Israel Corporation Ltd.

2010 Annual Report

This Report does not constitute a Periodic Report
in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970

Israel Corporation Ltd.

Report of the Board of Directors

For 2010

Israel Corporation Ltd.
Report of the Corporation's Board of Directors
For the Year Ended December 31, 2010

Description of the Corporation and its Business Environment

Israel Corporation Ltd. (hereinafter – "the Corporation") is a holding company engaged in the initiation, promotion and development of businesses in and outside Israel. In order to execute its investments, including through its subsidiaries, from time to time the Corporation examines investment opportunities in companies and ventures in various activity sectors, including foreign ventures and international operations, while focusing on entities having broad-scoped activities or with the potential for reaching such dimensions, with any eye toward acquiring significant holdings therein.

The Corporation is a public company and its shares are traded on the Tel-Aviv Stock Exchange.

The Corporation is involved in management of the Group companies, particularly those of its investees in which it holds a high ownership percentage.

The Corporation operates through an array of investee companies, mainly in the chemicals, shipping and energy sectors, and also has additional investments, including in the areas of advanced technology, vehicles, infrastructures for electric vehicles, power plants and "clean" energy. The Corporation's headquarters provides management services, through a wholly controlled subsidiary, and is also actively involved in the strategic planning and business development of the investee companies. In addition, the Group endeavors to establish and develop additional businesses.

This Directors' Report is submitted as part of the periodic report for 2010 and under the assumption that the reader also has the other sections of the said periodic report.

Financial Position

– The total assets, as at December 31, 2010, amounted to about $14,022 million, compared with about $12,147 million, as at December 31, 2009.

– The total current assets less the current liabilities as at December 31, 2010 amounted to about $2,224 million, compared with about $1,518 million as at December 31, 2009.

– The total non-current assets as at December 31, 2010, amounted to about $8,995 million, compared with about $8,329 million as at December 31, 2009.

– The total non-current liabilities as at December 31, 2010 amounted to about $7,384 million, compared with about $6,522 million as at December 31, 2009.

– The total sales for the year ended December 31, 2010 amounted to about $9,865 million, compared with about $12,498 million for the year ended December 31, 2009.

– The capital attributable to the Corporation's shareholders as at as at December 31, 2010 amounted to about $2,389 million, compared with about $1,811 million as at December 31, 2009.

In the period January–December 2009, the Corporation's financial statements included data of Oil Refineries Ltd., which exited the consolidation on December 31, 2009.

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Changes in the Investment Portfolio

1. Better Place LLC (hereinafter – “Better Place”)

A. In January 2010, the Corporation transferred to Better Place LLC the amount of about $15.4 million and thus completed its investment in a total amount of $100 million that the Corporation’s management decided to invest in Better Place.

B. In January 2010, Better Place initiated another equity financing round wherein it raised $350 million, from both new investors and from some of its existing shareholders. In the second quarter of the period of the report, the round of investments in shares of Better Place was completed wherein the Corporation invested about $72 million.
Upon completion of the transactions, the Corporation’s share in Better Place dropped from about 50% to about 31.4% and the Corporation realized a capital gain of about $28 million. See also Note 11.A.3.A to the financial statements.

2. I.C. Green Energy Ltd. (hereinafter – “I.C. Green”)

A. In January 2010, an investment agreement was signed between I.C. Green, the founding shareholders (hereinafter – “the Founders”) of Helufocus Ltd. (hereinafter – “Helufocus”), and a Chinese company for investment in the shares of Helufocus. Pursuant to the agreement, Helufocus will issue shares to I.C. Green and to the Chinese company in exchange for the amount of about $2.31 million, invested by I.C. Green, and about $9.25 million, invested by the Chinese company.
In the first quarter, the transaction was completed and I.C. Green realized a gain from decline in the rate of holding of about $9.7 million. See also Note 12.A.9 to the financial statements.

B. In February 2010, Petrotech A.G. (hereinafter – “Petrotech”), an associated company of I.C. Green, signed an agreement with a German bank whereby Petrotech repaid a loan from the bank, the balance of which at that time was about €18.9 million, in exchange for the amount of about €2.2 million. For purposes of repayment of the loan from the bank by Petrotech, I.C. Green made a loan to Petrotech in the amount of about €2.2 million. As a result of the transaction, Petrotech recorded a capital gain of about €16.7 million (the Corporation’s share is about €8 million). See also Note 11.A.3(c) to the financial statements.

3. Israel Chemicals Ltd. (hereinafter – “ICL”)

A. In January 2010, the Corporation sold 8 million ordinary shares of ICL it held, constituting about 0.63% of ICL’s issued and paid-up share capital, in exchange for about $106 million. As a result of the sale, the Corporation recorded an increase in capital attributable to the Corporation’s shareholders, in the amount of about $85 million.

B. In December 2010, the Corporation acquired 985,026 shares of ICL constituting about 0.07% of ICL’s issued and paid-up share capital, for a consideration of about $16 million.

As at December 31, 2010, the Corporation holds about 52.6% of ICL’s issued and paid-up share capital.

4. ZIM Intergrated Shipping Services Ltd. (hereinafter – "ZIM")

In the year of account, the Corporation invested $150 million to ZIM as part of the rehabilitation plan, as described in the Report of the Corporation's Board of Directors as at December 31, 2009.

5. I.C. Power Ltd. (hereinafter – "I.C. Power")

A. In the year of account, I.C. Power was established, and through I.C. Power the Corporation holds its investments in Inkia and in O.P.C. Rotem Ltd. (hereinafter – "O.P.C.").

B. In the year of account, the Corporation invested about $45 million in I.C. Power by means of capital notes.

C. Subsequent to the date of the report, the Corporation invested about $38 million in I.C. Power by means of capital notes.

D. Regarding guarantees in respect of O.P.C. given by the Corporation subsequent to the date of the report – see the Section "Sources of Financing" in this Report.

6. Inkia Energy Ltd. (hereinafter – "Inkia")

In the year of account, the Corporation transferred about $50 million to Inkia for acquisition of shares (indirectly) of Adhal, against shareholders' loans.

Results of Operations

The Corporation finished the current year with income allocable to its owners of about $474 million, compared with income of about $6 million last year.

The income after eliminating the negative contribution of those companies that are just at the outset of their activities is about $557 million (compared with income of about $54 million last year).

The companies presently at the very outset of their activities – Better Place LLC and Chery Quantum Auto Limited have not yet commenced their commercial operations.

In the year of account, the Corporation sold about 0.63% of the shares of ICL. The difference between the proceeds and the book value of the shares sold, in the amount of about $85 million, was recorded directly as an increase in equity and was not recorded on the statement of income.

The Corporation finished the fourth quarter of the period of the report with income of about $161 million, compared with income of about $126 million in the corresponding quarter last year, and after elimination of the negative contribution of those companies that are just at the outset of their activities the Corporation's income is about $209 million (compared with income of about $151 million in the corresponding quarter last year).

Set forth below are the factors which impacted the results of operations for the year of the report:

– Israel Chemicals Ltd. (hereinafter – "ICL") finished the current year with income of about $1,025 million compared with income of about $770 million last year.

– Oil Refineries Ltd. (hereinafter – "ORL") – finished the current year with income of about $77 million compared with income of about $349 million last year (Last year Israel Corporation applied some of the IFRS standards differently than ORL and, therefore, the Corporation related to ORL's income as being about $197 million).

Results of Operations (Cont.)

Set forth below are the factors which impacted the results of operations for the year of the report: (Cont.)

- ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM") finished the current year with income of about $54 million compared with a loss of about $432 million last year.

- Inkia Energy Ltd. (hereinafter – "Inkia") finished the year with income of about $45 million compared with income of about $59 million last year.

- Tower Semiconductor Ltd. (hereinafter – "Tower") finished the current year (in accordance with IFRS) with a loss of about $40 million, compared with a loss of about $115 million last year.

- Better Place LLC (hereinafter – "Better Place") finished the current year with a loss of about $125 million, compared with a loss of about $86 million last year (after offset of interest to holders of preferred shares).

- Chery Quantum Auto Limited (hereinafter – "Chery Quantum") finished the current year with a loss of about $78 million, compared with a loss of about $13 million last year.

- In the year of account, the net financing expenses in the consolidated financial statements amounted to about $314 million, compared with net financing income in the amount of about $109 million last year.

  The financing expenses in the current year were impacted mainly by a revaluation to fair value of financial instruments through the statement of income and erosion of the shekel liabilities.

Set forth below are the factors which impacted the results of operations for the fourth quarter of the year of the report:

- ICL finished the fourth quarter of the current year with income of about $245 million, compared with income of about $203 million in the corresponding quarter last year.

- ORL finished the fourth quarter of the current year with income of about $24 million compared with income of about $182 million in the corresponding quarter last year. (Israel Corporation related to ORL's income as being in the amount of about $30 million).

- ZIM finished the fourth quarter of the current year with income of about $96 million compared with income of about $81 million in the corresponding quarter last year.

- Inkia finished the fourth quarter of the current year with income of about $10 million, compared with income of about $43 million in the corresponding quarter last year.

- Tower finished the fourth quarter of the current year (in accordance with IFRS) with a loss of about $0.3 million, compared with a loss of about $31 million in the corresponding quarter last year.

- Better Place Inc. finished the fourth quarter of the current year with a loss of about $42 million, compared with a loss of about $39 million in the corresponding quarter last year (after offset of interest to holders of preferred shares).

- Chery Quantum Auto Limited finished the fourth quarter of the current year with a loss of about $70 million, compared with a loss of about $11 million in the corresponding quarter last year.

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Condensed Consolidated Quarterly Statement of Earnings

	1st Qtr. 2010	2nd Qtr. 2010	3rd Qtr. 2010	4th Qtr. 2010	Total for 2010
	$ millions	$ millions	$ millions	$ millions	$ millions
Sales	2,253	2,542	2,542	2,528	9,865
Cost of sales	1,706	1,774	1,799	1,836	7,115
Gross profit	547	768	743	692	2,750
Selling, administrative and R&D, and other income/expenses	284	294	310	202	1,090
Operating income	263	474	433	490	1,660
Financing expenses, net	(16)	(83)	(151)	(64)	(314)
Group's equity in income (losses) of associated companies, net of tax	(12)	2	7	(36)	(39)
Income before taxes on income	235	393	289	390	1,307
Taxes on income	67	92	62	105	326
Income for the period	168	301	227	285	981
Allocated to:					
The Corporation's owners	49	157	107	161	474
Rights not conferring control	119	144	120	124	507
Income for the period	168	301	227	285	981

As an investment company, the Corporation's financial results are impacted by the results of its investee companies.

Set forth below is detail of the contribution of the principal subsidiaries to the Corporation's results:

	Year ended December 31		Three months ended December 31	
	2010	2009	2010	2009
	$ millions	$ millions	$ millions	$ millions
ICL	538	410	129	108
ZIM	54	(428)	96	80
ORL	28	83	9	11
I.C. Power*	45	59	10	43
Tower	(15)	(45)	–	(12)
Better Place	(44)	(42)	(13)	(20)
Chery Quantum	(39)	(6)	(35)	(5)

* In 2009 and in the first quarter of 2010, relates only to Inkia.

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Following is a brief summary of the financial results of the principal investee companies:

Israel Chemicals Ltd.

ICL finished the year account with income of about $1,025 million, compared with income of about $770 million last year.

ICL Group's sales in the year account amounted to about $5,692 million, compared with about $4,554 million last year – an increase of 25%. This increase reflects a sharp increase in the quantities sold in all of the ICL Group's activity sectors, which was partly offset by a decline in the selling prices. However, the changes in the exchange rates of the dollar vis-à-vis the euro and the British pound gave rise to a decline in the sales.

The gross profit in the year account was about 43% of the sales, compared with about 40% of the sales last year. The increase in the gross profit rate stems mainly from an increase in the quantities sold of most of the ICL Group's products, which was partly offset by a decline in the selling prices and an increase in the prices of raw materials and energy. There was also an increase in the shekel expenses in dollar terms due to the strengthening of the shekel versus the dollar.

In the year of account, there was an increase in the selling and marketing expenses compared with last year, stemming mainly from the increase in quantities sold, mainly in the fertilizers area and a drop in other selling expenses, along with an increase in the oversea and overland shipping expenses.

The administrative and general expenses increased in the year of account due to spreading of the cost of options for shares issued to employees over the vesting period.

In the year of account, ICL had net financing expenses of about $53 million, compared with net financing income of about $6 million last year.

The financing income/expenses in the period were impacted mainly by the change in respect of derivative financial instruments, from an increase in the net interest expenses due to an increase in the average interest rate, and from expenses in respect of the impact in the change in the rate of exchange of the shekel versus the dollar on liabilities for employee benefits.

The taxes on income in the current report amounted to about $267 million, compared with about $169 million last year. Last year, there was a non-recurring decrease in the tax rate due to the impact of the expected decline in the tax rates as a result of the Economic Efficiency Law, on the balances of the deferred taxes. In 2010, non-recurring expenses were recognized in connection with closing out assessments for prior years.

The total sales in the fourth quarter of the current year amounted to about $1,421 million, compared with about $1,227 million in corresponding quarter last year – an increase of about 16% – stemming mainly from an increase in the quantities sold in all of ICL's activity segments while, on the other hand, there was a decline in the selling prices of some of ICL's products and the strengthening of the dollar vis-à-vis the euro and the British pound also caused a decline in the revenues.

The taxes on income in the fourth quarter of the current year amounted to about $86 million, compared with about $52 million in corresponding quarter last year. The increase stems mainly from non-recurring expenses in connection with closing out assessments for prior years.

The income in the fourth quarter of the year account amounted to about $245 million, compared with net income of about $203 million in corresponding quarter last year.

Israel Chemicals Ltd. (Cont.)

<u>Other developments in the year of account and thereafter</u>:

– In January 2010, the Board of Directors of ICL approved issuance of up to 11 million non-marketable options for no consideration to 318 officers and senior employees in the ICL Group. See also Note 23.B.3 to the financial statements.

– In July 2010, ICL and certain ICL Group subsidiaries (hereinafter – "the Companies") signed a series of agreements regarding a securitization transaction with Rabobank and Credit Agricol for execution of a transaction involving sale of their customer receivables to a foreign company set up for this purpose and that is not owned or controlled by the ICL Group. This agreement supersedes the prior securitization agreement, which ended in July 2010.

  For additional details regarding the securitization transaction – see Note 17.G to the financial statements.

– In August 2010, Standard and Poor's Maalot approved a credit rating of IL AA+ for ICL and removed the rating from the credit watch with negative consequences. The rating forecast is stable.

– In November 2010, the General Workers Union announced a work dispute at Dead Sea Works (hereinafter – "DSW") due to a lack of agreement in course of negotiations for signing of a new collective bargaining agreement.

– In January 2011, the Employees Council of DSW decided to institute sanctions that were expressed by, among other things, limitation of the production and holding processes that impacted the activities of DSW and other factories located in Hatzria. These sanctions caused disruptions in the production processes even to the extent of stopping the activities in the production facilities.

  In February 2011, the management of DSW and Employees Council reach understandings and the sanctions were discontinued.

– On December 7, 2010, ICL committed to the Scotts Miracle-Gro to acquire the companies, assets and activities of the business unit in the specialty fertilizers area. On February 28, 2011, the acquisition transaction was closed. For additional details – see Note 12.A.6 to the financial statements.

– Subsequent to the period of the report, in March 2011, ICL signed an agreement with a group of 17 banks from Europe, the United States and Israel whereby the banks granted ICL a credit framework, in the amount of $675 million. For additional details – see Note 17.F to the financial statements.

Oil Refineries Ltd.

ORL finished the year of account with income of about $77 million compared with income of about $349 million last year.

In the fourth quarter of the year of account ORL had income of about $24 million compared with income of about $182 million in the corresponding quarter last year.

Oil Refineries Ltd. (Cont.)

In the year of account, the fluctuations in crude oil prices continued, which in April 2010 reached the highest level since the collapse at the end of 2008 and up to that time, where crude oil of the Brent type was sold at a price of about $85 per barrel. The increase in the price of crude oil was supported by expectations of restoration of the growth and a strong demand for future crude oil contracts that also serve as an investment vehicle. In May of the current year, upon onset of the debt crisis in the Euro Block and the declines in the global financial markets, the fuel prices were forced down sharply to a level of about $68 per barrel. These prices climbed back up during the year and ultimately reach a level of about $92 per barrel. At the same time, there was an increase in the worldwide demand for crude oil, which reached a peak level of about 87 million barrels a day and also included an increase in demand for crude oil in the developing countries for the first time since 2004.

Set forth below is a table summarizing the factors affecting the refining margin (in dollars per ton):

	2010	2009
Refining margin, net	23.7	36.0
Less –		
Impact of application of the derivatives recording method (pursuant to IFRS)	(3.7)	(12.1)
Impact of buying and selling timing differences	3.4	6.8
Provision for decline in value of inventories as at the date of the report	0.6	10.9
Accounting margin	24.0	41.7

The total sales in the refining sector in 2010 amounted to about $5,870 million, compared with about $4,327 million last year. The increase in the total sales stemmed mainly from an increase in the average price of the fuel products. The average price per ton of the products' basket in the Mediterranean Sea area that is roughly the same as the basket produced by ORL was about $672 in the year of account, compared with $519 last year.
In the local market in the current year, there was an increase of about 1% in consumption of refined fuel products, and an increase of about 4% in consumption of fuel for transportation (gasoline, diesel and jet fuel) compared with last year.

In the year of account, the other expenses, net, amounted to about $36 million, compared with other income, net, of about $207 million last year, and they represent amortization of the excess cost upon acquisition of the balance of the shares of Carmel Olefins and in Haifa Basic Oils. Last year ORL had other income, net, of about $207 million that derived mainly from negative goodwill created on acquisition of Carmel Olefins, income from revaluation of ORL's holdings in investee companies and a loss from change in the recording method for accounting purposes of ORL's holdings in Israeli Petrochemical Works.

In the year of account, ORL's financing expenses, net, amounted to about $51 million, compared with about $26 million last year, mainly due to the impact of exchange rate differences on monetary items, changes in the fair value of hedges and an increase in the short-term interest rate.

In the year of account, the income from taxes on income amounted to about $82 million, compared with income about $13 million last year. Most of the change stems from a decline in the pre-tax income and income from deferred taxes as a result of a change in the tax rates that was approved as part of the Economic Policies Law.

Oil Refineries Ltd. (Cont.)

ORL finished the fourth quarter of the year of the report with income of about $24 million, compared with income of about $182 million in the corresponding quarter last year.

The total sales in the fourth quarter of the year of the report totaled about $1,496 million, about the same as the fourth quarter of last year where the total sales amounted to about $1,494 million.

Subsequent to the period of the report, a wave of riots broke out in the Middle East by citizens of countries who are demanding greater democracy, equality of opportunities and elimination of corruption. These riots caused disquiet in the world markets and, as a result, the prices of crude oil rose to peak levels of more than $100 a barrel.

ZIM Integrated Shipping Services Ltd.

Set forth below is main data from ZIM's statement of income:

	For the Year Ended December 31		**For the Three Months Ended December 31**	
	2010	**2009**	**2010**	**2009**
	$ millions			
Income from voyages and accompanying services	**3,717**	2,449	**986**	688
Operating expenses and cost of services	**(3,326)**	(2,848)	**(878)**	(764)
Operating depreciation	**(152)**	(128)	**(41)**	(34)
Gross income (loss)	**239**	(527)	**67**	(110)
Other operating income (expenses), net	**114**	(3)	**124**	(3)
Administrative and general expenses	**(141)**	(145)	**(38)**	(36)
Operating income (loss)	**212**	(675)	**153**	(143)
Financing income (expenses), net	**(138)**	175	**(36)**	223
Share in income of associated companies, net	**14**	1	**4**	1
Tax benefit (taxes on income)	**(28)**	70	**(22)**	–
Income (loss) for the period	**60**	(429)	**99**	81
Right not conferring control	**6**	3	**3**	–
Income (loss) for the period attributed to the owners of the Corporation	**54**	(432)	**96**	81
	60	(429)	**99**	81

ZIM Integrated Shipping Services Ltd. (Cont.)

Set forth below is main data from ZIM's statement of cash flows:

	For the Year Ended December 31		For the Three Months Ended December 31	
	2010	**2009**	**2010**	**2009**
	$ millions			
Cash flows provided by (used in) operating activities	**370**	(413)	**102**	(110)
Acquisition of ships and ship equipment	**(311)**	(317)	**(7)**	(69)
Proceeds from sale of ships and ship equipment and sale of investments	**218**	152	**180**	11
Cash flows provided by (used in) financing activities	**185**	331	**(2)**	190
Total depreciation and amortization	**(191)**	(153)	**(46)**	(45)

Set forth below is main data from ZIM's balance sheet:

	As at December 31	
	2010	**2009**
	$ millions	
Total financial liabilities	**2,734**	2,300
Total monetary assets	**600**	189
Total equity attributed to the owners of the Corporation	**735**	502
Total assets	**4,068**	3,294
Payments on account of construction of ships	**255**	543

Movement in the equity attributable to the owners:

	2010
	$ millions
Balance as at January 1, 2010	**502**
Issuance of shares	**150**
Income for the year	**54**
Capital reserve for transactions with controlling shareholders	**21**
Capital reserve for translation differences and from hedging transactions	**8**
Balance as at December 31, 2010	**735**

ZIM Integrated Shipping Services Ltd. (Cont.)

Brief summary of ZIM's results

ZIM's income attributable to the owners in the year of account amounted to about $54 million compared with a loss of about $432 million last year.

ZIM's revenues in the year of account came to about $3,717 million, compared with about $2,449 million last year – an increase of about 52%. The increase in the total revenues stems mainly from an increase in the quantities shipped, an increase in shipping fees and an increase in revenues from the subsidiaries (deriving mainly from a company for manufacture of containers) and revenues from uncompleted voyages. In the year of account the average shipping price per container increase by 21% from $1,142 per container to $1,384 per container.

In the year of the report, ZIM shipped about 2,219 thousand TEUs, compared with 1,800 thousand TEUs last year – an increase of about 23%.

In the year of the report, there was an increase in the fuel expenses at the rate of about 51%, a decrease in the ship leasing expenses (including volume leases) at the rate of about 22%, an increase in the expenses accompanying cargo handling at the rate of about 18%, an increase in the expenses of the subsidiaries and others at the rate of about 47%, and an increase in expenses in respect of port services of about 17%.

In the year of the report, the other income, net, amounted to about $114 million, compared with other expenses, net, of about $3 million.

The increase in the other income derives mainly from the fact that in the year of the report ZIM realized a capital gain from sale of all its rights in a containers' terminal in Nigeria in the gross amount of about $118 million. Last year ZIM had other expenses deriving from provisions for cancellation of an agreement relating to acquisition of ships.

In the year of the report, the administrative and general expenses decreased at the rate of about 3%. The decrease stems mainly from a decrease in expenses in respect of early retirement, which was partially offset by an increase in connection with the strengthening of the shekel versus the dollar last year.

ZIM's EBITDA (including capital gain deriving mainly from sale of ZIM's rights in a container terminal in Nigeria) in the year of account amounted to about $403 million, compared with negative EBITDA of about $518 million last year.

After eliminating ship-leasing fees that do not affect cash flows (including ship leasing fees the payment date of which has been deferred for a long term), the EBITDA in the year of account amounted to about $506 million, compared with negative EBITDA of about $518 million last year.

In the year of the report, the net financing expenses amounted to about $138 million, compared with net financing income of about $175 million last year. Last year ZIM recorded financing income relating to the debt arrangement, in the amount of about $265 million, compared with financing expenses of about $2 million in the current year. In addition, in the current year ZIM recorded a loss in respect of hedging transactions, in the amount of about $9 million, compared with income of about $8 million last year, an increase in the interest expenses, in the amount of about $31 million, and an increase in exchange rate and linkage differences, in the amount of about $2 million.

ZIM Integrated Shipping Services Ltd. (Cont.)

ZIM's tax expenses in the current year amounted to about $28 million, compared with a tax benefit of about $71 million last year. The tax expenses stem from ZIM's transition to accounting income.

ZIM finished the fourth quarter of the period of the report with income attributable to the owners of about $96 million, compared with income of about $81 million in the corresponding quarter last year.

ZIM's revenues in the fourth quarter of the year of the report amounted to about $986 million, compared with about $688 million in the corresponding quarter last year – an increase of 43% stemming, mainly, from an increase in the shipping fees, an increase in the quantities shipped and revenues from the subsidiaries, and less a decrease in uncompleted voyages. In this quarter, the average shipping price per container increased by about 31% from about $1,136 per container to about $1,485 per container. In addition, the quantities shipped increased by about 14% from about 498 thousand TEUs, compared to about 566 thousand TEUs in the corresponding quarter last year.

Compared with the fourth quarter of last year, in the fourth quarter of the current year the rate of the fuel expenses increased by about 26%, and there was also an increase in the cargo handling expenses, expenses relating to subsidiaries and others and port expenses.

In the fourth quarter of the period of the report, the other income, net, amounted to about $124 million, compared with other income, net, of about $3 million in the corresponding quarter last year. In the current quarter, the other income derives mainly from capital gain in respect of sale of all of ZIM's rights in a containers' terminal in Nigeria.

ZIM's EBITDA (including capital gain deriving mainly from sale of ZIM's rights in a container terminal in Nigeria) in the fourth quarter year of account amounted to about $205 million, compared with negative EBITDA of about $94 million in the corresponding quarter last year.

After eliminating ship-leasing fees that do not affect cash flows (including ship leasing fees the payment date of which has been deferred for a long term), the EBITDA in the quarter amounted to about $230 million, compared with negative EBITDA of about $69 million in the corresponding quarter last year.

The financing expenses, net, in the fourth quarter of the period of the report amounted to about $36 million, compared with financing income, net, of about $233 million in the corresponding quarter last year. In the fourth quarter of last year, ZIM recorded financing income in respect of the debt arrangement, in the amount of about $265 million, compared with financing expenses of about $1 million in the current quarter.

Other developments in the period of the report and thereafter:

A. Along with and as part of the global financial crisis, towards the end of 2008 and during 2009 a number of negative developments occurred in the international shipping market, among others, a high supply of ships compared with a moderate demand, a fact that led to an increasing decline in utilization of the ships and the shipping fees. The difficult conditions in the international shipping market in the said period has had an adverse impact on ZIM and on, among other things, the results of its operations, its compliance with financial covenants and its ability to raise money, as well as on its financing conditions. It is noted that in the period of the report, the negative trend that characterized 2009 began to gradually change along with an improvement of the commercial conditions in the industry, where beginning from the second quarter of 2010 ZIM returned to profitability and positive cash flows.

ZIM Integrated Shipping Services Ltd. (Cont.)

A. (Cont.)

In 2009, ZIM estimated that in the years 2009 to 2013 it is expected to encounter a situation of negative cash flows (deriving from the business operations, investments and loan repayments) in an amount estimated at about $1 billion. In light of this, ZIM (with the assistance of its professional advisors) formulated a rehabilitation plan. Similar to many other international shipping companies, ZIM has taken various steps aimed at coping with the crisis in the market, including changing its strategic plans.

In addition, during 2009, ZIM held contacts and negotiations with various financial creditors (including foreign and local banks, leasing companies and debenture holders) (hereinafter – "the Financial Creditors") and other parties (including ship owners leasing ships to ZIM, which included related companies, and shipyards from which it ordered ships) (hereinafter – "the Other Parties") and formulated, as stated, an agreed plan of rehabilitation. At the end of 2009, from all significant perspectives, ZIM completed the Rehabilitation Plan.

ZIM has taken and is continuing to take various steps aimed at coping with the changes in the market situation, including changing its strategic plan, whereby ZIM planned significant increases – both in its shipping capacity and in the quantities shipped. As part of adaptation of the strategic plan to the market conditions that prevailed in 2009, ZIM has taken additional steps, such as: conducting of negotiations with shipyards from which it ordered ships; return of certain leased ships (based on ZIM's needs) to their owners at the end of the lease contract; preparation for the necessary changes in the shipping routes, including contraction of the activities in certain markets: idling of ships that will not be utilized due to the cutback in the shipping routes; examination of the viability of exiting investments in items auxiliary to the shipping line activities; and reduction of administration expenses, including termination of employees, etc.

In November 2009, Israel Corporation's General Meeting approved, among other things, the arrangements with the related companies in the framework of the Rehabilitation Plan, as well as Israel Corporation's investment as part of the said plan – all as detailed in the Immediate Reports submitted by Israel Corporation Ltd. For details and an expanded treatment of ZIM's agreed-to rehabilitation plan along with the details thereof, loans and investments made by Israel Corporation to/in ZIM in the year of the report, and decisions of Israel Corporation's General Meeting in connection with ZIM's agreed-to rehabilitation plan – see the Immediate Reports of Israel Corporation: (A) Immediate Report (Transaction Report) published by the Corporation on September 9, 2009; (B) Supplemental Immediate Report dated September 24, 2009; (C) Supplemental Immediate Report No. 2 dated October 7, 2009; (D) Supplemental Immediate Report No. 3 dated October 18, 2009; (E) Immediate Report (Combined Report) dated October 25, 2009; (F) Immediate Report regarding Notification of Related Companies in connection with Decisions of the General Meeting that is the subject of the Transaction Report dated November 3, 2009; and (G) Immediate Reports dated November 3, 2009 and November 4, 2009 regarding the results of the General Meeting.

ZIM Integrated Shipping Services Ltd. (Cont.)

A. (Cont.)

As part of the negotiations aimed at formulation of a plan of rehabilitation, on August 16, 2009, ZIM held a General Meeting of the debenture holders during which ZIM provided an update regarding its business position and a discussion was held with respect appointment of representatives of the debenture holders and their authorities. As a result of the said meeting, representatives were appointed for the debenture holders with which ZIM held negotiations regarding the terms of the arrangement that will apply to the debenture holders. In November 2009, the General Meeting of the debenture holders approved the arrangement documents as agreed to with the representatives. On January 6, 2010, all the conditions for entry into effect of the trust indenture were formally completed (even though as a substantive matter the said conditions were completed prior to December 31, 2009), and this date was set as the effective date of the arrangement as defined in the trust indenture.

B. On November 8, 2009, ZIM published an offer to its shareholders to acquire ordinary shares of ZIM of NIS 0.03 par value, by means of rights.

On December 1, 2009, Israel Corporation notified ZIM of its interest in this rights' offer and in this framework Israel Corporation:

1) Executed a bank transfer to the credit of the special account, as provided in the offer, the amount of $100 million.

2) Gave a written instruction to ZIM with respect to conversion of loans it made to ZIM (by means of repayment of the above-mentioned loans and concurrently transferring to ZIM the amount of loans repaid as stated) in the amount of $200 million.

3) Signed a liability certificate whereby Israel Corporation committed to transfer to ZIM the balance of the consideration ($150 million), in a lump-sum or in increments, based on ZIM's request, and absent a demand, as stated, no later than December 20, 2010.
As at the date of the report, Israel Corporation had transferred at ZIM's demand the amount of $150 million as stated. Against the amount of $150 million, 18,981,956 shares of ZIM were issued to Israel Corporation.

C. On September 26, 2010, S&P Maalot informed ZIM of a rise in the rating of the debentures to ilBB+ with a positive outlook. On February 24, 2011, S&P Maalot informed ZIM of a rise in the rating of the debentures to ilBBB with a stable outlook.

D. On June 9, 2010, an agreement was signed between ZIM and an unrelated foreign company (hereinafter – "the Foreign Company") for sale of ZIM's rights in a joint venture in China (about 8% of the joint venture's capital and the rights related thereto) the main activities of which are establishment and operation of about 18 terminals for cargo trains in China (hereinafter – "the Joint Venture" and "the Agreement", respectively).

Pursuant to the Agreement, in addition to the consideration to be paid to ZIM, the Foreign Company (which is the holder of the rights in the Joint Venture) will pay the Joint Venture the amount of about RMB 111 million (about $17 million based on the exchange rate known proximate to the date of this report), in respect of ZIM's share in the third investment round that was not invested in the Joint Venture by ZIM on the date scheduled for the investment.

ZIM Integrated Shipping Services Ltd. (Cont.)

D. (Cont.)

As part of the Agreement it was provided that ZIM's refraining from participation in the third investment round in the Joint Venture will not unfavorably impact the validity of the Agreement and will not be considered a breach of the Agreement by ZIM (including in a case of contentions by the Joint Venture or the holders of rights therein against ZIM in connection with the said investment round). It was further provided that to the extent there are demands or contentions in connection with ZIM's refraining from participation in the investment round as stated, ZIM will be required to settle every claim or demand regarding this matter independently. Pursuant to the investment agreements in the Joint Venture, ZIM paid compensation to the Joint Venture at the rate of about 3% of the amount of the investment not made on time (about \$497 thousand based on the exchange rate known proximate to the date of this report), and it is likely to be exposed to (under the Companies Law in China) to a demand for payment to the Authorities in China in amounts that are not significant.
In December 2010, sale of ZIM's rights in the Joint Venture was completed and the full amount of the consideration, in the amount of about RMB 197 million (about \$29 million based on the exchange rate known proximate to the date of this report) was paid to ZIM.

E. At the end of July 2010, ZIM received two ships, one having a capacity of 8,200 TEUs and the other having a capacity of 10,000 TEUs. Upon receipt of the said ships, ZIM completed its acquisition of the eight ships it purchased from an unrelated third party, and regarding which it was agreed as part of ZIM's rehabilitation plan that they will be delivered in 2009-2010.

These ships were financed by foreign banks and upon their delivery new bank financing conditions received by ZIM were finalized, in the amount of about \$500 million, in accordance with the agreements as part of ZIM's rehabilitation plan.

F. On November 5, 2010, an agreement was signed between ZIM and its related companies, on the one side, and an unrelated company, China Merchants Holding (International) Company Limited (hereinafter – "the Purchaser") for sale of all of ZIM's rights, directly or indirectly, of whatever type or kind, in a foreign company "Tincan Island Container Terminal" (hereinafter – "TICT"), which holds and operates a container terminal in Lagos in Nigeria.

1. In consideration for all the shares of TICT held by ZIM, and waiver of all of ZIM's rights in TICT, ZIM's commitment not to compete for a 5-year period and ZIM's undertaking in an agreement for a period of 10 years to receive port services in Lagos exclusively from TICT, the Purchaser paid ZIM an aggregate amount of about \$154 million.

2. On November 16, 2010, the transaction was completed. In connection with sale of the shares, ZIM recorded a gross gain (before taxes) of about \$118 million.

ZIM Integrated Shipping Services Ltd. (Cont.)

G. As part of the Arrangements Law 2011-2012 it was decided to cancel the exemption provided in Section 3(7) of the Law, to the extent it addresses marine shipping. Cancellation of the exemption will enter into effect at the end of two months from the publication date of a class exemption with respect to operating arrangements covering international shipping or on`January 1, 2012 – whichever occurs first. The Minister of Finance is authorized to postpone the said date (January 1, 2012) for periods of six months each time until a class exemption is promulgated, as stated. According to that stated in the Arrangements Law, the Supervisor of Restrictive Business Practices was authorized to provide a class exemption with respect to an operating arrangement covering international oversea shipping involving one of the following – (A) adjustment of the average shipping capacity on every vessel in reaction to fluctuations in supply and demand in the market; (B) joint operation of shipping services or of ports and operating-related services as stated; (C) accompanying activities required for realization of the activities stated in Sections (A) and (B) above.

H. On November 28, 2000, ZIM signed an agreement with interested parties whereby ZIM leased, commencing from February 28, 2002, the ship "ZIM Mediterranean" (having a capacity of 5,000 containers) for a period of 10 years. As part of the said agreement, ZIM was granted three options (unilateral) whereby as part of each option ZIM will be granted the possibility of extending the lease period for two additional years, provided each option is exercised 12 months prior to the end of the prior lease period, that is, ZIM was required to exercise the first option up to February 28, 2011 (hereinafter – "the First Option Period"). In addition to that stated, at the request of ZIM, the lessor of the ship notified ZIM that it is granted the possibility of giving notice of exercise of the option up to April 30, 2011. Pursuant to that stated, the lease fees for the original lease period were between $22,700 and $23,150 (updated bi-annually as stipulated in the agreement); and the lease fees under the agreement for the first option period are $23,550 per day.

ZIM believes, among other things, that based on the estimates received, the conditions of the undertaking described above are better than market terms and, therefore, in accordance with a decision of ZIM's Board of Directors and Management on February 21, 2011, ZIM decided to exercise the first option, as stated above.

ZIM Integrated Shipping Services Ltd. (Cont.)

I. On May 11, 2006, the General Meeting of Israel Corporation approved a "framework agreement"[1], further to the "Ship Lease Procedure for Short Periods from Interested Parties in ZIM"[2] (hereinafter – "the Procedure"), which constitutes a framework for continuation of the joint cooperation between ZIM and "the Ofer Group" which commenced in 1969. The subject of the Framework Agreement is a joint venture agreement between ZIM and Ofer (Ship Holdings) Ltd. and Ofer Shipping Ltd. (hereinafter – "Ofer Shipping" and "the Framework Agreement", respectively), for a period of 12 years commencing from the approval date of the General Meeting (hereinafter – "the Joint Cooperation Period"), however Israel Corporation undertook an obligation whereby every 4 years from the date of approval by the General Meeting of the Framework Agreement, and shortly before the Annual General Meeting of Israel Corporation, the Audit Committees and Boards of Directors of ZIM and Israel Corporation will discuss continuation of joint cooperation for an additional four-year period. Subject to approval by the organs, as stated, of continuation of the joint cooperation Israel Corporation will bring continuation of the joint cooperation for approval by the Annual General Meeting of Israel Corporation.

May 2010, was the first date for approval of continuation of the joint cooperation and, therefore, the agreement was approved by ZIM's Audit Committee and Board of Directors. However, continuation of the joint cooperation was not brought for approval by the Annual General Meeting of Israel Corporation and, therefore, as at the period of the report, the Framework Agreement is not in effect.

J. In July 2007, ZIM entered into an agreement for acquisition of two container ships with a capacity of 2,450 TEU's each, which were scheduled for delivery to ZIM in 2010. The price of each ship; (not including technical additions in amounts that are not significant) is, based on the rate of exchange in effect on the date of the transaction, about $47.6 million[3] (based on the rate of exchange on December 31, 2010, the above amount was estimated at $71.9 million). In March 2008, ZIM signed an agreement with a third party (unrelated) for sale of one ship at the ship price denominated in the contract in Japanese yens (back-to-back) and lease thereof by ZIM in a vessel lease for a period of 15 years. ZIM has an option to purchase the ship at the end of the period at a price of $13.5 million or, alternatively, to extend the lease period for an additional 5 years, at the end of which the ship will be acquired for $1.

During the first 15 years, the lease fees will be $13,400 per day, while during the next 15 years, the lease fees will be $9,500 per day.

As part of the rehabilitation plan, ZIM reached agreement to postpone construction and/or delivery of the ship acquired (that was not sold) by ZIM while changing the structure of the payments in connection with acquisition of the ship. In March 2011, it was agreed with the shipyard to cancel construction of the ship against compensation in the amount of the first payment, which was paid to the shipyard.

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1 Within the meaning thereof in Regulation 1(3) of the Companies Regulations (Transactions with Interested Parties), 2000.

2 On January 3, 2006, ZIM's Audit Committee and Board of Directors approved a lease procedure for ships for short periods from interested parties in ZIM. For the sake of good order, the Procedure was also approved on January 4, 2006, by ZIM's Audit Committee and Board of Directors. The Procedure provides principles for examination of the terms of the ship lease transactions for short periods (up to 5 years) from interested parties in ZIM. For purposes of determining whether a ship lease is for a short period, and therefore is embraced by the procedure, it was provided that the option periods granted to ZIM in the lease agreement for the original lease period will be added, and in a case where the original lease period together with the option period add up to a period of more than 5 years, the lease will not be considered a lease for a short period for purposes of the Procedure. The Procedure provides criteria, rules and limitations in connection with the classification of lease transactions for a short period from interested parties as transactions that may be approved as part of the Procedure as transactions that are not extraordinary (within the meaning thereof in the Companies Law, 1999). The Procedure also provides that leasing of ships for short periods from interested parties is to be made on market terms, pursuant to the mechanism stipulated in the Procedure. Regarding the Procedure and details in respect thereof – see the Immediate Report of Israel Corporation dated January 5, 2006.

3 The ship prices in the framework of the undertakings are denominated in Japanese yens (JPY).

I.C. Power Ltd.

A. Inkia Energy Limited (hereinafter – "Inkia")

Inkia finished the year of account with income of about $45 million compared with income of about $59 million last year. Last year, Inkia realized a capital gain of about $35 million.

After eliminating the financing expenses to Israel Corporation (and the capital gain last year), the income for the year of account amounted to about $49 million, compared with income about $29 million last year.

Inkia's total revenues in the year of account amounted to about $421 million compared with revenues of about $327 million last year.

Inkia's proportional EBITDA in the year of account amounted to about $129 million (the proportional amount of the EBITDA of each of the investee companies), compared with proportional EBITDA of about $100 million last year.

Inkia finished the fourth quarter of the year of account with income of about $10 million, compared with income of about $8 million in the corresponding quarter last year (after eliminating the capital gain last year).

Inkia's proportional EBITDA in the fourth quarter of the year amounted to about $35 million, compared with proportional EBITDA of about $30 million in the corresponding quarter last year.

As at the date of the report, Inkia's net consolidated debt (excluding the loan from Israel Corporation) amounted to about $291 million, compared with net consolidated debt of about $311 million last year.

As at the date of the report, the relative debt of Inkia amounted to $336 million.

In 2009, Kallpa Generacion S.A. (Peru) (hereinafter – "Kallpa") commenced a project of converting its thermal plant to activities based on a combined cycle, at an estimated cost of about $400 million. As at December 31, 2010, Kallpa had invested about $107 million in the project.

Set forth below are the main factors affecting Inkia's income in the year of the report:

1. Significant improvement in the results of Kallpa due to commencement of operation of the second turbine in the second half of 2009 and the third turbine in March 2010, as well as due to recording of revenues of $5 million from the Lima Gas Transport Company based on the comprise agreement with it.

2. Impact of "El Ninyo" in El Salvador – due the "El Ninyo" effect, which is characterized by a decline in the number of investors in Central America, there was a significant increase in the production of the power plant in El Salvador concurrent with an increase in electricity prices, which had a favorable impact on the results in the first half of the year. In the second half of the year, upon commencement of the rainy season in El Salvador, there was a decline in production and the selling prices of the power plant in El Salvador.

3. In the Dominican Republic – a rise in the fuel prices and an increase in production in the year of the report, which had a favorable impact on the margin.

I.C. Power Ltd. (Cont.)

A. Inkia Energy Limited (hereinafter – "Inkia") (Cont.)

4. Increase in the financing expenses compared with last year due to increase in the financial liabilities as a result of commencement of accrual of financing expenses in respect of the second and third gas turbines on the Kallpa site.

