forming an employee experience program adapted to the post-COVID-19 crisis period while continuing with activities that took place in 2020.
- Digital transformation in HR processes - digitization of all HR procedures and forms in employees' entire life cycle from hiring until retirement/departure from the organization.
- Implementing an orderly evaluation and feedback process for all Company employees.

Occupational health and safety:

- Establishing an administration to implement the findings of the 2019 safety report.
- Advancement of digital transformation in safety issues - creating an application to document all of the various safety processes, including reporting safety incidents, documenting inspections and field tours, hazard and nuisance surveys, computerized work permits, regulating the lending of equipment and power contractors, documentation of various documents, training and more.
- Establishment of a safety trustee array at Mekorot by formulating of a new outline.

- Increasing the executive involvement in safety issues, among other things by carrying out training on event investigation - 33% of the executives in 2021.
- Formulating a new safety concept and safety management policy at the Company, and their approval by the Company management.

Diversity, equal opportunity and respectful employment:

- Encouraging women at all levels to participate in internal Company tenders, by way of providing capabilities, personal development and affirmative action in tenders.
- Providing a mentoring program for young female executives that encourages them to develop and advance in the executive echelon.
- Increasing recruitment of employees from under-represented populations in the employment market according to the work plan.
- Implementation of new processes for recruiting, hiring and instructing new employees as part of the new employee retention mechanism.

Mekorot's activity with customers and the community:

- Distribution of a customer survey once per year, starting 2022.
- Creating an orderly policy of community involvement.
- Management of the subject of community involvement under a single element at Company headquarters, who will be in charge of all the regions.



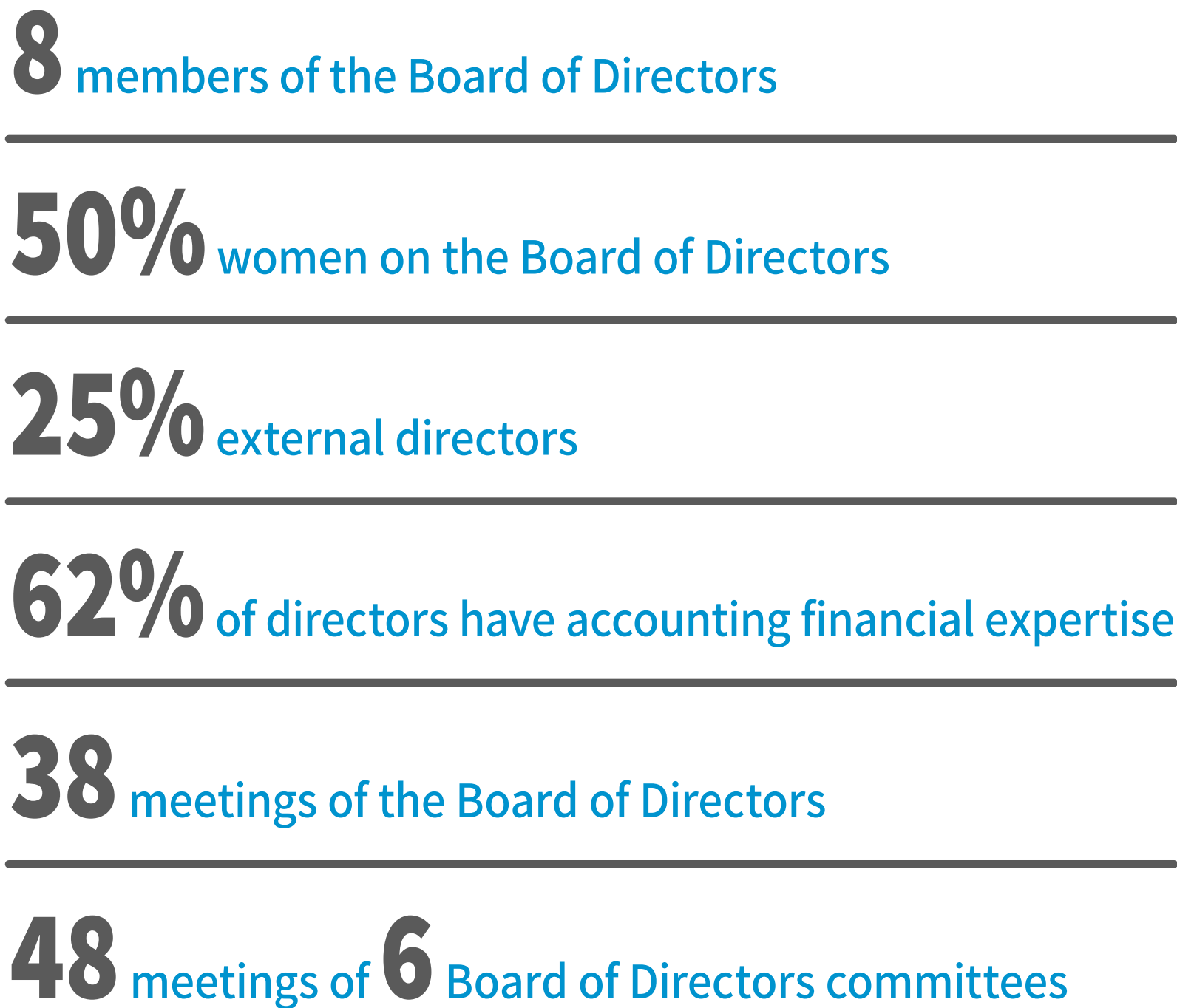
Responsible Corporate Governance

73-81 →

Corporate Social Responsibility is a central tool in the manner in which Mekorot manages its economic, environmental and social impact and brings together all aspects of its business performance. Such an approach is a way for the Company to develop and deepen its business advantages in terms of efficiency, innovation, improving goodwill, risk management, protecting water resources and identifying new business opportunities. Mekorot is a government-owned Company that operates under the responsibility of the Ministry of Energy and Water, the Ministry of Finance and the Water Authority, and in addition is subject to laws and regulations pertaining to government-owned companies in Israel. Proper corporate governance is a material part of the organizational culture at Mekorot and a precondition for any of its activities. In addition, it constitutes a risk management tool and a means of achieving the Company's strategic goals.