5. In the Dominican Republic the subsidiary offset the balance of the debt against a credit balance with no cash flow effect, and as a result, the subsidiary recognized deferred income and eliminated the provision for doubtful debts in respect of the debt.

6. In the fourth quarter of 2009, Inkia recorded a capital gain from issuance of shares to a third party in an associated company, in the amount of about $35 million.

Set forth below are the main factors affecting Inkia's income in the fourth quarter of the year of the report:

1. Significant improvement in the results of Kallpa due to commencement of operation of the third turbine in March 2010, as well as due to recording of revenues of $5 million from the Lima Gas Transport Company based on the comprise agreement with it.

2. A worsening in the results of El Salvador due to a decline in production, compared with the corresponding quarter last year.

3. In the Dominican Republic – rise in fuel prices and increase in production in the period of the report had a favorable impact on the margin.

4. Increase in the financing expenses compared with the corresponding period last year due to an increase in the financial liabilities as a result of commencement of accrual of financing expenses in respect of the second and third gas turbines on the Kallpa site.

Other developments in Inkia

– Crystal Power, the minority shareholder company in a subsidiary of Inkia, filed a lawsuit claiming that, among other things, its rights as a minority shareholder were violated – see Note 22.B.6 to the financial statements.

– In March 2010, the third gas turbine at Kallpa commenced operation and now the capacity on the site has reached about 570 megawatts.

– In April 2010, Kallpa signed a number of long-term agreements with distribution companies in Peru, for periods of 8-10 years, whereby Kallpa will sell electricity to those distribution companies, commencing from 2014, in a scope of 560 megawatts. The total financial scope of the agreements is estimated at $1.5 billion. These agreements join a series of other long-term agreements Kallpa already has, which together cover Kallpa's full existing production capacity as well as the entire amount of production capacity currently under construction. In total, the production capacity will amount to about 854 megawatts.

I.C. Power Ltd. (Cont.)

A. Inkia Energy Limited (hereinafter – "Inkia") (Cont.)

Other developments in Inkia (Cont.)

– In September 2010, Inkia invested about $53 million in acquisition of shares (indirectly) of Adhal S.A.A (Peru). The amount of about $50 million was received from the Corporation against shareholders' loans. See Note 11.A.3.E to the financial statements.

– Subsequent to the date of the report, in February 2011, Inkia published a tender for shares of Ahdal as a result of an agreement with the Peru Securities Authority. The tender offer ended on March 8, 2011 with no response whatsoever. See Note 11.A.3.E to the financial statements.

– Subsequent to the date of the report, in February 2011, Inkia won a tender published for supply of electricity from hydro-electric power plants in Peru, in an overall scope of 200 megawatts, whereby Inkia will supply electricity to the electric company owned by the government of Peru. Inkia will supply the electricity during a period of 15 years and the supply is expected to begin in the second half of 2015. The aggregate amount of the tender is about $75 million.

B. O.P.C. Rotem Ltd. (hereinafter – "O.P.C.")

O.P.C. won a tender for construction of a private power plant having a capacity of about 400 megawatts in Rotem Plain

– In the year of account, the transaction was completed for acquisition of O.P.C. from Ofer Brothers (Energy Holdings Ltd.).

– In June 2010, I.C. Power, through O.P.C., signed agreements with the Korean company, Daewoo, for construction of a power plant, and entered into an undertaking with Mitsubishi for long-term maintenance of the power plant after commencement of its commercial operation. The scope of the agreement is about $440 million.

  During the fourth quarter of the year of account, Daewoo commenced work on the site. See Note 22.C.5.c to the financial statements.

– On March 18, 2011, as a result of the earthquake in Japan, Daewoo provided early notification to O.P.C. of an "Act of G-d" that may impact its performance as a subcontractor operating in Japan supplying equipment intended for the power plant. See Note 22.C.5.c. to the financial statements.

– In December 2010, O.P.C. entered into an undertaking with EMG for supply of gas to the power plant for a period of 20 years commencing from the start date of the planned commercial operation shortly before 2013. For details – see Note 22.C.5.f to the financial statements.

– Subsequent to the date of the report, an agreement was signed with a consortium of lenders led by Bank Leumi L'Israel Ltd. for financing construction of the power plant. For details – see Note 22.C.5.g to the financial statements.

Tower Semiconductor Ltd. (hereinafter – "Tower")

In the year of account, Tower's sales amounted to about $509 million, compared with about $299 million last year – an increase of about 70%, while the cost of sales increased at the rate of only about 24%.The gross profit in the year of account amounted to about $107 million, compared with a gross loss of about $26 million last year.

Tower finished the year of account (in accordance with IFRS) with a loss of about $40 million, compared with a loss of about $115 million last year.

The financing expenses (in accordance with IFRS) in the year of account amounted to about $71 million, compared with about $41 million last year.

The increase in the financing expenses in the year of account stems mainly from accounting expenses recorded in accordance with generally accepted accounting principles as a result of the increase in the fair value of part of Tower's liabilities (which are not cash basis expenses).

In the fourth quarter of the year of account, Tower had a loss (in accordance with IFRS) of about $0.3 million, compared with a loss of about $31 million in the corresponding quarter last year.

The total sales in the fourth quarter of the year of account amounted to about $135 million, compared with about $101 million in the corresponding quarter last year.

Better Place L.L.C. (hereinafter – "Better Place")

Better Place is a company in the formation and development stage that is endeavoring to develop and spread out a re-charging infrastructure that will support electric vehicles and provide an infrastructure envelope for the vehicles. In addition to the re-charging points, Better Place is making efforts to set up a network of stations that will permit drivers to quickly replace an empty battery with a full one. Taking into account the significant costs expected in connection with setting up the infrastructures, Better Place is raising money from financial and other parties in the countries of its operations.

As at the date of the report, Better Place had not yet commenced commercial activities. Better Place's operating loss for the year of account amounted to about $167 million and its net loss (to the holders of the preferred shares) was about $125 million.

Regarding data from the statement of financial position and the statement of income of Better Place – see Note 11.A.3 to the financial statements.

Chery Quantum Auto Limited (hereinafter – "Chery Quantum")

Chery Quantum is a joint venture in China with Chery Automobile.

The venture is intended to engage in development, production sale, and marketing of vehicles with regular and hybrid and electric vehicles in the Chinese and international markets.

During 2010, the Board of Directors of Israel Corporation adopted an updated business plan for the joint venture as well as increase of the investment in the joint venture's capital by the parties.

Chery Quantum Auto Limited (hereinafter – "Chery Quantum") (Cont.)

The joint venture's business plan was updated with respect to, among other things, the electric vehicles, the model for the second vehicle and selection of a location for the joint venture. See Note 11.A.3 to the financial statements.

Chery Quantum has not yet commenced its commercial operations.

Chery Quantum finished the year of account with a loss of about $78 million, compared with a loss of about $13 million in the corresponding quarter last year.

Sources of Financing for the Corporation and the Headquarters Companies and Liquidity

As at December 31, 2010, the financial liabilities of the Corporation and its wholly owned and fully controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about $2,552 million. The fair value of interest SWAP transactions, currency transactions and index transactions, mainly in connection with debentures, economically decreases the liabilities by amount $232 million.

As at December 31, 2010, the investments of the Corporation and its Headquarters Companies in liquid resources amounted to about $516 million. The amounts are invested mainly in short-term dollar deposits.

As at December 31, 2010, the net debt of the Corporation and its Headquarters Companies was about $1,804 million.

In 2010, the Corporation issued debentures for aggregate proceeds of about $265 million. Of this amount, about $145 million was received from expansion of Series 7 – linked to the CPI and repayable (on average) in about 7 years, and about $121 million was received from issuance of Series 9 – in unlinked shekels repayable (on average) in about 5 years. Subsequent to the date of the financial statements, exchange transactions for all of the liabilities in respect of Series 9 were executed, and about half of the liabilities in respect of expansion of Series 7 for a dollar liability bearing variable interest.

In 2010, the Corporation rolled over long-term credit from a bank such that it received a new loan, in the amount of $130 million, with an average life of 4 years, and repaid existing loans, in the cumulative amount of $94 million, with an average life of 2 years.

In 2010, the Corporation paid current maturities of debentures and long-term loans (less hedging transactions in respect thereof), in the amount of about $164 million.

On December 30, 2010, Standard & Poor's Maalot confirmed a rating of ilA+/stable for the Corporation and a rating of A+ for all the series of the Corporation's debentures.

As at December 31, 2010, the scope of the exposure of the Corporation and the Headquarters Companies to an upward revaluation of the shekel exchange rate vis-à-vis the dollar was about $226 million. The aggregate exposure to a rise in the Consumer Price Index was about $308 million, and to an increase in the Libor interest about $448 million.

As at the signing date of the financial statements, the exposure to the CPI declined to about $221 million and the exposure to variable interest increased to about $650 million.

Sources of Financing for the Corporation and the Headquarters Companies and Liquidity (Cont.)

Subsequent to the period of the report, the Corporation provided a guarantee (based on its indirect share in the project) for compliance by O.P.C. with its obligations as part of the financing agreements for construction of the power plant, and the Corporation's Headquarters Company provided a guarantee (based on the Corporation's indirect share in the project as stated) for compliance by O.P.C. with its obligations under the agreement with the electric company. These guarantees are in the cumulative amount of NIS 175 million linked to the CPI (about $49 million).

Exposure to Market Risks and Risk Management

Commencing from January 1, 2008, upon adoption of International Financial Reporting Standards (IFRS), the Corporation's functional currency was defined as the dollar (United States). The Corporation's exposure is measured economically in relation to the dollar.

The Corporation views most of its investments as dollar-based investments. Accordingly, the loans taken out by the Corporation to finance these investments are mainly dollar loans and CPI-linked debentures together with a transaction for exchanging the linkage basis to the dollar. In addition, there may be differences stemming primarily from differences in the timing of receipt of the loans, their repayment and the exchange thereof from a CPI-linked liability to a dollar liability. The Corporation partially hedges this exposure by means of acquisition of various financial instruments, including interest and currency SWAP transactions, and acquisition of index and forward transactions from commercial banks.

As part of the credit agreements, there are requirements to maintain certain financial ratios, including a minimum ratio between the value of collateral and the balance of the outstanding credit. The collateral given is usually shares of ICL and their value for purpose of the agreements is derived from their stock market value.

Part of the Corporation's dollar financing activities bear variable interest that changes on a quarterly, semi-annual or annual basis. In this context, the Corporation has adopted a policy whereby it hedges the outstanding loans bearing variable interest with the volume being determined from time to time and according to which the range and limitation on the interest rate is determined or created. As at December 31, 2010, the balance of the hedged transactions is about $1,205 million, and the balance of the exposure to variable interest is about $450 million.

As part of the above-mentioned transactions, the Corporation swaps the variable interest rate paid on loans received to fixed interest at rates between 2.61% and 4.0% (IRS) and as part of "Caps" and "Floor" transactions, the Corporation fixes the volatility of variable interest in a range between 2.82% to 5.5%.

Part of the sources of the Corporation's financing is supported by the local stock market. Credit from these sources is usually executed in CPI-linked or unlinked shekels. From time to time, the Corporation exchanges part of the aforesaid liabilities for dollar liabilities in forward transactions at interest rates that change, in general, once every six months or once a year. As at December 31, 2010, the scope of these transactions is about $1,055 million and the balance of the exposure to the shekel is about $220 million and to the CPI is about $300 million.

As an investment company, from time to time the Corporation decides to make investments in various countries and in different sectors. As part of its decision to make an additional investment in the automobile venture in China, the Corporation entered into a forward transaction for acquisition of Chinese yuans in an overall scope of about $170 million.

Exposure to Market Risks and Risk Management (Cont.)

Most of the hedging transactions described above do not meet the hedging criteria provided in the international standards and, therefore, the said financial instruments are measured at fair value and changes in the fair value of these instruments are recorded on the statement of income.

The derivative transactions are made with local and foreign banks and, in the Corporation's estimation, no credit risk is expected in respect thereof. The scope and type of the transactions executed with these banks also take into account the commercial conditions existing in the market, such as, the scope of the available credit lines, transaction prices, the Corporation's expectations and estimates, required collaterals and additional conditions required for execution of these transactions.

The Corporation's policy with respect to the manner of holdings the financial balances is to investment them in investment channels that change from time to time. As at December 31, 2010, most of the monies are in short-term dollar and shekel deposits.

The Corporation's risk management is derived from the policies of the Board of Directors and decisions of the Finance Committee of the Board of Directors, which receive reports from time to time.

The responsible party for risk management is the Chief Financial Officer and details with respect thereto are included in the Section "Additional Details on the Corporation".

Exposure to Market Risks and Risk Management (Cont.)

The Corporation's Consolidated Derivative Positions as at December 31, 2010

	Par value in $ millions		Fair value in $ millions	
	Long	**Short**	**Long**	**Short**
Hedging changes in variable LIBOR interest rates on dollar loans				
Over one year				
IRS transactions – recognized for accounting	135	–	(10.2)	–
CAP options – not recognized for accounting	520	–	1.4	–
FLOOR options – not recognized for accounting	520	–	(29.7)	–
COLLAR transaction – not recognized for accounting	150	–	(7.4)	–
IRS transactions – not recognized for accounting	1,449	68	(73.6)	7.3
SWAPTION transactions – not recognized for accounting	30	–	(0.9)	–
Up to year				
CAP options – not recognized for accounting	75	–	–	–
FLOOR options – not recognized for accounting	75	–	(0.6)	–
IRS transactions – not recognized for accounting	25	–	(0.5)	–
Hedging changes in exchange rate and exchange of interest rate on loans, over one year				
SWAP to dollar liability with variable interest from index linked liability with fixed interest – not recognized	–	1,000	–	303.8
SWAP to dollar liability with variable interest from shekel liability with fixed interest – not recognized	–	98	–	7.5
SWAP to dollar liability with fixed interest from index-linked liability with fixed interest – not recognized	–	13	–	2.9
SWAP to dollar liability with fixed interest from shekel liability with fixed interest – not recognized	–	48	–	6.8
SWAP to dollar liability with fixed interest from Suli liability with fixed interest – recognized for accounting	–	83	–	0.4
SWAP to dollar liability with fixed interest from shekel liability with fixed interest – recognized for	–	179	–	10.5
SWAP to shekel liability with variable interest from shekel liability with fixed interest – not recognized	–	73	–	1.2
Hedging changes in the CPI on cash flows – not recognized for accounting purposes				
Forward contract for acquisition of CPI differences – more than one year	129	–	2.9	–
Other derivatives in subsidiary – more than one year – not recognized for accounting purposes				
Option for issuance of debt	50	–	11.7	–
Forward transaction for early repayment of debentures of subsidiary	401	–	113.0	–
Option issued for lease price of ships	–	–	–	(22.3)

Exposure to Market Risks and Risk Management (Cont.)

The Corporation's Consolidated Derivative Positions as at December 31, 2010

	Par value in $ millions		Fair value in $ millions	
	Long	**Short**	**Long**	**Short**
Hedging changes in exchange rates on cash flows – up to one year – not recognized for accounting				
Shekel/Dollar				
Forward contract	–	361	–	3.8
Call options	–	256	–	(1.1)
Put options	–	256	–	9.7
Dollar/Euro				
Forward contract	25	–	1.1	–
Call options	150	–	(4.3)	–
Put options	150	–	5.8	–
Yen/Dollar				
Forward contract	13	–	(0.2)	–
Call options	21	–	0.2	–
Put options	20	–	(0.5)	–
Pound/Euro				
Forward contract	–	4	–	–
Call options	41	–	(0.8)	–
Put options	41	–	0.7	–
Swedish Crown/Dollar				
Call options	2	–	–	–
Put options	2	–	0.1	–
Forward contracts				
Shekel/yuan	95	–	1.2	–
Chinese yuan/dollar	–	41	–	0.2
Chinese yuan/dollar – more than one year	–	131	–	4.6
Transactions for hedging the fuel price				
Purchase options	15	–	0.4	–
Forward transactions	33	–	2.2	–
Transactions for hedging the price of shipping and energy				
Forward transactions – up to one year	19	–	(1.4)	–
Forward transactions – more than one year	30	–	(4.5)	–

"Long" – means receipt in dollars against the counter-currency and for other foreign currency transactions, receipt in a leading currency.
"Short" – means payment in dollars against the counter-currency and for other foreign currency transactions, payment in a leading currency.

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated)

Market risks embody the potential for changes in the fair value of the financial instruments or the cash flows deriving from them, which are composed of the following types of risks:

1. Currency risk – as a result of changes in the rates of exchange of various foreign currencies in relation to the dollar, against which the Corporation measures the exposure.
2. Interest rate risk – as a result of changes in the market interest rates.
3. Price risk – as a result of changes in market prices.
4. Index risk – as a result of changes in the Consumer Price Index.

The sensitivity analysis is made for the risk factors characterizing the exposure components, to changes in the currency exchange rates, changes in the dollar interest rate, changes in the shekel interest rate, changes in the real rate of interest and changes product prices

Measurement of the changes in the fair value is made in millions of dollars. The following tables present the changes of instruments sensitive to the parameters presented at the top of the table and relating to the fair value the instruments that are sensitive to the parameter presented. The meaning of an "increase" is a strengthening of the dollar against the counter-currency and in other transactions – a strengthening of the leading currency. The meaning of a "decrease" is a weakening of the dollar against the counter-currency and in other transactions a weakening of the leading currency.

The Group made sensitivity analyses in respect of changes in the upper and lower ranges of 5% and 10% of the market factors, except for the interest rates and prices of raw materials and commodities. In light of the low interest rates, the sensitivity tests with respect to changes in the interest rates were made using a plus/minus of 0.5% and 1% for the current interest curves in order to better reflect the interest exposure. The sensitivity tests with respect to changes in the prices of commodities were made using a plus/minus of 20% and 50%. The market tests were made as at the date of the financial statements.

Sensitivity analysis to changes in interest linked to the CPI:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Plus 1%	Plus 0.5%		Minus 0.5%	Minus 1%
Instrument Type					
Long-tern loans	4	2	(70)	(2)	(5)
Debentures	74	37	(2,024)	(39)	(79)
SWAP from index and shekel to dollar with variable interest*	(41)	(21)	307	22	43
Total	37	18	(1,787)	(19)	(41)

* These transactions were entered into for exchanging the currency and/or interest rate in respect of liabilities.

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated)

Sensitivity analysis to changes in shekel interest:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Plus 1%	Plus 0.5%		Minus 0.5%	Minus 1%
Instrument Type					
Debentures	15	7	(455)	(8)	(15)
SWAP from shekel to dollar with variable and fixed interest*	(11)	(6)	26	6	12
Total	4	1	(429)	(2)	(3)

Sensitivity analysis to changes in Libor interest:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Plus 1%	Plus 0.5%		Minus 0.5%	Minus 1%
Instrument Type					
Derivatives in respect of debt arrangement in subsidiary	(1)	–	55	1	1
Long-term bank loans – fixed interest	14	7	(574)	(7)	(15)
Debentures	9	5	(298)	(5)	(10)
SWAP transactions from Seuli to fixed dollar*	3	1	–	(1)	(3)
SWAP transactions from index and shekel to fixed dollar*	7	3	20	(3)	(6)
IRS transactions from variable to fixed	38	19	(77)	(20)	(39)
COLLAR transactions*	14	7	(36)	(7)	(13)
SWAPTION transactions*	–	–	(1)	–	(1)
Total	84	42	(911)	(42)	(86)

* These transactions were entered into for exchanging the currency and/or interest rate in respect of liabilities.

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated)

Sensitivity analysis to changes in CPI:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Instrument Type					
Long-term deposits and loans	8	4	79	(4)	(8)
Long-term loans	(7)	(4)	(70)	4	7
Debentures	(202)	(101)	(2,024)	101	202
Embedded derivative	2	1	8	(1)	(2)
SWAP transactions from index to variable dollar*	132	66	307	(66)	(132)
Purchase of index differentials*	14	7	3	(7)	(14)
Total	(53)	(27)	(1,697)	27	53

Sensitivity analysis to changes in exchange rates:

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Shekel/Dollar					
Instrument Type					
Cash and cash equivalents	(31)	(16)	330	17	36
Short-term deposits and loans	(3)	(2)	32	2	3
Trade receivables	(7)	(4)	72	4	7
Other receivables and debit balances	(11)	(6)	123	6	13
Long-term loans and deposits	(19)	(9)	190	9	19
Credit from banks and others	1	–	(8)	–	(1)
Trade payables	25	13	(255)	(13)	(26)
Other payables and credit balances	21	10	(213)	(11)	(22)
Liabilities for employee benefits	6	3	(66)	(3)	(7)
Long-term loans from banks	8	4	(79)	(4)	(6)
Debentures	231	120	(2,508)	(131)	(274)
SWAP transactions from index and shekel to variable dollar*	(154)	(81)	332	90	188
Embedded derivative	1	–	8	–	(1)
Currency options	(16)	(9)	9	12	27
Forward	(32)	(16)	4	20	42
Total	20	7	(2,029)	(2)	(2)

* These transactions were entered into for exchanging the currency and/or interest rate in respect of liabilities.

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated) (Cont.)

<u>Sensitivity analysis to changes in exchange rates</u>: (Cont.)

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Dollar/Euro					
Instrument Type					
Cash and cash equivalents	(7)	(4)	73	4	7
Short-term deposits and loans	(8)	(4)	77	4	8
Trade receivables	(28)	(14)	286	14	29
Other receivables and debit balances	(4)	(2)	40	2	4
Credit from banks and others	1	1	(11)	(1)	(1)
Trade and other payables	18	9	(181)	(9)	(18)
Other payables and credit balances	8	4	(83)	(4)	(8)
Long-term loans from banks	24	12	(244)	(12)	(24)
Embedded derivative	(1)	(1)	8	1	1
Currency options	15	7	2	(7)	(14)
Forward currency transactions	4	2	1	(2)	(3)
Total	22	10	(32)	(10)	(19)

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Dollar/pound					
Instrument Type					
Short-term deposits and loans	(1)	(1)	14	1	1
Trade receivables	(4)	(2)	41	2	4
Other receivables and debit balances	1	–	(8)	–	(1)
Trade and other payables	1	1	(11)	(1)	(1)
Other payables and credit balances	1	1	(10)	(1)	(1)
Forward transactions	1	–	–	–	(1)
Total	(1)	(1)	26	1	1

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated) (Cont.)

Sensitivity analysis to changes in exchange rates: (Cont.)

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Yen/Dollar					
Instrument Type					
Trade receivables	(2)	(1)	24	1	2
Trade and other payables	1	–	(5)	–	(1)
Currency option	1	–	–	(1)	(1)
Forward currency transactions	1	1	–	(1)	(2)
Total	1	–	19	(1)	(2)

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Brazilian real/Dollar					
Instrument Type					
Cash and cash equivalents	(1)	–	8	–	1
Trade receivables	(1)	–	6	–	1
Trade and other payables	1	–	(7)	–	(1)
Total	(1)	–	7	–	1

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Chinese Yuan/Dollar					
Instrument Type					
Cash and cash equivalents	(1)	–	9	–	1
Short-term deposits and loans	(1)	(1)	14	1	1
Trade receivables	(2)	(1)	20	1	2
Trade and other payables	1	1	(11)	(1)	(1)
Forward currency transactions	(17)	(8)	5	10	20
Total	(20)	(9)	37	11	23

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated) (Cont.)

Sensitivity analysis to changes in exchange rates: (Cont.)

	Increase (decrease) in fair value $ millions Rise of 10%	Increase (decrease) in fair value $ millions Rise of 5%	Fair value $ millions	Increase (decrease) in fair value $ millions Fall of 5%	Increase (decrease) in fair value $ millions Fall of 10%
Canadian Dollar/Dollar					
Instrument Type					
Trade receivables	(2)	(1)	25	1	3
Trade and other payables	2	1	(17)	(1)	(2)
Total	–	–	8	–	1

	Increase (decrease) in fair value $ millions Rise of 10%	Increase (decrease) in fair value $ millions Rise of 5%	Fair value $ millions	Increase (decrease) in fair value $ millions Fall of 5%	Increase (decrease) in fair value $ millions Fall of 10%
Seuli/Dollar					
Instrument Type					
Cash and cash equivalents	(2)	(1)	21	1	2
Trade receivables	(2)	(1)	27	1	3
Trade and other payables	1	1	(10)	(1)	(1)
Debentures	8	4	(83)	(4)	(8)
SWAP transactions	(8)	(4)	–	4	8
Total	(3)	(1)	(45)	1	4

	Increase (decrease) in fair value $ millions Rise of 10%	Increase (decrease) in fair value $ millions Rise of 5%	Fair value $ millions	Increase (decrease) in fair value $ millions Fall of 5%	Increase (decrease) in fair value $ millions Fall of 10%
Various currencies					
Instrument Type					
Forward transactions – shekel/yen	10	5	1	(5)	(10)
Currency options – pound/euro	(4)	(2)	–	2	4

Exposure to Market Risks and Risk Management (Cont.)

Sensitivity Analysis to Changes in the Market Factors (Consolidated) (Cont.)

Sensitivity analysis to changes in exchange rates: (Cont.)

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 10%	Rise of 5%		Fall of 5%	Fall of 10%
Sensitivity to changes in marine shipping and energy prices					
Instrument Type					
Hedging transactions	4	2	(6)	(2)	(4)

	Increase (decrease) in fair value	Increase (decrease) in fair value	Fair value	Increase (decrease) in fair value	Increase (decrease) in fair value
	$ millions	$ millions	$ millions	$ millions	$ millions
	Rise of 50%	Rise of 20%		Fall of 20%	Fall of 50%
Sensitivity to changes in fuel prices					
Instrument Type					
Forward transactions	18	7	2	(7)	(18)
Call options	8	3	–	–	–
Total	26	10	2	(7)	(18)

Risks applicable to investee companies

(These risks are managed by the investee companies independently and are reported to their separate Boards of Directors).

ICL

Some of ICL's products and some of its inputs are characterized by set prices, where ICL has only limited ability to influence such price. The ICL Group is exposed to price changes with respect to these products and inputs. Regarding the prices of the ICL's products, as detailed above, there are no hedging mechanisms.

The dollar is the primary currency of the economic environment in which most of the ICL Group companies operate. Most of the transactions – sales, material purchases, selling, marketing and financing expenses, as well as acquisition of the fixed assets – are effected in foreign currency, mainly the dollar and, accordingly, the dollar serves as ICL's measurement and reporting currency.

ICL has a number of subsidiaries overseas which operate independently–autonomously. The measurement currencies of these companies are the shekel, the euro, the British pound and the Brazilian real.

Exposure to Market Risks and Risk Management (Cont.)

Risks applicable to investee companies (Cont.)

ICL (Cont.)

The transactions executed by ICL companies in currencies that are not the functional currency of the companies expose ICL to changes in the exchange rate of these currencies vis-à-vis the functional currency of these companies.

Measurement of ICL's exposure, as stated, is on the basis of the net revenues/expenses in every currency that is not the reporting currency of that company.

Some of the costs of ICL's inputs in Israel are denominated and paid in shekels and, therefore, ICL is exposed to declines in the shekel–dollar exchange rate (upward revaluation of the shekel). The exposure is essentially the same as the exposure described above, however, it is material in a larger scope than the other currency exposures.

The results of ICL and some of the Group companies are measured for tax purposes in a currency other than the dollar, e.g., in Israel – shekels, and abroad – in the respective local currency. As a result, ICL is exposed to the difference between the rate of change in the dollar exchange rate and the measurement basis for tax purposes.

Companies in the ICL Group have liabilities for employee severance pay that are denominated in local currency. In Israel, they are also affected by the increase in the Index. The Israeli ICL companies have funded amounts to partially cover their liabilities. These funded amounts are shekel denominated and are affected by the profits of the funds in which they are invested. Therefore, ICL is exposed to the difference between the rate of change in the exchange rate of the dollar and the exchange rate of the local currency in respect of the net liabilities for employee severance pay.

ICL has monetary assets and liabilities denominated in or linked to currencies other than their functional currencies. The excess of the assets over the liabilities denominated in currencies other than the functional currencies create exposure for ICL in respect of fluctuations in the currency rates.

Investment in subsidiaries having a functional currency other than the dollar – the balance sheet balances of these companies at the end of the period are translated into dollars based on the dollar exchange rate at the end of the period in relation to the reporting currency of the aforesaid companies. The balance sheet balances at the beginning of the period as well as the capital changes during the period are translated into the dollar based on the exchange rate at the beginning of the period or at the time of the capital change, respectively. The differences stemming from the effect of the change in the exchange rate as between the dollar and the reporting currency of the companies create risk. The effects of the said exposure are recorded directly to equity.

Regarding ICL loans bearing variable rates of interest there is exposure of the financial results (financing expenses) as well as cash flow exposure in respect of changes in these interest rates. With respect to ICL loans bearing fixed interest, there is exposure to changes in the fair value of the loans due to changes in the market interest.

Regarding financial assets and financial liabilities in currencies that are not the functional currencies of the companies in the ICL Group, ICL's policy is to minimize this exposure as far as possible by the use of various hedging instruments.

Exposure to Market Risks and Risk Management (Cont.)

Risks applicable to investee companies (Cont.)

ICL (Cont.)

Regarding ICL's liabilities for employee severance pay and taxes, due to the fact that exposure is long-term, ICL does not hedge against it.

Regarding hedging against the prices of crude oil, marine transport prices, income and expenses in currencies which are not the functional currencies of the companies in the ICL Group and interest rate, ICL's policy is to hedge in different rates, as follows:

Energy prices:

Hedging is coordinated by the ICL's Energy Forum. The scope of the hedging is determined after consultation with energy experts in Israel and abroad.

Marine transport prices:

ICL takes out hedges with respect to part of the exposure to bulk marine transport prices. Execution of the hedges is managed by ICL's Financing Forum. The manner of making the hedges and the scope thereof is determined after consultation with experts overseas.

Interest rates:

ICL's Financing Forum (a forum the members of which are senior financial persons of ICL and the segments) examines the extent of the hedging in order to adjust the actual structure of the interest to ICL's expectations regarding interest-rate developments, taking into account the cost of the hedging. The hedging is implemented both by moving fixed interest rates and by hedging variable interest rates.

As part of the SWAP transactions, ICL exchanges the variable interest rate paid on loans received for fixed interest at rates between 2.5% and 4.3%. As part of the "Cap" and "Floor" transactions, ICL fixes the range of the loans bearing variable interest at rates between 2.25% and 5.25%.

Exchange rates:

ICL's Financing Forum examines in every period the extent of the hedging implemented for each of the exposures described above, and determines the required scope of the hedging. ICL uses various financial instruments for its hedging activity, including derivatives.

During 2009, ICL issued series of institutional debentures registered for trading in the amount of NIS 1.6 billion. Part of the series issued is shekel debentures, part of the series is CPI-linked debentures bearing linked interest and part thereof is linked to the dollar.

In respect of the shekel and CPI-linked liabilities, ICL has executed transactions in derivatives for exchange of the cash flows from shekels to dollars. In addition, ICL has executed transactions in derivatives for hedging most of the exposure to changes in the Consumer Price Index.

Exposure to Market Risks and Risk Management (Cont.)

Risks applicable to investee companies (Cont.)

ICL (Cont.)

In addition, during the third quarter of 2009, ICL made an investment in derivatives to hedge the exposure to changes in the cash flows of the debentures (Series B – Expanded), in respect of changes in the exchange rates of the shekel versus the dollar. This hedging transaction was treated in the financial statements as an accounting hedge. As a result of application of the hedge accounting, ICL recorded part of the changes in the fair value of the derivatives (loss of about $2.3 million) to a capital reserve.

All the rest of the hedging transactions executed by ICL are not treated in the financial statements as an accounting hedge.

The companies in the ICL Group monitor the scope of the exposure and the hedging rates for the various items on a current basis. The hedging policy for all types of exposures is discussed by ICL's Board of Directors as well as by the Boards of Directors of the Group companies as part of the annual budget. ICL's Finance Committee receives a report on a quarterly basis in the framework of the review of the quarterly results as part of the control over application this policy and for purposes of updating it, if necessary. The managements of the companies implement the policy set while taking into account the actual developments and the expectations in the various markets.

ICL uses derivative financial instruments (hedging instruments) for hedging purposes only. The hedging instruments reduce the risks created to ICL, as described above. Most of the transactions executed do not meet the hedging conditions provided in the international standards and, therefore, the said financial instruments are measured at fair value where the changes in the fair value are recorded immediately in the statement of income. Some of the transactions in derivatives hedging the exposure in respect of shekel debentures issued meet the conditions for a cash flow hedge pursuant to the international standards. Part of the changes in the fair value of the said derivatives is recorded in the shareholders' equity.

Transactions in derivative financial instruments are made through banks. In ICL's opinion, the credit risk is negligible.

ZIM

ZIM is engaged in the provision of global shipping services, where most of its revenues are denominated in U.S. dollars and some of its expenses are in different currencies. Accordingly, ZIM's functional currency is the dollar.

Based on the nature of its activities, ZIM is exposed to market risks that relate to changes in the exchange rates of the currencies of the various countries in which it has activities.

In addition, ZIM is exposed to changes in the prices of heavy fuel oil.

Most of ZIM's liabilities are in dollars and, as such, ZIM is exposed to changes in the dollar interest rate (LIBOR).

Exposure to Market Risks and Risk Management (Cont.)

Risks applicable to investee companies (Cont.)

ZIM (Cont.)

ZIM reached the conclusion that is possible to hedge against a significant part of the economic risks to which it is exposed. Nonetheless, ZIM is unable to hedge certain risks, such as, those relating to demand for shipping and the prices in the industry (which are a result of changes in the world economy and the competitive situation in the industry).

ZIM is exposed to changes in the Libor rate due to holding of loans bearing variable Libor interest. Monitoring of the exposure to interest risks is made on a quarterly basis. As at the date of the financial statements, the rate of the debt bearing variable interest is about 79% (prior to impact of the hedging transactions). ZIM makes use of derivatives in order to reduce the possible exposure of fluctuations of the interest rate. ZIM has regular IRS (Interest Rate Swaps) transactions, as well as "collar" transactions that partially hedge the exposure to interest risks.

ZIM monitors the balance-sheet and operational currency exposure on an annual basis. In cases where there are significant operational or balance-sheet changes, ZIM updates the exposure. The hedging activities focus only on currencies having significant economic exposure, and regarding which ZIM's management has decided to hedge. For purposes of managing currency risks, ZIM uses forward option and currency contracts, as well as SWAP transactions.

In addition, ZIM is exposed to risks deriving from changes in the exchange rate of the shekel versus the dollar and from changes in the CPI, which impact its liabilities to the debenture holders.

ZIM monitors the exposure to changes in the fuel prices, which is in excess of the partial hedging by means of the fuel imposition, on a quarterly basis and for a period of up to the upcoming 12 months. This exposure may be partially hedged in the short run. From time to time, ZIM enters into SWAP transactions, in addition to various types of options for a period of several months in order to hedge the cash flows against changes in the fuel prices in connection with acquisitions of fuels intended for current operation of its fleet of ships.

The Hedging Committee of the Board of Directors receives a detailed report of the risk management activities on a quarterly basis and holds discussions of the risks detailed therein. The person at ZIM responsible for management of the market risks is the CFO.

ORL

Exposure is created for ORL at the time of determination of the price of the crude oil it acquires which continues up to the time of fixing the sale prices of the products produced from this fuel. Pursuant to its policy, ORL does not hedge the base inventory of raw materials (about 600,000 tons), (subsequent to the date of the financial statements about 400,000 tons). ORL hedges part of this inventory through options for a case of a significant decline in crude oil prices.

ORL hedges the balance of the inventory of raw materials and products, mainly by sales of future contracts and occasionally fixes the future refining margins through use of SWAP transactions.

Due to the absence of sophisticated futures' markets suitable for their products, a hedge is made for only a small part of the products of the consolidated companies in the ORL group.

Exposure to Market Risks and Risk Management (Cont.)

Risks applicable to investee companies (Cont.)

ORL (Cont.)

ORL operates in the fuel and petrochemical markets, which are dollar markets and, therefore, a significant part of its current assets and liabilities are in dollars or linked thereto and part of its long-term credit is in dollars. Therefore, ORL's functional currency was defined as the dollar. Accordingly, the group's exposures are measured between the changes in the dollar exchange rate and the other currencies in which ORL operates. ORL's financial statements are measured and presented in dollars.

ORL's policy is to hedge against exposure to changes in the currency exchange rates reflected in the cash flows from current operating activities. ORL has financial assets denominated in shekels (mainly marketable securities) and financial liabilities in shekels and euro (mainly long-term credit) as well as revenues in shekels and euro (deriving mainly from sales to customers) and expenses in shekels (mainly from salaries, payments to suppliers and contractors in Israel and payments to government institutions).

ORL has loans and liabilities bearing variable interest that is based on the Libor rate plus a bank margin. Changes in the variable interest rate are the source of this exposure. ORL makes use of interest rate SWAPs (IRS) in order to lessen part of the aforesaid risk. Part of the transactions include a hedge above a certain interest rate (upper level) and, on the other hand, as financing for them, they are charged for interest at the lower level (CAP/FLOOR).

In order to reduce the exposure stemming from providing credit to customers, ORL secures part of its customer receivables by means of credit insurance, and receives appropriate collaterals in cases they consider to be risky and also sell their trade receivables in the framework of discounting arrangements.

The derivative transactions are made with banks and international companies, while taking into account the financial strength of these entities and, accordingly, ORL does not expect a significant credit risk with respect thereto. In addition, the exposure to credit risks is limited by means of investing in marketable securities in defined channels and having defined terms.

ORL applies hedge accounting in connection with derivatives hedging exposures to changes in commodity prices and changes in the exchange rate of firm commitments. Aside from that stated above, economic hedging transactions do not meet the hedging conditions provided in the international standards and, therefore, the said financial instruments are measured at fair value and the changes in their fair value are recorded in the statement of income.

Commencing from January 1, 2008, upon adoption of International Financial Reporting Standards (IFRS), ORL's functional currency was defined as the U.S. dollar. Accordingly, the exposures are measured between the changes in the dollar exchange rate and the rates of the other currencies in which it operates.

ORL's risk management polices are intended to be a tool for achieving its business targets by means of estimating the possible outcomes of the exposure and limitation thereof in accordance with criteria set by the Boards of Directors of the ORL group companies. Reporting and control with respect to implementation of the policies is made through committees of the Board of Directors. These criteria are based on evaluation of the risk taking into account forecasts regarding development of the prices.

Exposure to Market Risks and Risk Management (Cont.)

Risks applicable to investee companies (Cont.)

I.C. Power Ltd.

I.C. Power Ltd. holds 100% of Inkia and 80% of O.P.C. The functional currency of I.C. Power is the dollar.

Inkia invests in companies engaged in construction and operation of power and electricity plants, mainly in South America. Inkia measures its transactions in dollars.

Market risk in connection with the production of electricity is the possibility of insolvency of the intermediate or final consumers. These risks are considered prior to entering into an undertaking with the intermediaries as well as during the course thereof, and steps are taken to increase the collaterals where necessary.

Inkia's policy is to finance the activities of its investee companies at the level of the companies themselves. Most of the credit taken out by the companies is in dollars bearing variable interest. Inkia has executed SWAP transactions for exchanging liabilities in various currencies and bearing variable interest for a dollar liability bearing fixed interest.

O.P.C. is a company engaged in construction of power plants. The functional currency of O.P.C. Power is the shekel. O.P.C. signed an agreement for acquisition of equipment from various suppliers and exposure was created for it to changes in the exchange rates, mainly, the yen and the dollar. O.P.C. executed hedging transactions with respect to liabilities in yens, in the amount of about $95 million. The liability to suppliers in dollars, in the amount of about $160 million, was not hedged vis-à-vis the shekel, which constitutes the functional currency of O.P.C.

Subsequent to the date of the financial statements, O.P.C. signed a financing agreement in connection with construction of a power plant in the Rotem Plain. As part of the financing agreement, a number of conditions were provided for making the first withdrawal from the credit framework. As at the date of the report, all the conditions had not yet been fulfilled. In order to hedge the interest rate for financing the project, O.P.C. withdrew NIS 400 million from the credit framework as a deposit for purposes of fixing the interest. Use of the deposit monies is conditioned on compliance with preconditions, as stated above. In addition, O.P.C. executed an interest hedging transaction in the further amount of NIS 400 million.

Debentures

Information regarding debentures issued by Israel Corporation

Debenture series	Original issuance date	Par value on issuance date	Par value outstanding	Balance per books	Accrued interest	Stock market fair/ value	Interest rate	Date of payment of principal interest	Trustee
			$ millions						
No series Not traded on the stock exchange*	2/14/02	100	50	17	0.9	19	5.40%	2 annual payments beginning 1/31/11. Annual 1/31. Base index 95.13	None
Series 3 Not traded on the stock exchange	7/10/05 8/25/05	500 145	484	158	3.4	168	4.55%	3 annual payments beginning 7/10/10. Annual 7/10. Based index 101.	Igud
Series 4 Not traded on the stock exchange	7/17/06	650	650	206	5.0	224	5.35%	4 annual payments beginning 7/17/11. Semi-annual 1/17, 7/17. Base index 104.6.	Hermatik
Series 5 Not traded on the stock exchange	11/16/06	650	488	156	1.0	166	5.00%	3 annual payments beginning 11/16/10. Semi-annual 11/16, 5/16. Base index 103.1.	Hermatik
Series 6 Traded on the stock exchange	3/12/07 4/16/07 6/05/07 1/22/08	853 50 334 500	1,737	559	7.7	612	4.55%	5 annual payments beginning 3/12/12. Semi-annual 3/12, 9/12. Base index 102.76.	Hermatik
Series 7 Traded on the stock exchange	3/12/07 4/25/07 6/05/07 7/11/10	394 95 331 467	1,287	414	5.9	449	4.70%	5 annual payments beginning 3/12/17. Semi-annual 3/12, 9/12. Base index 102.76.	Clal Trusts
Series 8 Traded on the stock exchange	1/22/08	350	350	99	0.0	104	6.80%	4 equal annual payments beginning 12/31/11. Semi-annual 6/30, 12/31.	Hermatik
Series 9 Traded on the stock exchange	7/11/10	470	470	132	0.0	135	6.00%	3 equal annual payments beginning 12/31/15. Semi-annual 6/30, 12/31.	Reznik Paz Nevo

* First-priority lien on 11.2 million shares of ICL. Release of shares pro rata to repayment of the debt. ICL's shares are traded on the Tel-Aviv Stock Exchange. The lien is valid pursuant to all law with the Corporation's incorporation documents. In 2009, 25% of the debentures from this series was repaid and concurrently 25% of the pledged shares were released.

Debentures (Cont.)

Information regarding debentures issued by Israel Corporation (Cont.)