Corporate social responsibility is a key tool with which Mekorot manages its environmental, social and governance impacts, and through it, the company conducts its activity.

2020 in numbers*:



Age groups of the Board of Directors members:



*As of December 31, 2020

Structure of the Board of Directors

Mekorot maintains separation between the identity and duties of the Chair of the Board of Directors and the identity and duties of the CEO, as well as between the duties of the Board of Directors and the duties of Company officers. Due to the fact that the Company is government-owned, the process of appointing members to the Mekorot Board of Directors is the responsibility of the supervising ministers and the Company does not have any control or responsibility in this regard. In addition, the Government Owned Companies Authority has established an egalitarian team, which is open to the public, which meets the threshold requirements and the pre-determined criteria. A managerial core was set for the Company that ensures that the appointed directors provide a response suitable to the Company's needs both in terms of required qualifications, experience and diversity of population types (in terms of religion and gender). As of the end of 2020, the Company Board of Directors numbered eight members. Four of them are women; three are independent directors in accordance with Section 1 of the Companies Law and are not Company officers. Five directors have accounting and financial expertise.

Board of Directors Committees

- › **Human Resources** – deals with wages, social benefits, benefits, bonuses and other terms and conditions of employment of the CEO, the deputy and assistants to the CEO, unit managers, the CFO, the Internal Auditor, the Company Secretary and other officers that were determined in this regard by the ministers after consultation with the Authority, and of the other Company employees. The Committee advises the Board of Directors and its purpose is to streamline discussions by the Board of Directors and to hold in-depth discussions in the above matters; the conclusions/recommendations of the committee are presented to the Board of Directors for approval.
- › **Finance and Risk Management** – deals with financial issues and tracks these matters regularly, including the Company budget, debt write-offs, credit policy, offerings, and in addition, it is the committee responsible for tracking risks management at the Company. The Committee advises the Board of Directors, and its purpose is to streamline discussions by the Board of Directors and to hold in-depth discussions in the above matters; the conclusions/recommendations of the committee are presented to the Board of Directors for approval.
- › **Audit** – handles the Company's internal audit reports on an ongoing basis. Its duties are to approve the annual audit plan, to approve

transactions with interested parties, the Company's engagement with its director's in the matter of their terms of service, including providing exemptions, insurance, indemnity or indemnity pursuant to an indemnity permit, as well as the engagement between the Company and its directors regarding such a director's employment in other positions, decisions as to the quality of the internal audit proceedings (by an external agent), approval of the termination of the employment of the Internal Auditor.

- › **Planning, Development and Operation** – keeps ongoing track of the Company's development plan and the status of its projects, and regularly tracks the subject of Company assets. The Committee advises the Board of Directors, and its purpose is to streamline discussions by the Board of Directors and to hold in-depth discussions in the above matters; the conclusions/recommendations of the committee are presented to the Board of Directors for approval.
- › **Balance Sheet Committee** – the Balance Sheet Committee is a sub-committee of the Board of Directors that inspects the financial statements and gives recommendations to the Board of Directors as to their approval.
- › **Remuneration Committee** – the committee that handles wages, social benefits, benefits and bonuses for Company senior executives, these being subject to the remuneration policy approved by the Board of Directors. The recommendations and conclusions of the committee are presented to the Board of Directors for approval.





Composition of the Board of Directors

Due to us being a government owned Company, locating and appointing directors is the responsibility of the ministers in charge - the Minister of Finance and the Minister of Energy and Water, and by way of the Government Corporations Authority. The ministers must select candidates that meet the requirements of the Companies Law, which defines threshold requirements, and who are listed on the directors' database set by the Government Corporations Authority. In addition, candidates must be compatible with the nature of the executive core determined for the Company by the Government Corporations Authority, according to which to which a representative with expertise in finances and a representative with a background in infrastructure management are required. Proper representation for women and non-Jewish populations is required. Directors must pass the Appointment Examination Committee which investigates their experience, their education and their political affiliation.

The process a director starting work Mekorot is an orderly process derived from the circular issued by the Government Corporations Authority, which allows even a new director appointed to the Board of Directors to receive orientation as quickly as possible on the Company's affairs. According to the circular, Mekorot makes sure that the members of the Board of Directors and senior executives receive, upon being appointed to office, all of the information and the tools needed in relation to any and all Company activity, by way of regulating meetings with relevant agents at the Company and the delivery of a director dossier that contains all of the basic information and data they require in order to take office in the best professional manner. The Board of Directors elects committee members according to their qualifications and the skills required by each committee.