The debenture series 3, 4, 5, 6, 7, and 9 are more than 5% of the Corporation's total liabilities on a separate basis and therefore they are material.
All the debentures bear fixed interest.
All the debentures are linked to the CPI except for Series 8 and 9. The base indices for all the debenture series are an average base of 2002.
The Corporation is in compliance with all the conditions of the debentures and the trust indentures. The Corporation was not requested to take any action at all by the debenture trustees.
As at the date of the report, all the debentures are rated by Maalot with a rating of A+/Stable. For additional details – see the rating report attached to this Report of the Board of Directors. For details in connection with "the rating history" of the debentures – see the table below.

Details regarding trust companies

Trust Company of Union Bank Ltd., 6-8 Ahuzat Bait St., Tel-Aviv 65143, Telephone 03-5191233.
Hermatik Trust (1975) Ltd., 113 Hayarkon St., Tel-Aviv, 63537, Tel. 03–5274867.
Clal Finances Trusts 2007 Ltd., 37 Menachem Begin Blvd, Tel-Aviv, 65220, Tel. 03–6274848.
Reznik Paz Nevo Trusts Ltd., 14 Harutzim, Tel-Aviv, 67778, Tel. 03–6393311.

Rating company – Standard and Poor's Maalot

All the ratings apply to all the debentures issued pursuant to confirmation of the rating or that were outstanding at the time of any new issuance.

July 3, 2005	AA	For issuance of debentures in an amount up to $200 million
May 21, 2006		Examination of rating
July 13, 2006	AA	For issuance of debentures in an amount up to $300 million and for all the Corporation's debentures
November 14, 2006	AA	For issuance of debentures in an amount up to $150 million and for all the Corporation's debentures
March 6, 2007	AA/Stable	For issuance of debentures in an amount up to $500 million and for all the Corporation's debentures
June 7, 2007	AA/Stable	Confirmation of rating for expansion of series and for all the Corporation's debentures
December 3, 2007	AA/Stable	For issuance of debentures in an amount up to $500 million and for all the Corporation's debentures
November 30, 2008		Examination of rating with a negative outlook for all investee companies
February 12, 2009	AA–/Negative	Reduction of rating
September 21, 2009	A+/Stable	Reduction of rating
May 10, 2010	A+/Stable	For issuance of debentures in an amount up to $300 million and for all the Corporation's debentures
July 1, 2010	A+/Stable	Ratification of issuance of debentures in an amount up to $300 million and for all the Corporation's debentures
December 30, 2010	A+/Stable	Confirmation of rating for expansion of series and for all the Corporation's debentures

Critical Accounting Estimates

In preparation of financial statements in accordance with IFRS, the managements of the Group companies are required to make use of estimates that affect implementation of the policies with respect to the assets and liabilities and on the results of the said companies. It is clarified that the actual results may be different than these estimates.

When formulating the accounting estimates used in preparation of the companies' financial statements, the managements of the companies are required to make assumptions regarding circumstances and events involving significant uncertainty. When using its judgment in making the estimates, the managements of the companies base themselves on past experience, various facts, external factors and reasonable assumptions regarding the appropriate circumstances for each estimate.

The estimates and the assumptions used for preparing the financial statements are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period during which the estimate was revised and in every future period affected.

<u>Liability for Employee Severance Pay</u>

According to International Standard IAS 19, a part of the Group's employee benefit plans constitute a "defined benefit plan" as defined in IAS 19. Such plans include principally, commitments for pension and severance benefits.

In computing the pension liability, the Corporation uses various assessments. These assessments include, among others, the interest rate for discounting the Corporation's pension liability, the long-term return expected on the pension fund's assets, an estimate of the salary increases over the long run, and assessment of the life expectancy of the group of employees entitled to pension benefits. Assessment of the interest rate for purposes of discounting the Corporation's pension liability is based on the rate of return on corporate bonds for companies operating in countries having an active market, and on the rate of return on government bonds for companies in other countries not having an active market for corporate bonds. The rate of return on long-term bonds changes according to market conditions. As a result the discount rate will also change and, correspondingly, the pension liability as well. The assessment of the long-term return on the pension fund's assets is based on the expected long-term rate of return of the asset portfolio, in accordance with the composition of the pension fund's assets. Changes in capital market conditions or in the composition of the pension fund's asset portfolio may bring about a change in the assessment of the return on the assets of the fund and accordingly a change in the pension fund. The assessment regarding the increase in wages is based on forecasts of the Corporation in accordance with its past experience and current labor agreements. Such assessments may not match the actual wage increases. The life expectancy estimates are based on actuarial research published in each country. As a practical matter, every few years the research findings are updated and accordingly the life expectancy assessment may also be updated.

The measurement of the liabilities in respect of severance benefits is based upon an actuarial assessment, which takes into account various assessments, among others, the future increase in employee wages and the rate of employee turnover. The measurement is made on the basis of discounting the expected future cash flows according to the interest rate of highly-rated government bonds. In addition, the severance pay deposits are measured according to their fair value. Changes in the assumptions used to calculate the severance pay liabilities and plan assets may increase or decrease the net severance pay liability recognized.

Critical Accounting Estimates (Cont.)

Environmental protection and contingent liabilities

Some of the Group companies are exposed during the normal course of their business to liabilities and obligations due to the environmental protection laws together with other related laws. These companies invest substantial amounts in order to comply with the legal requirements. The companies record a liability in their books where such liability is probable, it stems from a chargeable event that occurred in the past and it is capable of being estimated. Estimate of the liability is based mainly on past experience, familiarity with legal requirements in the companies' areas of activity, and estimates of the existing outstanding claims against companies based on opinions of legal advisors and other experts. As explained in Note 22, a number of legal claims have been filed against the companies, the results of which may have an effect on their results.

When assessing the possible outcomes of contingent liabilities in respect of legal claims that were filed against the companies, the companies relied on the opinions of their legal advisors. The said opinions of the legal advisors are based on the best of their professional judgment, and take into consideration the current stage of the proceedings and the legal experience accumulated with respect to the various matters. Since the results of the claims will ultimately be determined by the courts, such results may be different than the estimates of the companies and their legal advisors. In addition, with respect to a number of claims, in the estimate of the companies based on opinions of their legal advisors, in light of the complexity of the proceedings, it is not possible, at this stage, to estimate the monetary exposure.

Property, plant and equipment

Property, plant and equipment are depreciated by the straight-line method, based on their estimated useful lives.

On the basis of the Group's accumulated experience, the cost of the fully-depreciated assets still used in production is significant. In light of that stated above, some of the Group companies examine the useful lives of the fixed assets by making a comparison to the sector in which they operate, the level of maintenance of the facilities and the functioning of the facilities over the years. Based on the said examination, the remaining balance of depreciation period of the fixed assets is less than the balance of the anticipated useful lives of the facilities. On the basis of this evaluation, some of the Group companies changed the estimate of the economic lives of the production facilities. The change in estimate is based on the past experience accumulated by the Group and not on changes occurring in the assets or in the business environment. The estimate of the useful lives of the property, plant and equipment of some of the Group companies was made in 2007.

In order to determine the estimate of the remaining useful lives of the property, plant and equipment, the Group companies relied on opinions received (mostly internal opinions and one opinion of an independent outside appraiser). Since the evaluation of the useful lives of the property, plant and equipment is based on estimates, an additional change in the lives of these assets may be necessary in the future.

Critical Accounting Estimates (Cont.)

Impairment of Assets

The companies examine on every reporting date whether there have been any events or changes in circumstances that would indicate impairment of one or more of the non-monetary assets. When there are indications of impairment, an examination is made as to whether the carrying amount of the investment can be recovered from the discounted cash flows anticipated to be derived from the asset, and if necessary, an impairment provision is recorded up to the amount of the recoverable value. Assessment of the impairment of goodwill and of other intangible assets having an indeterminable lifespan is performed once a year or when indicators of impairment exist.

The recoverable value of the assets is determined based on the higher of the fair value less selling costs of the asset and the present value of the future cash flows expected from the continued use of the asset, including the cash flows expected upon retiring the asset from service and its eventual sale (usage value).

The future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimates regarding cash flows are based on past experience with respect to this asset or similar assets, and on the Group's best possible assessments regarding the economic conditions that will exist during the remaining useful life of the asset. In determination of fair value less selling costs of some of the assets, use was made of an appraiser's estimates regarding the provision for impairment of property, plant and equipment – see Note 15F to the financial statements.

Estimate of the future cash flows is based on the Corporation's forecasts. Since the actual cash flows may be different than the Corporation's forecasts, the recoverable value determined in examination of impairment of assets may change in succeeding periods, such that it may be necessary in the future to reduce the value of the assets.

Business Combinations

The Group is required to make an allocation of the acquisition cost of companies and activities in the framework of business combinations and to allocate any excess cost created on the acquisition of associated companies on the basis of the estimated fair values of the assets and liabilities acquired. The Group uses valuations of external appraisers or internal evaluations for purposes of determining the fair values. The valuations include Management's estimates and assessments regarding the projected future cash flows from the business and a choice of models for calculation of the fair values of the items acquired and their depreciation/amortization period. Management's estimate has an impact on the balance of the assets and liabilities acquired and on the depreciation and amortization in the statement of income. Management's estimates regarding the forecasted cash flows and the useful lives of the assets acquired may be different than the actual results.

Critical Accounting Estimates (Cont.)

Derivative Financial Instruments

The Group enters into transactions in derivative financial instruments for purposes of hedging foreign currency risks, inflation risks, interest risks and prices risks. The derivatives are recorded at their fair values. The fair value of the derivative financial instruments is based on prices, rates and interest rates received from banks and brokers, as well as through accepted trading software. On the basis of the data received, the fair value of the derivatives is estimated using valuation and pricing techniques characterizing the various instruments in the different markets. Measurement of the fair value of financial instruments in the long run is estimated by discounting the future cash flows deriving from them on the basis of the terms and length of the period up to redemption of each instrument and using market interest rates of similar instruments as at the measurement date. Changes in the economic assumptions and valuation techniques could result in significant changes in the fair value of the instruments.

Separation of Embedded Derivatives

The Group exercises discretion for purposes of determining whether it is necessary to separate an embedded derivative from the host contract. If it is found that it is necessary to separate the embedded derivative, this component is measured separately from the host contract as a financial instrument at fair value through the statement of income, otherwise the entire instrument is measured in accordance with the measurement principles applicable to it. Separation of embedded derivatives as stated and measurement thereof at fair value through the statement of income may have a significant impact on the Group's financial position and results of operations.

Inventories

The inventory is measured in the financial statements at the lower of cost or net realization value. The net realization value is an estimate of the selling price in the ordinary course of business, less the estimated costs to complete and to execute the sale thereof to the extent they are known at the date of the financial statements. The selling price is estimated based on the anticipated selling price at the time of realization of the inventory, where a decline in the anticipated selling price could cause a decline in the value of the inventory in the books and in the results of operations, respectively. Raw materials are written down to realization value only where the finished products in which they are to be included are expected to be sold at an amount less than the cost. The realization value of raw materials is based on the realization values of the inventory of finished goods in which the raw materials incorporated. Where the replacement cost of the raw materials is the best available evidence of the realization value, measurement of the realization value of the raw materials is based on the said replacement cost. A decline in the anticipated replacement cost could cause a decline in the value of the inventory of raw materials in the books and in the results of operations, respectively.

Part of the raw materials, work in progress and finished goods is in bulk. The quantities are based estimates made, for the most part, by outside experts that measure the volume and density of the inventory. Variances in the assessments used in determination of the estimates could give rise to a change in the value of the inventory in the books.

Critical Accounting Estimates (Cont.)

Taxes on Income

Determination of the provisions in respect of taxes on income requires use of discretion with respect to future tax treatment of certain transactions. The Group carefully estimates the tax consequences of the transactions and records provisions taxes accordingly. The tax treatment of transactions of this type is re-examined from time to time in order to take into account all the changes in the tax legislation.

Deferred tax assets are recognized in connection with unutilized tax losses and for deductible temporary differences. Since those deferred tax assets may be recognized only if it is reasonable that future taxable income will be available in order to utilize them to offset the unused tax losses, discretion is required on the part of management to assess the probability that there will be future taxable income. Management's assessment is re-examined on a current basis and additional deferred tax assets are recognized if it is reasonable that future taxable income will permit recovery of the deferred tax assets.

The deferred taxes are calculated based on the tax rates expected to apply to the temporary differences at the time they are realized, as stated in Note 3P to the financial statements. The tax rate expected to apply at the time of realization of the temporary differences relating to Benefited Enterprises in Israel are based on forecasts of the future revenues to be produced by the Benefited Enterprises in relation to the Corporation's total revenues. Changes in these assumptions could give rise to changes in the carrying values of the tax assets, liabilities for tax and the results of operations.

On December 29, 2010 the Knesset approved the Economic Policy Law for 2011-2012, in the framework of which the Law for Encouragement of Capital Investments was amended. As part of the amendment, new tax tracks were determined that provide a uniform and reduced tax rate for all the Corporation's income entitled to benefits. The amendment does not apply to an Industrial Plant that is a mine or facility for production of quarries.

The balance of the deferred taxes as at December 31, 2010 was not adjusted as a result of amendment of the Encouragement Law.

As at the approval date of the financial statements, ICL is examining whether ICL Group companies operating in Israel will be able to enjoy the tax benefits provided by the new law. The balance of the deferred taxes for above-mentioned companies will be adjusted in the succeeding periods.

Decline in Value of Trade Receivables

The Group estimates the loss from decline in value in respect of bad and doubtful debts deriving from an inability on the part of customers to make the required payments. The Group bases the estimates on the age of the trade receivables, the customers' credit ratings and the past experience with write-offs. If the financial position of the customers declines, the actual write-offs may be higher than the estimates.

Israel Corporation Ltd.
Report of the Corporation's Board of Directors
For the Year Ended December 31, 2010

Discussion and Analysis of the Remuneration of Interested Parties and Senior Officers (Pursuant to Regulation 10.B.4)

Set forth below are details regarding examination of the Corporation's Board of Directors of the relationship between the remuneration paid in 2010 to the Corporation's senior officers, as stipulated in Regulation 21 of the Paragraph "Additional Details" in the Periodic Report, and their contribution to the Corporation as well as the fairness and reasonableness of the said remuneration.

<u>Format for the discussion and description of the information provided to the members of the Remuneration Committee, the Audit Committee and the Board of Directors</u>:

Prior to the discussion by the Corporation's Board of Directors on March 29, 2011, during 2010 and in the first quarter of 2011, preliminary and detailed discussions were held by the Board of Directors and its committees regarding the remuneration of each of the Corporation's officers, including, the Chairman of the Board of Directors, the Corporation's CEO and the CFO, by the Corporation's Remuneration Committee (on February 24, 2011 and on March 24, 2011), by the Corporation's Audit Committee (on February 24, 2011 and on March 29, 2011) and by the Corporation's Board of Directors (on February 24, 2011), whereat a review was made of, among other things, the employment conditions of each of the Corporation's senior officers, and the total remuneration paid to him, as detailed in Regulation 21 of the Paragraph "Additional Details" in the Periodic Report, including the employment agreement with each of the senior officers and the fulfillment by each one of them of his employment agreement, along with a survey of the areas of responsibility and activities of the Corporation's senior officers during the period of the report, the results of the Corporation's activities for 2010 in those aspects relating to the area of responsibility of the Corporation's senior officers, as well as the contribution of each such officer to the Corporation, amounts of the annual bonuses paid to the senior officers in the past, while taking into account the improvement in the Corporation's business results, the overall structure of the remuneration of the Corporation's senior officers, and comparative data with respect to remuneration of senior officers in companies similar in size to the Corporation, based on the comparative research study prepared for the Corporation by its outside consultants.

After discussion by the Remuneration Committee as stated, and after discussion and approval by the Corporation's Audit Committee on the basis of the information detailed above, the Corporation's Board of Directors decided on and approved the relationship between the remuneration amounts paid to each of the Corporation's senior officers in 2010, and his activities and contribution to the Corporation during this period, the senior officer's fulfillment of the position in which he serves and the provisions of the agreements with him, while the reasonableness and fairness of the remuneration, as stated, were also examined and determined by the Board of Directors. The Corporation's examination and determination were made after the members of the Corporation's Board of Directors were furnished with background material, as noted above, recommendations of the Remuneration Committee and approval of the Audit Committee, and after the Corporation's Board of Directors determined, in a timely manner, the criteria for making this examination.

It is noted that during 2010, the Remuneration Committee and the Audit Committee of the Corporation's Board of Directors held a number of extensive discussions (among others, on August 25, 2010, August 30, 2010, December 13, 2010, December 14, 2010), whereat all the remuneration conditions provided to each of the Corporation's senior officers were examined, including the Chairman of the Board of Directors, the Corporation's CEO and the CFO and the relationship between the total remuneration of each of them and his contribution to the Corporation, as part of approval of the options' plan to the Corporation's senior officers, as stated in the Corporation's Immediate Report dated September 13, 2010 (Reference No. 2010-01-619053) and approval of update of the employment conditions of the Corporation's CEO, as stated in the Corporation's Immediate Report dated December 15, 2010 (Reference No. 2010-01-718788).

Discussion and Analysis of the Remuneration of Interested Parties and Senior Officers (Pursuant to Regulation 10.B.4) (Cont.)

Criteria for examination of the reasonableness and fairness of the aggregate remuneration of each of the Corporation's senior officers:

The criteria the Board of Directors considered in determining the reasonableness and fairness of the remuneration awarded to each of the Corporation's senior officers, including the Chairman of the Board of Directors, the Corporation's CEO and the CFO, include, among others: (1) the business results of the Corporation and the companies included in the Corporation Group in 2010, including the profits of the Corporation and its investee companies; increase in the value of the Corporation and its investee companies; formulation and realization of the business plan of the Corporation and its investee companies; realization of efficiency and rehabilitation plans in investee companies and structural changes in investee companies; (2) investment and initiation activities carried out in 2010; (3) the overall employment conditions of each of the senior officers, fulfillment of the job requirements by each of the senior officers, including, compliance by the senior officers with the terms of his employment agreement; (4) his personal contribution to the Corporation's success and its business development, execution of significant steps within the Corporation, and advancement of processes the purpose of which is achieving the Corporation's targets with an eye to the long run; (5) an evaluation with respect to the performance and contribution of each of the Corporation's senior employees to the activities of the Corporation and the companies included in the Corporation Group, development of their businesses and the business results of the Corporation and the Group companies; (6) an evaluation with respect to the efforts of each of the Corporation's senior employees to the progress, development and accompaniment of the Corporation's business initiations in various sectors, and in connection with the administrative targets he achieved in 2010; (7) the remuneration paid to the officers in the past taking into account the Corporation's business results in 2010; (8) comparative data relating to remuneration of officers in companies that are about the same size as the Corporation based on a comparative research study prepared for the Corporation by outside consultants while making an in-depth analysis of the Corporation's uniqueness, the scope and complexity of its business activities in connection with the Israeli market and the level of risk at which the Corporation operates.

Discussion and Analysis of the Remuneration of Interested Parties and Senior Officers (Pursuant to Regulation 10.B.4) (Cont.)

Highlights of the conclusions, consideration and reasoning of the Corporation's Board of Directors

After an extensive discussion of the matter, the Corporation's Board of Directors decided unanimously that the aggregate remuneration paid to each the Corporation's officers, including the Chairman of the Board of Directors, the Corporation's CEO and the CFO, as stipulated in Regulation 21 of the Paragraph "Additional Details" in the Periodic Report, and their contribution to the Corporation are fair and reasonable, taking into account the size of the Corporation, its results in the period of the report, the complexity of its activities and businesses, the responsibility borne by its senior officers and the great appreciation of the contribution of each of them to the development of the Corporation's business in the period of the report[4].

[4] In connection with Mr. Nir Gilad (in his position as the Chairman of the Board of Directors of ICL), Mr. Akiva Mozes, CEO of ICL and Ahser Greenbaum, ICL's Deputy CEO and Chief Operations Manager, referred to in the table in Regulation 21 of the Paragraph "Additional Details" in the Periodic Report, it is noted that on March 27, 2011, the Board of Directors of ICL discussed the relationship between the remuneration paid to each of them and his contribution to ICL, as well as the extent of the fairness and reasonableness of the consideration. As part of the discussion, ICL's Board of Directors related to all components of the officer's remuneration (salary, annual bonus and equity compensation), and took into account, among other things, ICL's business and financial results, the extent of compliance with the business targets, the performance of each of the officers and comparative data with reference to prior years and other companies. After discussion, ICL's Board of Directors confirmed that there is a connection between the remuneration of each of the said officers, in 2010, and the extent of his contribution to ICL, and that the overall remuneration and its components constitute appropriate, fair and reasonable consideration due to the contribution of each one of them to ICL's activities and its business and financial results. With respect to ICL's CEO, Mr. Akiva Mozes, it is noted that under his management ICL has made very significant achievements, reflected in, among other things, ICL's financial results for 2010, which constitute very good annual results and a continued growth trend and increase in earnings. ICL's business results are explained by, among other things, initiations taken by ICL's management, headed by Mr. Mozes. For example, the manner in which ICL's management coped with the severe crisis that hit the fertilizers' market in 2009 and brought the inventory levels of potash in ICL's warehouses to about 3 million tons and formulation, together with the Chairman of the Board of Directors and with the approval of ICL's Board of Directors, of new marketing policies for ICL, including a price and inventory strategy. Execution of the policies of ICL's Board of Directors by ICL's management gave rise to sale of record quantities of potash and a decrease in the inventory of potash, which made a significant contribution to ICL's profits. Examination of the new marketing policies compared with the marketing policies of ICL's competitors indicates (with hindsight) that revision of ICL's inventory and marketing policies was an important economic and administrative step that strengthened ICL's status in the world market and helped it to cope with the results of the crisis. ICL's Board of Directors confirmed that the amount of the remuneration paid to Mr. Mozes, in the year of account, as well as all its components, are fair and reasonable, in light of that stated above and taking into account the scope and complexity of ICL's activities, its broad global presence, realization of the business and marketing strategy, ability to respond quickly to changing market conditions, improvement of the financial results, including with respect to comparable companies, and that his contribution to ICL is significant and appropriate for the remuneration determined. The decision of ICL's Board of Directors was made after comparison of the remuneration data of officers holding similar positions in large public companies in Israel and in leading international companies operating in ICL's business area. With respect to Mr. Greenbaum, it is noted that during 2010, Mr. Greenbaum led ICL to important achievements in the Group's areas of operations, overall maintenance, quality, excellence and comprehensive risk management. As part of Mr. Greenbaum's responsibility and under his management, ICL adopted corporate social responsibility policies and adapted its strategy and work plans to this these policies. ICL believes that application of these policies will lead to durable activities and development, which are important to it and to future generations. Mr. Greenbaum leads ICL's area of corporate social responsibility and acts to realize the targets of the Group companies in and outside of Israel. ICL's Board of Directors confirmed that the total amount of the remuneration paid to Mr. Greenbaum in the year of the report, along with all its components, as stated, are fair and reasonable, including in relation to the customary monetary remuneration for officers holding similar positions in other companies in and outside of Israel, and that it reflects his important contribution to its activities and achievements.

Discussion and Analysis of the Remuneration of Interested Parties and Senior Officers (Pursuant to Regulation 10.B.4) (Cont.)

Chairman of the Board of Directors – Mr. Amir Elstein:

For details regarding the aggregate remuneration of Mr. Amir Elstein in 2010 – see Regulation 21 of the Paragraph "Additional Details" in the Periodic Report

As part of examination of the relationship between the aggregate remuneration and the contribution of the Chairman of the Board of Directors to the Corporation, the Board of Directors emphasized, among other things, the contribution of Mr. Amir Elstein to the record results in 2010, as well as his contribution to advancement of the Corporation's strategic processes, including adoption of a strategic plan for the Corporation and management thereof with respect to investee companies. The Corporation's Board of Directors expressed its appreciation of Amir Elstein's contribution in administering an ongoing and continuous line of communication with the Corporation's management, including his contribution to formulation of the Board of Directors' procedure. The Board of Directors expressed its appreciation of Amir Elstein's contribution to the Corporation's corporate governance and his extensive contribution to management and development of transactions and processes in the Corporation's areas of activities. The Corporation's Board of Directors emphasized its appreciation of Mr. Elstein's involvement and contribution in supervision of the activities of the Group companies and along with his contribution to advancement of their business results, and expressed appreciation for Mr. Elstein's efforts in serving on the boards of directors of investee companies. The Corporation's Board of Directors noted its favorable impression of his accomplishments and performance (including based on the agreement of undertaking with him) as Chairman of the Board of Directors in 2010 against the background of the worldwide economic changes and recovery from the global financial crisis of the latter part of 2008. The Corporation's Board of Directors expressed its appreciation for his capabilities, skills and contribution of Mr. Elstein to the Corporation, taking into account in particular the uniqueness and complexity of the Corporation's business, both from a geographic standpoint as well as from an operational perspective, the scope of its business and range of its business sectors, and their impacts on the requirements of the position and the skills required from the Chairman of the Board of Directors. In addition, the Corporation's aspiration to preserve continuation of the service and contribution of Mr. Elstein with respect to the Corporation and its shareholders over the long run was noted.

In the opinion of the Corporation's Board of Directors, taking into account, among other things, that stated above and that stated in Section 4 below, the aggregate remuneration paid to Mr. Amir Elstein in 2010 is fair and reasonable.

Discussion and Analysis of the Remuneration of Interested Parties and Senior Officers (Pursuant to Regulation 10.B.4) (Cont.)

Corporation CEO – Mr. Nir Gilad[5]:

For details regarding the aggregate remuneration of Mr. Nir Gilad in 2010 – see Regulation 21 of the Paragraph "Additional Details" in the Periodic Report.

As part of examination of the relationship between the aggregate remuneration and the contribution of the Corporation's CEO, the Board of Directors noted that under the leadership and guidance of Nir Gilad, 2010 ended with record results for the Corporation and its investee companies. The Board of Directors expressed its appreciation with respect to Mr. Nir Gilad's activities in development and advancement of the operations and business results and the companies in the Corporation Group, among other things, in his service as Chairman of ICL's Board of Directors and Chairman of the Board of Directors of ZIM, including the earnings shown by the operating companies held by the Corporation. The Board of Directors referred in particular to Mr. Nir Gilad's accomplishments as Chairman of ZIM's Board of Directors and the impressive process ZIM is undergoing under his leadership. The Corporation's Board of Directors expressed its appreciation with respect to Mr. Gilad's overseeing ZIM's debt arrangement and rehabilitation plan. The Corporation's Board of Directors was impressed by Mr. Nir Gilad's contribution in connection with development of the potential of companies held by the Corporation. The Corporation's Board of Directors was impressed by the Corporation's industrial movement under Mr. Nir Gilad's guidance in 2010, including investments and business initiation he led in 2010. It is noted that in 2010, the Corporation invested and made investment decisions in the aggregate amount of $670 million, and it raised capital in the overall amount of $265 million. In addition, the Corporation's Board of Directors stressed Mr. Nir Gilad's activities in connection with advancement and development of transactions and processes in the Corporation's areas of activity, leadership and development of work processes and methods in the Corporation and adoption of a dynamic management perspective. The Corporation's Board of Directors expressed its appreciation for Nir Gilad's leadership of the process for formulation of the Corporation's strategic plan and implementation thereof in the investee companies by the Corporation, as well as his Nir Gilad's leadership of control and corporate governance processes in the Corporation. The Corporation's Board of Directors expressed its appreciation for the actions of the Corporation's CEO making particular note of the administrative complexity of the Corporation, which operates in a large number of markets and a large number of sectors, occasionally in markets having wide-ranging regulation, and in capital-intensive activity areas, requiring financial capabilities at the highest level.

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[5] As part of the discussion by ICL's Board of Directors, as stated above, in connection with the remuneration paid to each of ICL's officers and his contribution to ICL, as well as the extent of the fairness and reasonableness of the remuneration, the remuneration paid in 2010 by ICL to Nir Gilad, who serves as the Chairman of ICL's Board of Directors, was also considered. With reference to Nir Gilad, ICL's Board of Directors noted that the remuneration paid to Mr. Nir Gilad includes solely an equity remuneration component. ICL's Board of Directors believes that the issuance terms and economic value of the options granted to Mr. Gilad in 2010, which are exercisable commencing from 2012, are fair and reasonable, in light of his complex position as Chairman of ICL's Board of Directors, his skills, extensive experience and the extent of his contribution to formulation of ICL's strategic policies, including adaptation thereof to the conditions of the changing reality, along with fulfillment of the functions of the Board of Directors, including, control and corporate governance. Approval by ICL's Board of Directors was made taking into account comparative data with respect to the amounts of remuneration of chairmen of boards of directors of similar public companies in Israel. In addition, ICL's Board of Directors believes that the amount of equity remuneration to Mr. Gilad is fair and reasonable, even taking into account the exercise price set for them and the rate constituting the shares deriving from exercise of the options out of the total issued capital and voting rights in ICL.
ICL's Board of Directors sees great importance in preserving the administrative stability of ICL and continuation of its being led by Mr. Gilad and in its decision with respect to approval of the number of options issued, account was also taken of the wish to ensure continuation of Mr. Gilad's service in ICL in the upcoming years, and the scope of ICL's activities, the complex challenges facing it and its performance in the long run. It is noted that Mr. Gilad's remuneration was also approved by the General Meeting of ICL's shareholders.

Discussion and Analysis of the Remuneration of Interested Parties and Senior Officers (Pursuant to Regulation 10.B.4) (Cont.)

Corporation CEO – Mr. Nir Gilad: (Cont.)

The Corporation's Board of Directors expressed its appreciation for Mr. Nir Gilad's activities in the complex business environment described above, and the record results achieved by the Corporation. Great appreciation was also expressed for the accomplishments and performance of the Corporation's CEO (including based on the agreement of undertaking with him) as the Corporation's CEO in 2010 against the background of the changes in the world economy and recovery from the global financial crisis at the end of 2008, and taking into account the size of the Corporation, its extensive geographic presence, the scope of its activities, large number of activity sectors and the complexity of the CEO position along with the special skills required from the Corporation's CEO in order to manage and lead the Corporation in the manner the Corporation's CEO led the Corporation in the period of the report.

Note was also made of the Corporation's aspiration to preserve continuation of Nir Gilad's service and contribution to the Corporation and its shareholders over the long run. In this connection, during 2010, the CEO's employment agreement was amended and a fixed period was set forth therein (see Immediate Report dated December 15, 2010) and the CEO (along with additional officers in the Corporation) was granted options (see Immediate Report dated September 13, 2010).

In the opinion of the Corporation's Board of Directors, taking into account, among other things, that stated in Section 4 below, the aggregate remuneration paid to Mr. Nir Gilad in 2010 is fair and reasonable.

CFO of the Corporation – Mr. Avisar Paz:

For details regarding the aggregate remuneration of Mr. Avisar Paz in 2010 – see Regulation 21 of the Paragraph "Additional Details" in the Periodic Report.

As part of examination of the relationship between the aggregate remuneration and the contribution of the Corporation's CFO to the Corporation, the Board of Directors noted, among other things, the contribution of Mr. Avisar Paz to the record results of the Corporation and the investee companies in 2010, and to the earnings shown by the operating companies held by the Corporation in this year. The Board of Directors stressed the contribution of Mr. Avisar Paz to the investee companies, particularly his contribution to ZIM's rehabilitation plan in the context of his position as Chairman of ZIM's Finance Committee. The Corporation's Board of Directors noted the contribution of Mr. Avisar Paz to ICL and ORL. The Corporation's Board of Directors underscored its appreciation for the contribution of Avisar Paz to implementation of the control processes in the Corporation, assimilation of new standards and regulations, the contribution of Avisar Paz to the Corporation's corporate governance, and the management capability of the full range of the Corporation's financial and accounting matters. The Corporation's Board of Directors expressed its appreciation for the capabilities and skills of Avisar Paz, and in particular its favorable impression with respect to the leadership of Avisar Paz in connection with raising capital in the amount of $265 million, which was completed in 2010. In the period of the report, Avisar Paz acted to renew the amount of $130 million. The Corporation, the Board of Directors was also favorably impressed by the involvement of Avisar Paz in supervision of the investee companies in the Corporation Group and advancement of their business results, as a director and Chairman of committees of their boards of directors. The Corporation's Board of Directors emphasized the contribution of Avisar Paz to the advancement of new investments in the Corporation's activity sectors.

Discussion and Analysis of the Remuneration of Interested Parties and Senior Officers (Pursuant to Regulation 10.B.4) (Cont.)

CFO of the Corporation – Mr. Avisar Paz: (Cont.)

The Corporation's Board of Directors expressed its appreciation for the accomplishments and performance of Avisar Paz (including based on the agreement of undertaking with him) as the Corporation's CFO in 2010, among other things, against the background of the changes in the world economy and recovery from the global financial crisis at the end of 2008, and taking into account in particular, the size of the Corporation, the extent of his business and the complexity of the financial matters involved with its activities, along with their impact on the demands and skills required from the Corporation's CFO. In addition, note was also made of the Corporation's aspiration to preserve continuation of the service and contribution of Avisar Paz to the Corporation and its shareholders over the long run. In this context, in 2010 the CFO's salary was revised and he (along with other officers in the Corporation) was issued options (see Immediate Report dated September 13, 2010).

In the opinion of the Corporation's Board of Directors, taking into account, among other things, that stated in Section 4 below, the aggregate remuneration paid to Mr. Avisar Paz in 2010 is fair and reasonable.

In addition, with respect to each of the Corporation's officers, including Messrs. Amir Elstein, Nir Gilad and Avisar Paz, comparative data was reviewed with reference to that which is customary in companies of a similar size as the Corporation, and it was noted that the remuneration paid to each of the Messrs. referred to above in 2010 is fair and reasonable, even if they are higher than that customary in the companies reviewed, which are not similar in their nature, character and complexity to the Corporation, due to, among other things, the following factors: (A) the Corporation's uniqueness in the Israeli economy, the geographical complexity of the Corporation, the production facilities of the companies it holds, which are spread out over continents, the fact that 60% of the production of the Group companies takes place outside of Israel, the fact that most of the Group's sales are made outside of Israel, the wide range of areas in which the Corporation is engaged (chemicals, refining, circuits, energy shipping, vehicles and other), the fact that some of the Group companies are well-established companies while some are potential companies, and the consequence of the complexity and far-reaching geographical presence on the demands of the position and the skills required from each of the Chairman of the Board of Directors, the CEO and the CFO; (B) development of the Corporation in 2010, wherein the Corporation took on business initiations in new areas, which resulted in the Corporation no longer being merely a holding company but, rather, a company also engaged in initiation, management and development of new and varied businesses, with active and ongoing leadership on the part of the Chairman of the Board of Directors, the Corporation's CEO and the CFO; (C) the challenges facing the Corporation and the administrative inputs required from the Chairman of the Board of Directors, the Corporation's CEO and the CFO (each one with respect to the aspects relating to his position) in order to dynamically manage a holding company such as the Corporation and having the Corporation's size; (D) the complex position of each one of the Chairman of the Board of Directors, the Corporation's CEO and the CFO in light of the complexity and uniqueness of the Corporation, as well as in light of the Corporation's strategic goals, including, among others, expansion of the Corporation's areas of activities and increase of the participation of the Corporation's management in development of new investments, advancement of innovative and original technologies, improvement of existing investments and creation of synergy between the Corporation's investments; (E) establishment of the Corporation on a limited staff of senior management and their special skills, along with the Corporation's wish to preserve the continued service and contribution of the Chairman of the Board of Directors, the Corporation's CEO and the CFO (as well as additional officers in the Corporation) to the Corporation and its shareholders over the long run; (F) the involvement of each of the Chairman of the Board of Directors, the Corporation's CEO and the CFO (as well as additional officers in the Corporation) in its investee companies, which is reflected by, among other things, in a contribution to improvement of their business results and their participation in assisting the investee companies in crisis periods (such as involvement of the Corporation's management in ZIM's plan of rehabilitation).

Discussion and Analysis of the Remuneration of Interested Parties and Senior Officers (Pursuant to Regulation 10.B.4) (Cont.)

In addition, the Corporation's Board of Directors indicated that as part of the overall remuneration paid to Chairman of the Corporation's Board of Directors, its CEO and its CFO in 2010, as stipulated in Regulation 21 of the Paragraph "Additional Details" in the Periodic Report, the share-based payment constitutes the most significant component of the overall remuneration. This component was determined based on the Black and Scholes formula, which is based on the price of a Corporation share and does not reflect an actual payment made to the officers in 2010, and by its very nature this component includes an element of uncertainty regarding the possibility that the officer will enjoy the benefit thereof and the extent of such benefit. The Board of Directors directed attention to the fact that if it were not for the unusual fluctuation in the Corporation's share price in the period, on the basis of which the value of the share-based payment was calculated, and taking into account the rate of the fluctuations in the Corporation's share price after elimination of the said period, the fair value of the options granted was less than about 30% of their current value.

In addition, at the time of approval of the options' plan different alternatives were considered for calculation of the potential economic value of the monetary value embedded in exercise of the options, as stated in the Corporation's Immediate Report dated September 13, 2010. Further, the Board of Directors directed its attention to the leading accounting treatment for a non-linear spreading of expenses in respect of issuance of options such that in the first year from the issuance date of the options most of the expense is recorded.

It is further noted that the total remuneration of Amir Elstein constituted 0.5% of the Corporation's net income in 2010. The total remuneration of Nir Gilad constituted 1.4% of the Corporation's net income, and the total remuneration of Avisar Paz constituted 0.5% of the Corporation's net income in 2010. The total remuneration of Amir Elstein, Nir Gilad and Avisar Paz out of the Corporation's net income in 2010 constituted 2.4%.

As part of examination of the relationship between the total remuneration and the contribution of Idan Ofer, who served as the Chairman of the Corporation's Board of Directors up to July 1, 2010, the Board of Directors noted his contribution to the Corporation's record results in 2010, his efforts to advance strategic processes in the Corporation, management of an ongoing and continuous line of communication with Corporation management, his contribution to initiation of transactions and processes in the areas of the Corporation's activities, his involvement in supervision of the companies included in the Corporation Group, and his contribution to advancement of their business results, and also expressed its appreciation with respect to his accomplishments and performance as Chairman of the Board of Directors and his contribution to the Corporation and advancement of its goals, taking into account the complexity of the Corporation's business and the wide range of activity sectors along with their impact on the position of the Chairman of the Board of Directors. Taking into account the reasons enumerated above, the Corporation believes that the aggregate remuneration paid to Idan Ofer in 2010 is fair and reasonable.

Discussion and Analysis of the Remuneration of Interested Parties and Senior Officers (Pursuant to Regulation 10.B.4) (Cont.)

The Corporation's Board of Directors[6], including the outside directors, are entitled to identical directors' fees that do not differ from that customary, and that are fixed in accordance with the provisions of the Companies Regulations (Rules with respect to Remuneration and Expenses of an Outside Director), 2000, based on the company's rank, and that do not exceed the maximum amount in the above-mentioned Regulations. For details relating to the remuneration paid to directors, as stated, in 2010 – see Regulation 21 of the Paragraph "Additional Details" in the Periodic Report[7].

Events Occurring during the Period of the Report and Thereafter

1. Appointments in the Corporation

   A. In January 2010, Mr. Yossi Rosen ceased serving as a director of the Corporation.

   B. In February 2010, Mr. Yoav Dufelt was appointed as a director of the Corporation.

   C. In March 2010, Mr. Eran Sarig was appointed as the Deputy CEO of Business Development and Strategy.

   D. In March 2010, Ms. Maya Alshich-Kaplan was appointed as the In-House Counsel and Corporation Secretary.

   E. In March 2010, Ms. Noga Yatziv ceased serving as Corporation Secretary and assistant to the CEO.

   F. On July 1, 2010, Mr. Idan Ofer gave notice of completion of his service as Chairman of the Corporation's Board of Directors. In his place, Mr. Amir Elstein was appointed.

   G. On July 1, 2010, Mr. Amir Elstein was appointed as Chairman of the Corporation's Board of Directors.

   H. In July 2010, Mr. Aviad Kaufman was appointed as a director of the Corporation.

   I. In July 2010, Mr. David Broidet ceased serving as an external director of the Corporation.

   J. In August 2010, Mr. Ofer Taramachi was appointed as an external director of the Corporation.

   K. In October 2010, Mr. Moshe Widman ceased serving as a director of the Corporation.

   L. In October 2010, Mr. Eitan Raf was appointed as a director of the Corporation.

   M. In October 2010, the appointment of Mr. Gideon Langholtz as an external director of the Corporation was extended.

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6 Excluding the Chairman of the Board of Directors, with respect to which different service conditions were determined.

7 Remuneration to which certain Corporation directors are entitled was assigned to them by Millennium Investments Elad Ltd., a controlling interest in the Corporation, in respect of the services of those directors in the Corporation. In addition, remuneration to which a certain director in the Corporation is entitled, was assigned by Bank Leumi L'Israel Ltd. in respect of the service of such director in the Corporation.

Events Occurring during the Period of the Report and Thereafter (Cont.)

2. In May 2010, the Corporation published as shelf prospectus for issuance of shares and options for shares, debentures, convertible debentures and options for debentures.

   In July 2010, the Corporation published a shelf offer report pursuant to the above-mentioned prospectus and raised about $266 million. See Note 5.A.8 to the financial statements.

   S&P Maalot rated the new series and/or expansion of the existing series of the debentures at ilA Stable in the aggregate amount of up to $300 million.

3. Regarding requests for approval to file claims as derivative claims – see Note 22.B.1.A to the financial statements.

4. Regarding a lawsuit against the Corporation, Quantum, Chery and individuals – see Note 22.B.5 to the financial statements.

5. Regarding adoption of a business plan and increase of the investment in the joint venture in China – see Note 11.A.3.B to the financial statements.

6. On August 30, 2010, after approval by the Audit Committee, the Corporation's Board of Directors approved renewal of the insurance policies for the Corporation's directors and officers in accordance with the conditions of the "Framework Decision", as was approved by the Corporation's Board of Directors and the Audit Committee, on September 10, 2007, as well as the rate of allocation of the premium between the Corporation group and the ICL group, with respect to the joint layer. See also the Immediate Report dated August 30, 2010.

7. Regarding adoption of an options' plan for employees – see Note 23.A.3 to the financial statements.

8. In December 2010, the Corporation reported that O.P.C. signed an agreement with East Mediterranean Gas S.A.E. (hereinafter – "EMG") for supply of natural gas to the power plants. For details – see Note 22.C.5.f.

   ICL and ORL also signed an agreement with EMG for supply of natural gas to the power plants. For details – see Note 22.C.2.h and Note 22.C.4.h.

9. On March 29, 2011, the Corporation's Board of Directors decided to distribute a dividend in the amount of $70 million to be paid on May 1, 2011.

Israel Corporation Ltd.
Report of the Corporation's Board of Directors
For the Year Ended December 31, 2010

For details regarding:

1. Disclosure regarding the Internal Auditor.
2. Definition of an insignificant transaction.
3. Disclosure regarding effectiveness of the internal control over the financial reporting and disclosure.
4. Disclosure regarding the approval process of the financial statements.
5. Disclosure regarding the auditing CPAs.
6. Disclosure regarding the Corporation's Board of Directors.
7. Disclosure regarding the ethical code, Corporation policies and plans for internal enforcement.
8. The social and community involvement of the Israel Corporation Group.