Remuneration of Senior Executives and Office Holders

As a government Company, Mekorot is subject to the laws and regulations relevant to government-owned companies. In accordance with the law, the government has set rules and proceedings for handling the salaries and terms of employment of CEOs and senior executives at government companies and their subsidiaries, and these rules guide the Board of Directors, Company management and the Authority in approving arrangements in this matter. The remuneration policy document in the matter of terms of office and employment of officers at the Company was prepared in compliance with the Companies Law and Companies Regulations (Reliefs in the Matter of the Duty to Establish a Remuneration Policy), 2013. The remuneration policy document is intended to define, describe and provide details as to the Company's policy pertaining to the remuneration of Company officers, including its scope and components within the framework of the applicable laws. The remuneration policy was formed taking into consideration the nature of the Company, among other things, as a government-owned Company and as a debenture Company (as the term is defined in the Companies Law). The considerations, the principles and the indices established in the remuneration policy are based on the Company's goals, with the aim of improving its performance by creating a correlation between the level of achievement of the Company's goals and the remuneration to its senior employees, protection of quality office holders with the ability to handle the challenges the Company faces and encouragement of excellence in the Company. In 2020, the policy was formed in collaboration with an external consultant on the basis of the Government Corporations Authority circular, and was approved in May by the Remuneration Committee. To date, the policy has not yet been approved by the General Meeting. Generally, employment agreements of senior executives in government companies are anchored

in a uniform senior executive contract. In the matter of salaries of senior executives, the Ministerial Committee on Salaries has established that the terms of employment of senior executives will be based upon a contract that will be determined by the Government Corporations Authority. This policy regulates the option of returning remuneration (claw-back) received under certain terms and conditions. Nevertheless, Mekorot does have senior executives employed under a collective bargaining agreement. The remuneration policy will apply to Company officers employed under personal employment agreements, except for provisions set in the policy that apply to officers employed by virtue of collective bargaining agreements, all except for sections in which it was determined that they apply to certain officers as set forth therein.

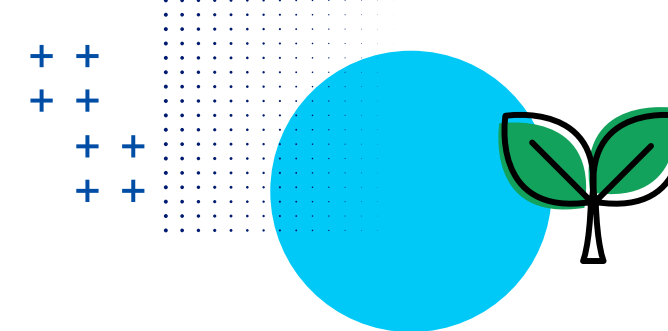
As part of the remuneration policy, a remuneration model exists that is anchored in the Government Corporations Authority circular on the principles of a model for remuneration of and incentives for senior executives in government-owned companies, starting 2015. The remuneration model is approved annually by the Board of Directors, and is based on the remuneration of employees based on the Company's performance and on personal performance. Retirement arrangements and severance pay are regulated in accordance with the applicable laws.

Salary and Remuneration Gaps for Members of the Board of Directors

In 2019 the ratio between the annual salary of the Company CEO and the cost of the median remuneration of the remaining employees was 3.26 and the ratio between the annual salary of the Company CEO and the cost of the average wage of the remaining employees was 3.46. In 2020 these ratios were 2.79 and 2.81 respectively.

Remuneration to the members of the Board of Directors is provided in accordance with the Government Companies





Regulations (Remuneration and Expenses of a Public Director in Government Companies), 1994. This way, remuneration and expense reimbursement of is carried out in accordance with the applicable law. In 2019, the remuneration of the Company Board of Directors amounted to a total of some 216,000 NIS. In 2020, the remuneration of the Company Board of Directors amounted to a total of some 327,000 NIS.

Mechanisms for Contacting the Board of Directors

A mechanism to for Company employees to provide feedback to the Board of Directors is determined by the regulatory law of the Government Corporations Authority. The only shareholder in Mekorot in the State, and control of the Company is carried out by the appointment of the Board of Directors by the ministers in charge. Employees can contact the Board of Directors through the Company Secretary, or by contacting the Chair of the Board of Directors directly.

Moreover, the Mekorot management echelon of came up through the ranks and encourages direct communication with employees as well as their involvement. Company employees are asked and required to report immediately in cases where concerns exists as to the impairment of corporate governance in anything relating to concerns of fraud, theft, or any other noncompliance with laws and regulations on behalf of the Company. In the event of any doubts as to the completeness and accuracy of the information being disseminated in the Company, this must be reported to the supervisors and to the responsible elements.

Preventing Conflicts of Interests

The CEO and the Chair of the Board of Directors are appointed in accordance with the law and according to the guidelines of the Public Committee for Inspection of Appointments. The role of the committee, among other things, is to inspect and prevent conflicts of interests. All officers in the Company sign an affidavit promising to avoid any conflict of interests. Mekorot insists on

ethical and moral conduct and integrity. Company employees are required by the code of ethics to avoid any situations of conflicts of interests or of the appearance of conflicts of interests. Privately employing subordinates, suppliers or any other elements that have a work relationship with Mekorot for any work whatsoever is strictly prohibited, beyond their employment within the framework of their work.

Management of Environment, Society and Corporate Governance Topics by the Board of Directors

The field of sustainable development is controlled and treated separately at the meetings held by management and the Board of Directors, both in accordance with the circular in the matter of sustainable development issued by the Government Corporations Authority in 2009 as well as in accordance with the Guide for Sustainable Development in Government Companies published by the Ministry of Environmental Protection and the Government Corporations Authority in 2013 and as well as in accordance with the policies and the strategic goals set by Mekorot.