See Part E attached hereto – Report on the Corporation's Governance and Effectiveness of the Internal Control.

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REPORT

Set forth below is a quote from the Auditors' Report:

Without qualifying our opinion as stated above, we direct attention to:

1. That stated in Notes 22.B.2.b.2, 22.B.3.a.1-2 and 22.B.3.b-h, regarding claims filed against a subsidiary and an associated company, in connection with legal proceedings, supervision of the controlling authorities, other contingent claims, laws and proposed laws relating to the fuel and gas sectors and the infrastructure facilities. The managements of the above-mentioned companies, based on opinions of their legal advisors, are unable to estimate the amount of the exposure, if any, and therefore no provision has been included in the financial statements.

2. That stated in Notes 22.C.4.A.4, C.4.B and C.4.H regarding the dependency of a subsidiary on the receipt of services from infrastructure companies.

The Corporation's Board of Directors expresses its appreciation to the employees and officers of the Corporation and of the Group companies for their devoted service and contribution to the advancement of the Group's operations.

Amir Elstein **Chairman of the Board of Directors**	**Nir Gilad** **CEO**

March 29, 2011

Israel Corporation Ltd.

Consolidated Financial Statements

As at December 31, 2010

Israel Corporation Ltd.
Consolidated Financial Statements as at December 31, 2010

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Report of the Auditors to the Shareholders of Israel Corporation Ltd. regarding Audit of Internal Control Components over Financial Reporting
In accordance with Section 9B(c) of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited internal control components over financial reporting of Israel Corporation Ltd. and its subsidiaries (hereinafter – "the Corporation") as at December 31, 2010. These internal control components were determined as explained in the following paragraph. The Corporation's Board of Directors and Management are responsible for maintenance of effective internal control over financial reporting and for their evaluation of the effectiveness of internal control components over financial reporting attached to the Periodic Report for the above-mentioned date. Our responsibility is to express an opinion on internal control components over the Corporation's financial reporting based on our audit.

Internal control components over financial reporting audited by us were determined in accordance with Audit Standard 104 of the Institute of Certified Public Accountants in Israel *"Audit of Internal Control over Financial Reporting"* (hereinafter – "Audit Standard 104"). These components are:
(1) controls at the level of the organization, including controls over the preparation and closing process of financial reporting and general controls of the information systems; (2) controls over cash management; (3) controls over management of investments; (4) controls over management of credit and hedging transactions (all of these will be referred to hereinafter as – "the Audited Control Components").

We conducted our audit in accordance with Audit Standard 104. Pursuant to this Standard we are required to plan and perform the audit with the goal of identifying the Audited Control Components and to obtain a reasonable level of certainty whether these control components were effectively maintained in all material respects. Our audit included gaining an understanding of the internal control over financial reporting, identification of the Audited Control Components, evaluation of the risk that a significant weakness exists in the Audited Control Components, and examination and evaluation of the effectiveness of the planning and operation of those control components based on the assessed risk. Our audit, with respect to those control components, also included performance of other procedures such as those we considered necessary under the circumstances. Our audit referred solely to the Audited Control Components, as opposed to internal control over the overall significant processes in connection with the financial reporting and, therefore, our opinion relates solely to the Audited Control Components. In addition, our audit did not refer to reciprocal impacts between the Audited Control Components and those not audited and, therefore, our opinion does not take into account these possible impacts. We believe our audit provides a reasonable basis for our opinion in the context described above.

Due to built-in limitations, internal control over financial reporting, in general, and components thereof, in particular, may not prevent or discover a material misrepresentation. In addition, making of conclusions with respect to the future on the basis of evaluation of any present effectiveness whatsoever is exposed to risk that the controls will become inappropriate due to changes in circumstances or the extent of compliance with the policies or the procedures will change for the worse.

In our opinion, the Corporation effectively maintained, in all material respects, the Audited Control Components as at December 31, 2010.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Corporation's consolidated financial statements as at December 31, 2010 and 2009 and for each of the three years the last one of which ended on December 31, 2010 and our report, dated March 29, 2011, included an unqualified opinion on those financial statements, based on our audits and the reports of other auditors, as well as a direction of attention regarding claims filed against a subsidiary and an associated company, which at this stage it is not possible to assess the impact thereof, and regarding dependency of an associated company on receipt of services from infrastructure companies and on a supplier of natural gas.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 29, 2011

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Auditors' Report to the Shareholders of Israel Corporation Ltd.

We have audited the accompanying consolidated statements of financial position of Israel Corporation Ltd. (hereinafter – "the Corporation"), as at December 31, 2010 and 2009, and the consolidated statements of income, the statements of comprehensive income, the statements of changes in shareholders' equity and the consolidated statements of cash flows for each of the three years the last one of which ended on December 31, 2010. These financial statements are the responsibility of the Corporation's Board of Directors and its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of subsidiaries and proportionately consolidated companies, whose assets included in the consolidation constitute about 2% and about 1.1% of the total consolidated assets as at December 31, 2010 and 2009, respectively, and whose revenues included in the consolidation constitute about 3% about 5% and about 4.9% of the total consolidated revenues for the years ended December 31, 2010, 2009 and 2008, respectively. In addition, we did not audit the financial statements of associated companies, the investment in which totaled about $47 million and about $29 million as at December 31, 2010 and 2009, respectively, and the Group's share in their losses was about $10 million, about $23 million and about $12 million, for the years ended December 31, 2010, 2009 and 2008, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us and our opinion, insofar as it relates to amounts included in respect of those such companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors' Regulations (Manner of Auditor's Performance), 1973. Such standards require that we plan and perform the audits to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Corporation's Board of Directors and by its Management, as well as evaluating the overall financial-statement presentation. We believe that our audits and the reports of the other auditors provide a fair basis for our opinion.

In our opinion, based on our audits and on the reports of other auditors, as stated above, the above-mentioned financial statements present fairly, in all material respects, the consolidated financial position, as at December 31, 2010 and 2009, and the consolidated results of operations, the changes in the shareholders' equity and the consolidated cash flows for each of the three years the last one of which ended on December 31, 2010, in conformity with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 2010.

Without qualifying our opinion as stated above, we direct attention to:

1. That stated in Notes 22.B.2.b.2, 22.B.3.a.1-2 and 22.B.3.b-h, regarding claims filed against a subsidiary and an associated company, in connection with legal proceedings, supervision of the controlling authorities, other contingent claims, laws and proposed laws relating to the fuel and gas sectors and the infrastructure facilities. The managements of the above-mentioned companies, based on opinions of their legal advisors, are unable to estimate the amount of the exposure, if any, and therefore no provision has been included in the financial statements.
2. That stated in Notes C.4.A.4, C.4.B and C.4.H regarding the dependency of a subsidiary on the receipt of services from infrastructure companies.

We also audited, in accordance with Audit Standard 104 of the Institute of Certified Public Accountants in Israel *"Audit of Internal Control over Financial Reporting"* internal control components over financial reporting of the Corporation as at December 31, 2010, and our report thereon, dated March 29, 2011, included an unqualified opinion with respect to effective maintenance of those components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 29, 2011

Israel Corporation Ltd.
Consolidated Statements of Financial Position

	Note	As at December 31 2010	2009
		$ millions	
Current assets			
Cash and cash equivalents	5	**1,477**	713
Securities held for trade	6	**13**	6
Short-term investments, deposits and loans	7	**678**	212
Trade receivables	8	**1,334**	1,252
Other receivables and debit balances, including derivative instruments	9	**291**	*296
Income tax receivable		**81**	64
Inventories	10	**1,153**	1,275
Total current assets		**5,027**	3,818
Non-current assets			
Investments in associated companies	11	**1,349**	1,284
Investments in other companies	13	**15**	58
Deposits, loans and other debit balances	14	**264**	310
Derivative instruments	37	**421**	*235
Excess of assets over liabilities in respect of defined benefit plan	21	**83**	66
Deferred taxes, net	32	**130**	110
Non-current inventories	10	**50**	55
Property, plant and equipment	15	**5,781**	5,280
Intangible assets	16	**902**	931
Total non-current assets		**8,995**	8,329
Total assets		**14,022**	12,147

* Reclassified.

Amir Elstein	**Nir Gilad**	**Avisar Paz**
Chairman of the Board of Directors	CEO	CFO

Date of approval of the financial statements: March 24, 2010

The accompanying notes and the appendices are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Financial Position

	Note	As at December 31 2010	2009
		$ millions	
Current liabilities			
Credit from banks and others	17	**848**	682
Trade payables	18	**870**	784
Provisions	20	**92**	*88
Other payables and credit balances, including derivative instruments	19	**943**	*670
Income tax payable		**50**	76
Total current liabilities		**2,803**	2,300
Non-current liabilities			
Loans from banks and others	17	**3,946**	3,426
Debentures	17	**2,443**	2,143
Derivative instruments	37	**102**	*61
Provisions	20	**68**	*74
Deferred taxes, net	32	**167**	206
Employee benefits	21	**658**	612
Total long-term liabilities		**7,384**	6,522
Total liabilities		**10,187**	8,822
Equity	24		
Share capital and premium		**282**	281
Capital reserves		**107**	97
Capital reserve in respect of transactions with controlling shareholder		**90**	46
Retained earnings		**1,910**	1,387
Total equity attributable to the Corporation's shareholders		**2,389**	1,811
Rights not conferring control		**1,446**	1,514
Total equity		**3,835**	3,325
Total liabilities and equity		**14,022**	12,147

* Reclassified.

The accompanying notes and the appendices are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Income

	Note	2010	2009	2008
		For the Year Ended December 31		
		$ millions		
Revenues	25	**9,865**	12,498	19,802
Cost of sales	26	**7,115**	10,907	*16,512
Gross profit		**2,750**	1,591	3,290
Research and development expenses	27	**68**	59	64
Selling, transport and marketing expenses	28	**762**	*623	*820
Administrative and general expenses	29	**447**	*434	*521
Other expenses	30	**34**	231	146
Other income	30	**(221)**	(205)	(131)
Operating income		**1,660**	449	1,870
Financing expenses	31	**513**	469	740
Financing income	31	**(199)**	(578)	(107)
Financing expenses (income), net		**314**	(109)	633
Share in losses of associated companies, net of tax	11	**(39)**	(51)	(45)
Income before taxes on income		**1,307**	507	1,192
Taxes on income	32	**326**	10	22
Income for the year		**981**	497	1,170
Allocated to:				
The Corporation's shareholders		**474**	6	320
Rights not conferring control		**507**	491	850
Income for the year		**981**	497	1,170
Earnings per share attributable to the Corporation's shareholders:	33			
Basic earnings per share (in dollars)		**62.33**	0.85	42.53
Fully diluted earnings per share (in dollars)		**61.88**	0.68	41.96

* Restated – see Note 2F.

The accompanying notes and the appendices are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Comprehensive Income

	For the Year Ended December 31		
	2010	**2009**	**2008**
		$ millions	
Income for the year	**981**	497	1,170
Components of other comprehensive income			
Foreign currency translation differences in respect of foreign activities	**9**	44	(87)
Actuarial gains (losses), net, from defined benefit plans	**(23)**	2	(93)
Group's share in other comprehensive income (loss) of associated companies	**3**	58	(16)
Effective portion of the change in fair value of cash flow hedges	**(9)**	15	(47)
Net change in fair value of financial assets available for sale	**(21)**	28	(2)
Net change in fair value of cash flow hedges transferred to the statement of income	**7**	22	1
Net change in fair value of financial assets available for sale transferred to the statement of income	**–**	–	2
Income taxes in respect of other components of other comprehensive income (loss)	**3**	(8)	27
Total other comprehensive income (loss) for the year, net of tax	**(31)**	161	(215)
Total comprehensive income for the year	**950**	658	955
Attributable to:			
The Corporation's shareholders	**461**	135	189
Rights not conferring control	**489**	523	766
Total comprehensive income for the year	**950**	658	955

The accompanying notes and the appendices are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Changes in Shareholders' Equity

	Attributable to the Corporation's shareholders						Rights not conferring control	Total capital
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	$ millions							
Balance at January 1, 2010	281	45	52	46	1,387	1,811	1,514	3,325
Share-based payments in a subsidiary	–	–	–	–	–	–	32	32
Share-based payments in the Corporation	1	–	4	–	–	5	–	5
Dividend to holders of rights not conferring control in subsidiaries	–	–	–	–	–	–	(561)	(561)
Rights not conferring control in respect of business combination	–	–	–	–	–	–	(1)	(1)
Acquisition of shares from holders of rights not conferring control in a subsidiary	–	6	–	–	(23)	(17)	(52)	(69)
Sale of shares of subsidiary to holders of rights not conferring control	–	–	–	–	85	85	21	106
Transactions with controlling shareholder	–	–	–	44	–	44	–	44
Transactions with holders of rights not conferring control	–	–	–	–	–	–	4	4
Income for the year	–	–	–	–	474	474	507	981
Comprehensive income for the year	–	14	(14)	–	(13)	(13)	(18)	(31)
Balance at December 31, 2010	282	65	42	90	1,910	2,389	1,446	3,835

The accompanying notes and the appendices are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Changes in Shareholders' Equity

	Attributable to the Corporation's shareholders						Rights not conferring control	Total capital
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	$ millions							
Balance at January 1, 2009	273	10	(36)	–	1,380	1,627	2,029	3,656
Share-based payments in subsidiaries	–	–	–	–	–	–	81	81
Share-based payments in the Corporation	–	–	3	–	–	3	–	3
Transactions with controlling shareholder	–	–	–	46	–	46	–	46
Investment of holders of rights not conferring control in subsidiaries	–	–	–	–	–	–	65	65
Dividend to holders of rights not not conferring control in a subsidiary	–	–	–	–	–	–	(262)	(262)
Holders of rights not conferring control in business combination	–	–	–	–	–	–	2	2
Acquisition by subsidiary of its own shares	–	–	–	–	–	–	(4)	(4)
Acquisition of rights not conferring control in subsidiary	–	–	–	–	–	–	(78)	(78)
Company that exited the consolidation	–	–	–	–	–	–	(842)	(842)
Exercise of options issued to employees	8	–	(8)	–	–	–	–	–
Income for the year	–	–	–	–	6	6	491	497
Comprehensive income for the year	–	35	93	–	1	129	32	161
Balance at December 31, 2009	281	45	52	46	1,387	1,811	1,514	3,325

The accompanying notes and the appendices are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Changes in Shareholders' Equity

	Attributable to the Corporation's shareholders					Rights not conferring control	Total capital
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Retained earnings	Total		
	$ millions						
Balance at January 1, 2008	273	51	6	1,147	1,477	1,907	3,384
Share-based payments in a subsidiary	–	–	–	–	–	11	11
Share-based payments in the Corporation	–	–	11	–	11	–	11
Dividend to the Corporation's shareholders	–	–	–	(50)	(50)	–	(50)
Dividend to holders of rights not conferring control in a subsidiary	–	–	–	–	–	(528)	(528)
Share of holders of rights not conferring control in acquisition of subsidiary	–	–	–	–	–	10	10
Acquisition by subsidiary of its own shares	–	–	–	–	–	(144)	(144)
Issuance of shares to the minority interest in a subsidiary	–	–	–	–	–	7	7
Income for the year	–	–	–	320	320	850	1,170
Comprehensive income for the year	–	(41)	(53)	(37)	(131)	(84)	(215)
Balance at December 31, 2008	273	10	(36)	1,380	1,627	2,029	3,656

The accompanying notes and the appendices are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Cash Flows

	For the Year Ended December 31		
	2010	**2009**	**2008**
		$ millions	
Cash flows from operating activities			
Income for the year	**981**	497	1,170
Adjustments:			
Depreciation and amortization	**427**	495	440
Decline in value of assets	**21**	38	155
Financing expenses (income), net	**311**	*12	*590
Share in losses of associated companies, net	**39**	51	45
Capital gains, net	**(195)**	(130)	(66)
Gain on sale of activities	**(6)**	–	–
Share-based payment transactions	**37**	8	22
Loss from loss of significant control over associated company previously accounted for by the equity method of accounting	–	16	–
(Gain) loss from investment in available-for-sale securities	**(3)**	–	20
Taxes on income	**326**	10	22
	1,938	997	2,398
Change in inventories	**113**	(299)	134
Change in trade and other receivables	**(167)**	91	86
Change in trade and other payables	**257**	100	(264)
Change in uncompleted voyages, net	**23**	65	(47)
Change in provisions and employee benefits	**16**	76	37
	2,180	1,030	2,344
Income taxes paid	**(256)**	(85)	(347)
Dividend received	**60**	29	21
Net cash provided by operating activities	**1,984**	974	2,018

* Reclassified – see Note 2F.

The accompanying notes and the appendices are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Cash Flows

	For the Year Ended December 31		
	2010	**2009**	**2008**
	$ millions		
Cash flows from investing activities			
Investment in long-term deposits	**(14)**	*(13)	(6)
Proceeds from realization of long-term deposits	**2**	27	12
Proceeds from sale of property, plant and equipment	**73**	156	175
Short-term deposits and loans, net	**(463)**	*(51)	(103)
Business combinations less cash acquired	**(1)**	(35)	(111)
Proceeds from sale of activities	**9**	–	–
Investment in associated and other companies	**(89)**	(86)	(75)
Sale (acquisition) of available for sale securities	**–**	8	(42)
Sale (acquisition) of securities held for trade, net	**10**	255	(26)
Acquisition of property, plant and equipment	**(782)**	(894)	(908)
Granting of long-term loans	**(12)**	*(8)	(28)
Investment grants received	**–**	1	2
Previously consolidated company that is now an associated company	**(1)**	(37)	–
Acquisition of intangible assets	**(18)**	(28)	(39)
Interest received	**40**	*36	*23
Proceeds from sale of associated company	**152**	–	–
Proceeds (payments) from transactions in derivatives, net	**(3)**	*36	*(43)
Net cash used in investing activities	**(1,097)**	(633)	(1,169)

* Reclassified – see Note 2F.

The accompanying notes and the appendices are an integral part of the consolidated financial statements.

Israel Corporation Ltd.
Consolidated Statements of Cash Flows

		For the Year Ended December 31		
		2010	**2009**	**2008**
			$ millions	
Cash flows from financing activities				
Dividend paid to holders of rights not conferring control		**(481)**	(262)	(528)
Acquisition of rights not conferring control in a subsidiary		**(65)**	–	–
Proceeds from issuance of shares to holders of rights not conferring control in subsidiaries		**63**	48	7
Proceeds from sale of holdings in a subsidiary		**106**	–	–
Receipt of long-term loans and issuance of debentures		**1,414**	867	1,834
Repayment of long-term loans and debentures		**(813)**	(668)	(1,352)
Short-term credit from banks and others, net		**(55)**	(51)	35
Acquisition by subsidiary of its own shares		**–**	**(7)	**(251)
Receipt (repayment) of deposits from/to customers		**–**	(8)	1
Dividend paid		**–**	–	(50)
Payments from transactions in derivatives, net		**(5)**	–	–
Interest paid		**(266)**	*(301)	*(334)
Net cash used in financing activities		**(102)**	(382)	(638)
Increase (decrease) in cash and cash equivalents		**785**	(41)	211
Cash and cash equivalents at the beginning of the year		**676**	721	502
Effect of exchange rate fluctuations on balances of cash and cash equivalents		**15**	(4)	8
Cash and cash equivalents at the end of the year	Note 5	**1,476**	676	721

* Reclassified – see Note 2F.
** Retroactive application of accounting policies – see Note 2.G.(1).

The accompanying notes and the appendices are an integral part of the consolidated financial statements.

Note 1 – Financial Reporting Principles and Accounting Policies

A. The Reporting Entity

Israel Corporation Ltd. (hereinafter – "the Corporation") is an Israeli-resident corporation incorporated in Israel whose shares are listed for trading on the Tel-Aviv Stock Exchange. The Corporation's registered office is located at 23 Aranha St., Tel-Aviv, Israel. The consolidated financial statements include those of the Corporation and its subsidiaries (hereinafter – "the Group") along with the Group's rights in associated companies and jointly controlled entities.

The Group operates through an array of investee companies, mainly, in the chemicals, shipping and energy sectors, and it also has additional investments including in the areas of advanced technology, vehicles, infrastructures, electric-powered vehicles, power plants and "clean" energy. The Corporation's headquarters provides management services, through a wholly owned and controlled subsidiary, and is also actively involved in the strategic planning and business development of the Group companies. In addition, the Group acts to initiate and develop additional business interests.

The Corporation is held at the rate of 55% by the Ofer Group and 18% by Bank Leumi Le-Israel B.M.

B. Definitions

In these financial statements –

1. <u>International Financial Reporting Standards (hereinafter – "IFRS")</u> – standards and interpretations adopted by the International Accounting Standards Board (IASB), which consist of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including interpretations to these standards provided by the International Accounting Standards Interpretations Committee (IFRIC) or interpretations provided by the Standing Interpretations Committee (SIC), respectively.
2. <u>The Corporation</u> – Israel Corporation Ltd.
3. <u>The Group</u> – Israel Corporation Ltd. and its subsidiaries.
4. <u>Subsidiaries</u> – companies whose financial statements are fully consolidated with those of the Corporation, directly or indirectly.
5. <u>Proportionately consolidated companies</u> – companies, including partnerships, whose financial statements are proportionately consolidated, directly or indirectly, with those of the Corporation.
6. <u>Associated companies</u> – companies or joint ventures, not including subsidiaries and proportionately consolidated companies, where the Company has significant influence over their monetary and operating policies and the Company's investment therein is included based on the equity method of accounting.
7. <u>Investee companies</u> – subsidiaries, proportionately consolidated companies, and associated companies.
8. <u>Related parties</u> – within the meaning thereof in International Accounting Standard 24 regarding "Related parties".
9. <u>Interested parties</u> – as defined in Paragraph (1) of the definition "Interested Parties" in Corporation in Section 1 of the Securities Law, 1968.
10. <u>CPI</u> – the Consumer Price Index published by the Central Bureau of Statistics.
11. <u>Dollar</u> – the U.S. dollar.

Note 2 – Basis of Preparation of the Financial Statements

A. Declaration of compliance with International Financial Reporting Standards (IFRS)

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The Group adopted IFRS for the first time in 2008, where the transition date to IFRS is January 1, 2007 (hereinafter – "the Transition Date").

These financial statements were also prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements) 2010.

The consolidated financial statements were approved for publication by the Corporation's Board of Directors on March 29, 2011.

B. Functional currency and presentation currency

The dollar is the currency representing the main economic environment in which the Corporation operates and, accordingly, the dollar constitutes the Corporation's functional currency. In addition, the dollar serves as the presentation currency in these financial statements. Currencies other than the dollar constitute foreign currency.

C. Basis of measurement

The statements were prepared on the basis of historical cost, with the exception of the following assets and liabilities:

– Financial instruments classified as "available for sale".
– Financial instruments at fair value through the statement of income.
– Non-current assets held for sale and a group of assets held for sale.
– Deferred tax assets and liabilities.
– Provisions.
– Assets and liabilities in respect of employee benefits.
– Investments in associated companies.

For additional information regarding measurement of these assets and liabilities – see Note 3 "Significant Accounting Policies".

D. Operating cycle

The Group's regular operating cycle is one year. As a result, the current assets and current liabilities include items intended and expected to be realized within the Group's regular operating cycle.

E. Use of estimates and judgment

In preparation of the financial statements in accordance with IFRS, Corporation management is required to use judgment when making estimates, assessments and assumptions that affect implementation of the policies and the amounts of assets, liabilities, income and expenses. It is clarified that the actual results are likely to be different from these estimates.

Note 2 – Basis of Preparation of the Financial Statements (Cont.)

E. Use of estimates and judgment (Cont.)

When formulating the accounting estimates used in preparation of the Corporation's financial statements, Corporation management is required to make assumptions regarding circumstances and events involving significant uncertainty. When using its judgment in making the estimates, Corporation management bases itself on past experience, various facts, external factors and reasonable assumptions regarding the appropriate circumstances for each estimate.

The estimates and the assumptions used for preparing the financial statements are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period during which the estimate was revised and in every future period affected.

Set forth below is information regarding critical estimates made while implementing the accounting policies and that have a very significant effect on the financial statements:

1. Employee benefits

According to International Standard IAS 19, some of the Group's employee benefit plans constitute a "defined benefit plan" as defined in IAS 19. Such plans include principally, commitments for pension and severance benefits.

In computing the pension liability, the Corporation uses various assessments. These assessments include, among others, the interest rate for discounting the Corporation's pension liability, the long-term return expected on the pension fund's assets, an estimate of the salary increases over the long run, and assessment of the life expectancy of the group of employees entitled to pension benefits. Assessment of the interest rate for purposes of discounting the Corporation's pension liability is based on the return on corporate bonds for companies operating in countries having an active market, and on the return on government bonds for companies in other countries not having an active market for corporate bonds. The rate of return on long-term bonds changes according to market conditions. As a result the discount rate may also change and, correspondingly, the pension liability as well. The assessment of the long-term return on the pension fund's assets is based on the expected long-term return of the asset portfolio, in accordance with the composition of the pension fund's assets. Changes in capital market conditions or in the composition of the pension fund's asset portfolio may bring about a change in the assessment of the return on the assets of the fund and accordingly a change in the pension fund. The assessment regarding the increase in wages is based on forecasts of the Corporation in accordance with its past experience and current labor agreements. In actual fact, such assessments may not match the actual wage increases. The life expectancy estimates are based on actuarial research published in the various countries. As a practical matter, every few years the research findings are updated and accordingly the life expectancy assessment may also be updated.

The measurement of liabilities in respect of severance benefits is based upon an actuarial assessment, which takes into account various assessments, among others, the future increase in employee wages and the rate of employee turnover. The measurement is made on the basis of discounting the expected future cash flows according to the interest rate of high-ranking government bonds. Moreover, the severance pay deposits are measured according to their fair value. Changes in the assumptions used to calculate the severance pay liabilities and plan assets may increase or decrease the net severance pay liability recognized.

Note 2 – Basis of Preparation of the Financial Statements (Cont.)

E. Use of estimates and judgment (Cont.)

2. Environmental protection and contingent liabilities

The Group produces, among other things, fertilizers, fuels and chemical products and, therefore, is exposed in the ordinary course of its business to liabilities and obligations under environmental and related laws. The Group invests significant amounts in order to comply with the legal requirements. The Group recognizes a liability in its books only when such liability is expected and can be measured. Measurement of the liability is based mostly on past experience, knowledge of the legal requirements in the Group's areas of operation, as well as assessments regarding outstanding claims existing against it based on opinions of legal advisors and other experts. As explained in Note 22 to the financial statements, several lawsuits are pending against the Group, the results of which may have a material effect on its results.

When assessing the possible outcomes of legal claims that were filed against the Group and its investee companies, the Group relied on opinions of their legal advisors. The said opinions of the legal advisors are based on the best of their professional judgment, and take into consideration the current stage of the proceedings and the legal experience accumulated with respect to the various matters. Since the results of the claims will ultimately be determined by the courts, such results may be different than the aforesaid estimates. In addition, regarding a number of claims, the Group's estimates, based on opinions of its legal advisors, that in light of the complexity of the matters and the proceedings, at this stage it is not possible to predict the Group's financial exposure and, therefore, no provision has been included in the financial statements in respect thereof.

3. Property, plant and equipment

Property, plant and equipment are depreciated by use of the straight-line method over their estimated useful lives.

In every period the Group makes an examination of the useful lives of the property, plant and equipment by comparing them to the industry in which it operates, the level of maintenance of the plants and the functioning of the plants over the years. On the basis of this evaluation, the Group adjusts the estimated useful lives of the property, plant and equipment. The estimates, which are based on internal and external opinions, rely on the Corporation's assessments. Changes in the assessments in the subsequent periods could increase or decrease the rate of depreciation of the facilities.

4. Impairment in value of assets

The Group examines on every reporting date whether there have been any events or changes in circumstances which would indicate impairment of one or more non-monetary assets. When there are indications of impairment, an examination is made as to whether the carrying amount of the investment can be recovered from the discounted cash flows anticipated to be derived from the asset, and if necessary, an impairment provision is recorded up to the amount of the recoverable value. Assessment of the impairment of goodwill and of other intangible assets having an indeterminable lifespan is performed once a year or when indicators for impairment exist.

Note 2 – Basis of Preparation of the Financial Statements (Cont.)

E. Use of estimates and judgment (Cont.)

4. Impairment in value of non-financial assets (Cont.)

The recoverable value of the assets is determined based on the higher of the fair value less selling costs of the asset and the present value of the future cash flows expected from the continued use of the asset, including the cash flows expected upon retiring the asset from service and its eventual sale (usage value).

The future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimates regarding cash flows are based on past experience with respect to this asset or similar assets, and on the Group's best possible assessments regarding the economic conditions that will exist during the remaining useful life of the asset. Use of an appraiser's estimates is made when determining the fair value less selling costs of some of the assets.

Regarding a provision for impairment in value of the property, plant and equipment in the period of the report – see Note 15F to the financial statements.

The estimate of the future cash flows relies on the Corporation's forecasts. Since the actual cash flows may be different than the Corporation's forecasts, the recoverable amount determined in examination of impairment of the value of the assets could change in succeeding periods, such that a reduction in the value of the assets may be required in the future.

5. Business combinations and associated companies

The Group is required to make an allocation of the acquisition cost of companies and activities in the framework of business combinations and to allocate any excess cost created upon acquisition of associated companies on the basis of the estimated fair values of the assets and liabilities acquired. The Group uses valuations of external appraisers for purposes of determining the fair values. The valuations include Management's estimates and assessments regarding the projected future cash flows from the business acquired and a choice of models for calculation of the fair values of the items acquired, as well as their depreciation/amortization period. Management's estimates have an impact on the balance of the assets and liabilities acquired, and on the depreciation and amortization recorded in the statement of income. Management's estimates regarding the forecasted cash flows from the assets acquired may be different than the actual results.

6. Derivative financial instruments

The Group enters into transactions in derivative financial instruments for purposes of hedging foreign currency risks, inflation risks, interest risks and price risks. The derivatives are recorded based on their fair values. The fair value of the derivative financial instruments is based on prices, tariffs and interest rates received from banks and brokers as well as through acceptable trading software programs. Based on the data received, the fair value of the derivatives is estimated using pricing and valuation techniques that characterize the various financial instruments in the different markets. Measurement of the fair value of long-term financial instruments is accomplished by discounting the cash flows deriving therefrom on the basis of the terms and length of the period to maturity of each instrument and through use of market interest rates on similar instruments as at the measurement date. Changes in the economic assumptions and valuation techniques could give rise to significant changes in the fair value of the instruments.

Note 2 – Basis of Preparation of the Financial Statements (Cont.)

E. Use of estimates and judgment (Cont.)

7. Separation of embedded derivatives

The Group exercises discretion for purposes of determining whether it is necessary to separate an embedded derivative from the host contract. If it is found that it is necessary to separate the embedded derivative, this component is measured separately from the host contract as a financial instrument at fair value through the statement of income, otherwise the entire instrument is measured in accordance with the measurement principles applicable to it. Separation of embedded derivatives as stated and measurement thereof at fair value through the statement of income may have a significant impact on the Group's financial position and results of operations.

8. Inventories

The inventory is measured in the financial statements at the lower of cost or net realization value. The net realization value is an estimate of the selling price in the ordinary course of business, less the estimated costs to complete the item and to execute the sale thereof to the extent they are known at the date of the financial statements. The selling price is estimated based on the anticipated selling price at the time of realization of the inventory, where a decline in the anticipated selling price could cause a decline in the value of the inventory on the books and in the results of operations, respectively. Raw materials are written down to realization value only where the finished products in which they are to be included are expected to be sold at an amount less than the cost. The realization value of raw materials is based on the realization values of the inventory of finished goods in which the raw materials incorporated. Where the replacement cost of the raw materials is the best available evidence of the realization value, measurement of the realization value of the raw materials is based on the said replacement cost. A decline in the expected replacement cost could give rise to a decline in the value of the inventory of raw materials in the books and the results of operations, respectively.

Part of the raw materials, work in progress and finished goods is in bulk. The quantities are based estimates made, for the most part, by outside experts that measure the volume and density of the inventory. Variances in the assessments used in determination of the estimates could give rise to a change in the value of the inventory in the books.

9. Taxes on Income

Determination of provisions in respect of taxes on income requires use of discretion regarding the future tax treatment of various transactions. The Group carefully estimates the tax consequences of transactions and makes provisions for taxes accordingly. The tax treatment for transactions of this type is re-examined from time to time in order to take all legislative changes into account.

Deferred tax assets are recorded in connection with unutilized tax losses, as well as with respect to deductible timing differences. Since such deferred tax assets may only be recognized where it is reasonable that there will be future taxable income against which the said losses may be offset, use of discretion by Management is required in order to assess the probability that such future taxable income will exist. Management's assessment is re-examined on a current basis and additional deferred tax assets are recognized if it is reasonable that future taxable income will permit recovery of the deferred tax assets.

Note 2 – Basis of Preparation of the Financial Statements (Cont.)

E. Use of estimates and judgment (Cont.)

9. Taxes on Income (Cont.)

The deferred taxes are calculated based the tax rates expected to apply at the time the temporary differences are realized, as stated in Note 3P. The tax rate expected to apply upon realization of the temporary differences relating to Benefited Enterprises in Israel is based on the future revenues forecasted to derive from the Benefited Enterprises in relation to the Corporation's total revenues. Changes in these estimates may give rise to changes in the book value of the tax assets, tax liabilities and results of operations.

On December 29, 2010 the Knesset approved the Economic Policy Law for 2011-2012, in the framework of which the Law for the Encouragement of Capital Investments was amended. As part of the amendment, new tax tracks were provided that set forth a uniform and reduced tax rate for all the Corporation's income entitled to benefits. The amendment does not apply to an Industrial Plant that is a mine or facility for production of quarries.

The balance of the deferred taxes as at December 31, 2010 was not adjusted as a result of amendment of the Encouragement Law.

As at the approval date of the financial statements, ICL is examining whether ICL Group companies operating in Israel will be able to enjoy the tax benefits provided by the new law. The balance of the deferred taxes for above-mentioned companies will be adjusted in the succeeding periods.

10. Impairment in value of trade receivables

The Group estimates losses from decline in value in respect of bad and doubtful debts deriving from the inability on the part of the customers to make the required payments. The Group bases the estimates on an aging of the receivables' balance, credit ratings with respect to the customers and the past experience in connection with write-offs. If the financial situation of the customers worsens, the actual write-offs will be higher than the estimates.

F. Reclassification

1. In the statement of financial position as at December 31, 2009, a reclassification was made of current maturities of derivative financial instruments having a debit balance of about $39 million and derivative financial instruments having a credit balance of about $29 million, which were previously presented as part of non-current assets and non-current liabilities, to current assets and current liabilities in order to reflect their expected repayment dates. In addition, in the statement of financial position as at December 31, 2009, a reclassification was made of provisions, in the amount of about $28 million, from non-current liabilities to current liabilities in order to conform their presentation to presentation of the provisions in Corporation's statement of financial position as at December 31, 2010.

Note 2 – Basis of Preparation of the Financial Statements (Cont.)

F. Reclassification

2. In the statements of income for the years ended December 31, 2009 and December 31, 2008, immaterial amounts were reclassified from "cost of sales" and "administrative and general expenses" to "selling, transportation and marketing expenses" in order to conform the manner of their presentation to the presentation in the Corporation's statement of income for the year ended December 31, 2010.

3. In the statement of cash flows for the year ended December 31, 2009, the amount of about $32 million was reclassified within the "cash flows from investing activities" category, from "long-term" to "short-term" investments in deposits. In addition, statements of cash flows for the year ended December 31, 2009 and December 31, 2008, the amounts of about $36 million and about $80 million, respectively, were reclassified between "cash flows from financing activities", "cash flows from investing activities" and "cash flows from current operating activities" in respect of interest received and receipts (payments) in connection with derivative transactions.

G. Changes in the accounting policies

1. Business Combinations and Transactions with Holders of Rights Not Conferring Control

   Commencing from January 1, 2010, the Group applies IFRS 3 Business Combinations (2008) and IAS 27 Consolidated and Separate Financial Statements (2008) (hereinafter – "IFRS 3" and "IFRS 27", respectively), and is also making early application of the amendments to IFRS 3 that were published as part of the Improvements Project for 2010 – an amendment regarding a transitional rule relating to contingent consideration in connection with a business combination taking place prior the commencement date of IFRS 3, and an amendment regarding measurement of rights not conferring control.

   For additional information regarding the Group's accounting policies in connection with a business combinations and transactions with holders of rights not conferring control – see Note 3 "Significant Accounting Policies".

   The accounting policies detailed above are being applied prospectively, except for presentation of cash flows in respect of transactions with holders of rights not conferring control, which for the years ended December 31, 2009 and 2008 were presented as part of "cash flows from investing activities" and were reclassified to "cash flows from financing activities" in light of the initial application.

2. Impairment in Value of Assets

   Commencing from January 1, 2010, the Group applies IAS 36 "Impairment in Value of Assets, Allocation of Goodwill to Cash-Producing Units" (hereinafter – "the Standard"), which were published as part of the Improvements Project for 2009. Pursuant to the Standard, it was provided that for purposes of examining impairment, the cash-producing unit to which goodwill is to be allocated is not to be larger than an activity sector, as defined in IFRS 8, prior to application of the grouping criterion as stated in IFRS 8 and 12. The Standard is being applied prospectively. The Group chose to examine impairment in value of goodwill in accordance with the Standard's transitional rules on the date fixed for making the annual examination.

Note 2 – Basis of Preparation of the Financial Statements (Cont.)

G. Changes in the accounting policies (Cont.)

3. Amendment to IAS 1, Presentation of Financial Statements, Presentation of Statement of Changes in Equity

   Commencing from January 1, 2010, the Group is making early application of the amendment to IAS 1, "Presentation of Financial Statements", which was published as part of the Improvements Project for 2010, whereby the Group presents as part of the statement of changes in equity, for every capital component, a reconciliation between the book value at the beginning of the period and the book value at the end of the period, while making separate disclosure of every change as a result of income and loss, and other comprehensive income and transactions with owners in their capacity as owners. The Group includes disclosure of the change as stated while making separate disclosure for each change as a result of every component of other comprehensive income as part of Note 24 "Capital and Reserves".

4. IAS 24 (2009), Disclosures in Connection with Related Parties

   Commencing from January 1, 2010, the Corporation is applying IAS 24 (2009), "Disclosures in Connection with Related Parties" (hereinafter – "the Standard"). The new Standard includes changes in the definition of a related party as well as changes with respect to disclosures required by entities related to the government.

Note 3 – Significant Accounting Policies

The accounting policies detailed below were applied consistently in all the periods included in these consolidated statements by the Group entities, except for that stated in the section "Changes in the accounting policies" in Note 2, "Basis of Preparation of the Financial Statements".

A. Basis for consolidation

Due to the initial application of IFRS 3 (2008) and IAS 27(2008), the Group changed the accounting policies applied with respect to business combinations and transactions with holders of rights not conferring control. For additional information – see Note 2, "Basis of Preparation of the Financial Statements".

1. Business combinations

   The Group applies the "acquisition method" to all business combinations. The acquisition date is the date on which the Group obtains control over the acquired entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The Corporation exercises discretion in determining the acquisition date and whether control has been obtained.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for consolidation (Cont.)

1. Business combinations (Cont.)

Accounting treatment of business combinations after January 1, 2010

For acquisitions after January 1, 2010, the Group recognizes goodwill at acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of rights that do not confer control in the acquired entity as well as the fair value as at the acquisition date of any pre-existing equity right of the acquirer in the acquired entity, less the net amount of the identifiable assets acquired and the liabilities assumed.

On the acquisition date, the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

If the Group pays a bargain price for the acquisition (including, as such, negative goodwill), it recognizes the resulting gain in the statement of income on the acquisition date.

Furthermore, as from January 1, 2010 goodwill is not adjusted in respect of utilization of carryforward tax losses that existed on the date of the business combination, also with respect to previous business combinations occurring prior to that date.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquired entity, the liabilities incurred by the Group to the previous owners of the acquired entity and equity instruments that were issued by the Group. In a business combination executed in stages, the difference between the fair value on the acquisition date of the Group’s pre-existing equity rights in the acquired entity and the carrying amount on that date is recognized in the statement of income. In addition, the consideration transferred includes the fair value of any contingent consideration. Subsequent to the acquisition date, the Group recognizes changes in fair value of the contingent consideration classified as a financial liability in the statement of income. Changes in the liability in respect of contingent consideration in business combinations occurring prior to January 1, 2010, will continue to be recognized in goodwill and will not be recognized in the statement of income.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as: brokers’ commissions, advisory, legal, valuation and other professional or consulting fees, other than those associated with an issuance of debt or equity instruments relating to the business combination, are expensed in the period the services are received.

Business combinations between January 1, 2007 and January 1, 2010

For acquisitions between January 1, 2007 (the date of transition to IFRS) and January 1, 2010, the goodwill recognized constitutes the excess of the cost of the acquisition over the Group’s interest in the amount recognized (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquire entity. When the excess is negative, a bargain purchase gain is recognized in the statement of income on the acquisition date.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for consolidation (Cont.)

1. <u>Business combinations</u> (Cont.)

Transaction costs incurred by the Group in connection with the business combination, other than those associated with an issuance of debt or equity instruments, were recognized as part of the cost of the acquisition.

Business combinations prior to January 1, 2007 (the transition date to IFRS)

On the date of transition to IFRS, the Group adopted the relief provided in IFRS 1 and elected not to retrospectively implement the provisions of IFRS 3 (2004) with respect to business combinations, acquisitions of affiliates, acquisitions of jointly controlled entities and acquisition of minority interests prior to the transition date. Therefore, in respect of acquisitions prior to January 1, 2007 the goodwill recognized and the excess cost created represent the amounts recognized by the Group under Israeli GAAP.

2. <u>Subsidiary companies</u>

Subsidiary companies are entities that are controlled by the Group. The financial statements of the subsidiary companies are included in the consolidated financial statements from the date control was acquired until the date control ceases to exist.

The accounting policies of subsidiary companies were changed as necessary so that they will correspond to the accounting policies adopted by the Corporation.

3. <u>Rights not conferring control</u>

Rights not conferring control comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company and they include additional components such as: share-based payments that will be settled with equity instruments of subsidiaries and options for shares of subsidiaries.

Rights not conferring control that are instruments giving rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquire entity, on the basis of each separate transaction. Choice of this accounting policy is not permitted with respect to other instruments meeting the definition of rights not conferring control (for example: options for ordinary shares). Such instruments will be measured at fair value or in accordance with other relevant IFRS.

For acquisitions between January 1, 2007 and January 1, 2010, rights not conferring control were measured on the date of the business combination at their proportionate interest in the identifiable assets and liabilities of the acquire entity.

Regarding acquisitions after the transition date, the Group adopted the relief provided in IFRS 1 and elected not to retrospectively implement the provisions of IFRS 3 (2004), as described above.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for consolidation (Cont.)

3. Rights not conferring control (Cont.)

Allocation of comprehensive income to the shareholders

Commencing from January 1, 2010, profit or loss and any part of other comprehensive income are allocated to the owners of the Corporation and the holders of rights not conferring control, even when the result is a negative balance of the holders of rights not conferring control. Up to that date, profits or losses and parts of other comprehensive income were not allocated to the holders of rights not conferring control if the result was a negative balance, unless the minority had a contractual obligation and the ability to make an additional investment in order to cover the losses.

Transactions with holders of rights not conferring control while maintaining control

Up to January 1, 2010, with respect to a sale of shares to holders of rights not conferring control while maintaining control, the Corporation recognized gain or loss on the sale equal to the difference between the consideration received and the book value of the portion sold, in a manner consistent with the treatment used for acquisitions of rights not conferring control (increase in the rate of holdings while maintaining control). Commencing from January 1, 2010, transactions with holders of rights not conferring control while maintaining control are accounted for as equity transactions. Any difference between the consideration paid or received and the change in the rights not conferring control is recorded to the share of the Corporation's owners directly to retained earnings.

The amount of the adjustment to the rights not conferring control is calculated as follows:

For a rise in the holding rate, according to the proportionate share acquired from the balance of the rights not conferring control in the consolidated financial statements immediately preceding the transaction.

For a decrease in the holding rate, according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.

In addition, when the holding rate in the subsidiary changes, while maintaining control, the Corporation reallocates the accumulated amounts that were recognized in other comprehensive income to the owners of the Corporation and the holders of rights not conferring control while maintaining control.

The cash flows deriving from transactions with holders of rights not conferring control while maintaining control, which classified were in the past in the statement of cash flows under "investing activities", are classified under "financing activities". See also Note 2.G.1 regarding "changes in accounting policies" with respect to the effects of the retrospective implementation of this classification.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for consolidation (Cont.)

4. Loss of control

Treatment of loss of control after January 1, 2010

Upon the loss of control, the Group eliminates the assets and liabilities of the subsidiary, any rights not conferring control and the other components of equity related to the subsidiary. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. The difference between the sum of the proceeds and the fair value of the retained interest, on the one hand, and the balances eliminated, on the other hand, is recognized in the statement of income in the “other income” or “other expenses” category. Commencing from that date, the retained interest is accounted for using the equity method of accounting or as an available-for-sale asset depending on the level of influence retained by the Group in the relevant company.

The amounts recognized in capital reserves through other comprehensive income with respect to the same subsidiary are reclassified to the statement of income or to retained earnings in the same manner that would have been applicable if the subsidiary had itself realized the same assets or liabilities.

5. Business combinations under common control

Commencing from the acquisition date, assets and liabilities acquired are presented at the values at which they were previously presented in the consolidated financial statements of the Group’s controlling shareholder. Any difference between the cash paid for the acquisition and the values of the assets and liabilities acquired on the date common control was achieved is recognized directly in equity.

6. Investment in associated companies

Associated companies are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is considered to exist where the rate of holdings is 20% or more, except where there are circumstances contradicting this assumption.

The investment in associated companies is accounted for using the equity method and is recognized initially at cost. The cost of the investment includes transaction costs. When a company first obtains significant influence in an investment that was accounted for as available-for-sale until the date of obtaining significant influence, any accumulated other comprehensive income in respect of that investment is transferred on that date. The consolidated financial statements include the Group’s share of the income and expenses in profit or loss and of other comprehensive income of equity-accounted investees, after adjustments to conform the accounting policies to those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for consolidation (Cont.)

6. Investment in associated companies (Cont.)

When the Group's share of the losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investment) is reduced to zero and the recognition of further losses is discontinued except to the extent the Group has an obligation or has made payments on behalf of the investee.

7. Loss of significant influence

The Group discontinues applying the equity method from the date it loses significant influence and it accounts for the investment as a financial asset.

On that date, the Group measures at fair value any retained interest it has in the former affiliated company or jointly controlled company and recognizes in profit or loss any difference between the sum of the fair value of the retained interest and any proceeds received from the partial disposal of the investment in the affiliated company, and the carrying amount of the investment on that date.

The amounts recognized in capital reserves through other comprehensive income with respect to the same affiliated company are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the affiliated company had itself realized the same assets or liabilities.

8. Change in rate of holdings in affiliated companies while maintaining significant influence

When the Group increases its interest in an affiliated company accounted for by the equity method while retaining significant influence, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest remains unchanged.

When there is a decrease in the interest in an affiliated company accounted for by the equity method while retaining significant influence, the Group eliminates a proportionate part of its investment and recognizes a gain or loss from the sale in the statement of income under "other income" or "other expenses" category.

Furthermore, on the same date, a proportionate part of the amounts recognized in capital reserves through other comprehensive income with respect to the same affiliated company is reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the affiliated company had itself realized the same assets or liabilities.

Note 3 – Significant Accounting Policies (Cont.)

A. Basis for consolidation (Cont.)

9. Jointly controlled entities accounting for using the proportionate consolidation method

Jointly controlled entities are entities regarding which the Group has joint control over their activities, which is achieved by means of a contractual arrangement requiring joint consent with the other investors in connection with strategic, financial and operational decisions. Jointly controlled entities are accounted for using the proportionate consolidation method commencing from the date joint control exists and up to the date joint control no longer exists. The consolidated financial statements include the proportionate share of the Group in the assets, liabilities, revenues and expenses of the proportionately consolidated entities based on the rate of holdings therein, after the necessary adjustments in order to conform the accounting policies to those of the Group.

10. Transactions eliminated in the consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with affiliates and jointly controlled entities are eliminated against the investment to the extent of the Group's interest in these investments. Unrealized losses are eliminated in the same way as unrealized gains, so long as there is no evidence of impairment.

B. Foreign currency

1. Transactions in foreign currency

Transactions in foreign currency are translated into the Group's functional currency based on the exchange rate in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency on the report date are translated into the Group's functional currency based on the exchange rate in effect on that date. Exchange rate differences in respect of the monetary categories is the difference between the net book value in the functional currency at the beginning of the period plus the payments during the period and the net book value in foreign currency translated based on the rate of exchange at the end of the period. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency based on the exchange rate in effect on the date the fair value was determined. Exchange rate differences deriving from re-translation are recognized in the statement of income, except for differences deriving from re-translation of non-monetary equity instruments classified as available for sale or cash-flow hedges that are recorded in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Note 3 – Significant Accounting Policies (Cont.)

B. Foreign currency (Cont.)

2. Foreign activities

The assets and liabilities of foreign activities, including goodwill and adjustments to fair value created upon acquisition, were translated into dollars according to the rates of exchange in effect on the date of the report. Income and expenses of foreign activities were translated into dollars according to the rates of exchange that were in effect on the transaction dates.

Foreign currency differences are recognized in other comprehensive income since January 1, 2007, the transition date to IFRS, and such differences are presented in equity in the foreign currency translation reserve (hereinafter – "the translation reserve"). When the foreign operation is a non-wholly-owned subsidiary of the Group, then the relevant proportionate share of the foreign operation translation difference is allocated to the rights not conferring control. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal.

As of January 1, 2010, when the Group's interest in a subsidiary that includes a foreign operation changes, while maintaining control over the subsidiary, a proportionate part of the cumulative amount of the translation differences that was recognized in other comprehensive income is reallocated to the holders of rights not conferring control.

Gains and losses from exchange rate differences deriving from loans received from or granted to foreign activities, the settlement of which is not planned and is not expected to take place in the foreseeable future, are included as part of the net investment in the foreign activities and are recognized in other comprehensive income and are presented in equity as part of the translation reserve.

C. Financial instruments

1. Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits at the time they are created. The rest of the financial assets that are acquired in the regular way, including assets designated at fair value through the statement of income, are initially recognized at the time of entering into the transaction (the trade date) where the Group becomes a party to the instrument's contractual conditions, that is, when the Group undertakes to buy or sell the asset. Non-derivative financial instruments include investments in shares and debt instruments, trade and other receivables, including receivables as part of concession arrangements, and cash and cash equivalents.

Financial assets are eliminated when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers the rights to receive the cash flows deriving from the financial asset in a transaction wherein all the risks and rewards deriving from ownership of the asset are effectively transferred.

Every right in financial assets transferred that is created or reserved by the Group is recognized separately as an asset or liability.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

1. Non-derivative financial assets (Cont.)

Sales of financial assets made in the usual manner are recognized on the transaction date, that is, on the date the Group undertook to buy or sell the asset.

Regarding offset of financial assets and financial liabilities – see Section (2) below.

The Group classifies financial assets in categories as follows:

Investments in securities presented at fair value through the statement of income

A financial asset is classified as measured at fair value through the statement of income if it is classified as held for sale. At the time of the initial recognition, allocable transaction costs are recorded on the statement of income as incurred. The financial assets are measured at fair value and the changes therein are recorded in the statement of income.

Loans and receivables

Loans and other receivables are non-derivative financial assets bearing payments that are fixed or that can be fixed and that are not traded on an active market. After the initial recognition, the loans and other debit balances are measured based on amortized cost using the effective interest method while taking into account transaction costs and less provisions for decline in value.

Loans and receivables include trade and other receivables.

Cash and cash equivalents

Cash includes cash balances or deposits that are available for immediate withdrawal. Cash equivalents include highly liquid short-term investments where the period of time from the original date of deposit up to the redemption is up to 3 months that can be easily converted into known amounts of cash and that are exposed to insignificant risk regarding changes in value. Revolving credit from banks, which are repayable on demand and that constitute an integral part of the Group's cash management, are included as part of the cash and cash equivalents solely for purposes of the statement of the cash flows.

Financial assets available for sale

The Group's investments in non-marketable shares and certain debt instruments are classified as financial assets available for sale. At the time of the initial recognition and thereafter, these investments are measured based on fair value, where the changes therein, except for losses from decline in value, are recorded in other comprehensive income and are presented in a capital reserve in respect of monetary assets classified as available for sale. A dividend received in respect of monetary assets classified as available for sale is recorded on the statement of income on the date the right to the payment arises. When the investment is eliminated, the gains or losses accrued to equity are transferred to the statement of income.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

1. Non-derivative financial assets (Cont.)

Financial assets available for sale (Cont.)

Investments in shares of companies that are not publicly traded and that have no quoted market price in an active market and the fair value of which cannot be reliably measured, are recognized in the statement of financial position based on their cost net of declines in value.

2. Non-derivative financial liabilities

The Group initially recognizes debt instrument issued on the date they are created. The rest of the financial liabilities are initially recognizes at the time of entering into the transaction where the Group becomes a party to the instrument's contractual conditions.

Financial liabilities are eliminated where the Group's obligation, as detailed in the agreement, expires or is settled or cancelled.

Financial liabilities (except for financial liabilities designated at fair value through the statement of income) are initially recognized at fair value plus all allocable transaction costs. After the initial recognition, financial liabilities are measured at amortized cost in accordance with the effective interest method.

Exchange of debt instruments, having materially different terms, between an existing borrower and lender is treated as settlement of the original financial liability and recognition of a new financial liability at fair value. In addition, a significant change in the terms of an existing financial liability or a part thereof, is treated as settlement of the original financial liability and recognition of a new financial liability.

The terms are materially different if the present value of the discounted cash flows under the new terms, including any commissions paid, less commissions received and capitalized using the original effective interest rate, is at least ten percent of the discounted present value of the remaining cash flows of the original financial liability.

In addition to the said quantitative test, the Group examines, among other things, whether there have been changes in various economic parameters embedded in the exchanged debt instruments. Therefore, exchanges of debt instruments linked to the index with instruments that are not linked to the index are considered exchanges having materially different terms even if they do not meet the quantitative test described above.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

2. Non-derivative financial liabilities (Cont.)

Exchange of debt instruments for equity

Equity instruments issued upon settlement or elimination of the liability, in whole or in part, will be considered "consideration paid" for purposes of calculation of the gain or loss upon elimination of the financial liability. The equity instruments will be initially measured at their fair value, unless it is not possible to reliably measure such value, in which case the instruments issued will be measured in accordance with the fair value of the liability eliminated. Any difference between the amortized cost of the financial liability and the initial measurement of the equity instruments is to be recognized in the statement of income. Application of the Interpretation is to be made retrospectively.

The Group has non-derivative financial liabilities as follows: loans and credit from banks and others, trade and other payables.

A financial asset and a financial liability are offset and the amounts are presented on a net basis in the statement of financial position where the Group has a currently enforceable legal right to offset the amounts recognized and the intention is to settle the asset and liability on a net basis or to realize the asset and settle the liability concurrently.

3. Derivative financial instruments

The Group companies make use of derivative financial instruments for purposes of reducing the exposure to commodity price risks, foreign currency risks, inflation risks, interest risks, and prices of inputs. In addition, the Group companies have embedded derivatives that are components of a hybrid instrument that also includes the host contract that is not a derivative. Embedded derivatives are separated from the host the contract and are treated separately if: (a) there is no close relationship between the economic characteristics and risks of the host contract and of the embedded derivative; (b) a separate instrument having the same terms as the embedded derivative would have met the definition of a derivative; and (c) the integrated instrument is not measured at fair value through the statement of income.

Hedge accounting

On the start date of the accounting hedge, the Group formally documents the hedge ratio between the hedging instrument and the hedged instrument, including the purpose of the Group's risk and strategic management for executing the hedge and the manner in which the Group will evaluate the effectiveness of the hedge ratio.

The Group evaluates at the time of creating the hedge and in subsequent periods whether the hedge is projected to be highly effective by achieving offsetting changes in fair value of cash flows that can be attributed to the hedged risk during the period with respect to which the hedge is designated, as well as whether the actual results of the hedge are within a range of 80-125 percent.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

3. Derivative financial instruments (Cont.)

Hedge accounting (Cont.)

Regarding a cash flow hedge, a projected transaction constituting a hedged item is projected to be at a high level and causes changes in the cash flows that are ultimately expected to impact the profit or loss.

Derivatives are initially recognized according to fair value and the allocable transaction costs are charged to the statement of income as incurred. After the initial recognition, the derivatives are measured at fair value, where the changes in the fair value are treated as described below.

Fair value hedge

Changes in the fair value of a derivative financial instrument used to hedge fair value are recorded on the statement of income. In addition, changes in the fair value of the hedged item, in connection with the hedged risks, are also recorded on the statement of income in a parallel manner.

Cash flow hedge

Changes in the fair value of derivatives used to hedge cash flows, in respect of the effective part of the hedge, are recorded through other comprehensive income directly to a hedge reserve. With respect to the non-effective part, the changes in fair value are recorded on the statement of income.

The amount accumulative in the hedge reserve is reclassified to the statement of income in the period in which the cash flows impact the statement of income and are presented in the same category in the statement of income in which the hedged item is presented.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. The cumulative gain or loss previously recognized in the hedge reserve through other comprehensive income remains in the reserve until the forecasted transaction occurs or is no longer expected to occur. Where the forecasted transaction is no longer expected to occur, the cumulative gain or loss in respect of the hedging instrument accumulated in the hedge reserve is reclassified to the statement of income.

Economic hedge

Hedge accounting is not applied with respect to derivative financial instruments used to hedge economically financial assets and liabilities denominated in foreign currency and input prices. The changes in the fair value of these items are recorded on the statement of income.

Note 3 – Significant Accounting Policies (Cont.)

C. Financial instruments (Cont.)

3. Derivative financial instruments, including hedge accounting (Cont.)

Separated embedded derivatives

Changes in the fair value of embedded derivatives are separated and recognized immediately on the statement of income as financing income or expense.

4. Index-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase in the CPI.

5. Financial guarantees

On the date of the initial recognition, a financial guarantee is recognized at its fair value. In succeeding periods a financial guarantee is measured based on the higher of the amount recognized in accordance with the provisions of IAS 37 and the liability initially recognized after it was reduced in accordance with IAS 18. Every update of the liability in accordance with that stated is recorded in the statement of income.

6. Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity.

D. Property, plant and equipment

1. Recognition and measurement

Property, plant and equipment items are presented at cost after deducting the related amounts of investment grants and less accumulated depreciation and losses from declines in value.

The cost includes expenses that can be directly attributed to the purchase of the asset. The cost of assets that were constructed independently includes the cost of the materials and direct salary costs, as well as any additional cost that are directly attributable to bringing the asset to the required position and condition so that it will be able to function as management intended, as well as costs to dismantle and remove the items and to restore its location. The cost of purchased software, which is an inseparable part of operating the related equipment, is recognized as part of the cost of said equipment. In addition, deposits on account of acquisition of property, plant and equipment are recognized as part of the property, plant and equipment.

Note 3 – Significant Accounting Policies (Cont.)

D. Property, plant and equipment (Cont.)

1. Recognition and measurement (Cont.)

Spare parts for facilities are valued at cost determined based on the moving average method, after recording a write-down in respect of obsolescence. The portion designated for current consumption is presented in the inventory category in the "current assets" section.

Where significant parts of an item of property, plant and equipment (including costs of major periodic inspections) have different life expectancies, they are treated as separate items (significant components) of such items.

Gain or loss from elimination of an item of property, plant and equipment are determined by comparing the proceeds from elimination of the asset to its book value, and are recognized on a net basis in "other income" or "other expenses", as applicable, in the statement of income.

Changes in a commitment to dismantle and remove items and to restore their location, except for changes stemming from the passage of time, are added to or deducted from the cost of the asset in the period in which they occur.

Fleet of ships and related equipment

The fleet of ships and related equipment are presented at cost less accumulated depreciation and accumulated impairment losses. The cost of inspecting the vessel (dry docking), that needs to be performed after a number of years of operation (usually once every five years), is separated from the cost of the vessel and depreciated according to the period until the following inspection. Corporation management believes that a ship does not have another material separate component whose expected period of use is different from the expected period of use of the entire vessel (25 years).

Part of the fleet of ships was acquired using loans at reduced interest rates, subsidized by the governments of the countries of residence of the shipbuilders. Those ships are presented net of the interest component included in the purchase price calculated as the difference between the interest payable over the period of the loan using the subsidized interest rate and that using the prevailing market interest rates. The loan is recognized at its present value taking into account the non-subsidized effective interest, such that interest expense is recorded on it based on the market interest rate on the date of the loan's receipt.

Gains and losses on disposal of a ship item, containers, handling equipment and other tangible assets are determined by comparing the proceeds from disposal with the carrying amount of the item, and are recognized net under "other income" in the statement of income.

2. Subsequent costs (costs incurred after the initial recognition date)

The cost of replacing part of an item of property, plant and equipment is recognized as part of the book value of the item if it is expected that the future financial benefit inherent in the part replaced will flow to the Group and that its cost can be measured in a reliable manner. The book value of the part that was replaced is eliminated. Routine maintenance costs are charged to the statement of income as incurred.

Note 3 – Significant Accounting Policies (Cont.)

D. Property, plant and equipment (Cont.)

2. Subsequent costs (costs incurred after the initial recognition date) (Cont.)

Significant improvements that extend the useful lives of property, plant and equipment are capitalized as part of the cost of the property, plant and equipment.

3. Depreciation

Depreciation is charged to the statement of income according to the straight-line method over the estimated useful life of each part of the property, plant and equipment items. Leased assets, including leasehold improvements, are depreciated over the shorter of the lease period or the useful life of the asset, unless there is reasonable certainty that the Group will obtain control over the assets at the end of the lease period. Land is not depreciated.

The estimated useful lives for the current period and comparative periods is as follows:

	In Years
Land development, roads and structures	10–50
Facilities, machinery and equipment	4–50
Dams and ponds	6–25
Heavy mechanical equipment, train cars and tanks	5–50
Office furniture and equipment, motor vehicles, computer equipment and other	3–17
Power plants	20–50
Catalysts	2–10
Leasehold improvements	Over the term of the lease

The estimates regarding the depreciation method, useful life and scrap value are re-evaluated, at a minimum, at the end of every reporting year.

The estimated useful lives of the fleet of ships and the accompanying equipment for the current period and comparative periods is as follows (taking into account a salvage value of 10% of the cost of the assets):

	In Years
Fleet of ships	25–30
Containers	13
Chassis	30
Other equipment	13
Dry-dock for fleet of owned ships	Up to 5 years

Note 3 – Significant Accounting Policies (Cont.)

E. Intangible Assets

1. Goodwill

Goodwill created as a result of acquisition of subsidiaries is included in the intangible assets category. For information regarding measurement of the goodwill upon the initial recognition thereof – see Section A.1. above.

2. Research and Development

Costs related to research activities undertaken for the purpose of acquiring knowledge and new scientific or technological understandings are charged to the statement of income as incurred.

Development activities related to a plan for the production of products or new processes or significant improvement of products. Costs of development activities are recognized as an intangible asset only if: it is possible to reliably measure the development costs; it is technically and commercially possible to implement the product or process; future economic benefit is expected from the product and the Group has intentions and sufficient resources to complete development of the asset and then use or sell it. The costs recognized as an intangible asset include the cost of materials, direct wages, and overhead costs that can be allocated directly to preparation of the asset for its intended use. Other costs in respect of development activities are recorded on the statement of income as incurred. Capitalized development costs are measured to the activities less amortization and accrued losses from declines in value.

3. Resource exploration costs and valuation thereof

Costs incurred in respect of the exploration for resources and their valuation are recognized as tangible and intangible assets based on their nature. The costs are presented at cost less accumulated depreciation and a provision for decline in value.

The cost includes, among other things, costs of performing research studies, drilling costs and activities in connection with assessing the technical feasibility with respect to the commercial viability of extracting the resources.

4. Other intangible assets

Other intangible assets purchased by the Group, with a defined useful life, are measured according to cost less amortization and accrued losses from declines in value.

Intangible assets having an indefinite useful life are measured at cost less accumulated losses from declines in value.

5. Dry-dock for fleet of leased ships

The cost of inspecting the fleet of ships held under a bareboat charter (an operating lease) is amortized according to the shorter of the period up to the next inspection or the period up to the end of the lease.

Note 3 – Significant Accounting Policies (Cont.)

E. Intangible Assets (Cont.)

6. Subsequent costs

Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit inherent in the asset for which they were incurred. All other costs, including costs relating to goodwill or trademarks developed independently, are charged to the statement of income as incurred.

7. Amortization

Amortization is recorded on the statement of income according to the straight-line method (except for customer contacts and geological surveys that are amortized over the rate of consumption of the economic benefits expected from the asset on the basis of the projected cash flows) over the estimated useful economic life of the intangible assets, commencing from the date the assets are available for use, other than goodwill and intangible assets with an undefined useful life, which are not amortized on a systematic basis but, rather, are examined each period for indications of a decline in value.

The estimated useful lives for the current period and comparative periods is as follows:

	In Years
Concessions	*
Software costs	3–10
Trademarks	5–13
Agreements with customers	3–25
Agreements with suppliers	5
Patent	13–15
Non-competition agreement	5
Royalties in respect of know-how (paid in advance)	8–15
Water and electricity rights	25
Dry-dock for fleet of leased ships	Mainly 5 years

Deferred expenses in respect of geological surveys are amortized over the useful life based on a geological estimate of the amount of the material that will be produced from the mining site.

* Over the balance of the concession granted to the companies.

The estimates regarding the amortization method and useful life are reviewed, at a minimum, at the end of every reporting year.

The Group periodically examines the estimated useful life of an intangible asset that is not amortized in order to determine if events and circumstances continue to support the determination that the intangible asset has an undefined life.

Note 3 – Significant Accounting Policies (Cont.)

F. Leased Assets

Leases wherein the Group bears most of the risks and rewards relating to the asset are classified as a financing lease. At the time of the initial recognition, the leased assets are measured at an amount equivalent to the lower of the fair value and the present value of the minimum lease fees. After the initial recognition, the asset is treated in accordance with the accounting policies covering such asset. The rest of the leases are classified as operating leases, where the leased assets are not recognized in the Corporation’s statement of financial position.

Payments as part of operating leases are recorded on the statement of income using the “straight-line” over the period of the lease.

In sale and leaseback transactions, capital gains from the sale are recorded in the statement of income, where the selling price is equal to the fair value of the asset sold and leaseback is defined as an operating lease.

G. Inventories

Inventory is measured at the lower of cost or net realizable value. The cost of the inventory includes the costs of purchasing the inventory and bringing it to its current location and condition. In the case of work in process and finished goods, the cost includes the proportionate part of the manufacturing overhead based on normal capacity. Net realization value is the estimated selling price in the ordinary course of business, after deduction of the estimated cost of completion and the estimated costs required to execute the sale.

The cost of the inventory of raw and auxiliary materials, maintenance materials, finished goods and goods in process, crude oil, fuel products and intermediate products for refining, is determined mainly according to the “moving average” method.

Inventory the sale of which is expected to take place in a period of more than 12 months from the date of the report is presented as non-current inventory.

H. Capitalization of Credit Costs

The costs of specific credit and non-specific credit were capitalized to qualifying assets, as defined in International Accounting Standard 23 “Credit Costs”, during the period required for completion and establishment until the time when they are ready for their intended use. Non-specific credit costs were capitalized in the same manner to the investment in qualifying assets or to the part thereof that was not financed by specific credit using an interest rate that is the weighted-average of the cost rates in respect of those credit sources that were not capitalized specifically. Exchange rate differences deriving from credit in foreign currency are capitalized if they are considered an adjustment of the interest costs. Other credit costs are charged to the statement of income as incurred.

Note 3 – Significant Accounting Policies (Cont.)

I. Impairment in Value

1. Financial assets

A decline in value of a financial asset not presented at fair value through the statement of income is examined when there is objective evidence that a loss event has occurred after the initial recognition date and this loss event had a negative impact on the estimate of the future cash flows from the asset that can be reliably estimated.

Objective evidence that a decline in value of financial assets has occurred could include breach of a contract by the debtor, reorganization of the amount due to the Group based conditions the Group would not have considered in other circumstances, existence of signs that the debtor or issuer of the debt will go bankrupt or lack of an active market for the security.

In the examination of decline in value of financial assets available for sale that are equity instruments, the Corporation also examines the difference between the fair value of the assets and its original cost, while taking into account the standard deviation of the instrument's rate, the length of time the asset's fair value is less than its original cost and changes in the technological, economic and/or legal environment, and/or the environment in the market in which the company issuing the instrument operates. In addition, a large or continuing loss decline in the fair value below the original cost is objective evidence of decline in value.

The Group examines evidence of a decline in value with respect to debtors and loans on a specific basis.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss recognized in a capital reserve for available-for-sale financial assets to the statement of income. The cumulative loss eliminated from the other comprehensive income and recognized in the statement of income is the difference between the acquisition cost, net of principal repayments and amortization, and the current fair value, less any impairment loss previously recognized in the statement of income. Changes in an impairment provision as a result of the passage of time are reflected as a component of financing income.

A loss from impairment in value is cancelled when such recovery is objectively attributable to an event that occurred after recognition of the loss from impairment in value. Cancellation of a loss from impairment in value in respect of financial assets measured according to amortized cost and of financial assets classified as available for sale that are debt instruments, is recorded on the statement of income. Cancellation of a loss from impairment in value in respect of financial assets classified as available for sale that are equity instruments, is recorded directly to the other comprehensive income.

Note 3 – Significant Accounting Policies (Cont.)

I. Impairment in Value (Cont.)

2. Non-financial assets

The book value of the Group's non-financial assets, other than inventory and deferred tax assets, is examined for each reporting period in order to determine if there are signs indicating impairment in value. If such signs exist, the estimated recoverable amount of the asset is calculated. The book value of the recoverable amount of goodwill, intangible assets having an undefined life or that are not available for use and investments in associated companies in respect of which goodwill was recognized in the investment account, is examined once a year or more frequently if there are signs of a decline in value.

The recoverable amount of an asset or a cash-producing unit is the higher of its use value or the net selling price (fair value minus selling costs). When determining the use value the Group discounts the anticipated future cash flows using a pre-tax discount rate reflecting the market evaluations regarding the time value of the money and the specific risks attributed to the asset. For purposes of testing impairment in value, the assets are grouped together into the smallest group of assets that yields cash flows from continuing use, which are essentially independent of the other assets and other groups ("cash-producing unit"), such that the level at which the decline in value is examined reflects the lowest level at which the goodwill can be tracked for purposes of internal reporting, however in no case is it larger than the activity segment (prior to grouping of similar segments). Goodwill purchased in the context of business combinations is allocated for the purpose of examining impairment in value to cash-producing units that are expected to yield benefits from the synergy of the combination.

For purposes of testing a decline in value of goodwill, the value of goodwill in the books is grossed up based on the rate of the Corporation's holding in the cash-producing unit to which the goodwill is allocated.

Losses from impairment of value are recognized when the book value of the assets or of the cash-producing unit to which the asset belongs exceeds the recoverable value and are recorded in the statement of income. Losses from impairment of value that were recognized for cash-producing units are first allocated to reducing the book value of the goodwill attributed to these units and afterwards to reducing the book value of the other assets in the cash-producing unit, proportionately.

With respect to cash-producing units including goodwill, a loss form impairment of value is recognized where he carrying value of the cash-producing unit, after grossing-up the goodwill, exceeds its recoverable value.

A loss from impairment in value of goodwill is allocated between the Corporation's owners and the holders of rights not conferring control using the same basis used to allocate the income or loss. Nonetheless, if a loss from impairment in value allocated to holders of rights not conferring control relates to goodwill not recognized in the consolidated financial statements, the said impairment in value is not recognized as a loss from impairment in value of goodwill. In such cases, only a loss from impairment in value relating to goodwill allocated to the Corporation's owners is recognized as a loss from impairment in value of goodwill.

Note 3 – Significant Accounting Policies (Cont.)

I. Impairment in Value (Cont.)

2. Non-financial assets (Cont.)

A loss from impairment in value of goodwill is not cancelled. Regarding other assets, losses from impairments of value that were recognized in previous periods are re-examined in each reporting period in order to determine if there are signs indicating that the losses have decreased or no longer exist. A loss from impairment of value is cancelled if there is a change in the estimates used to determine the recoverable value, only if the book value of the asset, after cancellation of the loss from impairment of value, does not exceed the book value, after deduction of deprecation or amortization, that would have been determined if the loss from impairment of value had not been recognized.

3. Investments in associated companies accounted for by the equity method of accounting

An investment in an associated company or jointly controlled entity is tested for impairment when objective evidence indicates there has been impairment (as detailed in Paragraph (1) above).

Goodwill that constitutes part of the carrying amount of an investment in an associated company is not recognized separately and, therefore, is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price.

In assessing value in use of an investment in an associated company, the Group estimates its share of the present value of estimated future cash flows that are expected to be generated by the associated company, including cash flows from operations of the associated company and the consideration from the final disposal of the investment, or the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and it is recognized in the statement of income.

An impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associated company or in the jointly controlled entity.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized, and only to the extent that the investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

Note 3 – Significant Accounting Policies (Cont.)

J. Groups of non-current assets held for sale

Non-current assets (or groups of assets and liabilities for disposal) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as being held for sale, the assets (or components of a disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal group) are measured at the lower of their carrying amount and fair value less selling costs. In subsequent periods, assets that were depreciated until their classification as held for sale, are no longer depreciated periodically. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized on the statement of income. Gains are recognized up to the cumulative amount of the impairment loss previously recorded.

K. Employee Benefits

The Group has several post-employment benefit plans. The plans are funded primarily by deposits with insurance companies or pension funds, and they are classified as defined contribution plans and as defined benefit plans.

1. Defined contribution plans

   The Group's obligation to make deposits in a defined contribution plan is recorded as an expense in the statement of income at the time the obligation to make the deposit arises.

2. Defined benefit plans

   The Group's net obligation, regarding defined benefit plans for post-employment benefits, is calculated for each plan separately by estimating the future amount of the benefit to which an employee will be entitled as compensation for his services during the current and past periods. The benefit is presented according to present value after deducting the fair value of the plan assets. The discount rate of the Group companies operating in countries wherein there is a market having a high level of trading in corporate debentures is in accordance with the yield on the corporate debentures. The discount rate of the Group companies operating in countries wherein there is no market having a high level of trading as stated above, is in accordance with the yield on government bonds on the report date, where their currency and maturity date are similar to the conditions obligating the Group. The calculations are performed by a licensed actuary using the "projected eligibility unit" method.

   When on the basis of the calculations an asset is created for the Group, the asset is recognized up to the net present value of the available economic benefits in the form of a refund from the plan or by a reduction in future deposits to the plan. An economic benefit in the form of return from the plan or a reduction in future deposits will be considered available when it can be realized in the lifetime of the plan or after settlement of the obligation.

   When there is an obligation, as part of a minimal deposit requirement, to pay in additional amounts in respect of services provided in the past, the Corporation recognizes an additional liability (an increase of the net liability or a decrease of the net asset), provided that such amounts are not available as an economic benefit in the form of a refund from the plan or by a reduction in future deposits to the plan.

Note 3 – Significant Accounting Policies (Cont.)

K. Employee Benefits (Cont.)

2. Defined benefit plans (Cont.)

Where there is an improvement in the benefits granted by the plan to the employees, the portion of the increased benefits relating to the employees' past services is recorded on the statement of income based on the straight-line method over the average period up to the vesting of the benefits. If the benefits vest immediately, the expense is recorded on the statement of income immediately.

The movement in the liability in respect of a defined benefit plan for every accounting period is composed as follows:

(i) Current service costs – the increase in the present value of the liability deriving from service of employees in the current period;

(ii) Current interest costs – the increase in the present value of the liability deriving from the passage of time;

(iii) Anticipated yield on the fund's assets;

(iv) Exchange rate differences.

(v) Past service costs – the change in the present value of the liability in the current period as a result of a change in the post-retirement benefits relating to a prior period.

(vi) Reduction due to reduction of the benefits.

The difference, as at the date of the report, between the net liability at the beginning of the period, plus the profit and loss movement, as described above, and the actuarial liability less the fair value of the plan assets at the end of the period, reflects the balance of the actuarial gains and losses recorded through the statement of other comprehensive income directly to equity.

3. Other long-term employee benefits

The Group's net obligation for long-term employee benefits, which are not attributable to post-employment plans, is for the amount of the future benefit to which employees are entitled for services that were provided during the current and past periods. The amount of these benefits is discounted to its present value and the fair value of the assets related to this obligation is deducted therefrom. The discount rate is determined according to the yield on government bonds, where their currency and maturity date are similar to the conditions that obligate the Group, as at the reporting date. The calculations are performed by using the "projected eligibility unit" method. Actuarial gains and losses are recorded directly on the statement of income in the period they arise.

In cases where the amount of the benefit is the same for each employee, without taking into account the years of service, the cost of these benefits is recognized where an actual benefit is given.

Note 3 – Significant Accounting Policies (Cont.)

K. Employee Benefits (Cont.)

4. Severance pay

Severance pay is charged as expense when the Group is clearly obligated to pay it, without any reasonable chance of cancellation, in respect of termination of employees before they reach the customary age of retirement according to a formal, detailed plan. The benefits given to employees upon voluntary retirement are charged when the Group proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and it is possible to reliably estimate the number of employees that will accept the proposal.

5. Short-term benefits

Obligations for short-term employee benefits are measured on a non-discounted basis, and the expense is recorded at the time the said service is provided.

A provision in respect of short-term employee benefits relating to a cash bonus is recognized when the Group has a present legal or implied obligation to pay the said amount for a service provided by the employee in the past and where it is possible to reliably measure the said amount.

6. Share-based payment transactions

The fair value at the time options are granted to employees is charged as a salary expense, with a corresponding increase in equity over the period in which the employees' eligibility for the options vests. The amount recorded as an expense in respect of share-based payment grants, which are contingent on vesting conditions that are service conditions or performance conditions that are not market conditions, are adjusted in order to reflect the number of options that are expected to vest. With respect to share-based payment grants that are contingent on conditions that are not vesting conditions or vesting conditions that are performance conditions, the Group takes these conditions into account when estimating the fair value of the equity instruments granted and, therefore, the Group recognizes an expense in respect of these grants without reference to whether such conditions are fulfilled.

Transactions wherein the parent company grants to the company's employees rights to its equity instruments are accounted for by the company as equity-settled share-based payment transactions, that is, it recognizes the fair value of the grant directly in equity, as stated above.

L. Provisions

A provision is recognized when the Group has a present legal or implied obligation as the result of an event that occurred in the past, when it can be reliably estimated and when it is expected that a flow of economic benefits will be required in order to settle the obligation. The provision is determined based on capitalization of the future cash flows using a pre-tax interest rate reflecting the current market estimates with respect to the time value of money and the risks specific to the liability.

Note 3 – Significant Accounting Policies (Cont.)

L. Provisions (Cont.)

1. Warranty

A provision for warranty is recognized when the products or services, in respect of which the warranty is provided, are sold or performed. The provision is based on historical data and on a weighting of all possible expenses according to their probability of occurrence.

2. Reorganization

A provision for reorganization is recognized when the Group approves a formal detailed plan for reorganization and such reorganization has effectively begun, or where a notification in respect thereof has been given to the employees. The provision does not relate to the Group's continuing operating expenses.

3. Provision for environmental costs

The Group recognizes a provision for an existing obligation that has occurred in respect of a current cost for operation and maintenance of facilities for prevention of environmental pollution and anticipated provisions for costs relating to environmental restoration stemming from current or past activities. Costs for preventing environmental pollution that increase the life expectancy or efficiency of the facility or decrease or prevent the environmental pollution, are recorded to the cost of the fixed assets and are depreciated according to the usual depreciation rates used by the Group.

4. Legal claims

A provision for legal claims is recorded where the Group has a present legal or implied obligation as the result of a past event, when it is more likely than not that the Group will be required to use its economic resources to settle the obligation and it can be reliably estimated. Where the time value of money is significant, the provision is measured based on its present value. In addition, in rare cases where it is not possible to estimate the outcome of the contingency, no provision is recorded in the financial statements.

M. Recognition of Revenues

1. Sale of goods

Revenue from the sale of goods in the ordinary course of business is measured according to the fair value of the consideration received or to be received, after deducting returns, discounts, commercial discounts and quantity discounts. In cases where the credit period is short and constitutes the accepted credit period allowed in the sector, the future payment is not discounted. The Group recognizes the revenue when there is convincing proof (generally execution of a sale contract) that the significant risks and rewards from ownership of the merchandise are transferred to the buyer, receipt of the consideration is expected, it is possible to reliably estimate the chance that the goods will be returned and the costs that were incurred or will be incurred for the transaction can be reliably estimated, when the management has no ongoing involvement in the goods and the revenue can be reliably estimated. Transfer of the risks and rewards changes in accordance with the specific conditions of the sale contract.

Note 3 – Significant Accounting Policies (Cont.)

M. Recognition of Revenues (Cont.)

2. Income from voyages and accompanying services

Income and expenses relating to cargo traffic are recognized on the basis of the percentage of completion of the voyages. The percentage of completion is determined as the ratio of the number of days from the beginning of the voyage to the date of the financial statements to the total estimated duration of the voyage, which, in the opinion of management, is not significantly different than the rate at which the ships call on the ports during the voyage and does not necessarily constitute an indication of the rate of progress of each container separately. Estimated losses on voyages are provided for in full. Income from related services is recognized at the time the service is provided.

3. Construction contracts

Revenues and expenses from construction contracts are recorded on the statement of income, in proportion to the percentage of completion of the contract, where it is possible to reliably estimate its results. Revenues from a construction contract include the original amount included in the contract plus amounts relating to changes in the work order, claims and incentives, provided income is expected and it can be reliably measured.

The percentage of completion is determined based on the ratio of the total costs incurred in respect of the work and the estimated total costs under the contract. Where it is not possible to reliably estimate the results of a construction contract, the revenues from the said contract is recognized only in an amount equal to the costs that can reasonably expected to be recovered. An anticipated loss from a construction contract is recorded immediately on the statement of income.

4. Concession arrangements

Income from provision of operating services or income from provision of other services is recognized in the period in which the Group provides the services. Where the Group provides more than one type of services under a concession arrangement, the proceeds received are allocated proportionally based on the fair values of the services provided.

As part of concession arrangements for provision of services with governmental bodies involving construction and operation of facilities for desalination of water in exchange for fixed and variable payments, the Group recognizes a financial asset in the financial statements from the commencement date of construction of the facilities. The financial asset reflects the unconditional future payments to be received in the future from the government and that bear interest determined in accordance with the customer’s risk-free interest rate plus a premium reflecting the appropriate risk.

The operating and maintenance costs of the facility are recorded on the statement of income as incurred. The revenues from operation are calculated based on the amount of the operating expenses plus a fixed margin.

Note 3 – Significant Accounting Policies (Cont.)

N. Payment of Lease Fees

Minimum lease payments made as part of a financing lease are divided between the financing expenses and reduction of the liability balance. The financing expenses are allocated to each period of the lease term, such that it receives a fixed periodic interest rate on the remaining balance of the liability. The lease payments are updated over the remaining term of the lease for contingent lease fees on the date the approval is received for the change in the lease conditions.

The minimum lease payments are updated for the contingent lease payments when the contingency is clarified.

O. Financing Income and Expenses

Financing income includes income from interest on amounts invested (including financial assets available for sale), income from dividends, income from sale of financial assets classified as available for sale, changes in the fair value of financial assets presented at fair value through the income statement, gains from foreign currency, income deriving from revaluation of plan assets relating to defined benefit plans for employees and gains from derivative financial instruments recognized in the statement of income. Interest income is recognized as accrued, using the effective interest method. Dividend income is recognized on the date the Group is granted the right to receive the payment. If a dividend is received in respect of marketable shares, the Group recognizes dividend income on the ex-dividend date.

Financing expenses include interest on loans received, changes in the time value of provisions, changes in the fair value of financial assets presented at fair value through the income statement, dividends paid on preferred shares classified as a liability, costs in respect of securitization transactions, losses from impairment of value of certain financial assets, losses from derivative financial instruments, changes due to the passage of time in liabilities in respect of defined benefit plans for employees and income deriving from revaluation of the assets of a defined benefit plan for employees. Credit costs, which are not capitalized, are recorded on the income statement using the effective interest method.

Gains and losses from exchange rate differences are reported on a net basis.

P. Taxes on Income

Taxes on income include current and deferred taxes. Taxes on income are recorded in the income statement unless the tax originated in a transaction or event that is recognized directly in shareholders' equity on in other comprehensive income. In these cases, the taxes on income are charged to shareholders' equity or to other comprehensive income.

The current tax is the amount of tax that is expected to be paid on the taxable income for the year, which is calculated according to the tax rates in effect according to the law that was finally legislated or effectively legislated as at the balance sheet date, and includes changes in tax payments attributed to prior years.

Note 3 – Significant Accounting Policies (Cont.)