The subject of corporate social responsibility is under the managerial responsibility of the Customers and External Elements Unit, which was established as part of the restructuring. The unit acts to formulate a corporate social responsibility plan and constantly studies the Company's impact on environmental, social and economic aspects of its stakeholders. The unit manager reports to the VP of Development and Customers and issues periodic reports on the unit's activities to management and to the Board of Directors. As part of its work, the Board of Directors attends to environmental and social issues within the framework of the Company's ongoing work and the yearly goals. Unusual events, including incidents and hazards that have

an environmental impact, safety incidents and more, are reported immediately to the Board of Directors. In addition, the Board of Directors engages within the framework of its committees in processes pertaining to aspects of the Company's corporate social responsibility, among them approval of the organization's corporate social responsibility report ; approval of the code of ethics; energy efficiency; preparations for climate change and in particular preparations for water supply shortages in times of drought, earthquakes and emergency events; management of the Company's public involvement and community relations.

In addition, examination of the activities of senior management in matters of economy, environment and society comes up once per year for discussion as part of risk detection and management. The Company is acting to implement an organizational risk management array (ERM) by way of appointing of an oversight committee for managing risks that convenes frequently to discuss the Company's comprehensive risks management array, headed by the CEO, and in addition, discussions are held by the Finance Committee in its capacity as of risk management sub-committee of the Company Board of Directors on a quarterly basis. The committee relies on orderly methodology, which is based on the principle of preventive prudence and is to characterize the macro environment of the organization and locate possible risks. Risk pertaining to environmental protection is a corporate risk, within the framework of which an environmental risk management process takes place. As part of the process, material risks to the operation of the Company are identified and an assessment of these risks takes place, as a tool for decision making, risk mitigation, performance improvement and exploitation of opportunities that maximize the shared values of the Company and its stakeholders. In addition, during 2020 a compliance plan in environmental matters was formulated.

Ethics and Preventing Corruption

Business Ethics

As a national Company acting to protect the water system of the State of Israel, Mekorot is committed to and responsible for acting in a moral and ethical manner in its business conduct. The Mekorot code of ethics, which was first formed in 2010, presents this value system, the Company's standards and the guiding principles for all of its activities. As part of the process of creating the code of ethics, which was updated in 2020, we held round tables of Company executives, we established think teams and conducted interviews with elements in the Company (among which the Chair of the Board of Directors, the CEO, the Public Relations Unit, the Company's legal counsel, the VP of engineering, the Head of Procurement and more) as well as external stakeholders such as suppliers and clients. At the end of the comprehensive process, the purpose of which was to create a code of ethics that reflects the activities of the Company and its relationship with the stakeholders in the best possible manner, the code was ratified by management and by the Board of Directors.

The code defines the vision, the task, and the behavior of all of the organization's employees, and its purpose is to guide Mekorot employees and executives in ethical behavior in their relationships with all of the Company's stakeholders. Among the guiding values of the Mekorot code of ethics are a national mission to supply water of high quality and availability in a professional and reliable manner with cooperation and mutual respect, and sustainable development.

Implementation and Communication of Code of Ethics

The code is available to all stakeholders on the Company website. Mekorot employees may also access it through the organizational portal, and their received periodic communiques on this subject, along with methods for contacting the Ethics Committee. Furthermore, every new employee starting their employment at the Company must read the code of ethics and signs a

commitment to comply with it. In addition, as part of the orientation of new employees, every new Company employee undergoes training on this matter. Furthermore, issues of ethics that arise within the framework of the Ethics Committee are communicated by way of newsletters.





Moreover, Mekorot provides employees with an ethics supervisor, an ethics committee and an ethics trustee. The duty of the ethics committee is to promote and nurture ethics in the Company among executives and employees. The committee initiates, encourages and drives ethical discussion in the organization, among other things through discussions of ethical dilemmas that mainly reach it by way of employee inquiries and through providing suggestions on how to resolve them in accordance with the code of ethics. The heads of the HR departments in the operating regions and the head of HR Department at the Company HQ Company are qualified as ethics trustees and their job is to implement and nurture this subject in the Company.

Mechanisms for Reporting and Treating Ethical Issues

The Company Secretary is responsible for the subject of ethics in the organization and heads the Ethics Committee. Employees may contact the supervisor openly or anonymously, through a designated email address the details of which are published on the website, in the code of ethics and on the organizational portal. In addition, Company sites and its headquarters feature physical mailboxes that also can be used to file a complaint. Complaints are treated using orderly operating mechanisms that correspond with the subject matter of the complaint. In issues for which no designated mechanism exists, complaints are investigated in collaboration with the Company Internal Auditor.

In 2019, twelve complaints were received on ethical matters.

In 2020, five complaints were received on ethical matters.

Bribery and Corruption Prevention

Mekorot is a government Company with extensive business activity with a commitment to upholding the law and to proper management. The Company has conducted an embezzlement and fraud risk survey in order to investigate and assess the risk factors in this regard, and moreover, a compliance plan in the field of embezzlement and fraud, bribery and corruption was prepared and approved by the Board of Directors of the Company, which includes a set of procedures, guidelines and work processes that are intended to confirm that the Company is taking all required actions to ensure that all of the employees of the organization comply with the of applicable embezzlement and fraud, bribery and corruption laws. This plan stresses the Company's zero-tolerance policy regarding any violations in this area and details the mechanism for implementing the guidelines and the control system for this subject.

In addition, the Risk Management Unit performs financial controls of various processes including inspection of separation of duties in permissions to access critical systems. In the event of suspected embezzlement and/or bribery and corruption events, several reporting channels are made available to employees by virtue of the enforcement plan - an anonymous hotline for contacting via email, contacting the employee's personal supervisor, the Internal Auditor or the compliance officer responsible for the plan.

In 2019-2020 about 64% of the Company employees underwent a training program on the subject of fraud and embezzlement, bribery and corruption prevention and in particular in the matter of prevention of conflicts of interests. In 2019-2020 no cases of embezzlement by employees were uncovered.

Compliance with Standards and Regulations

Mekorot policy is to comply with all legal rulings, laws, guidelines, regulations, treaties and standards in effect, and even strives to comply - if possible and appropriate - with standards above and beyond what is required.

As a government Company operating in the field of water, Mekorot is required to comply with a series of rules that apply throughout the entire water supply chain to the residents of the State of Israel, in each of the core fields of its activity, alongside compliance with binding rules for protecting the employees and the stakeholders with whom the Company operates. Regulatory requirements change with time and in general have become more stringent. In order to comply with these requirements, the Company is assisted by and develops the best technologies that can be implemented in professional, economic, environmental and safety terms. For additional information see Note 24 to Mekorot's 2020 periodic report.

As an essential part of Mekorot's activity, the Company uses hazardous materials for the rehabilitation of water drilling sites and water treatment and disinfection facilities. Use of toxic materials might cause hazardous material events and environmental damage, and therefore Mekorot operates in accordance with the Hazardous Materials Law, with storage and use of hazardous materials carried out within the framework of a toxic materials permit. Each of the operating regions, the Jordan area, the central laboratory and the Shafdan units have a toxic materials permit in effect and they act to comply with the terms and conditions set forth in them and to renew them on a regular basis.

As of 2019-2020 no sanctions or fines have been imposed on Mekorot for noncompliance with laws and regulations in the area of environmental protection.

¹¹ The email address is ethics@mekorot.co.il

Responsible Supply Chain

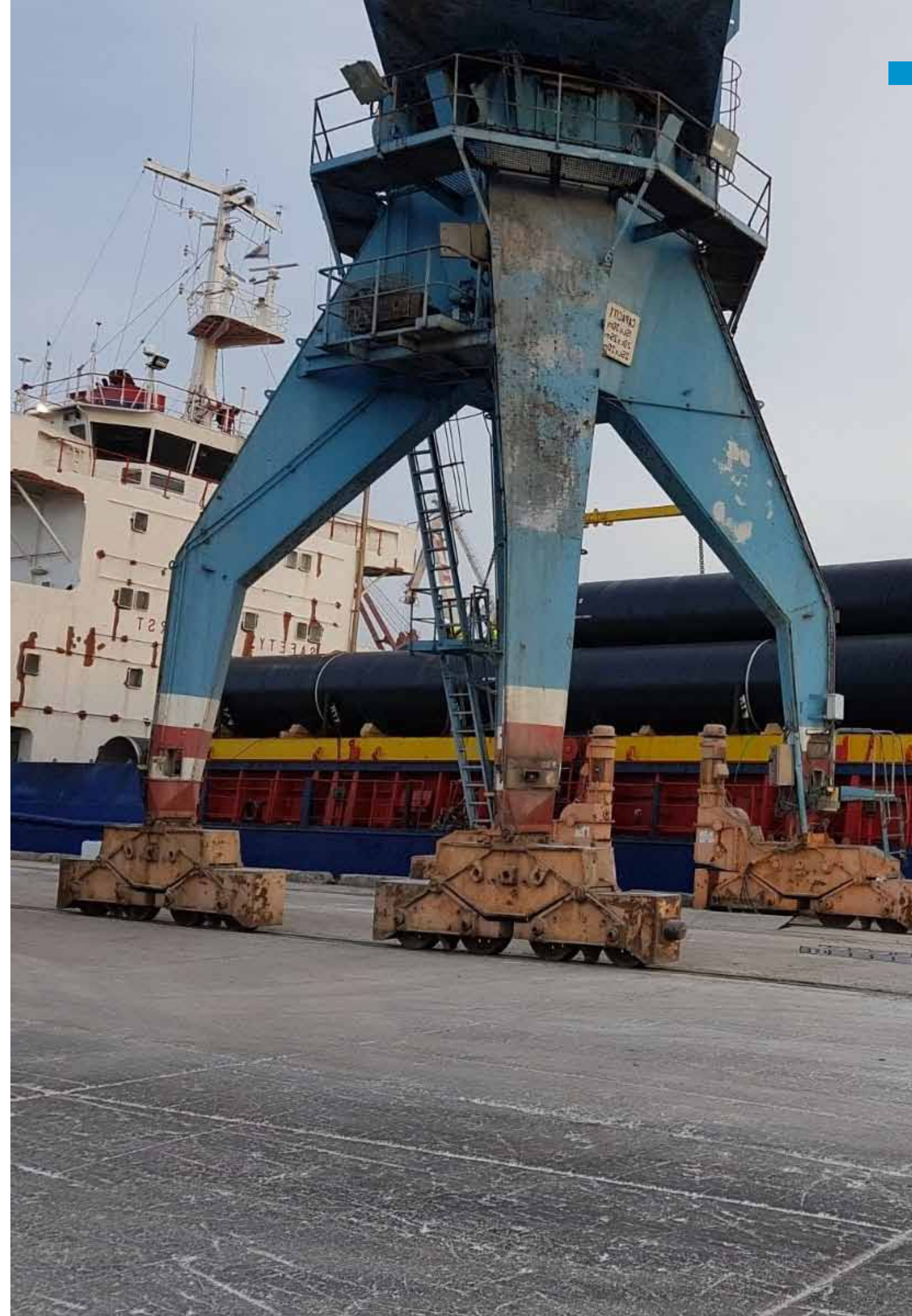
As a government Company Mekorot carries out procurement processes in congruence with legal requirements and the Tender Regulations. The subject of procurement and tenders is managed mainly by the Goods Procurement, Logistics and Inventory unit and the Services Procurement and Tenders unit. Most of Mekorot's procurement is intended for its development activities and projects the Company is carrying out as well as for maintenance and ongoing operational activities: pipeline and drilling equipment, pumps and pumping equipment, motors, transformers and electrical equipment, valves, electronic equipment and computers, software as well as measurement equipment, filters, improvement materials and so forth. In 2020 procurement expenses amounted to 354 million NIS.