P. Taxes on Income (Cont.)

Recognition of deferred taxes is according to the balance sheet approach, relating to temporary differences between the book values of the assets and liabilities for purposes of financial reporting and their value for tax purposes. The Corporation does not recognize deferred taxes for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities for transactions that do not constitute a business combination and do not impact the accounting income and the income for tax purposes, as well as differences deriving from investments in subsidiary and associated companies, if it is not expected that they will reverse in the foreseeable future. The deferred taxes are measured according to the tax rates that are expected to apply to the temporary differences at the time they are realized, on the basis of the law that was finally legislated or effectively legislated as at the date of the report. The Corporation offsets deferred tax assets and liabilities if there is an enforceable legal right to offset current tax assets and liabilities and they are attributed to the same taxable income and are taxed by the same tax authority for the same assessed company or different companies that intend to settle current tax assets and liabilities on a net basis or if the tax assets and liabilities are settled concurrently.

A deferred tax asset is recognized in the books when it is expected that in the future there will be taxable income against which the temporary differences can be utilized. Deferred tax assets are examined at each reporting date and, if it is not expected that the related tax benefits will be realized, they are reduced.

The Group could become liable for additional taxes in a case of distribution of intercompany dividends between the Group companies. These additional taxes were not included in the financial statements in light of the policy of the Group companies not to cause distribution of a dividend that involves additional taxes to the recipient company in the foreseeable future. In cases where one of the Group companies is expected to distribute a dividend out of earnings involving additional tax to the recipient company, such company records a provision for tax in respect of additional tax for which it may be charged in connection with distribution of a dividend. Deferred tax in respect of transactions between companies in the consolidated report is recorded based on the tax rate applicable to the acquiring company.

Q. Earnings per Share

The Group presents basic and diluted earnings per share data for its ordinary share capital. The basic earnings per share are calculated by dividing income or loss allocable to the Group's ordinary equity holders by the weighted-average number of ordinary shares outstanding during the period. The diluted earnings per share are determined by adjusting the income or loss allocable to ordinary equity holders and the weighted-average number of ordinary shares outstanding for the effect of all potentially dilutive ordinary shares including options for shares granted to employees.

R. Report on Operating Segments

An activity segment is a component of the Group meeting the following three conditions:

1. It engages in business activities from which revenues are to be produced and with respect to which expenses are to be incurred, including revenues and expenses relating to transactions between the Group companies.

Note 3 – Significant Accounting Policies (Cont.)

R. Report on Operating Segments (Cont.)

2. The operating activities are reviewed on a regular basis by the Group's main decision makers in order to make decisions regarding resources to be allocated to it and in order to evaluate its performance; and

3. There is available financial information in respect thereof.

Inter-segment pricing is determined based on transaction prices during the ordinary course of business.

S. Transactions with Controlling Shareholders

Assets, liabilities and benefits with respect to which a transaction is executed with a controlling shareholder are measured at fair value on the transaction date. Due to the fact that a transaction at the capital level is involved, the Corporation records to equity the difference between the fair value and the consideration in the transaction.

T. Sale of Financial Assets

Sale of financial assets is recognized as a sale where control over the financial asset is transferred in full to an unrelated third party and all the risks and rewards inherent in the asset are transferred to an unrelated third party.

U. Government Grants

Government grants are initially recognized when there is reasonable certainty that they will be received and the Group will comply with the conditions entitling their receipt.

Government grants received for purposes of acquisition of an asset are presented as an offset from the related asset and are recorded on the statement of income on a systematic basis over the useful life of the asset.

Grants received from the Government of Israel in respect of the cost of employing Israeli-resident sailors on Israeli ships are credited against the salary cost.

V. Indices and Exchange Rates

Balances in foreign currency or linked thereto are included in the financial statements based on the representative rates of exchange as at the balance sheet date. Balances linked to the Consumer Price Index (CPI) are included based on the index applicable to each linked asset or liability.

Note 3 – Significant Accounting Policies (Cont.)

V. Indices and Exchange Rates (Cont.)

Set forth below is detail regarding the representative exchange rates and the Consumer Price Index:

	Consumer Price Index	Dollar–Shekel Exchange Rate	Dollar–Euro Exchange Rate
As at December 31, 2010	**113.09**	**3.549**	**0.749**
As at December 31, 2009	110.57	3.775	0.694
The change for they year ended:			
December 31, 2010	**2.3%**	**(6.0%)**	**7.91%**
December 31, 2009	3.8%	(0.7%)	(3.3%)
December 31, 2008	4.5%	(1.1%)	5.6%

W. New Standards and Interpretations not yet Adopted

1. As part of the Improvements to IFRS Project 2010, in May 2010 the IASB published and approved 11 amendments to IFRS and one interpretation covering a variety of accounting issues. Most of these amendments will apply for periods commencing on or after January 1, 2011, with the possibility for early adoption, subject to the conditions detailed for each amendment.

   Set forth below is detail of the amendments that are likely to be relevant to the Company, which may have an impact on the financial statements:

   a. Amendment to IAS 34, *Financial Reporting for Interim Periods*, Significant Events and Transactions (hereinafter – "the Amendment"). Pursuant to the Amendment, the list of events and transactions requiring disclosure in interim-period financial statements was expanded, such as recognition of a loss from decline in value of financial assets and a change in the classification of financial assets as a result of a change in their designation or use. In addition, the materiality threshold was eliminated from the minimum disclosure requirements existing in the present standard prior to the Amendment. The Amendment applies to periods commencing on or after January 1, 2011.

   b. Amendment to IFRS 7, *Financial Instruments: Disclosures* (hereinafter – "the Amendment"). Pursuant to the Amendment, an express declaration was added that the interaction between the qualitative and the quantitative disclosures permits users of the financial statements to evaluate in the best possible manner the Corporation's exposure to risks deriving from financial instruments. In addition, the section stating that quantitative disclosures are not required where the risk is negligible was removed. Further, certain disclosure requirements regarding credit risk were revised and others were removed. The Amendment applies to periods commencing on or after January 1, 2011. Early application is permissible with disclosure.

Note 3 – Significant Accounting Policies (Cont.)

W. New Standards and Interpretations not yet Adopted (Cont.)

2. Amendment to IFRS 9 (2010), *Financial Instruments* (hereinafter – "the Standard"). This Standard is one of the stages in a comprehensive project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (hereinafter – IAS 39) and it replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities. In accordance with the Standard, there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In accordance with the Standard, an investment in a debt instrument will be measured at amortized cost if the objective of the entity's business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. All other debt assets are measured at fair value through the statement of income. Furthermore, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in the statement of income. Nevertheless, the Standard allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to the statement of income at a later date, not even upon sale of the asset. Dividends on equity instruments where revaluations are measured through the other comprehensive income are recognized in the statement of income unless they clearly constitute return of an initial investment.

   The Standard generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through the statement of income, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability be presented in other comprehensive income, with the remaining amount being included in the statement of income. However, if this requirement increases an accounting mismatch in profit or loss, then the whole fair value change is presented in the statement of income. Amounts thus recognized in other comprehensive income may never be reclassified to profit or loss at a later date, not even upon sale of the asset.

   The Standard applies to annual periods commencing on January 1, 2013 or thereafter. Early application is possible, subject to provision of disclosure and concurrent adoption of the amendments to other IFRS as detailed in the appendix to the Standard. The Standard is to be applied retroactively, except for certain relief provisions in accordance with the transitional rules set forth in the Standard. In particular, if an entity chooses to apply the Standard prior to January 1, 2012, it is not required to restate the comparative figures.

   The Group is examining the impacts of adoption of the Standard on the financial statements.

Note 4 – Determination of Fair Value

As part of its accounting policies and disclosure requirements, the Group is required to determine the fair value of both financial and non-financial assets and liabilities. The fair values have been determined for purposes of measurement and/or disclosure based on the following methods. Additional information regarding the assumptions used in determining the fair values is disclosed in the notes relating to that asset or liability.

A. Property, plant and equipment

The fair value of property, plant and equipment recognized in a business combination is based on the cost model or on the market value model. According to the cost model, the fair value of the property, plant and equipment is based on the depreciated replacement value of the item measured. According to the market value model, the fair value is based on the sale price determined in sale transactions of similar assets, while performing adjustments applicable to the sold asset items and the asset item acquired in the business combination.

B. Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

Intangible assets received as consideration for providing construction services in a service concession arrangement are measured at fair value upon initial recognition, estimated by reference to the fair value of the construction services provided.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

C. Inventory

The fair value of inventories acquired in a business combination is determined as follows:

(1) Finished goods inventories – on the basis of the estimated selling price of the products in the ordinary course of business, less the estimated costs of sale and of preparing it for sale as well as a reasonable margin in respect of the efforts required for completion and sale of the inventories.

(2) Inventory of work-in-progress – determined on the basis of estimates described in Section 1 above, less costs required for its completion.

(3) Inventory raw materials – based on replacement value.

D. Investments in marketable securities

The fair value of financial assets classified as available-for-sale and of securities held for trade is determined based on their stock market price at date of the report.

Note 4 – Determination of Fair Value (Cont.)

E. Derivatives

The fair value of forward contracts on foreign currency is determined by using trading software based on their market price. The market price is determined is determined by weighting the exchange rate and the appropriate interest coefficient for the period of the transaction and the relevant currency index.

The fair value of currency options and fuel options is determined by using trading software based on the Black and Scholes model, taking into account the intrinsic value, standard deviation and the interest rates.

The fair value of interest and fuel swap contracts is determined by using trading software based on the market price determined by discounting the estimated amount of future cash flows on the basis of terms and length of period to maturity of each contract, while using market interest rates of similar instruments at the measurement date.

The fair value of foreign currency and interest swaps is based on the market prices and discounting the future cash flows on the basis of the terms and length of the period to maturity of each transaction, while using interest rates and standard deviations of a similar instrument as at the measurement date.

The fair value of transactions hedging the CPI is based on the market prices and discounting the future cash flows on the basis of the terms and length of the period to maturity of each transaction, while using market interest rates of a similar instrument as at the measurement date.

Future contracts on energy prices are presented at their fair value, determined by using trading software that quotes the prices of products on an ongoing basis.

The market prices are found by means of observed data in trading systems and their reasonableness is examined in comparison with prices received from banks for similar transactions.

The fair value of derivatives relating to the plan for arrangement of ZIM's debts is estimated using a standard economic model.

Additional information with respect to the fair value hierarchies – see Note 37(E)(2) regarding "Financial Instruments".

F. Non-derivative financial liabilities

The fair value, which is determined for disclosure purposes, is determined based on the activity in the market in connection with marketable debentures, while for non-marketable debentures it is determined based on the present value of the future cash flows in respect of the principal and interest components, discounted at the market rate of interest as at the reporting date. The market interest rate in respect of financing lease contracts is determined with reference to similar lease contracts.

Note 4 – Determination of Fair Value (Cont.)

G. Share-based payment transactions

The fair value of employee share options and of share appreciation rights is measured using the Black and Scholes model. The model's assumptions include the share price on the measurement date, exercise price of the instrument, expected volatility (based on the weighted-average of the historic volatility of the Corporation's shares over the forecasted period of the options, adjusted for changes expected due to publicly available information), the weighted-average expected life of the instruments (based on past experience and the general behavior of the option holders), expected dividends, and the risk-free interest rate (based on government debentures). Service and non-market performance conditions attached to the transactions are not taken into account in determining the fair value.

H. Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, but including receivables pursuant to concession agreements, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Note 5 – Cash and Cash Equivalents

	As at December 31	
	2010	**2009**
	$ millions	
Balances in banks	**1,057**	428
Demand deposits	**420**	285
Cash and cash equivalents	**1,477**	713
Revolving credit from banks used for cash management purposes	**(1)**	(37)
Cash and cash equivalents for purposes of the statement of cash flows	**1,476**	676

The Group's exposure to credit risk, interest rate risk and currency risk and a sensitivity analysis with respect to the financial assets and liabilities is detailed in Note 37, regarding "Financial Instruments".

Note 6 – Securities Held for Trade

	As at December 31	
	2010	**2009**
	$ millions	
Investments in shares	**–**	4
Short-term treasury notes and government debentures	**2**	1
Investments in non-convertible debentures	**11**	1
	13	6

Note 7 – Short-Term Investments, Deposits and Loans

	As at December 31	
	2010	**2009**
	$ millions	
Loans to associated company	**18**	–
Available-for-sale securities	**14**	22
Short-term bank deposits and loans*	**634**	182
Current maturities of long-term deposits	**9**	8
Other	**3**	–
	678	212

* Includes deposits and restricted accounts in the amount of $35 million (December 31, 2009 – $7 million).

Note 8 – Trade Receivables

	As at December 31	
	2010	**2009**
	$ millions	
Open accounts	**1,309**	1,262
Post-dated checks	**37**	9
	1,346	1,271
Less – allowance for doubtful debts	**12**	19
	1,334	1,252
From associated companies	**21**	13

Note 9 – Other Receivables and Debit Balances, including Derivative Instruments

	As at December 31	
	2010	**2009**
	$ millions	
Government agencies	**42**	45
Advances to suppliers	**11**	9
Prepaid expenses	**38**	36
Employees	**1**	4
Associated companies	**2**	7
Uncompleted shipping voyages (1)	**–**	19
Accrued income	**9**	1
Derivative instruments used for hedging purposes	**3**	4
Derivative instruments not used for hedging purposes	**85**	*60
Assets intended for sale	**–**	2
Other receivables	**100**	109
	291	296

(1) Uncompleted shipping voyages

	As at December 31	
	2010	**2009**
	$ millions	
Costs	**–**	341
Net loss recorded based on the percentage of completion of the uncompleted shipping voyages	**–**	(56)
	–	285
Less – deposits and revenues receivable	**–**	266
	–	19
After deduction of a provision for losses	**–**	58

* Reclassified.

Note 10 – Inventories

Composition

	As at December 31	
	2010	**2009**
	$ millions	
Finished products	**625**	807
Work in progress	**282**	259
Raw and auxiliary materials	**189**	159
Maintenance materials and spare parts	**107**	105
	1,203	1,330
Less: long-term inventory (presented in non-current assets)	**50**	55
	1,153	1,275

Note 11 – Investments in Investee Companies

A. Associated companies and proportionately consolidated companies

1. Condensed financial data for associated companies and proportionately consolidated companies

Set forth below is financial data with respect to associated companies and proportionately consolidated companies, without adjustment for the rates of ownership held by the Group:

	Associated companies		Proportionately consolidated companies	
	As at December 31		As at December 31	
	2010	**2009**	**2010**	**2009**
	$ millions			
Current assets	**3,381**	2,725	**363**	320
Non-current assets	**4,998**	4,764	**404**	380
Total assets	**8,379**	7,489	**767**	700
Current liabilities	**2,629**	1,791	**160**	189
Non-current liabilities	**3,674**	3,135	**329**	287
Total liabilities	**5,943**	4,926	**489**	476

	Associated companies			Proportionately consolidated companies		
	For the year ended December 31			For the year ended December 31		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
	$ millions					
Revenues	**8,547**	1,257	2,091	**504**	549	1,493
Expenses	**8,582**	1,258	2,136	**434**	462	1,529
Income (loss) for the year	**(35)**	(1)	(45)	**70**	87	(36)

* Commencing from December 31, 2009, ORL is an associated company.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

2. Composition of the investments in associated companies

	As at December 31	
	2010	**2009**
	$ millions	
Investment in shares:		
Original cost	**1,604**	1,458
Group's share in losses from the acquisition date less dividend received	**(298)**	(206)
Capital reserves	**54**	28
Provision for decline in value	**(17)**	–
	1,343	1,280
Other investments:		
Convertible debentures	**3**	3
Capital notes, loans and other long-term debit balances	**3**	1
	6	4
Total	**1,349**	1,284

3. Additional information

a. Better Place PLC, LLC (hereinafter – "Better Place")

1) In 2007, the Corporation's Board of Directors approved participation in a venture for operation of electric-powered vehicles in the amount of $100 million (out of the amount of $200 million to be invested in the venture in the first stage by various investors), which will be concentrated, among other things, in the first stage, in establishment of a charging network for electric-powered vehicles. The amount of the participation will be in exchange for about 33.33% of the rights in the vehicle venture. In January 2008, agreements were signed relating to the investment in the venture between the Corporation, additional investors and the initiator. In 2008 and 2009, the amounts of about $23 million and $61.7 million were transferred to Better Place, respectively.

2) On January 27, 2009, Better Place signed an agreement with Dong Energy (hereinafter – "Dong") for purposes of financing the activities of the operating company in Denmark (hereinafter – "Better Place Denmark") through an investment of €103 million by means of an inflow of additional monies in order to financing the network deployment project needed for charging electric vehicles in Denmark. Pursuant to the agreement, each of the parties will acquire ordinary shares in Better Place Denmark having a value of about €27 million. In addition, Dong undertook to provide services to Better Place Denmark in an amount not less than €60 million, part of which Dong may convert into capital of Better Place Denmark that will provide it, together with its other rights, between 17% and 25% of the capital of Better Place Denmark.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

3. Additional information (Cont.)

a. Better Place PLC, LLC (hereinafter – "Better Place") (Cont.)

3) In January 2010, the Corporation transferred an additional about $15.4 million to Better Place, in exchange for preferred "A" shares, and thus completed an aggregate investment of $100 million (out of a total of $200 million invested by all the investors) that the Corporation's management decided to invest in Better Place subject to a work plan and milestones.

4) In January 2010, Better Place initiated another fundraising round wherein it raised $350 million from both new investors and from some of its existing shareholders, in exchange for issuance of preferred "B" shares (the preferred "B" shares have identical rights upon liquidation as the preferred "A" shares). The fundraising was based on a company value of about $900 million before the money (and about $1.25 billion after the money). In April 2010, after all the preconditions were fulfilled, the investment round in Better Place was completed, wherein the Corporation invested about $72 million.

5) In January 2010, the Corporation, together with additional shareholders in Better Place, acquired the shares of one of the foreign investors in Better Place on a basis pro rata to their holdings in Better Place. In total, the Corporation invested about $8.8 million. The purchasers were granted a "put" option for a certain period to sell, at the acquisition price, up to 83.33% of the said shares sold back to the seller. In April 2010, the Corporation exercised the "put" option it was granted, whereby it sold about 3.2 million shares in exchange for about $7 million. The Corporation accounted for the above-mentioned two transactions as a single acquisition transaction in the amount of about $1.8 million.

6) The Corporation includes its share of the losses of Better Place based on its proportionate share of the amount of the investment in the preferred shares of Better Place. Accordingly, up to the aforementioned equity financing, the Corporation included 50% of the losses of Better Place in its financial statements. As a result of the said equity financing, the Corporation's proportionate share of the amount of the investment in the preferred shares of Better Place dropped to about 31.4% and, in 2010, the Corporation realized a gain of about $28 million.

7) As would be expected from a company at the outset of its activities, since its inception Better Place has accumulated losses and has had negative cash flows from its operating activities, mainly due to marketing, development and administrative and general costs, and it is expected to incur further losses in the upcoming periods. Better Place's activities and earnings depend on the successful development and marketing of its products, and Better Place intends to finance continuation of its activities by means of future equity financings. In the estimation of the management of Better Place, it is expected that Better Place has sufficient capital to fund its operations at least through December 31, 2011.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

3. Additional information (Cont.)

a. Better Place PLC, LLC (hereinafter – "Better Place") (Cont.)

8) Set forth below is data from the financial statements of Better Place as at December 31, 2010 and for the year then ended:

	As at December 31	
	2010	2009
	$ millions	
Current assets	**339**	95
Non-current assets	**48**	10
	387	105
Current liabilities	**30**	20
Non-current liabilities	**38**	30
Liabilities to senior shareholders	**437**	57
Capital	**(118)**	(2)
	387	105

	For the year ended December 31		
	2010	2009	2008
	$ millions		
Operating expenses	**133**	83	32
Financing expenses	**38**	20	2
Loss attributable to holders of rights not conferring control	**(4)**	(2)	–
Loss for the year	**167**	101	34

b. Chery Quantum Auto Co. Ltd. (hereinafter – "Joint Venture")

(1) In February 2007, a wholly owned U.S. subsidiary of the Corporation, Quantum (2007) LLC (hereinafter – "Quantum"), signed a long-term agreement for establishment of a joint venture (hereinafter – "the Joint Venture") with a Chinese vehicle manufacturer – Chery Automobiles Limited (hereinafter – "Chery"). The Joint Venture is intended to engage in manufacture of vehicles using advanced technology, and marketing and distribution of the vehicles worldwide under a quality brand name.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

3. Additional information (Cont.)

b. Chery Quantum Auto Co. Ltd. (hereinafter – "Joint Venture") (cont.)

(1) (Cont.)

In February 2009, the Joint Venture's Board of Directors adopted an updated business plan for the Joint Venture whereby the Joint Venture is expected to concentrate already in this stage on development and preparation for production – both of a regular motorized vehicle and of electric-powered vehicles. The Joint Venture's business plan was adapted for the main changes in the global automotive industry, while increasing the weight and importance of the electric-powered vehicle and its integration as part of the Joint Venture. The Joint Venture's cash requirements for 2009 and 2010 were updated in light of the changes in the said business plan.

As a result of the update of the venture's business plan, as noted, in December 2009, after receipt of the competent authorities in China, a number of central decisions entered into effect, which were included as an amendment of the original joint venture agreement and to the Articles of Association and that outline the manner of the venture's activities:

i. Change of the structure of the holdings in the Joint Venture's capital – the rate of holdings of the parties in the Joint Venture's capital will change such that the parties will hold the Joint Venture in equal shares, as follows: Quantum a 100% subsidiary of the Corporation – will hold 50% of the Joint Venture's capital (in place of 45% that it presently holds); Wuhu Chery Automobile Investment Co. will hold 50% (in place of 55% that it presently holds).

ii. Update of the number of models being developed by the Joint Venture and update of the date for setting up a designated plant. As a result of the said update, it was determined that the investment requirements of the parties in the Joint Venture will be reduced in the present stage from about $900 million to an aggregate amount of about $500 million with no need for the parties to provide additional guarantees to the Joint Venture. It is noted that as a result of the updated agreements, the parties in the Joint Venture will not be required to provide additional guarantees in order to receive financing for the Joint Venture and, accordingly, Quantum will not be required to provide its share in the guarantees, in the amount of about $180 million as was originally agreed at the time the Joint Venture was set up. (It is further pointed out that the required amounts are denominated in the Chinese currency (RMB) and are presented in this report in dollar approximates).

iii. Quantum will not be required invest an additional amount during 2009 and 2010 in excess of the amount of about US$200 million that was already invested by it in the Joint Venture in the past. Investment of an additional about US$40 million, if and to the extent there will be a need for it pursuant to the Joint Venture's business plan, will be possible at the earliest in 2011.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

3. Additional information (Cont.)

b. Chery Quantum Auto Co. Ltd. (hereinafter – "Joint Venture") (Cont.)

(1) (Cont.)

iv. In addition, Quantum was granted a right to appoint an additional director to the Board of Directors of the Joint Venture, such that it will have the right to appoint 3 directors in the Joint Venture out of its total of 6 directors (compared with 2 out of the 5 directors prior to receipt of approval from the competent authorities as stated).

In the Corporation's estimation, in light of the preference rights of Chery upon liquidation, there is no joint control in the Joint Venture and, accordingly, the investment in the Joint Venture based on the equity method of accounting.

(2) In July 2010, the Corporation's Board of Directors approved adoption of an updated business plan for the joint venture in China and increase of the investment in the joint venture's capital by the shareholders. According to this, each party is to invest an additional about $334 million over the years 2011-2013. Execution of the investment is subject to signing an amendment to the agreement and receipt of approval of the relevant authorities in China (as necessary).

c. Petrotech AG (hereinafter – "Petrotech")

On December 4, 2009, I.C. Green Energy Ltd. (hereinafter – "I.C. Green"), a company wholly owned by the Corporation, acquired about 43% of the shares of Petrotech for a consideration of about $17 million (€12 million) including the transaction costs. Petrotech is a company whose shares are traded on the stock in Germany, and that is engaged in the production, marketing, and sale of bio-diesel, which is based mainly on recycling of used food oil, and which owns two plants in Germany. The excess cost created on the acquisition amounted to about $11 million, which was allocated to goodwill. In light of Petrotech's financial situation and due to a sharp drop in the share price on the stock market as at December 31, 2008, the balance of the goodwill created on the acquisition, in the amount of $12 million, was written off.

As a result of this acquisition, I.C. Green submitted a request to the Federal Financial Supervisor Authority (hereinafter – "BarFin"), an entity that is comparable to the Securities Authority in Germany, to receive an exemption from making a tender offer to the public in order to make an investment of shareholders' equity, long-term loans and guarantees in Petrotech.

In February 2010, Petrotech signed an agreement with a German bank whereby Petrotech will repay a loan from the bank, the balance of which at that time was about €18.9 million, in exchange for the amount of about €2.2 million. For purposes of repayment of the loan from the bank by Petrotech, I.C. Green made a loan to Petrotech in the amount of about €2.2 million. As a result of the transaction, Petrotech recorded a capital gain of about €16.7 million (the Corporation's share about €8 million).

Due its liquidity problems, the "going concern" assumption with respect to Petrotech depends on the probability of raising additional sources of financing for continuation of its activities.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

3. Additional information (Cont.)

d. Tower Semiconductor Ltd. (hereinafter – "Tower")

i. In October 2007 and January 2008, the Corporation provided Tower credit for acquisition of advanced equipment in an amount of up to $30 million. In September 2008, this amount was converted into capital notes, as detailed in Paragraph (4), below. In addition, options were issued by Tower to the Corporation exercisable up to March 2010 at an exercise price of $2.04 per share. The amounts of the credit utilized will be repayable within two years and no later than March 2010.

ii. In December 2000, Tower received a Letter of Approval for an investment grant for FAB2, pursuant to which the investments were to be made up to December 31, 2005. Tower held many discussions with the Investments Center, including at the legal level, with respect to approval of an expansion plan during many years. Up to February 2011, Tower received a Letter of Approval from the Manager of the Investments Center whereby at a meeting of the Investments Center in 2010 the said Manager approved Tower's plan for making investments in property, plant and equipment. According to the plan, Tower is expected to receive an investment grant of NIS 150 million (about $42 million) in connection with investments in property, plant and equipment qualifying for the grant.

iii. In May 2008, Tower signed an agreement for acquisition of shares of Jazz Technologies (hereinafter – "Jazz"), a leading company in the area of production of products having significant analogue components. Pursuant to the agreement, Tower acquired shares of Jazz in a share swap transaction based on a value of Jazz's equity of $47 million, where each Jazz share was converted against 1.8 Tower shares. In September 2008, the merger transaction was completed.

iv. In September 2008, an agreement was signed between Tower and Bank Leumi Ltd. and Bank Hapoalim Ltd. (hereinafter – "Banks") and the Corporation, for restructuring Tower's debts in such a manner that there will be a significant decline in the scope of its debts to the Banks and to the Corporation. In September 2008, the merger transaction was completed based on the highlights of the arrangement, among others:

A. Conversion of Tower's debt to the Banks, in the amount of $200 million and conversion of Tower's debt to the Corporation in the amount of $50 million was executed by means of issuance of capital notes convertible into shares of Tower. The Corporation's debt included a loan in the amount of $30 million and debentures in the amount of $20 million (principal and accrued interest) that were issued to the Corporation in 2005.

B. The Corporation invested the amount of $20 million in Tower against issuance of capital notes convertible into shares of Tower.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

3. Additional information (Cont.)

d. Tower Semiconductor Ltd. (hereinafter – "Tower")

iv. (Cont.)

C. Commencement of the repayment to the Banks of the remaining principal of the loans after the conversion (approximately $200 million) was postponed until September 2010 and payment of Tower's interest to the Banks pursuant to the credit agreements was postponed such that they will begin in September 2010.

D. The banks waived Tower's compliance with financial covenants regarding the last two quarters of 2008.

E. The Corporation undertook to provide Tower, from time to time, amounts the sum of which will not exceed $20 million, for during a period that ended on December 31, 2009. The amount was invested according to Section (5).

After entry of the agreement into effect and after acquisition of the Jazz shares, the Corporation's share in Tower (assuming the capital notes are converted into shares) fell to about 30% of Tower's capital and the Corporation realized a capital gain of about $25 million.

v. In January 2009, the amount of $20 million was transferred to Tower against issuance of capital notes convertible into shares of Tower, and excess cost was created to the Corporation in the amount of about $6 million. In September 2009, Tower issued shares and options to institutional investors in exchange for about $21 million. In December 2009, Tower issued shares to a U.S. investment fund (hereinafter – "the Fund") in exchange for about $13 million, based on an agreement between Tower and the Fund whereby the Fund will invest up to $25 million in Tower (an amount that was updated according to the agreement between Tower and the Fund in 2010). As a result of the issuances, the Corporation realized a capital gain of about $13 million.

vi. In 2010, the agreement between Tower and the Fund was updated whereby the maximum amount the Fund committed to invest in Tower increased to a cumulative amount of $95 million. In 2010, the Fund invested $55 million in Tower.

vii. During 2010, Tower restructured its debts – which included the following transactions:

In June 2010, Tower signed an update to the credit line agreement with Wachovia Bank whereby the credit line of Jazz will be extended up to 2014 in the amount of $45 million. The credit line bears interest of Libor plus 2.25% to 2.75%.

In July 2010, Tower signed an agreement for replacement of $80 million of convertible debentures of Jazz having a repayment date in 2011, with the new non-convertible debentures of Jazz, the repayment date of which is June 2015.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

3. Additional information (Cont.)

d. Tower Semiconductor Ltd. (hereinafter – "Tower")

vii. (Cont.)

In August 2010, Tower and the Banks signed agreements whereby Tower advanced payments of $50 million on account of repayment the loan principal and changed the terms of the balance of the loans, in the amount of about $161 million, such that this amount will be scheduled for repayment in 2013-2015. Upon occurrence of certain conditions provided in the agreement and subject to receipt of monies by Tower from certain sources, Tower will pay part of these amounts, on account of the future principal repayment, prior to the dates specified above. The loans bear interest of Libor plus 2.5%.

viii. In the period of the report, Tower's capital increased by $102 million deriving from conversion of debentures and issuance of shares to the Eurcawill Fund. As a result, the Corporation's share in Tower dropped (taking into account conversion of the capital notes) from about 36.9% to about 33.2%, and the Corporation recognized a capital gain of about $31 million.

e. Generandes Peru S.A. (hereinafter – "Generandes")

As part of acquisition of Inkia Energy Ltd. (hereinafter – "Inkia"), Inkia acquired, indirectly, Generandes and its subsidiary Edegel S.A.A. (hereinafter – "Edegel"). The above-mentioned companies are associated companies of the Group and are traded on the stock exchange in Peru. Pursuant to Peru law, in certain cases a purchaser of companies registered on the stock exchange in Peru is required to make a tender offer to the holders of rights not conferring control. Inkia requested from the Peru Securities Authority (hereinafter – "the Authority") an exemption from making a tender offer, to the extent such requirement actually applies to it under Peru law.

Inkia signed an agreement with Endesa, the main shareholder of Generandes whereby, among other things, Endesa agreed to make the tender offer with respect to Edegel's shares, Endesa will assist Inkia in obtaining the exemption from making a tender offer with respect to Edegel's shares and Inkia and Endesa made a reciprocal waiver of execution of a tender offer in connection with Generandes' shares.

The Authority refused to the request submitted by Inkia. In addition, Inkia's was required to publish a tender offer for additional shares constituting 16.6% of Edegel's share capital, under the contention that through acquisition of the shares of Generandes, Inkia is acquiring joint control over Edegel by virtue of the rights it is entitled to as a result of the said acquisition, in accordance with a certain agreement signed between the shareholders of Generandes.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

3. Additional information (Cont.)

e. Generandes Peru S.A. (hereinafter – "Generandes") (Cont.)

Inkia submitted a request to the Authority to once again review its decision, contending that: (i) the concept of implied joint control, on which the Board of Directors relies in refusing to grant Inkia's request, does not exist in Peru's Securities Law and, therefore, it may not be established by an administrative decision and (ii) the Authority agreed to waive publication of a tender offer in the case of Globeleq International Limited, which is the company that preceded Inkia.

In September 2010, Inkia invested about $53 million in acquisition of rights not conferring control in Southern Cone Power Ltd. (hereinafter – "SCP"), a fully consolidated holding company. As a result of the transaction, Inkia increased its holdings in Edegel (considering the full chain of ownership) from 14.35% to 21.14%.

The difference between the consideration paid and the carrying value in the books, after allocation of the capital reserves of rights not conferring control to the Corporation's shareholders, in the amount of about $9 million, was recorded to the share of the owners in the Corporation's equity in the "retained earnings" category.

Inkia made a purchase offer to the public in connection with acquisition of additional shares of Adhal at a rate of up to 3.47%. Pursuant to Peru law, the value of Adhal for purposes of the tender offer was determined by an appraiser appointed by the Peru Securities Authority. The public did not respond to the tender offer and Inkia did not increase its investment in Adhal as a result of the process.

f. In November 2010, an agreement was signed between ZIM Intergrated Shipping Services Ltd. (hereinafter – "ZIM") and its related companies, on the one side, and an unrelated company, China Merchants Holding (International) Company Limited (hereinafter – "the Purchaser") for sale of all of ZIM's rights, directly or indirectly, of whatever type or kind, in a foreign company "Tincan Island Container Terminal" (hereinafter – "TICT"), which holds and operates a container terminal in Lagos in Nigeria.

In consideration for all the shares of TICT held by ZIM, and waiver of all of ZIM's rights in TICT, ZIM's commitment not to compete for a 5-year period and ZIM's undertaking in an agreement for a period of 10 years to receive port services in Lagos exclusively from TICT, the Purchaser paid ZIM an aggregate amount of about $154 million. The total pre-tax capital gain amounted to about $118 million.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

4. Details regarding securities registered for trading

	As at December 31, 2010		As at December 31, 2009	
	Book value	Market value	Book value	Market value
	$ millions			
Shares (*)	**717**	**975**	709	686
Convertible debentures	**3**	**4**	3	3
	720	**979**	712	689

(*) Includes shares and convertible capital notes and the market value of shares that will derive from conversion of such capital notes, assuming they are converted.

5. Details regarding goodwill deriving from acquisition of investments in associated companies and the amount of the decline in value recognized in respect of the said investments

As at December 31, 2010		As at December 31, 2009	
Amount of goodwill stemming from acquisition	Amount of decline in value of the investment	Amount of goodwill stemming from acquisition	Amount of decline in value of the investment
$ millions			
18	**12**	20	12

6. Details regarding amounts of the decline in value recognized in respect of associated companies

For the year ended December 31		
2010	2009	2008
$ millions		
17	–	12

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

7. Details regarding capital notes, loans and long-term debit balances

Details of linkage bases and interest terms:

	As at December 31	
	2010	**2009**
	$ millions	
In Israeli currency		
Linked to the CPI	**1**	–
Unlinked	**2**	1
	3	1

Set forth below is detail based on repayment dates of investments in capital notes, loans and other long-term debits:

	As at December 31 2010
	$ millions
No fixed repayment date	**3**

8. Details regarding dividends received from associated companies

	For the year ended December 31		
	2010	**2009**	**2008**
	$ millions		
From associated companies	**60**	29	21

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

9. Additional details regarding associated companies and proportionately consolidated companies held directly by the Corporation

	Country of incorporation	Corporation's rights in the capital	Loans made by the Corporation to the associated company	Total investment in the associated company
		%	$ millions	
December 31, 2010				
Proportionately consolidated companies				
El-Ram Lishkon Company – Limited Partnership	Israel	49	–	*–
MARS Information Product Group Ltd.	Israel	50	1	3
Asik Investments Inc.	British Virgin Islands	50	1	*–
Associated companies				
Better Place LLC	USA	31.4	–	100
Tower Semiconductors Ltd.	Israel	5.4	3	23
Oil Refineries Ltd.**	Israel	37.1	–	695
December 31, 2009				
Proportionately consolidated companies				
El-Ram Lishkon Company – Limited Partnership	Israel	49	–	*–
MARS Information Product Group Ltd.	Israel	50	1	2
Asik Investments Inc.	British Virgin Islands	50	–	1
Associated companies				
Better Place LLC	USA	33	–	27
Tower Semiconductors Ltd.	Israel	8.9	3	6
Oil Refineries Ltd.**	Israel	37.11	–	703

* Amount less than $1 million.

Note 11 – Investments in Investee Companies (Cont.)

A. Associated companies and proportionately consolidated companies (Cont.)

10. Details regarding convertible securities in investee companies

a. Tower

1. Tower has 4 series of debentures convertible into its shares and options for Tower shares.

2. In addition, in the years 2006-2009, Tower issued convertible capital notes to banks and to the Corporation – see Note 11A3(d).

3. If all the convertible capital notes issued by Tower to the Corporation and to banks are converted, the Corporation's share in Tower will be about 33.2%. If all the convertible securities are converted into shares, the Corporation's share in Tower will be about 23.1%.

b. ORL

1. On September 5, 2007, ORL's Board of Directors approved an options' plan including a total of 30,000,000 options under the "Capital Track" (with a trustee pursuant to Section 102 of the Income Tax Ordinance). Up to December 31, 2007, ORL allotted options for acquisition of 26,900,000 ordinary shares of NIS 1 par value each. As at December 31, 2007, 3,100,000 options for acquisition of ordinary shares of ORL had not yet been issued.

2. If all the options are converted into ORL shares, the Corporation's share in ORL will be 36.84%.

Note 11 – Investments in Investee Companies (Cont.)

B. Subsidiaries

1. Additional details regarding subsidiaries held directly by the Corporation

a. Additional information

	Country of incorporation	Corporation's rights in the capital	Amounts the Corporation provided to the subsidiary: Loans	Amounts the Corporation provided to the subsidiary: Guarantees	Total investment in the subsidiary
		%	$ millions		
December 31, 2010					
ZIM Integrated Shipping Services Ltd. Limited Partnership	Israel	99.70	–	–	656
Israel Chemicals Ltd.	Israel	28.12	–	–	901
H.L. Management and Consulting (1986) Ltd.	Israel	100	–	–	(36)
H.L. (Holdings – ICL) Ltd.	Israel	100	–	–	317
H.L. Purchasing ICL (1988) Ltd.	Israel	100	38	–	202
H.L. (Kislev, 1998) Ltd.	Israel	100	–	–	57
Guest Stars Ltd.	Israel	100	–	–	*–
Trust and Recordings of Israel Corporation Ltd.	Israel	100	–	–	*–
Udi International (1994) Ltd.	Israel	100	4	–	*–
Quantum (2008) L.L.C.	U.S.A.	100	226	–	(42)
I.C. Green Energy Ltd.	Israel	100	105	1	(39)
I.C. Power Ltd.	Israel	100	47	–	459

	Country of incorporation	Corporation's rights in the capital	Amounts the Corporation provided to the subsidiary: Loans	Amounts the Corporation provided to the subsidiary: Guarantees	Total investment in the subsidiary
		%	$ millions		
December 31, 2009					
ZIM Integrated Shipping Services Ltd. Limited Partnership	Israel	99.60	–	–	434
Israel Chemicals Ltd.	Israel	28.70	–	–	975
H.L. Management and Consulting (1986) Ltd.	Israel	100	–	–	(26)
H.L. (Holdings – ICL) Ltd.	Israel	100	–	–	309
H.L. Purchasing ICL (1988) Ltd.	Israel	100	36	–	203
H.L. (Kislev, 1998) Ltd.	Israel	100	–	–	57
Guest Stars Ltd.	Israel	100	–	–	*–
Trust and Recordings of Israel Corporation Ltd.	Israel	100	–	–	*–
Udi International (1994) Ltd.	Israel	100	3	–	*–
Quantum (2008) L.L.C.	U.S.A.	100	213	–	*–
I.C. Green Energy Ltd.	Israel	100	51	1	(30)
Inkia Energy Ltd.	Bermuda	100	136	–	409

* Amount less than $1 million.

Note 11 – Investments in Investee Companies (Cont.)

B. Subsidiaries (Cont.)

1. Additional details regarding subsidiaries held directly by the Corporation (Cont.)

b. Information regarding securities of subsidiaries

ICL is a subsidiary whose shares are traded on the Tel-Aviv Stock Exchange. The fair value of ICL as at December 31, 2010 is about $21,650 million.

2. Details regarding dividends received from subsidiaries

	For the year ended December 31		
	2010	**2009**	**2008**
	$ millions		
From subsidiaries	**476**	398	550

Note 12 – Business Combinations and Transactions with Holders of Rights Not Conferring Control

A. Investments

1. Acquisition of shares of Oil Refineries Ltd. (hereinafter – "ORL")

a. On February 18, 2007, the Corporation signed a binding memorandum of understanding with Scailex Corporation Ltd. (hereinafter – "Scailex") and a company controlled by it, Petroleum Capital Holdings (hereinafter – "PCH"), pursuant to which the Corporation and PCH will submit a joint tender for acquisition of ORL shares.

On February 21, 2007, the Corporation, together with PHC, acquired 46% of the issued share capital of ORL in the framework of a public tender offer for a consideration of about $716 million, of which the Corporation's share in the acquisition amounted to about $579 million. The Corporation's direct share constitutes 36.8% of ORL's share capital.

The acquisition was conditioned on receipt of approval of the Ministers for Control and Holding of the Means of Control in ORL (hereinafter – "the Approval of the Ministers") and approval of the Restrictive Business Practices Authority.

Note 12 – Business Combinations and Transactions with Holders of Rights Not Conferring Control (Cont.)

A. Investments (Cont.)

1. Acquisition of shares of Oil Refineries Ltd. (hereinafter – "ORL") (Cont.)

   b. In order to permit the Corporation to submit a separate request for the Approval of the Ministers, on May 10, 2007, the Corporation, PCH and Scailex agreed to cancel the Memorandum. Concurrent with cancellation of the Memorandum, the Corporation made a commitment to PCH and Scailex in the framework of an irrevocable letter of undertaking that, among other things, if PCH and Scailex will receive the required approvals, including every other approval or permit required by under any law up to and no later than May 15, 2009 (hereinafter – "the Effective Date"), then in such a case the Corporation will sign a joint control agreement with them with respect to ORL (hereinafter – "the Joint Control Agreement") in accordance with the language agreed to by the parties. In addition, that up to the signing of the Joint Control Agreement, the Corporation will be entitled to use its control powers in ORL (subject to it having received approval of the Ministers) based on its discretion with no limitations.

      In June 2007, the Corporation received approval of the Ministers for the control permit as stated.

   c. During February–July 2007, the Corporation acquired additional shares of ORL on the Tel-Aviv Stock Exchange, constituting 8.3% of ORL's share capital, for a price of $138 million. As at the approval date of the financial statements, the Corporation holds about 45.1% of ORL's share capital.

2. Agreement with Israel Petrochemical Enterprises (hereinafter – "IPE") regarding Joint Control over ORL

   a. On August 3, 2008, the Corporation signed a letter of undertaking in favor of IPE and Petroleum Capital Holdings Ltd. (hereinafter – "Petroleum"), 100% of issued share capital of which is held by IPE (hereinafter – "the Third Letter of Undertaking") (IPE and Petroleum jointly – "the Petroleum Group"), regarding the signing of an agreement for joint control over ORL. The Third Letter of Undertaking replaced the Corporation's previous letters of undertaking, dated May 10, 2007 and June 1, 208, regarding the signing of an agreement for joint control over ORL, which were cancelled, and to which were attached two draft agreements for joint control over ORL, which will become valid subject to the conditions detailed below.