The Mekorot code of ethics is sent to service providers at every engagement, and the latter undertake to act in accordance with to it and with the values that guide Mekorot - professionalism, reliability, transparency, fairness and mutual respect.

We implement controls to inspect the production quality, products and procurement received on an ongoing basis. During 2020, 15% of the suppliers who participated in the survey improved their performance following the assessment process.

Promotion of Responsible Supply Chain

- › **Supplier preference** – in accordance with the Mandatory Tenders Law, Mekorot gives a price preference to domestic procurement (made in Israel) and studies the threshold requirements on an ongoing basis in order to allow small and medium suppliers to take part in them. In addition, Mekorot prioritizes suppliers who employ workers with disabilities as well as businesses owned by women.
- › **Green procurement** - when carrying out procurement and tenders, the Procurement Unit investigates “green” parameters, with the aim of minimizing the environmental impact caused by the Company's activity. The main parameters investigated include the energy efficiency of electrical appliances, such as pumps or vehicles, in order to reduce the Company's power consumption, thereby reducing airborne emissions.





- **Controlling terms of employment** - as part of Mekorot's responsibility for responsible management of its supply chain, the Company from time-to-time conducts controls of its suppliers in order to ensure that contractors are conducting their business in an ethical manner and that all the rights of the contractors' employees are protected. As part of the control activity, an internal salary element implements controls of salary data of security and cleaning employees, and if the HR subcontractor is not in compliance with the provisions of the applicable law, the Company discontinues its engagement with this subcontractor. In addition, Mekorot holds surprise inspections at its operating sites in order to ensure that work procedures are being followed.
- **Preventing bribery and corruption in the supply chain** - prior to the publication of a tender, Mekorot inspects the economic structure of the transaction in order to assess the accepted cost of the service. As part of due diligence carried out of suppliers and contractors, Mekorot checks the identity of the owner of the account receiving payment. In addition, the Company has large suppliers sign an affidavit stating that they do not have prior criminal convictions and in all public tenders, upon submission of the bids, the contractors are required to declare that they do not have any convictions, that they lack of conflict of interests, are in compliance with protective laws and protect the rights of employees (in security and cleaning tenders), maintain a safe and hygienic workplace and so forth. Mekorot has a duty to act in an ethical manner and to prevent bribery and corruption throughout the entire supply chain. Therefore, all engagements with the Company feature a contractual clause according to which the supplier must be familiar with the code of ethics, with the code being referenced for study. In the new code of ethics, published 2021, the subject of suppliers was expanded, and a "Relations with Suppliers and Contractors" chapter was added. In engagements that involve material financial sums the code of ethics is sent directly to Mekorot suppliers and subcontractors for them to "read and sign". About 80% of Mekorot's suppliers and subcontractors have signed the code of ethics in the past two years.

Promoting of Shared Value in the Supply Chain

As part of promoting a "shared value" policy, we promote multiple initiatives in the field of engineering with Company suppliers. Our goal is to assist entrepreneurs in developing a quality product on the one hand and one that is compatible with Mekorot's needs on the other.

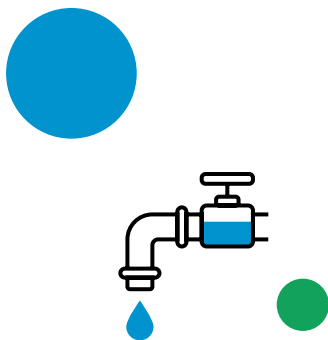
Promoting initiatives- as part of the operation of the Innovation Unit, Mekorot publishes a list providing details on the Company's needs. Based upon this list, entrepreneurs submit proposals for solutions and collaborations. The proposals that are accepted after a meticulous screening process are investigated at Mekorot sites and the necessary experiments are performed. At the conclusion of the process, the solution may be used by Mekorot or alternatively, the entrepreneur may market it as a solution in the international water market. This initiative provides the supplier/partner direct and continuous contact through which the trial stage of the product is shortened and the chances of its success in the international water market in general and at Mekorot in particular are increased.

Water quality improvement - as part of the activity taking place in the Company's Water Quality Unit, Mekorot carries out quality inspections at chemical suppliers. According to its findings, the suppliers will implement Mekorot's various recommendations, thereby improving the quality of the chemicals and adapting them to the regulatory requirements.

Sustainable development - when installing pipeline infrastructure, we use steel, which has a decades-long life span on the one hand and on the other hand, is fully recyclable. In addition, during pipelines excavations we strive to use local material to backfill the excavation, thus reducing as much as possible any transportation and delivery of imported materials.

94% of the purchase orders made in 2020 were procurement of Israeli products.

8.2% of the purchase orders made in 2020 were defined as green procurement.



Information Security

As an infrastructure Company, Mekorot operates information, command and control systems across the country, at its facilities as well as in its control centers, and uses managerial information systems to support the Company’s ongoing activity and achieve its goals. These locations are at risk of information security breaches by hostile agents, which might harm the Company’s ongoing operation. Mekorot protects its systems against these threats, which have increasing in recent years, and acts to improve and raise the level of protection in information security on several levels, including establishment of a national cyber center to monitor and handle cyber security events to the Company’s networks, increase the information security level of critical networks, implement advanced solutions and technological tools, public relations action and increasing awareness on the subject among the Company employees and more. As a government Company, the Police and the national cyber array provide assistance to the Company’s control array. Moreover, we operate according to an information security policy and invest significant resources in backup mechanisms, information security and electronic and physical site protection. We operate alternative systems (DPR) and back up the communication systems to allow operational continuity even during a shutdown. Mekorot plans, in accordance with the regulator’s approval, to develop the cyber security field and implement the Company’s information security program at a cost of some 10 million NIS over a period of 5 years.

- Initiatives for protection against information security threats:**
- Increasing awareness among the employees
 - Preparing procedures and practicing them
 - Installation of technological measures to improve discovery and protection capabilities
 - Enforcement of password and credentials policy
 - Internal and external inspections
 - Replacement of information systems in use for a prolonged period of time with new systems according to the needs as per the guidelines of the National Cyber Array



Future Targets

Ethics and Corruption Prevention

1. As part of the process of getting to know the Company’s new code of ethics, the code of ethics will be sent to employees to read and sign once every two years.
2. Preparing a new training unit in the subject of the code of ethics and distributing it to employees.
3. Translation of the code of ethics into English and publishing it on the website.
4. Providing more in-depth information the subject matter of bribery and corruption prevention by way of a designated employee training program.

Information Security

1. Obtaining ISO 27001 certification - a standard in the field of information security and cyber defense.
2. Increasing awareness of cyber risks - training, lectures, management exercises, phishing drills and so forth.
3. Performing endurance tests of new and renewed applications.
4. Providing guidelines for information security in new projects / procurement and developments.
5. Writing and updating information security and cyber security procedures.

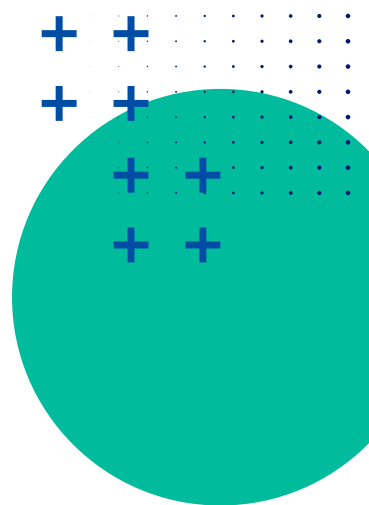


GRI and ESG Index

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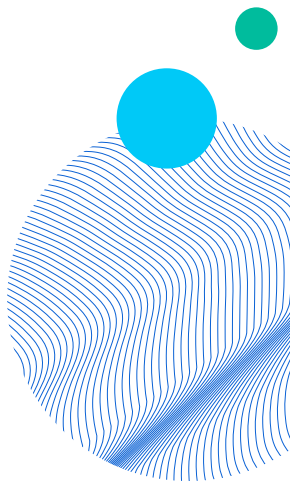
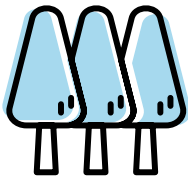
GRI index

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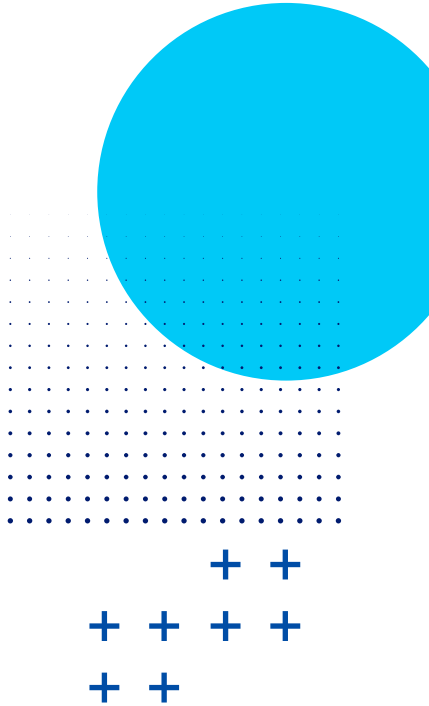
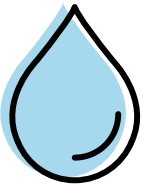