Note 12 – Business Combinations and Transactions with the Minority (Cont.)

A. Investments (Cont.)

2. Agreement with Israel Petrochemical Enterprises (hereinafter – "IPE") regarding Joint Control over ORL (Cont.)

   a. (Cont.)

   The Third Letter of Undertaking was signed following the agreement dated June 24, 2008, between IPE and ORL (hereinafter – "the COL Agreement"), according to which, among other things, subject to the existence of certain conditions stated in the COL Agreement, IPE would sell and transfer to ORL all its shares in Carmel Olefins Ltd. (hereinafter – "COL"), which constitute 50% of COL's issued share capital, in exchange for an issuance of ORL shares, constituting at that time 20.53% of ORL's issued share capital (hereinafter – "the Share Issuance"). The Third Letter of Undertaking and the attached draft agreements govern the joining of the Petrochemical Group to the control over ORL, upon fulfillment of certain conditions and according to various alternatives, prior to and after the closing of the COL Agreement, and in the event that the COL Agreement is cancelled by both parties or terminated due to non-compliance with the terms for its entry into effect, or due to its breach by one or both of the parties, while the parties do not have any claims for its enforcement (each of the above – "Annulment of the COL Agreement").

   The Corporation and the Petrochemical Group have mutually undertaken that in the event that the COL Agreement is executed according to its terms, and the Petrochemical Group receives all the approvals required by law to enter into the joint agreement of control over ORL (including control according to the Government Companies Order (Declaration of Vital State Interests in Oil Refineries Ltd.), 2007) (hereinafter – "the Required Authorizations"), up to and not later than five years commencing from one day prior to the date of the Share Issuance (hereinafter – "the Five-Year Period"), then an agreement for joint control over ORL will be signed between the parties (hereinafter – "the Control Agreement After Execution of the COL Agreement") according to the draft attached to the Third Letter of Undertaking, and whose principles are similar to the agreements previously formulated between the parties.

   So long as the COL Agreement has not been implemented, the Corporation and the Petrochemical Group have mutually undertaken that if all required approvals are received up to and not later than May 10, 2009 (hereinafter – "the Determining Date"), then at the request of the Petrochemical Group an agreement for joint control over ORL will be signed between the parties (hereinafter – "the Agreement for Control Prior to Execution of the COL Agreement"), according to the draft attached to the Third Letter of Undertaking, the control agreement of which is similar to the Agreement for Control After Execution of the COL Agreement, subject to the following changes:

Note 12 – Business Combinations and Transactions with the Minority (Cont.)

A. Investments (Cont.)

2. Agreement with Israel Petrochemical Enterprises (hereinafter – "IPE") regarding Joint Control over ORL (Cont.)

a. (Cont.)

Should annulment of the COL Agreement occur prior to the Determining Date for reasons not connected to an act, omission or activity of IPE, and the Agreement for Control Prior to Execution of the COL Agreement has not yet been signed, then in such a case, and notwithstanding that stated in Section 1 above, the Corporation's Letter of Undertaking dated June 1, 2008 will be reinstated and will be effective together with the attached draft agreement of joint control over ORL (hereinafter – "the Second Letter of Undertaking"), and the Third Letter of Undertaking and the attached draft agreements will be considered null and void. According to the Second Letter of Undertaking, the Petrochemical Group is entitled, among other things, to transfer its rights according to the Second Letter of Undertaking to a third party which has obtained the required approvals up to the Determining Date, subject to the Corporation's Right of First Refusal.

On the signing date of the Third Letter of Undertaking, Petroleum signed an irrevocable letter of authorization (hereinafter – "the Letter of Authorization") that authorizes the Corporation to vote on its behalf at ORL's General Meetings for its holding of 235 million ORL shares (hereinafter – "the Authorization Shares"). The Letter of Authorization will become valid one day prior to the date of the Share Issuance and will be valid until earlier of the time of signing the Control Agreement After Execution of the COL Agreement or until the end of the Five-Year Period (hereinafter – "the Intermediate Period").

According to the provisions of the Third Letter of Undertaking, up to the signing of the control agreement, the Corporation will be entitled to use its control power in ORL based on its discretion and without any limitations deriving from its shares in ORL, and during the Intermediate Period – also under the Letter of Authorization.

On December 31, 2008, the agreement with Carmel Olefins expired without the preconditions specified therein having been fulfilled.

b. In May 2009, IPE and Petroleum (hereinafter together – "the Petrochemicals Group") gave notice of receipt of a conditional permit for control and holdings of means of control in ORL (hereinafter – "the Conditional Permit"). As part of the Conditional Permit it was provided, among other things, that the approval for the Petrochemicals Group to control ORL is together with the Corporation in accordance with the language of language of the Joint Control Agreement, where the Corporation holds most of the means of control included in the control nucleus over ORL.

The Petrochemicals Group further reported that it decided not to exercise the "call option" it was granted to require the Corporation to sell it part of its shares in ORL, and it expired.

Note 12 – Business Combinations and Transactions with the Minority (Cont.)

A. Investments (Cont.)

2. Agreement with Israel Petrochemical Enterprises (hereinafter – "IPE") regarding Joint Control over ORL (Cont.)

   b. (Cont.)

   In June 2009, signing of the agreement for joint control of ORL between the Corporation and Petrochemicals Group was completed. In addition, an addendum to the Control Agreement was signed between the Corporation and Petrochemicals Group (hereinafter – "the Addendum") providing, among other things, the manner in which the control nucleus between the parties is to be allocated.

   In June 2009, a letter was received from the Government Companies Authority to which an amendment of the control permit in ORL from the State was attached (hereinafter – "the Amendment to the Permit") whereby it was provided, among other things: (A) that the Corporation by itself, or together with the Petrochemicals Group in accordance with the joint control agreement, will utilize the control and means of control in ORL, and (B) the individual holders of the permit (Messrs. Idan Ofer, Eyal Ofer and Udi Angel – as provided in the control permit in ORL), will hold the control and means of control in ORL, through the Corporation, which will hold directly the control and means of control in ORL, alone, or together with the Petrochemicals Group in accordance with the joint control agreement, and (C) the control permit relates to approval of control and holding of 24% or a higher rate in the means of control in ORL, and (D) the validity of the Amendment to the Permit is contingent on the validity of the control permit in ORL granted to the Petrochemicals Group, and to the extent the latest permit is cancelled or expires, the Corporation's control permit in ORL will return to its language as it was immediately prior to entry in effect of the Amendment to the Permit.

   Upon its entry into effect, the Addendum will amend the control agreement and will supersede and cancel prior addendums signed between the parties to the control agreement, in such a manner that the following changes will be made to the control agreement (compared with the provisions of the control agreement presently in effect):

   i. Definition of the control nucleus shares in ORL: the control nucleus shares in ORL will constitute 40% of ORL's issued and paid-up shares after issuance of the Issuance Shares. The Corporation will hold 55.625% of the control nucleus shares in ORL whereas IPE will hold 44.375% of the control nucleus shares in ORL. The rest of the shares in ORL held by IPE through Petroleum and by the Corporation will be considered "free" shares that are not subject to the provisions of the control agreement, except for the obligation of the party holding them to vote by virtue thereof at ORL's General Meetings as one vote (together) with the control nucleus shares of that party (hereinafter – "the Free Shares").

Note 12 – Business Combinations and Transactions with the Minority (Cont.)

A. Investments (Cont.)

2. Agreement with Israel Petrochemical Enterprises (hereinafter – "IPE") regarding Joint Control over ORL (Cont.)

b. (Cont.)

ii. The control nucleus shares held by IPE: on the date of entry of the Addendum into effect, all the Issuance Shares, and only such shares, will be considered control nucleus shares in ORL owned by IPE and all ORL shares held by Petroleum will be considered Free Shares. The parties to the control agreement will be entitled to define and determine, from time to time which ORL shares that they own are considered control nucleus shares in ORL, subject to the provisions of the control agreement and subject to the provisions of any law including the control permits.

iii. Right of first refusal to IPE: IPE will have a right of first refusal to acquire and to be transferred all the control nucleus shares in ORL offered for sale by the Corporation (hereinafter – "the Right of First Refusal"). It is noted that as at the date of the report, the Corporation already has such a right vis-à-vis IPE and Petroleum. It is clarified that a party to the control agreement will be permitted to sell and/or transfer all the control nucleus shares it holds at that time, but not a part thereof. The Right of First Refusal will also apply, with certain changes, in a case of realization of a lien placed on (if placed on) the control nucleus shares by the holder of the lien on these shares. As part of the Right of First Refusal, it was agreed that a change in control of the Corporation or IPE, as defined in the control agreement and subject to fulfillment of certain conditions detailed therein, will confer on the other party a right to acquire the control nucleus shares in ORL of the party with respect to which the control was changed at the average market price in the 60 days preceding the notice regarding change in the control, with the addition of a premium of 15%.

iv. Right to join to the Corporation: the Corporation will have a right to join a sale of the control nucleus shares of IPE, subject to the Right of First Refusal not having been exercised (hereinafter – "the Right to Join"). It is noted that IPE already has a similar right vis-à-vis the Corporation.

v. "Buy Me Buy You" mechanism: commencing from the end of 6 months from the date of entry into effect of the control agreement, each party to the control agreement will have a right to utilize a "Buy Me Buy You" mechanism with respect to the control nucleus shares in ORL whereby such party will offer to the other party to acquire all the control nucleus shares the other party holds at the price stated in the offer or, alternatively, to sell to the other party all the control nucleus shares it holds at the said price.

Note 12 – Business Combinations and Transactions with the Minority (Cont.)

A. Investments (Cont.)

2. Agreement with Israel Petrochemical Enterprises (hereinafter – "IPE") regarding Joint Control over ORL (Cont.)

b. (Cont.)

vi. Appointment of directors: ORL's Board of Directors will consist of 11 members (including 2 external directors), where the Corporation will recommend appointment of 5 directors and appointment of 1 external director and IPE will recommend appointment of 4 directors and appointment of 1 external director (it is noted that as at the date of the report, ORL's Board of Directors consists of 9 members, the Corporation is entitled to recommend appointment of 5 directors, IPE is entitled to recommend appointment of 2 directors and the recommendation regarding the identity of the 2 external directors is made by agreement between the parties).

vii. Appointment of officers and consultants: subject to the provisions of any law, the parties to the control agreement in their status as shareholders of ORL will act such that appointment of the CEO, auditors and attorneys of ORL and its subsidiaries, and to the extent possible ORL's related companies, is made by agreement between the parties.

viii. Voting with respect to certain matters: the parties to the control agreement will agree in advance regarding the manner of their voting with respect to a number of matters, and to the extent that appear on the Day's Agenda and are up for decision by the General Meetings of ORL's shareholders, whereas absent agreement the manner of their voting will be determined by an agreed-to referee. The parties will act to amend ORL's Articles of Association in order that their decision on those agreed-to matters that are brought up for decision by ORL's Board of Directors will be transferred for decision by the General Meeting of ORL's shareholders or that the decision thereof will require a special majority of 75% of the total number of directors present. Set forth below is a list of the said matters: (A) entry of ORL or any of its subsidiaries into new areas of activities; (B) issuance of shares or other securities by ORL or by its subsidiary; (C) change of the Articles of Association of ORL and/or any of its subsidiaries and/or any of its investee companies; (D) merger or split-up or reorganization of ORL or any of its subsidiaries; (E) transactions not in the ordinary course of business of ORL or any of its subsidiaries or any of its investee companies with an interested party; (F) appointment of ORL's auditors; (G) liquidation or suspension of activities in ORL and/or in any of its subsidiaries or in any of its investee companies; (H) a material sale or purchase transaction of ORL.

ix. Additional provisions in a case of sale of control nucleus shares held by the Corporation: if the Corporation seeks to sell to a third party al its control nucleus shares in ORL, and if IPE and/or Petroleum do not utilize the Right of First Refusal or the Right to Join provided to them, IPE and Petroleum commit to notify the Ministers that they have no objection to their control permit being amended such that in any place where the words "Israel Corporation" appear they will be replaced by the name of the third party and the reference in the control permit will be to it.

Note 12 – Business Combinations and Transactions with the Minority (Cont.)

A. Investments (Cont.)

2. Agreement with Israel Petrochemical Enterprises (hereinafter – "IPE") regarding Joint Control over ORL (Cont.)

b. (Cont.)

ix. (Cont.)

If the Ministers object to approval of the transfer to the third party and to grant such third party a control permit in ORL or postpone granting the permit, as stated, for whatever reasons relating to IPE and/or Petroleum or their control permit (hereinafter – "the Objection"), then if IPE and Petroleum do not cause removal of the Objection within 30 days, the Corporation will be permitted to give notice of cancellation of the control agreement during the 30 days after the end of the said period (hereinafter – "the Notice of Cancellation") without such notice giving IPE and/or Petroleum any claim and/or grounds for a contention, provided: (A) IPE and/or Petroleum will be entitled to reconsider and exercise the Right of First Refusal or the Right to Join within 15 days of the Notice of Cancellation, and (B) the cancellation will take effect on the date the transfer to the third party is executed and commencing from such date the control agreement will be considered as cancelled. If the transfer to the third party is not made, the control agreement will continue to be valid.

3. Merger agreement of Carmel Olefins Ltd. (hereinafter – "Carmel Olefins")

In October 2009, after receiving approvals of ORL's Audit Committee and Board of Directors, ORL and Israel Petrochemical Enterprises Ltd. (hereinafter – "IPE") signed an agreement whereby, upon closing the transaction, IPE will sell ORL all the shares it owns in Carmel Olefins Ltd. (hereinafter – "Carmel Olefins"), constituting 50% of the issued capital of Carmel Olefins (hereinafter – "the Carmel Olefins Shares Being Acquired") such that following the acquisition, ORL will hold 11% of the issued share capital of Carmel Olefins. In consideration for the Carmel Olefins Shares Being Acquired, ORL will issue to IPE ordinary shares of ORL, constituting (after the issuance and without dilution), 17.75% of ORL's issued share capital (hereinafter – "the Issued Shares"). The Issued Shares will confer the same rights as the ordinary shares of NIS 1 par value in ORL's capital.

Completion of the transaction is subject to a number of preconditions, including approval of the General Meeting of the shareholders and receipt of regulatory and other approvals from third parties, which were entirely fulfilled up to December 30, 2009.

As a result of completion of the transaction, the Corporation's share in ORL dropped from 45.1% to about 37.1% and the Corporation realized a loss from decline in the rate of its holdings in the amount of about $42 million. Upon completion of the transaction, the Corporation ceased to have control over ORL and, therefore, the Corporation discontinued consolidating ORL's financial statements and the investment in ORL is presented based on the equity method of accounting.

Note 12 – Business Combinations and Transactions with the Minority (Cont.)

A. Investments (Cont.)

3. Merger agreement of Carmel Olefins Ltd. (hereinafter – "Carmel Olefins") (Cont.)

   In addition, the Corporation recorded in a capital reserve its share of the re-measurement to fair value of 50% of Carmel Olefins' assets, in the amount of $29 million, and recorded on the statement of income its share in the negative goodwill created upon acquisition of an additional 50% of Carmel Olefins' shares, in the amount of $25 million.

4. In October 2009, Inkia signed an agreement for sale of 25.1% of the issued and paid-up share capital of Kalpha Genrision S.I. (hereinafter – "Kalpha"), a company wholly owned by Inkia.

   Kalpha owns and operates 2 turbines in Peru having a total production capacity of about 374 megawatts and is constructing an additional unit having a production capacity of about 192 megawatts.

   The agreement with the purchaser was contingent on preconditions, including, among others, a financial close of the financing for the project and expansion of the production capacity by an additional 280 megawatts.

   On November 13, 2009, the financial close was completed wherein Kalpha raised $277 million through banks and issuance of debentures. As a result of the sale, the Corporation realized a capital gain of about $34 million.

5. On July 1, 2009, an agreement was signed between Israel Chemicals Ltd. (hereinafter – "ICL") and Volkswagen AG (hereinafter – "Volkswagen"), which held 35% of the share capital of the ICL subsidiary, Dead Sea Magnesium Ltd. (hereinafter – "Magnesium") for acquisition of all of Volkswagen's shares in Magnesium by ICL for no consideration.

   Prior to completion of the transaction the parties transferred $86 million as an investment in equity (based on the rates of holdings).

   As a result of the compromise agreement, in 2009 Israel Corporation realized income in the amount of about $42 million.

6. On December 7, 2010, ICL undertook to the U.S. company, Scotts Miracle-Gro Company (hereinafter – "the Seller") to acquire the companies, assets and activities of the business unit in the specialty fertilizers area owned by the Seller, known as "The Global Professional Business" (hereinafter – "the Business Unit").

   The amount of the acquisition reflects a value of about U.S.$270 million for the companies, assets and activities of the Business Unit, and is subject to adjustments, mainly in connection with working capital and liabilities. The consideration, which was determined in negotiations between ICL and the Seller, is to be paid in cash upon closing of the transaction and is to be financed from ICL's own resources. The combined total sales and EBITDA of the Business Unit, as at the report year ended September 30, 2010, are about $242 million and about $31.4 million, respectively (the total sales and EBITDA data are not taken from the Seller's audited financial statements and they were prepared in order to reflect the combined total sales and EBITDA of the Business Unit as an independent unit).

Note 12 – Business Combinations (Cont.)

A. Investments (Cont.)

6. (cont.)

The Business Unit is engaged in manufacture and sale of specialty fertilizers, growing beds, plant protection products, grass seeds for commercial nurseries, sod for public use, sport surfaces and advanced agriculture. The Business Unit has about 340 employees and it operates three manufacturing facilities located in the Netherlands, the United Kingdom and the United States, and peat mines for growing beds in the United Kingdom. The main markets in which the Business Unit operates are Europe, North America, Asia/Pacific and Africa.

ICL intends to integrate the activities of the unit acquired into the ICL Fertilizers segment, while taking advantage of the marketing, operational and other synergies with ICL's specialty fertilizer activities. Integration of the Business Unit will expand the products' basket of ICL Fertilizers in the area of specialty fertilizers.

Subsequent to the date of the report, on February 28, 2011, the transaction was closed.

7. In September 2009, the Corporation's Board of Directors approved, after approval by the Corporation's Audit Committee, the Corporation's undertaking in a contingent transaction to acquire from Ofer Brothers (Energy Holdings) Ltd. (hereinafter – "Ofer Energy") 80% of the issued and paid-up share capital of O.P.C. Rotem Ltd. (hereinafter – "OPC"), a private company that owns the rights to construct a power plant having a capacity of about 400 megawatts on Rotem's site, by virtue of its winning a tender published in 2004 by the Ministry of National Infrastructures and the Ministry of Finance.

The shares being sold will be acquired by the Corporation for their par value and the Corporation will also provide OPC a loan in an amount equal to the amount of the shareholders' loans provided by Ofer Energy based on its share (80%). The loan, in an amount estimated at about $4 million, will be linked to the Consumer Price Index and will bear annual interest at the rate of 4%.

The acquisition agreement was contingent on approval of the Corporation's General Meeting.

On December 28, 2009, the General Meeting approved the said transaction pursuant to the Transaction report submitted to the Securities Authority on November 17, 2009.

On February 3, 2010, the Corporation reported with respect to completion of the said transaction.

8. In February 2010, an agreement was signed between the Corporation and I.C. Power Ltd. (hereinafter – "I.C. Power") whereby the Corporation will transfer to I.C. Power all its holdings in Inkia. Pursuant to the agreement signed, on March 1, 2010, I.C. Power issued to the Corporation 10 million ordinary shares in exchange for 300,000 ordinary shares of $0.01 par value each of Inkia.

In the period of the report, the Corporation invested about $45 million in I.C. Power by means of capital notes. Subsequent to the date of the report, the Corporation invested an additional about $38 million by means of capital notes.

Note 12 – Business Combinations (Cont.)

A. Investments (Cont.)

9. In January 2010, an investment agreement was signed between I.C. Green, the founding shareholders of Helufocus Ltd. (hereinafter – "the Founders"), and a Chinese company for investment in the shares of Helufocus. Pursuant to the agreement, Helufocus will issue shares to I.C. Green and to the Chinese company in exchange for the amount of about $2.31 million, to be invested by I.C. Green, and about $9.25 million, to be invested by the Chinese company.

   In addition, it was agreed that the Founders will sell to the Chinese company a quantity of shares of Helufocus that they hold in exchange for the amount of about $1.2 million that will be paid to the Founders. In March 2010, I.C. Green acquired additional shares from the Founders in exchange for about $0.1 million as part of the option it was granted.

   As a result of the transaction, the rate of holdings of I.C. Green in Helufocus declined from about 56.5% to about 47.5% and the Corporation realized a capital gain from decline in the rate of holdings in the amount of about $9.7 million.

   During the second quarter of 2010, employees of Helufocus exercised option they held for shares. As a result of the said exercise, the rate of the Corporation's holdings in Helufocus declined from 47.5% to 45.7% and the Corporation realized a loss of $526 thousand that was recorded in the "other expenses" category.

   On September 30, 2010, the Corporation exercised the options for acquisition of additional shares from the Founders, for a consideration of about $170 thousand. As a result of the said exercise, the rate of the Corporation's holdings in Helufocus rose to a 47.1%.

B. Transactions with holders of rights not conferring control

1. On November 8, 2009, ZIM published an offer to its shareholders to acquire ordinary shares of ZIM of NIS 0.3 par value each by means of a rights offering. The Corporation's Board of Directors decided to accept issuance of the rights by ZIM to its shareholders and, as a result, in 2009 the Corporation acquired 37,963,915 ordinary shares of ZIM for the amount of $200 million. During 2010, pursuant to the commitment certificate, the Corporation acquired an additional 12,654,638 and 6,627,319 ordinary shares of ZIM for the amount of $100 million and $50 million, respectively, and pursuant to the commitment certificate the Corporation signed.

2. a. In January 2010, the Corporation sold 8 million ordinary shares of ICL it held, constituting about 0.63% of ICL's issued and paid-up share capital, in exchange for about $106 million. As a result of the sale, the Corporation recorded an increase in capital attributable to the Corporation's shareholders, in the amount of about $85 million.

   b. In December 2010, the Corporation acquired 985,026 shares of ICL constituting about 0.07% of ICL's issued and paid-up share capital, for a consideration of about $16 million.

      As at the date of the financial statements, the Group holds about 52.6% of ICL's issued and paid-up share capital.

Note 12 – Business Combinations (Cont.)

C. Additional information

1. ICL and certain of its subsidiaries, issued a "Special State Share", which is held by the State of Israel, for purposes of protecting the State's vital interests, and which grants to the State, among other things, special rights in making decisions with respect to the following matters:

   a. Sale or transfer of ICL assets that are imperative for the State, not in the normal course of business.
   b. Voluntary liquidation or a change or reorganization of ICL's organizational structure or a merger (except for mergers of companies controlled by ICL in which there is no impairment to the rights or powers of the State of Israel as the holder of the Special State Share).
   c. Acquisition or holding of shares in ICL which represent 14% or more of the issued share capital of ICL.
   d. Acquisition or holding of ICL shares constituting 25% or more of ICL's issued share capital (including supplementing the holding to 25%) even if agreement had been received in the past regarding holdings of less than 25%.
   e. Any percentage holding in the share capital of ICL which grants the holder the right, the ability or the practical possibility of appointing, either directly or indirectly, half or more of the number of directors on ICL's Board of Directors, as they are actually appointed.

2. ZIM issued a Special State Share to the State of Israel that grants the State rights to guarantee its vital interests. The Special State Share is non-transferable, and is designed to give the State certain rights to assure vital State interests, including holding of a minimum fleet. Except for the rights embodied therein, the Special State Share does not provide its holder with any voting or other capital rights.

3. On September 3, 2009, the Board of Directors of ICL resolved to grant ICL approval to buy-back, from time to time, by itself and/or by a subsidiary, ordinary shares of ICL in an amount up to 5% of ICL's issued and paid-up capital, out of ICL's distributable earnings, as defined in the Companies Law, 1999. The buy-back was implemented during a period commencing from the date of the resolution and up to June 30, 2009. The purchases were made pursuant to the legal limitations and ICL's internal compliance plan for securities as well as in accordance with instructions provided from time to time by the ad hoc committee of the Board of Directors appointed for the matter – all within the framework of the aforesaid decision.

   In total, 22,368,342 shares were acquired by ICL, constituting about 1.74% of ICL's issued and paid-up share capital (the Corporation's share – 0.9%).

Note 13 – Investments in Other Companies

	As at December 31	
	2010	**2009**
	$ millions	
Quoted shares	**13**	31
Non-quoted shares (*)	**1**	26
Limited partnerships	**1**	1
Shares of Mekoroth Water Company (**)	**–**	–
	15	58

(*) In the period of the report, ZIM sold its rights in a joint venture in China for a consideration of about $29 million. As a result of the sale, ZIM recorded a capital gain of about $2 million.

(**) The investment in shares of "Mekoroth" Israel National Water Company Ltd. (hereinafter – "Mekoroth"), which is held by Rotem and other Group companies, is presented at a notional amount. The companies are unable to estimate the fair value of its holdings in the shares of Mekeroth.

The shares in Mekoroth were allotted in respect of investments made by the companies in the past in water infrastructures. The companies joined a claim against Mekoroth, which was recognized in part as a class action. The class action includes, among other things, the companies' claim for issuance of additional shares of Mekoroth in respect of investments they made in water infrastructures and their claim that the State make a tender offer for the acquisition of their holdings in Mekoroth's shares – both their present holding and their claimed holdings, as well as a request for relief by means of a monetary refund in the event that the claim for the share issuance is rejected. On January 28, 2004, the District Court issued a ruling rejecting the request for issuance of additional shares in Mekoroth, however the Court recognized the companies' right to initiate a class action for return of amounts they paid. The parties have appealed the District Court's decision to the Supreme Court. In February 2009, a Government decision was made regarding the approval of issuance of Mekoroth shares. The State and Mekoroth have given notice of this to the Court. In August 2009, the parties notified the Court that they are continuing to maintain contacts between them in an effort to reach a compromise. The parties have received a number of extensions to conduct negotiations, and on January 5, 2011, they notified the Court that additional progress has been made toward reaching a compromise and they received an extension up to April 2011.

Note 14 – Deposits, Loans and Other Debit Balances

A. Composition:

	As at December 31	
	2010	**2009**
	$ millions	
Long-term financial asset (1)	**188**	176
Deposits in banks and others	**19**	12
	207	188
Less – current maturities	**9**	8
	198	180
Prepaid expenses in respect of operating lease	**25**	11
Other receivables	**41**	119
	264	310
From associated companies	**–**	49

(1) Includes a financial asset from construction of desalination facilities that will be repaid over the life of the desalination concession based on the proceeds received from the facility (see Note 22C2(g)).

B. Detail by repayment dates

Set forth below is detail of the repayment dates of long-term loans, after deduction of current maturities:

	As at December 31 2010
	$ millions
2012	**10**
2013	**9**
2014	**10**
2015	**11**
More than 5 years	**156**
Not yet determined	**2**
	198

C. Types of deposits in banks and long-term loans by currencies and interest rates (including current maturities)

	Weighted average interest rate	As at December 31	
	12/31/10	**2010**	**2009**
	%	**$ millions**	
In Israeli currency	5.2	**193**	170
In foreign currency:			
Swiss francs	5.9	**3**	8
U.S. dollars	1.3	**11**	10
		207	188

Note 15 – Property, Plant and Equipment

A. Composition

	As at December 31, 2010						
	Balance at beginning of year	Additions	Disposals	Differences in translation reserves	Acquisitions as part of business combinations	Companies exiting the consolidation	Balance at end of year
	$ millions						
Cost							
Land, land development, roads, buildings and leasehold improvements	826	43	(21)	(10)	–	–	838
Installations, machinery and equipment	4,372	344	(76)	(51)	–	–	4,589
Dams and evaporation ponds	718	71	–	(14)	–	–	775
Heavy mechanical equipment railroad cars and containers	115	6	(8)	–	–	–	113
Office furniture and equipment, motor vehicles and other equipment	294	23	(8)	2	–	(3)	308
Fleet of ships and equipment	*2,578	751	(31)	–	–	–	3,298
	8,903	1,238	(144)	(73)	–	(3)	9,921
Plants under construction	330	(9)	(1)	1	7	(2)	326
Spare parts for installations	12	–	(2)	–	–	–	10
	9,245	1,229	(147)	(72)	7	(5)	10,257
Accumulated depreciation							
Land, land development, roads, buildings and leasehold improvements	396	25	(9)	(7)	–	–	405
Installations, machinery and equipment	2,748	167	(73)	(34)	–	–	2,808
Dams and evaporation ponds	365	25	–	(8)	–	–	382
Heavy mechanical equipment railroad cars and containers	94	3	(7)	–	–	–	90
Office furniture and equipment, motor vehicles and other equipment	205	21	(7)	3	–	(1)	221
Fleet of ships and equipment	*641	182	(18)	–	–	–	805
	4,449	423	(114)	(46)	–	(1)	4,711
	4,796	806	(33)	(26)	7	(4)	5,546
Deposits on account of property, plant & equipment	484						235
	5,280						5,781

* Reclassified.

Note 15 – Property, Plant and Equipment (Cont.)

A. Composition (Cont.)

	As at December 31, 2009						
	Balance at beginning of year	Additions	Disposals	Differences in translation reserves	Acquisitions as part of business combinations	Companies exiting the consolidation	Balance at end of year
	$ millions						
Cost							
Land, land development, roads, buildings and leasehold improvements	936	34	(4)	8	6	(154)	826
Installations, machinery and equipment	6,804	429	(16)	30	3	(2,878)	4,372
Dams and evaporation ponds	638	74	–	6	–	–	718
Heavy mechanical equipment railroad cars and containers	117	2	(4)	–	–	–	115
Office furniture and equipment, motor vehicles and other equipment	346	19	(7)	3	1	(68)	294
Fleet of ships and equipment	2,085	668	(175)	–	–	–	*2,578
	10,926	1,226	(206)	47	10	(3,100)	8,903
Plants under construction	278	233	–	4	–	(185)	330
Spare parts for installations	58	5	–	–	–	(51)	12
	11,262	1,464	(206)	51	10	(3,336)	9,245
Accumulated depreciation							
Land, land development, roads, buildings and leasehold improvements	385	36	(11)	5	–	(19)	396
Installations, machinery and equipment	3,510	274	(43)	19	–	(1,012)	2,748
Dams and evaporation ponds	343	18	–	4	–	–	365
Heavy mechanical equipment railroad cars and containers	95	3	(4)	–	–	–	94
Office furniture and equipment, motor vehicles and other equipment	247	24	(5)	2	–	(63)	205
Fleet of ships and equipment	591	158	(108)	–	–	–	*641
	5,171	513	(171)	30	–	(1,094)	4,449
	6,091	951	(35)	21	10	(2,242)	4,796
Deposits on account of property, plant & equipment	767						484
	6,858						5,280

* Reclassified.

Note 15 – Property, Plant and Equipment (cont.)

B. Depreciated balances

	As at December 31	
	2010	2009
	$ millions	
Land, land development, roads, buildings and leasehold improvements	**433**	430
Installations, machinery and equipment	**1,781**	1,624
Dams and evaporation ponds	**393**	353
Heavy mechanical equipment, railroad cars and containers	**23**	21
Office furniture and equipment, motor vehicles and other equipment	**87**	89
Fleet of ships and equipment	**2,493**	1,937
Plants under construction	**326**	330
Spare parts for installations	**10**	12
Deposits on account of property, plant and equipment	**235**	484
	5,781	5,280

C. The Group owns fully depreciated assets that are still in operation. As at December 31, 2010, the original cost of such assets exceeds $1,705 million.

D. Fixed assets are stated net of amortized investment grants, the amortized amount of which is $271 million (the original amount of the investments grants – $923 million).

E. Plants under construction – the movement represents acquisitions during the year less transfers to property, plant and equipment categories, net.

F. Impairment of assets

1. In 2008, Magnesium examined the need to record a provision for impairment in respect of its property, plant and equipment. The examination included a comparison of the discounted value of the expected cash flows during the plant's remaining useful life (a five-year cash flow forecast period where the fifth year was chosen as the representative year for the balance of life of the property, plant and equipment) compared with the value of the assets as stated in Magnesium's books. Calculation of the discounted value of the expected cash flows was made using an annual discount after tax rate of 14.9% and based on the Magnesium's assessments as to the present magnesium prices in the world market and the expectations regarding future price developments, a forecast with respect to development of unique products and the anticipated energy prices. As a result of this examination, in 2008 Magnesium included a provision for impairment of the value of its assets, in an amount of $47.4 million, which was recorded on the income statement in "other expenses" category.

Note 15 – Property, Plant and Equipment (Cont.)

F. Impairment of assets (Cont.)

2. During 2009, the Board of Directors of a subsidiary of ICL, as part of the subsidiary's efficiency plan, approved a plan for shutting down one of the production facilities of ICL Performance Products and transfer of the production to other existing plants.

   As a result of plan approved, the subsidiary examined the need for recognition of a provision for impairment in value of the production facility's property, plant and equipment. The examination included comparison of the discounted value of the expected future cash flows over the remaining useful life of the facility (a period of about two years) with the book value of the facility's assets.

   Calculation of the discounted value of the expected future cash flows was made using a pre-tax annual discount rate of 9.5%. As a result of the examination, the subsidiary included a provision for impairment in value of the facility's assets in the amount of about $27 million, which was recorded in the "other expenses" category in the statement of income.

3. In 2008, ZIM recognized a loss from decline in value of $95 million ($71 million net of tax) in connection with payments on account of ships. The recoverable amount of the payments on account of acquisition of the ships was determined based on usage value of the ships received. The usage value was calculated by an independent external appraiser by means of capitalization of the future cash flows anticipated from use and operation of the ships acquired at the rate of 13.3% per year.

   In 2010, about $38 million (2009 – $38 million) out of the $95 million was allocated to the ships received during the year.

G. Fleet of ships and equipment:

	As at December 31	
	2010	**2009**
	$ millions	
Includes (after reduction):		
Interest component included in the acquisition price:		
Cost	**(13)**	(13)
Accumulated amortization	**6**	6
Financing expenses capitalized to the cost of the ships:		
Cost	**109**	98
Accumulated amortization	**6**	4
Ships and equipment leased under capital leases:		
Cost	**538**	362
Accumulated amortization	**116**	92

H. Regarding ZIM's undertakings to acquire ships – see Note 22C(3).

I. Regarding liens – see Note 22(E).

Note 16 – Intangible Assets

A. Composition:

	Goodwill	Concessions (1)	Software costs	Patents and trademarks	Other	Total
	$ millions					
Cost						
Balance as at January 1, 2009	490	200	*62	87	*275	1,114
Acquisitions as part of business combinations	15	–	–	9	17	41
Acquisitions – self development	–	1	17	1	24	43
Acquisitions – rights not conferring control	3	–	–	–	–	3
Exit from the consolidation	(4)	(4)	–	–	(36)	(44)
Eliminations	(1)	–	(1)	–	–	(2)
Translation differences	1	2	–	6	6	15
Balance as at December 31, 2009	**504**	**199**	**78**	**103**	**286**	**1,170**
Acquisitions as part of business combinations	**6**	**1**	**–**	**–**	**13**	**20**
Acquisitions – self development	**–**	**–**	**9**	**–**	**3**	**12**
Exit from the consolidation	**(4)**	**–**	**–**	**–**	**–**	**(4)**
Translation differences	**(10)**	**(5)**	**–**	**(9)**	**(3)**	**(27)**
Balance as at December 31, 2010	**496**	**195**	**87**	**94**	**299**	**1,171**
Amortization and declines in value						
Balance as at January 1, 2009	57	34	18	13	81	203
Amortization for the year	–	4	10	3	27	44
Acquisitions as part of business combinations	–	–	–	–	8	8
Exit from the consolidation	–	(1)	–	–	(23)	(24)
Eliminations	–	–	(1)	–	–	(1)
Translation differences	1	–	–	2	6	9
Balance as at December 31, 2009	**58**	**37**	**27**	**18**	**99**	**239**
Amortization for the year	**–**	**6**	**7**	**3**	**22**	**38**
Translation differences	**(4)**	**–**	**–**	**(3)**	**(1)**	**(8)**
Balance as at December 31, 2010	**54**	**43**	**34**	**18**	**120**	**269**
Carrying value						
As at January 1, 2009	433	166	44	74	194	911
As at December 31, 2009	446	162	51	85	187	931
As at December 31, 2010	**442**	**152**	**53**	**76**	**179**	**902**

* Reclassified.

(1) A subsidiary in Spain has mining rights intended for future development of new mines for potash quarries, in the amount of about $60 million. Some of these rights are valid up to 2037 and the balance thereof are valid up to 2067. Development of the new mines has not yet commenced and, accordingly, amortization of the mining rights has also not yet started.

Note 16 – Intangible Assets (Cont.)

B. Examination of impairment of cash generating units containing goodwill and intangible assets with an undefined useful life

For the purpose of testing impairment, goodwill and intangible assets having an undefined useful life are allocated to the Group's cash-producing units that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill and intangible assets having an undefined useful life allocated to the cash-producing units are as follows:

	As at December 31	
	2010	**2009**
	$ millions	
Goodwill		
ICL Fertilizers	**205**	207
ICL Industrial Products	**102**	102
ICL Performance Products	**59**	59
Inkia and its subsidiaries	**52**	52
ZIM and its subsidiaries	**18**	18
Other companies	**6**	8
	442	446
Trademarks		
ICL Industrial products, United States	**13**	13
ICL Industrial products, Europe	**8**	9
ICL Performance Products, United States	**13**	13
	34	35
	476	481

The usage value was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

	Discount rate	Growth rate (2–5 years)	Long-term growth rate	Period of projected cash flows
ICL Industrial Products	9.1%–9.6%	4.0%–9.9%	2.0%	5 years
ICL Performance Products	9.6%–10.0%	2.7%–12%	0.0%–2.0%	5 years
ICL Fertilizers Spain	10.0%	2.0%	3.0%	5 years
Inkia and its subsidiaries	9.4%–10.6%	2.0%	–	8-20 years
ZIM and its subsidiaries	12.0%	1.0%–9.0%	1.0%–6.0%	5 years

The recoverable value of the above-mentioned units is based on their usage value. The usage value of some of the units examined was determined with the assistance of an independent appraiser and of some of the units by means of internal calculations. In most cases it was determined that the book value of the units is lower than their recoverable value and, accordingly, no impairment loss has been recognized in respect of such units, aside from ZIM regarding which a provision for an impairment loss of goodwill was recorded in the amount of $1 million.

Note 16 – Intangible Assets (Cont.)

B. Examination of impairment of cash generating units containing goodwill and intangible assets with an undefined useful life (Cont.)

The assumptions and estimates were determined in accordance with Management's assessments regarding future trends in the industry and they are based on both internal and external sources (historical and budgetary data).

Possible reasonable changes in key assumptions, which constituted the basis for determination of the recoverable amount of the units, would not have caused the book value to be higher than the amount of their recoverable amounts.

The recoverable value of ICL Fertilizers was based on the market value of ICL as at December 31, 2010. The recoverable value is significantly higher than the carrying value in the books, and Management believes that it is not reasonable that a significant change in the recoverable value of the unit will cause the unit's book value to be higher than its recoverable value.

Note 17 – Loans and Credit from Banks and Others, Including Financial Derivatives

This note provides information regarding the contractual conditions of the Group's interest bearing loans and credit, which are measured based on amortized cost. Additional information regarding the Group's exposure to interest risks, foreign currency and liquidity risk, is provided in Note 37, in connection with financial instruments.

Current liabilities

	As at December 31	
	2010	**2009**
	$ millions	
Short-term credit:		
Revolving credit from banks	**7**	52
Short-term loans from banks	**217**	251
Short-term loans from others	**3**	–
	227	303
Current maturities of long-term liabilities:		
Loans from banks	**255**	154
Non-convertible debentures	**209**	165
Other	**157**	60
	621	379
Total current liabilities	**848**	682

Long-term liabilities

Non-convertible debentures	**2,652**	2,308
Loans from banks*	**3,408**	2,910
Other long-term balances	**331**	236
Liability in respect of financing lease	**619**	494
Total other long-term liabilities	**7,010**	5,948
Less current maturities	**621**	379
Total long-term liabilities	**6,389**	5,569

* Some of the Group companies have the right to make early repayment of their loans from financial institutions.

Note 17 – Loans and Credit from Banks and Others, Including Financial Derivatives (Cont.)

A. Classification based on currencies and interest rates

	Weighted average interest rate	As at December 31	
	12/31/10	2010	2009
	%	$ millions	
Current liabilities (without current maturities)			
Revolving credit from banks			
In euro		–	15
In dollars		–	37
In linked shekels	4.1	**1**	–
In unlinked shekels	4.8	**6**	–
		7	52
Short-term loans from banks			
In Chinese yuans		–	25
In dollars	3.0	**177**	207
In unlinked shekels	4.5	**11**	7
In euro		–	12
In other currencies	4.3	**29**	–
		217	251
Short-term loans from others			
In euro	5.9	**3**	–
		3	–
		227	303
Long-term liabilities (including current maturities)			
Non-convertible debentures			
In linked shekels	6.6	**1,236**	1,608
In unlinked shekels	5.0	**1,027**	318
In dollars	7.9	**379**	382
In other currencies	3.8	**10**	–
		2,652	2,308
Loans from banks			
In dollars	4.4	**3,120**	2,688
In euro	3.1	**230**	168
In linked shekels	7.7	**57**	*52
In other currencies	6.2	**1**	2
		3,408	2,910
		6,060	5,218

* Reclassified.

(1) The interest in respect of most of the dollar liabilities is determined on the basis of Libor + a margin of 0.4%–3.6%.

(2) The interest in respect of most of the euro liabilities is determined partly on the basis of Libor + a margin of 0.4%–6.5% and partly on the basis of fixed annual interest of 5.6%.

(3) The annual interest in respect of most of the shekel liabilities is linked to the CPI at the rate of 3.4%–21.3%.

Note 17 – Loans and Credit from Banks and Others, Including Financial Derivatives (Cont.)

B. Liability in respect of financing lease

Information regarding the financing lease liability broken down by payment dates is presented below:

	As at December 31, 2010			As at December 31, 2009		
	Minimum future lease rentals	Interest component	Present value of minimum lease rentals	Minimum future lease rentals	Interest component	Present value of minimum lease rentals
	$ millions					
Less than one year	**114**	**40**	**74**	74	23	51
From one year to five years	**389**	**121**	**268**	357	77	280
More than five years	**359**	**82**	**277**	171	8	163
	862	**243**	**619**	602	108	494

ZIM signed lease contracts classified as financing leases in respect of ships and containers. The average lease for the containers ranges between 5 and 10 years. Based on most of the lease contracts for containers, ZIM has an option to acquire the containers at a price expected to be lower than the fair value on the date the option may be exercised.