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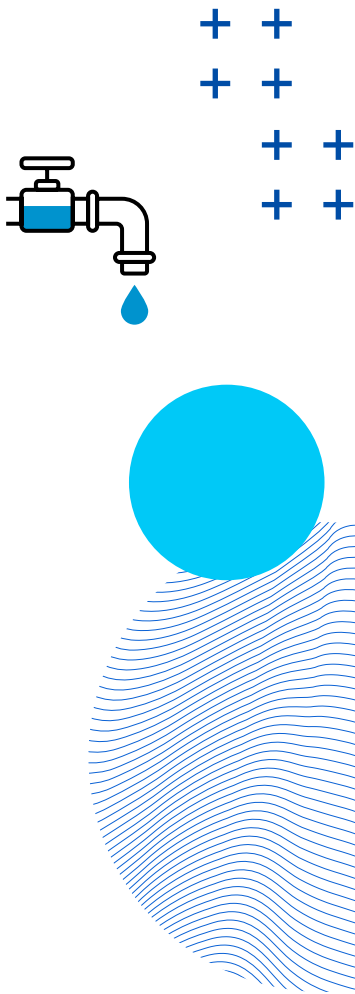


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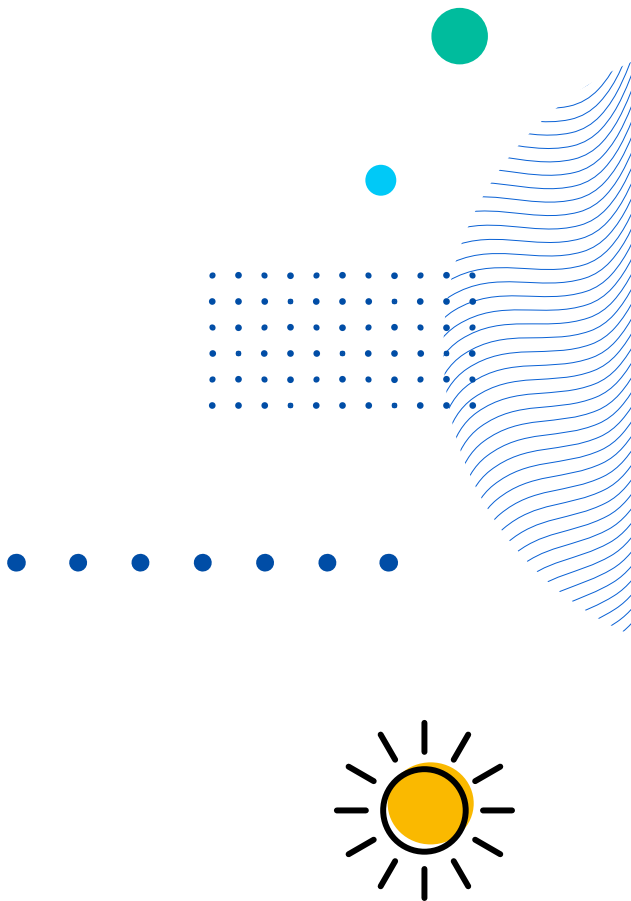


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Data Appendix

The Environment

Inspected Parameter	2018	2019	2020
Manufacturing and Production (in Millions of Cubic Meters)			
Total water supplied	1,577	1,637	1,659
Total potable water supplied	1,181	1,213	1,246
Total brackish water supplied	139	144	147
Total treated wastewater supplied	74	280	266
Total desalinated water purchased	663	679	613
Energy and Emissions			
Consumption of self-produced green energy (in MWh)	6,424	9,008	21,565
Consumption of power from private power producers (in MWh)	1,018,900	1,089,300	963,100
Total Mekorot power consumption (in MWh)	1,684,200	2,041,800	2,262,400
Transportation gas consumption (in liters)	1,147,000	1,000,000	808,315
Transportation diesel fuel consumption (in liters)	2,249,000	2,000,000	1,845,730
Generator diesel fuel (in liters)	289,285	285,743	316,341
Total Mekorot fuel consumption (in liters)	3,865,285	3,285,743	2,970,386
Ratio between energy consumption and water quantity supplied (in MWh/Million m^3)	1.17	1.17	1.24 ¹²

¹²The changes in power consumption arise from a change in the water source (the ratio between supply from the Sea of Galilee, groundwater and desalination). The data is not indicative of a consistent change and correspond to an expected cycle of energy consumption (usually in correlation with the annual precipitation amounts).

Company

Inspected Parameter	2018	2019	2020
Employee Data			
Number of employees	1,596	1,574	1,576
Employee turnover (in %)	2.1	3	1.8
Occupational Health and Safety of Employees			
Number of road accidents	286	258	312
Number of workplace accidents	36	34	38
Number of sites / units shut down as a result of workplace accidents	0	0	0
Number of people injured	39	34	38
Number of people severely injured	0	0	0
Number of people killed	0	0	0
Number of days of absence following workplace accidents	549	377	912
Number of near misses in workplace accidents	21	17	29



Economic Corporate Governance

Inspected Parameter	2018	2019	2020
Economic Value of the Mekorot Group (in Millions of NIS as of the End of the Reported Year)			
Income	4,291	4,651	4,896
Cost of sales and works	(4,256)	(4,347)	(4,146)
Net profit	233	61	209
In total assets	15,936	16,784	17,659
Salaries, wages and ancillary expenses	696	785	741
Payments to the government – tax expenses (revenues)	35	37	63
Employee benefit obligations	431	718	696
Scope of development projects	1,003	1,422	1,465
Scope of development projects according to additions to property each year	669	759	1,200





Your opinion is important to us, you are welcome send us feedback: rmor@MEKOROT.CO.IL

Credit for the photographs that appear in the report to the photographers:

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