C. Sale of customer receivables as part of a securitization transaction

On July 2, 2010 ICL and certain subsidiaries in the ICL Group (hereinafter – "the Companies") entered into a number of securitization agreements with Rabobank International and Credit Agricol (hereinafter – "the Lending Banks") for the sale of their customer debts to a foreign company which was established specifically for this purpose and which is neither owned nor controlled by the ICL Group (hereinafter – "the Acquiring Company").

The agreements replace the prior securitization agreement that ended in July 2010.

The Acquiring Company finances acquisition of the debts by means of a loan received from a financial institution, which is not related to ICL, which finances the loan out of the proceeds from the issuance of commercial paper on the U.S. commercial paper market. The repayment of both the commercial paper and the loan is backed by credit lines from the Lending Banks. The amount of cash that will be received in respect of the initial sale of the customer debts in the securitization transaction will be up to $350 million.

The acquisition is on an ongoing basis, such that the proceeds received from customers whose debts were sold are used to acquire new trade receivables.

The period in which the Companies are entitled to sell their trade receivables to the Acquiring Company is five years from the closing date of the transaction, where both parties have the possibility at the end of each year to give notice of cancellation of the transaction. The new securitization agreement will expire in July 2015.

Note 17 – Loans and Credit from Banks and Others, Including Financial Derivatives (Cont.)

C. Sale of customer receivables as part of a securitization transaction (Cont.)

The selling price of the trade receivables is the amount of the debt sold, less the calculated interest cost based on the anticipated period between the sale date of the customer debt and its repayment date.

Upon acquisition of the debt, the Acquiring Company pays the majority of the debt price in cash and the remainder in a subordinated note, which is paid after collection of the debt sold. The rate of the cash consideration varies according to the composition and behavior of the customer portfolio.

The Companies handle collection of the trade receivables included in the securitization transaction, on behalf of the Acquiring Company.

In the agreement, ICL undertook to comply with certain covenants, according to which the ratio of the net debt to shareholders' equity will not exceed 2.1 and the ratio of the net debt to EBITDA will not exceed 4.5. If ICL does not comply with the aforementioned covenants, the Acquiring Company is allowed to stop acquiring new receivables (without this affecting existing acquisitions). As at the date of the report, ICL is in compliance with these covenants.

In addition, as part of the agreements a number of conditions were provided in connection with the quality of the customer portfolios, which give the Lending Banks the possibility of ending the undertaking or determining that some of the Companies, the customer portfolios of which do not meet the conditions provided, will no longer be included in the securitization agreement.

The securitization of trade receivables does not meet the conditions for disposal of financial assets prescribed in International standard IAS 39, regarding Financial Instruments – Recognition and Measurement, since ICL did not transfer all of the risks and rewards deriving from the trade receivables. Therefore, the receipts received from the Acquiring Company are presented as a financial liability in short-term credit category.

In the period of the report and as the report date, ICL did utilize the securitization framework.

D. Issuance of debentures

1. <u>The Corporation</u>

a. In 2008, the Corporation raised \$139 million by means of an increase in the debentures (Series 6) linked to the CPI, repayable in 5 equal annual payments commencing from 2012 and bearing annual interest at the rate of 4.55% and in the amount of about \$92 million by means of an increase in the debentures (Series 8), bearing annual interest at the rate of 6.8%, not linked to the CPI and repayable in 4 equal annual payments commencing from December 31, 2011.

Note 17 – Loans and Credit from Banks and Others, Including Financial Derivatives (Cont.)

D. Issuance of debentures (Cont.)

1. The Corporation (Cont.)

b. In 2010, the Corporation issued additional debentures for aggregate proceeds of about $266 million. Of this amount, about $145 million was received from expansion of Series 7 – linked to the CPI and repayable (on average) in about 7 years, and about $121 million was received from issuance of Series 9 – in unlinked shekels repayable (on average) in about 5 years. Subsequent to the date of the report transactions were executed for replacement of all the liabilities in respect of Series 9 and about half of the liabilities in respect of Series 7 for dollar liabilities bearing variable interest.

In 2010, the Corporation recycled long-term bank credit such that it received a new loan in the amount of $130 million having an average life of 4 years and paid off existing loans in the cumulative amount of $94 million having an average life of 2 years.

In 2010, the Corporation paid current maturities of debentures and long-term loans (less hedging transactions in respect thereof), in the amount of about $164 million.

c. In February 2009, Standard & Poor's Maalot (hereinafter – "Maalot") gave notice of reduction of the rating for the Corporation's debentures from AA/Stable to a rating of AA–/Negative.

In September 2009, Maalot gave notice of reduction of the rating of the Corporation's debentures to a rating of A+, with a stable rating outlook.

On December 30, 2010, Maalot confirmed a rating of ilA+/stable for the Corporation and a rating of A+ for all series of the Corporation's debentures.

2. ICL

a. On April 27, 2009, ICL issued three series of debentures in a private offering via a tender to institutional investors, for a consideration of NIS 695 million (about $194 million). The debentures were issued in the following three series:

i. Series A – approximately NIS 452 million debentures linked to the CPI, to be redeemed at the end of 5 years.

ii. Series B – approximately NIS 61 million debentures not linked, to be redeemed at the end of 4.5 years.

iii. Series C – approximately NIS 182 million debentures linked to the dollar, to be redeemed in 4.5 years.

In August 2009, ICL registered the debentures for trading on the Tel-Aviv Stock Exchange. The interest rate determined in the tender after registration of the debentures on the stock exchange is 3.4% per annum for the CPI-linked debentures, 5.25% per annum for the shekel debentures and 2.4% above the six-month dollar Libor rate, for the dollar-linked debentures.

Note 17 – Loans and Credit from Banks and Others, Including Financial Derivatives (Cont.)

D. Issuance of debentures (Cont.)

2. ICL (Cont.)

b. On September 9, 2009, ICL issued three series of debentures via a tender to the public, for a consideration of NIS 898 million (about $235 million). The debentures were issued in three series, as follows:

i. Expanded Series B – approximately NIS 696 million debentures not linked, to be redeemed at the end of about 4 years, bearing interest at the rate of 5.25%. The debentures were issued at a price of NIS 1.031 per unit and at an effective interest rate of 5%.

ii. Expanded Series C – approximately NIS 102 million debentures linked to the dollar, to be redeemed in about 4 years, bearing interest at the rate of 2.4% above the six-month dollar Libor rate (rate on the issuance date – 4.4%). The debentures were issued at a price of NIS 0.913 per unit and at an effective interest rate of 4.7%.

iii. Series D – approximately NIS 100 million shekel debentures not linked, to be redeemed at the end of about 5 years, bearing interest at the rate of 1.45% above the three-month shekel Telbor rate.

In respect of its shekel and index-linked series, ICL has executed transactions in derivatives that swap the NIS cash flows with dollar cash flows. In addition, the Company has executed transactions in derivatives to hedge the interest against exposure to changes in the CPI.

3. ZIM

On September 26, 2010, Maalot notified ZIM of an increase in the rating for the debentures to a rating of ilBB+ with a positive rating outlook. Subsequent to the date of the report, on February 24, 2011, Maalot notified ZIM of an increase in the rating for the debentures to a rating of ilBBB with a stable outlook.

E. On December 17, 2009, ICL signed an agreement with EIB (European Investment Bank), whereby a financial company in the Netherlands that is wholly owned by ICL may take out a loan in the amount of €100 million. During December 2010, the loan was taken out. Repayment of the loan is at the end of 5 years from the withdrawal date of the loan and the interest rate on the loan is Libor + 1.14%.

F. Subsequent to the date of the report, on Mach 14, 2011, ICL signed an agreement with a group of 17 banks from Europe, the United States and Israel whereby these banks provided ICL a credit framework in the amount of $675 million. The credit is for a period of 5 years and is to be repaid in full at the end of the period. The base interest rate for the credit line for utilization up to $225 million is Libor + 0.8%. With respect to a larger utilization rate, additional interest will be collected of between 0.15% and 0.3%.

G. Regarding liens and financial covenants – see Note 22E.

Note 18 – Trade Payables

	As at December 31	
	2010	2009
	$ millions	
Open accounts	**868**	776
Checks payable	**2**	8
	870	784
From associated companies	**22**	14

Note 19 – Other Payables and Credit Balances, including Financial Instruments

	As at December 31	
	2010	2009
	$ millions	
Financial instruments not used for hedging	**54**	*32
Financial instruments used for hedging	**5**	4
The State of Israel and government agencies	**60**	47
Employees and payroll-related agencies	**272**	260
Customer advances and deferred income	**4**	16
Accrued expenses	**174**	125
Uncompleted voyages (1)	**4**	–
Employee benefits	**9**	8
Dividend payable to subsidiary	**81**	–
Other	**280**	178
	943	670
From associated companies	**4**	2

(1) Uncompleted voyages

	As at December 31	
	2010	2009
	$ millions	
Costs	**380**	–
Net loss recorded based on rate of completion of uncompleted voyages	**(8)**	–
	372	–
Less – deposits and accrued income	**(376)**	–
	(4)	–
After deduction of provision for losses	**20**	–

* Reclassified.

Note 20 – Provisions

A. Composition of provisions and movement therein

	Warranties	Site restoration, clearance and dismantling of PP&E	Legal claims	Other	Total
	$ millions				
Balance at January 1, 2010	**1**	**66**	**35**	**60**	**162**
Provisions recorded during the year	**2**	**3**	**17**	**3**	**25**
Provisions realized during the year	**–**	**–**	**(3)**	**–**	**(3)**
Provisions cancelled during the year	**–**	**–**	**(9)**	**(12)**	**(21)**
Payments made during the year	**–**	**(3)**	**–**	**–**	**(3)**
Effect of passage of time (for discounting)	**–**	**2**	**–**	**–**	**2**
Linkage differences	**–**	**(2)**	**–**	**–**	**(2)**
Balance at December 31, 2010	**3**	**66**	**40**	**51**	**160**

Presented in the balance sheet:

	As at December 31	
	2010	2009
	$ millions	
In current liabilities	**92**	*88
In non-current liabilities	**68**	*74
	160	162

* Reclassified.

B. Restoration and mining sites

ICL and its subsidiaries manufacture, store and sell hazardous chemical products and, therefore, they are exposed to risks deriving from environmental protection. The companies invest significant amounts in order to comply with the environmental rules and regulations. In the estimation of ICL's Management and on the basis of information in its possession as at the signing date of the financial statements, the provision existing in the financial statements covers the quantifiable liabilities in respect of costs relating to environmental protection.

1. ICL included a provision in the books for restoration of mines and mining sites. The provision is based on the discounted cash flows based on an estimate of the future expenses that will be required to close down the mines and to restore the mining site. The estimated closing date of the mines is based on a geological evaluation of the quantity of potash remaining in the mine and the resources available to the subsidiaries.

Note 20 – Provisions (Cont.)

B. Restoration and mining sites (Cont.)

2. Pursuant to the provisions of Spanish environmental protection law relating to areas affected by mining activities, a subsidiary in Spain submitted a plan for site clearance of mining waste. The plan is intended to last for a period of about 24 years and 36 years. In the estimation of the subsidiary, the overall scope of the plan for waste removal on the mining site will amount to $20,889 thousand (€15,647 thousand million). As at December 31, 2010, a provision was included in the subsidiary's books in Spain, in the amount of $12,395 thousand (€9,395 thousand). The provision was calculated based on discounting the forecasted costs for removal of the waste.

3. At a subsidiary's factory in Ramat Hovav there is solid waste. Pursuant to the requirements of the Ministry of Environmental Protection, the company is required to treat the existing and current waste. The treatment will be through a future facility for restoration of HBR. In Management's assessment, the subsidiary has an appropriate provision in the financial statements, which on the basis of information in its possession as at the signing date of the financial statements, covers the estimated cost of treating the historical waste.

   At this stage, until operation of the waste treatment facility, which is presently in the testing stage, the barrels are stored on a special site in coordination with the Ministry of Environmental Protection.

4. From time to time, a subsidiary is required to examine various contentions regarding residual waste found in areas surrounding its factories or that there is subterranean penetration of waste created during the manufacturing process. The subsidiary may be required to clean up the relevant sites or the subterranean areas if and when it is found that it is responsible for the said contamination as stated. In the past several years, various examinations are being performed by various institutions in order to discover land contamination in the area of Ramat Hovav and in the area surrounding the subsidiary's site in Beer Sheva.

C. For details regarding legal claims and proceedings against the Corporation and the Group companies in respect of which provisions were recorded – see Note 22(B).

Note 21 – Employee Benefits

A. Composition

	As at December 31	
	2010	2009
	$ millions	
Present value of funded commitments	**692**	632
Less – fair value of plan assets	**638**	598
	54	34
Present value of non-funded commitments	**371**	363
Post-employment medical benefits	**14**	8
Liability recognized in respect of defined benefit plans	**439**	405
Benefits in respect of terminations and other long-term benefits	**136**	133
Liability in respect of employee benefits recognized in the statement of financial position	**575**	538

The plan assets are as follows:

	2010	2009
Cash and deposits	**3**	1
Equity instruments	**174**	173
Debt instruments	**420**	386
Deposits in insurance companies	**41**	38
	638	598

B. Severance pay

Pursuant to the Israeli severance pay laws and the existing employment agreements, the Group companies are obligated to pay severance benefits to employees who are dismissed or who leave their positions under certain circumstances. The severance benefits are computed based on the length of their service and, generally, based on their latest salary at the rate of one salary for every year worked.

The liabilities relating to employee rights at the time of retirement are covered as follows:

1. Pursuant to the collective bargaining agreements, the Group companies in Israel make current deposits in outside pension plans with respect to part of their employees. In general, these plans provide full coverage for retirement benefits, and in certain other cases – 72% of the severance pay liability.

   The liabilities for severance pay covered by these plans are not presented in the financial statements, since all of the risks involved with payment of the benefits, as described above, have been transferred to the pension funds.

Note 21 – Employee Benefits (Cont.)

B. Severance pay (Cont.)

2. The Group companies in Israel make current deposits in Managers' Insurance policies, with respect to employees holding management positions. These policies cover the liabilities relating to the severance benefits due to those employees. Based on the employment agreements, subject to certain limitations, these insurance policies belong to the employees. The amounts deposited in respect of the policies, as stated, are not included in the statements of financial position since they are not under the management and control of the companies.

3. With respect to the balance of the liabilities not covered based on that described above, a full provision has been recorded in the financial statements.

4. In certain subsidiaries operating in countries in which there is no obligation to make severance payments, provisions for such possible payments in the future were not made, excluding cases of a discontinuation of operations in part of the plant and the consequent dismissal of employees.

5. Some of the retirees of the Group companies receive, aside from their pension payments from the pension fund, benefits that mainly consist of festival gifts, a cash amount for acquisition of the Corporation's products and weekend outings. The liabilities of the companies in respect of these costs are accrued during the work period. The Group companies, as stated, including in their financial statements the costs expected to be incurred in the post-employment period based on an actuarial calculation.

6. Pursuant to an employment agreement of a subsidiary, the subsidiary's employees are entitled to receive participations in their children's tuition payments. The financial statements include a provision in respect of this liability, which is based on an actuarial evaluation on the basis of the present value (using a discount rate of 3.9%), taking into account the probability the tuition, as stated, will actually be paid, all of this being based on past experience.

7. Pursuant to the employment agreement, some of the retiring employees are entitled to a certain payment for unused sick days. The financial statements include provisions for this liability, in accordance with an actuarial estimate based on, among other things, the present value taking into account the probability of payment of the sick days at the time of retirement, on the basis of past experience.

C. Pension and early retirement

1. Some of the Group's employees in and outside of Israel (some after leaving the Group) have a defined pension plans (intra-company) at the time of retirement. In general, based on the terms of the pension plans, the employees are entitled to receive pensions payments based on, among other things, the number of years of their service (in certain cases up to 70% of the latest base salary) or calculated, in certain instances, based on a fixed salary.

Note 21 – Employee Benefits (Cont.)

C. Pension and early retirement (Cont.)

2. A subsidiary has a liability for pension payments to its employees in respect of which it established a pension fund. The subsidiary is responsible for making payments to the pension fund and in a case where the pension fund has insufficient assets the subsidiary is required to make up the shortage in accordance with the rules provided in the country in which it operates. The subsidiary is not permitted to withdraw monies from the fund even if there are surplus monies in excess of the financial liabilities. In addition, the subsidiary is not permitted to liquidate the pension fund.

3. In addition to that stated above, some of the Group companies took out a plan with a provident fund or a pension fund according to which they pay the funds current amounts that release them from their obligations for pension payments pursuant to the employment agreements for all their employees in a case of retirement of such employees after reaching retirement age. The amounts accumulated in the provident fund and the pension fund are not under the control or management of the companies and, therefore, they are not reflected in the statements of financial position.

4. Sdom employees are entitled to leave on early retirement upon fulfillment of certain conditions that take into account both age and years of service as at the retirement date.

5. Pursuant to agreements made with some of the employees of subsidiaries, such employees are entitled, if they leave on early retirement, to pension payments until they reach the regular retirement age. The financial statements include a provision calculated on the basis of the present value (using a discount rate of 4%) of the payments in respect of early retirement.

D. (1) Movement in the present of defined benefit plans

	As at December 31	
	2010	**2009**
	$ millions	
Liability in respect of defined benefit plans as at January 1	**1,003**	968
Current service costs	**37**	39
Interest costs	**50**	50
Employee deposits	**–**	1
Benefits paid	**(57)**	(62)
Actuarial losses recorded to equity	**43**	70
Liabilities acquired in business combinations	**–**	8
Reduction as a result of reduction of benefits	**–**	(1)
Exit from the consolidation	**–**	(108)
Changes in respect of exchange rates	**35**	9
Changes in respect of translation differences	**(34)**	29
Liability in respect of defined benefit plans at end of year	**1,077**	1,003

Note 21 – Employee Benefits (Cont.)

D. Movement in the present of defined benefit plans (Cont.)

(2) Movement in assets of defined benefit plans

	As at December 31	
	2010	2009
	$ millions	
Fair value of the plan assets as at January 1	**598**	550
Expected yield on plan assets	**32**	26
Actuarial gains (losses) recorded to equity	**20**	72
Employer deposits	**21**	21
Employee deposits	**–**	2
Changes in respect of business combinations	**–**	7
Benefits paid	**(35)**	(40)
Exit from the consolidation	**–**	(67)
Changes in respect of exchange rate differences	**21**	4
Changes in respect of translation differences	**(19)**	23
Fair value of the plan assets at end of the year	**638**	598

(3) Expense recorded in the statement of income

	For the year ended December 31		
	2010	2009	2008
	$ millions		
Current service costs	**34**	39	37
Interest costs	**52**	50	65
Expected yield on plan assets	**(32)**	(26)	(47)
Reduction as a result of reduction of benefits	**–**	(1)	(13)
Exchange rate differences, net	**14**	2	(3)
Other	**–**	–	(2)
	68	64	37

The expense is included in the following categories in the statement of income:

	For the year ended December 31		
	2010	2009	2008
	$ millions		
Cost of sales	**26**	31	33
Selling and marketing expenses	**2**	2	1
Administrative and general expenses	**4**	4	3
Research and development expenses	**1**	1	1
Other income	**–**	(1)	(18)
Financing expenses	**35**	27	17
	68	64	37

Note 21 – Employee Benefits (Cont.)

D. Movement in the present of defined benefit plans (Cont.)

(4) Actual yield

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Actual yield on plan assets	**53**	98	(117)

(5) Actuarial gains and losses recorded directly to equity

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Accumulated balance (before taxes) as at January 1	**81**	69	(24)
Exit from the consolidation	**–**	14	–
Actuarial losses (gains) recognized during the period	**6**	(2)	93
Accumulated balance (before taxes) as at December 31	**87**	81	69
Deferred taxes in respect of actuarial gains (losses) recorded directly to equity	**(25)**	(23)	(16)
	62	58	53

(6) Actuarial assumptions

Main actuarial assumptions as at the date of the report (based on weighted average):

	For the year ended December 31		
	2010	**2009**	**2008**
		%	
Discount rate as at December 31	**5.1**	5.5	5.5
Expected yield on plan assets as at January 1	**5.5**	4.9	6.3
Rate of future wage increases	**4.1**	3.9	4.0
Rate of increase in pension annuity	**2.8**	2.4	1.9

The assumptions regarding the future mortality rates are based on published statistical data and accepted mortality tables. A change in an assumption regarding the rate of a cost increase in medical treatment by one percent does not have a significant impact on the Corporation.

Note 21 – Employee Benefits (Cont.)

D. Movement in the present of defined benefit plans (Cont.)

(7) Historical data

	For the year ended December 31		
	2010	**2009**	**2008**
	$ millions		
Present value of the liability in respect of defined benefit plans	**1,077**	1,003	968
Fair value of the plan assets	**638**	598	550
Plan deficit	**439**	405	418
Adjustments to liabilities deriving from past experience	**(7)**	(9)	6
Adjustments to assets deriving from past experience	**20**	62	(40)

E. Liability in respect of severance and other long-term benefits

	As at December 31	
	2010	**2009**
	$ millions	
Liability in respect of vacation	**8**	8
Other long-term liabilities	**35**	9
Liabilities in respect of severance	**93**	116
	136	133

F. Early retirement plan

In July 2008, the Board of Directors of a subsidiary approved a plan for early retirement, that is, prior to the retirement date provided by law. In 2008, an expense in the amount of about $32 million in respect of the said plan was recorded, which was in included as part of “other expenses” in the statement of income.

In September 2009, the Board of Directors of a subsidiary approved an early retirement plan for employees on preferential terms prior to the retirement date provided by law. In 2009, an expense was recorded in the amount of $48 million in respect of the said plan, which was included as part of “other expenses” in the statement of income.

Note 22 – Contingent Liabilities, Commitments and Concessions

A. Non-financial guarantees

1. The Corporation guaranteed the amount of about $1 million to its customers holding residential units of AM-HAL Ltd. According to the agreement for the sale of H.L. Properties Ltd. (a former investee company), the parent company of AM-HAL Ltd., in 1999, the purchaser undertook to do its best to release the Corporation from the above-mentioned guarantees. As long as the purchaser has not released the Corporation from the said guarantees the purchaser committed to be responsible for any claim or demand directed to the Corporation in respect of these guarantees beginning from December 31, 1999.

2. Subsequent to the period of the report, the Corporation provided a guarantee (based on its indirect share in the project) for compliance by O.P.C. with its obligations as part of the financing agreements for construction of the power plant, and the Corporation's Headquarters Company provided a guarantee (based on the Corporation's indirect share in the project as stated) for compliance by O.P.C. with its obligations under the agreement with the electric company. These guarantees are in the cumulative amount of NIS 175 million linked to the CPI (about $49 million).

B. Claims

1. The Corporation

a. On November 5, 2009, the Corporation was served with a copy of a request for approval of submission of a derivative claim (as well as a copy of the derivative claim) by a shareholder who claims to own 7 of the Corporation's shares, against Messrs. Idan Ofer and Ehud Angel, who serve as directors of the Corporation (hereinafter – "the Zelicha Request").

   The basis background for the claim is: (A) the Corporation's investment in 2008, in the amount of $246 million, while affirmatively responding to a rights' offering published by ZIM Integrated Shipping Services Ltd. to its shareholders and (B) provision of a long-term loan to ZIM, in the amount of $100 million, which was completed in July 2009. In brief, the plaintiff contends that Messrs. Idan Ofer and Ehud Angel had a personal interest in the investment and provision of the loan, and the plaintiff's conclusion is that they did not provide the Corporation information with respect to the nature of their personal interest. Therefore, the plaintiff alleges that the decisions regarding the said transactions were not made in accordance with the requirements of law. The plaintiff contends that as a result of that stated above the Corporation suffered damage in the aggregate amount of about $346 million.

b. On December 9, 2009, a request was filed in the District Court of Petah Tiqwa for approval of the filing of a derivative claim (as well as a copy of the derivative claim) by a shareholder who claims to own 6 of the Corporation's shares, against the directors that served on the Corporation's Board of Directors during the relevant period, interested parties in the Corporation and ZIM (hereinafter – "the Yifat Request").

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

b. (Cont.)

The subject matter of the claim is the Corporation's investment in the share capital of ZIM in 2008, in the amount of about $246 million, while responding to a rights issuance published by ZIM to its shareholders. The plaintiff contends, among other things, that the said investment decision was not made in accordance with the processes required by law, that the Corporation's officers, among other things, violated their duties to the Corporation and that all or some of the defendants acted in bad faith. The plaintiff contends that as a result of the decision to participate in the rights issuance in ZIM, the Corporation sustained damage of $246 million. Alternatively, the plaintiff contends that the damage caused to the Corporation is $111 million, which is the amount transferred from ZIM out of the monies from the rights offering paid by the Corporation to interested parties as lease fees – all as alleged by the plaintiff.

c. Demand letters sent to the Corporation by the requesting parties in the Zelicha Request and in the Yifat Request at the time the requests were filed for approval to file a derivative claim, as required by law, were discussed by the Corporation's Board of Directors on October 29, 2009 with participation of the directors not related to Messrs. Idan Ofer and Ehud Angel (regarding the Zelicha Request) and on November 12, 2009, as well as at an additional meeting where only directors not named as defendants participated, with respect to the Yifat Request (both of them regarding the Yifat Request). The Corporation's Board of Directors, after considering the matter, decided that there are no grounds, cause of action, reason or justification for submission of the claims as requested in the letters, as stated. Formal notices along these lines were sent to the representatives of the requesting parties.

d. It is noted that in February 2010, a request filed with the Supreme Court for transfer of the venue for hearing the Yifat Request was granted, and for consolidation of the hearing there with the hearing on the Zelicha Request (hereinafter – "the Consolidated Cases").

e. In March 2010, the Corporation submitted its responses to the two requests for approval of a filing a derivative claim. In June 2010, the Corporation received the replies of the two requesting parties in the derivative requests to the Corporation's responses.

In July 2010, a pre-trial hearing was held on the Consolidated Cases wherein another pre-trial hearing was scheduled for October 18, 2010. In a decision dated October 18, 2010, a pre-trial meeting was scheduled to take place on December 28, 2010 and the hearing on the claim is to be held on June 20, 2011.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

1. The Corporation (Cont.)

e. (Cont.)

In the second quarter, the requesting party in the Yifat Request contacted all the respondents in the request with a demand for disclosure of various documents. During the third and fourth quarters of 2010, and subsequent to the date of the report, this requesting party filed a request with the court for disclosure and perusal of various documents, and the Corporation filed an objection to this request. The court accepted the Corporation's objection with respect to most of the documents requested, except in two matters. With respect to two of the documents requested, on February 23, 2011, after an appeal filed by the Corporation was accepted, the Court instructed to transfer the documents for plaintiff's perusal after certain confidential sections thereof were blacked out. The Corporation has acted in accordance with the Court's instructions.

Based on the estimation of its legal advisors, in light of the early stage of the proceedings, the Corporation is not able to estimate the exposure in respect of the claims. Nonetheless, based on the estimation of its legal advisors, the Corporation believes it has reasonable defense arguments against certification of the derivative claims, as well as to reject the claims themselves.

f. Regarding a claim against the Corporation and a subsidiary – see Section 22.B.5 below.

2. Israel Chemicals Ltd. (ICL)

a. <u>Israel Chemicals Ltd. (ICL)</u>

In 1994 and thereafter ICL received third-party and fourth-party notifications against it and against two of its subsidiaries by American companies that had been sued in the United States and other countries by approximately 30,000 plaintiffs from various countries including countries in Central America and the Caribbean. The plaintiffs mostly worked as plantation workers and they claim to have been injured by exposure to chemical substances produced by a number of manufacturers, including large chemical companies, and supplied to banana growing companies (hereinafter – "the Defendants"), over the course of approximately thirty years (1960-1990). Most of these claims have already been concluded.

As at the date of approval of the financial statements, the ICL subsidiaries are parties to one legal proceeding, including 9 plaintiffs who are requesting certification of their claim as a class action. The above-mentioned claim is pending in Hawaii, no hearing has yet been held with respect to it and it is currently dormant (hereinafter – "the Dormant Claim"). The Dormant Claim involves claims for bodily injury and, therefore, the amount of the claim has not been stated.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

a. Israel Chemicals Ltd. (ICL) (Cont.)

Together with the Dormant Claim, a similar claim was filed in Hawaii from which the Defendants were removed (hereinafter – “the Active Claim”). However, in light of the significant similarity between the two claims, the results of the Active Claim may have an impact on the continued proceedings in connection with the Dormant Claim. Based on the report of the attorneys in the United States, in the Active Claim, in 2010 a request for certification of the claim as a class action was rejected and the individual claims are proceeding. Appeals filed with respect to rejection of the class action claim are still pending.

In the estimation of ICL and its subsidiaries, the amount of material supplied by them to the relevant countries in the relevant periods was, if at all, small compared with the amount of material supplied by other manufacturers.

In the opinion of management, based the evaluation of its legal advisors, the exposure to the Company and the subsidiaries, in an amount in excess of $10 million, is low, subject to unfavorable changes that may occur.

b. Ecology

(1) In December 2007, updated business license conditions were issued to Bromine Compounds Ltd. under which the treatment of effluent was under the exclusive responsibility of each plant (including the removal stage). Under the conditions of the license, the wastewater from the facilities will be removed to the evaporation ponds and reservoirs that are operated and managed by the Council, until the end of 2009. After this date, independent removal systems will be operated under the management of each facility, and wastewater pumping into the current system will be prohibited.

Each facility is to meet the established wastewater values by no later than the beginning of 2010 (and on the condition that all the approvals from the Authorities to perform the project will be received). In accordance with the conditions of the business license, Bromine Compounds together with the other relevant factories in the industrial zone contacted the authorities and presented a delay of about two years in the establishment process of the waste removal system due to a delay in the statutory process. The Ministry of Environmental Protection postponed the date on which the factories are required to comply with the established wastewater values to October 1, 2011, and a draft amending the timetables provided in the business license was presented to the factory prior to entry of the amendment into effect. Recently, Bromine Compounds and the other relevant factories in the industrial zone requested from the authorities an additional extension of two years from the date of receipt of the building permits by each factory and subject to there being no impediment to completion of the work for any reason not under the control of the factories. Reference of the authorities to the above-mentioned request has not yet been received.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

b. Ecology (Cont.)

(1) (Cont.)

Under an agreement of December 2006 between the Ministry of the Environment, the Manufacturers' Association, factories at Ramat Hovav (including ICL Industrial Products) and the Sustainable Negev Association, which was authorized by the District Court, the Ministry and the factories agreed to commence accelerated negotiations for a period of half a year (which ended in June 2007) regarding air emissions both from new and existing facilities, as well as diffused emissions, and prevention of pollution and odor hazards, on the basis of international standards. In April 2007, the government resolved, as part of a decision to move a conglomeration of IDF training bases to the Negev Junction near Ramat Hovav, that government ministries would act to improve the air quality around the Ramat Hovav Industrial Zone, in accordance with an outline agreed upon by the Ministry of Health, the Ministry of the Environment and the Israel Defense Forces. In March 2008, a company from ICL Industrial Products that operates the plant in Ramat Hovav, obtained a list of emission-related conditions for its business license. According to the conditions of the license, the plant must conduct surveys on all types of emissions generated by the plant into the environment. The Ministry will determine the means to address the emissions and pollution on the basis of the results of these surveys. ICL Industrial Products performed the surveys and submitted them to the Council and the Ministry of the Environment. Survey findings indicated compliance with benchmark values in the plant's vicinity. Furthermore, a workplan for the plant's compliance with the specifications determined for the plant was submitted. The Ministry has not yet responded to the plant. The plant is also required to conduct measurements and address diffused emissions of substances generated in the course of the production process. These actions were performed in the years 2008 through 2010. In future years, regular action on this issue is planned.

(2) Pending proceedings relating to the Kishon River

The production site of Fertilizers and Chemical Materials Ltd., a company in the ICL Fertilizers segment (hereinafter – "FCM") borders the Kishon River. For decades FCM, along with many other entities, municipalities and plants, has diverted wastewater to the Kishon River.

Between 2001 and 2005, a number of claims for monetary damages were filed in the Haifa District Court against FCM and a series of other defendants (including the State of Israel) by 50 individuals (or their heirs or dependants), most of them fishermen who had worked, according to the claims, in the Kishon's fishing harbor. The flow of sewage to the Kishon River by each of the chemical plants operating on the riverbanks has caused the plaintiffs' cancer and other illnesses. Several dozen factories, local governments and insurance companies were joined as third-party defendants. In the process of examining the claims, ten plaintiffs withdrew their complaints, which were dismissed.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

b. Ecology (Cont.)

(2) Pending proceedings relating to the Kishon River (Cont.)

Because these claims are for bodily injury, the plaintiffs are not required to quantify the amounts sought as damages. As at the date of preparation of this report, the damages quantified in the claims amount to approximately NIS 139 million ($39 million), as valued on the date of filing of the claims, plus linkage differentials and interest from the date of illness or the date of filing of the claim, as well as penal damages and additional costs such as treatments and third party assistance – which, in a small number of cases, were not quantified – fees and costs. Note that this is an arithmetic addition of the sums quantified in the statements of claim, and not a risk evaluation by the defendants nor an evaluation of the risk to which FCM is exposed.

As of the date of this Report, these cases are in the stages of hearing the evidence. First, the court is deliberating the question of the causal link in the narrow sense, meaning the connection between the substances alleged to have been in the fishing harbor and the plaintiffs' injuries. These actions involve highly complex fact patterns spanning decades and involving over one hundred parties (plaintiffs, defendants and third parties), and constitute a precedent-setting case, both in terms of the nature of the claim and the division of responsibility among the defendants and the third parties.

FCM claims that it has good defenses, based on expert opinions presented by FCM and other defendants. These defenses include: (a) a higher cancer rate is not apparent among the fishermen, (b) most of their ailments can be attributed to personal risk factors (primarily the fact that over 90% of the plaintiffs are smokers) as well as natural illness, and (c) the circumstances of the claimed exposure are not known to cause the plaintiffs' diseases.

Nonetheless, based on the evaluation of its legal advisors, given the factual and legal complexity of these proceedings, and the multitude of parties involved, ICL cannot estimate its exposure with regard to these claims and no provision has been included in its financial statements.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

b. Ecology (Cont.)

(2) Pending proceedings relating to the Kishon River (Cont.)

Between 2000 and 2007, a number of claims were filed in the District Court at Haifa against a list of defendants by former soldiers (and their heirs and dependents). The plaintiffs claim that contact with toxic substances in and around the Kishon River caused them cancer and other diseases). Several dozen factories (including Fertilizers & Chemicals), local governments, including the State of Israel, and insurance companies were joined as third-party defendants. As at the date of the Report, 23 plaintiffs withdrew their complaints, and complaints in respect of 87 soldiers (89 claims) remain. The complaints involve a total amount of NIS 480 million ($135 million), which does not reflect the entire scope of the soldiers' legal suits, which are personal-injury suits. Because these claims are for physical injury, the plaintiffs are not required to precisely quantify the amounts sought as damages. Other primary damages not quantified in the claim include loss of future livelihood, medical expenses, in some cases loss of salary for years lost from work, etc., as well as interest and linkage differentials, attorneys' fees and costs. Note that this is an arithmetic addition of the sums quantified in the statements of claim, and not a risk evaluation by the defendants nor an evaluation of the risk to which FCM is exposed.

These cases are at various stages of evidentiary hearings. Initially, the court hears the issue of the causal connection, from a narrow perspective, in other words, the connection between the substances that allegedly were contained in the Kishon vicinity, and the plaintiff's illnesses. These actions involve highly complex fact patterns spanning decades and involving hundreds of parties (plaintiffs, defendants and third parties), and constitute a precedent-setting proceeding, both in terms of the nature of the claim and the division of responsibility among the defendants and the third parties.

Based on the evaluation of its legal advisors, given the factual and legal complexity of these proceedings, the initial stage in which they are at present, and the multitude of parties involved, ICL cannot estimate its exposure with regard to these claims and no provision has been included in its financial statements.

(3) Three claims were filed with the District Court at Beer Sheva in March and June 2007 against the State of Israel and the Industrial Local Council at Ramat Hovav, in whose jurisdiction the Ramat Hovav plants operate, including the plants of ICL Industrial Products. The plaintiffs argue that various pollutants in the vicinity of Ramat Hovav have caused their illnesses, including, among other things, respiratory diseases, spontaneous abortion, birth defects, diseases of the nervous system, cancer, and other illnesses. The claims rely, among other things, on results of an epidemiological study. The claims sue for sums for treatment expenses incurred by the plaintiffs, as well as compensation for pain and suffering, distress, and punitive damages. The plaintiffs are suing for a total sum of more than $67 million.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

b. Ecology (Cont.)

(3) (Cont.)

In May 2008, the Local Council filed a third party notice against a number of plants at Ramat Hovav, the Israel Electric Corporation and the factories of ICL Industrial Products. In December 2008, the State also filed a third party notice against the same factories. The notices alleged that if the Council or the State are held to be liable to compensate the defendants, then the obligation to compensation must be imposed upon the plants, or they must be required to indemnify the Council or the State for any compensation that they are required to pay to the plaintiffs.

At this stage, ICL is unable to assess the claim's chances of success or the extent to which ICL Industrial Products is exposed to compensating the plaintiffs, compared with the rest of the defendants. However, it would appear that the chances of the claim being upheld in full against all of the parties and imposition of the entire sum of the claim on ICL Industrial Products are low.

(4) A claim and motion to certify it as a class action was filed with the District Court in Beer Sheva in November 2007 against a company in the ICL Industrial Products segment (hereinafter – "the Subsidiary"). The plaintiffs claim that the defendant's factory emitted hazardous substances into the air. According to the plaintiffs, the defendant must pay Negev residents "financial compensation for harm to autonomy of will and for imposing a health hazard" and to provide "a fund for medical observation purposes". The sum claimed in the class action is US$288 million.

During 2010, the parties started reconciliation proceedings and on January 3, 2011, the parties signed a compromise agreement for ending the legal proceedings and submitted the agreement for approval of the court.

As part of the agreement, it was agreed that a representative process will be approved as a class action, without any admission on the part of the Subsidiary with respect to the correctness of the plaintiffs' contentions and the court will grant the represented group (i.e., all residents of the State of Israel in the seven years preceding the agreement or a part thereof), the following relief, and such relief only:

i. The Subsidiary will commit to take various actions that will reduce the quantity of the different substances emitted from its factory, with an aggregate investment estimated at more than $9 million and during 4 years after approval of the agreement, if approved, as detailed in the compromise agreement.

ii. The Company from the ICL segment will finance educational activities with an estimated value of NIS 450 thousand (about $125 thousand) for increasing awareness and involvement in the environment for students in the area.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

b. Ecology (Cont.)

(4) (Cont.)

The parties will recommend that the court shall grant to each of the plaintiffs compensation of NIS 50 thousand, coming to a total of NIS 700 thousand, plus VAT, in favor of fees of their representatives.

The agreement will bring the claim of the group represented to an end. The compromise agreement was accompanies by an opinion of the reconciling party as to the fairness and reasonableness of the agreement. As at the date of the report, the court's decision had not yet been received.

(5) On July 31, 2008, the Clean Air Law, 2008, was enacted, which is intended to govern the treatment and supervision of air pollution in Israel. The provisions of the law relevant to the Group will gradually enter into effect – some of them from 2011 and some of them from 2014.

The Clean Air Law addresses, among other things, fixed sources (including the Company's factories) and is intended to serve as a platform for implementation of the Integrated Pollution Prevention and Control (IPPC) directive (hereinafter – "the Directive"), which was accepted by the European Commonwealth in 1996.

The law distinguishes between factories defined in the Directive as having a significant impact on the environment (hereinafter – "IPPC Factories") and other factories. Pursuant to the law, the activities of IPPC Factories will be conditioned on receipt of a valid emissions' permit. The emissions' permit is expected to include specific provisions based on the best available technique. The Group companies in Israel are defined as IPPC Factories.

On June 22, 2010, the Minister of the Environment promulgated the Clean Air Regulations (Emissions Permits), 2010, providing the requirements for submission and receipt of an emissions' permit. For purposes of determining the best available technique, the Regulations make reference to the attribution documents (BREF) of the European Commonwealth and require selection of the best possible technology known (except in special circumstances requiring specific justification). Upon receipt of an emissions' permit, an emissions' charge will be imposed on the Group. Regulations regarding the manner of determining the emissions' charge have not yet been published, and it is not possible to know when the charge will be imposed or the rate thereof.

Since the technology required by the Regulations is not known at this stage, and since the rate of the charge has not yet been determined, at this stage ICL is unable to estimate the impacts of the Clean Air Law on its activities.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

c. Increase in level of Pond 150

As part of the evaporation process, salt precipitates into the bed of one of the evaporation ponds at Sodom, in one of the sites of DSW, of ICL Fertilizers. The precipitate salt creates a layer on the pond bed of approximately 20 in height annually. The process of production of the raw material requires that a fixed brine volume is preserved in the pond. To this end, the water level of the pond is raised by approximately 20 centimeters annually.

The Ein Boqeq and Tamar hotels, the town of Neve Zohar and other facilities and infrastructure are situated on the western beach of this pond. Raising the water level of the pond above a certain level is likely to cause structural damage to the foundations and the hotel buildings situated close to the water's edge and to other infrastructure on the western shoreline of the pond, depending on the height to which the water level is raised and the location of the relevant object.

It was already publicly known in 1971, including by the various authorities, that the water level in Pond 150 is rising at the rate of about 20 centimeters per year. Most of the hotels signed a document wherein they confirmed their knowledge regarding the rise in the water level and that they will take this matter into account in the planning and construction of the hotels, and will bear the costs of constructing defenses and will have no claim against DSW in connection with the rise in the water level. The Hotels Union contended, by means of inclusion, in its petition to the High Court of Justice referred to below, that "there is nothing in these commitments that removes the basis for the request for an Interim Order" for prevention of the rise in the pond level, however it did not detail the grounds for this contention.

The above-mentioned situation requires establishment of defenses for the relevant objects. Such protections are divided into two stages. The first stage is referred to as "temporary defenses", which are supposed to provide protection pending implementation of a permanent solution. The second stage is referred to as "the permanent solution", which is supposed to provide protection at least until the end of the current concession period (i.e., until 2030).

The temporary defenses: the temporary defenses have been executed for several years and include construction a dike along the western shoreline of the pond near the relevant hotel, together with a system, in some places, for lowering the underground water with these defense dykes, from time to time – taking into account the level of the water in the pond.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

c. Increase in level of Pond 150 (Cont.)

The permanent solution: the State is examining three alternative permanent solutions. The harvesting alternative – which is based on harvesting the salt from the pond bed in order to keep the pond level constant; the lagoon alternative – which is based on construction of another dike within the pond, which would separate the area near to the hotels, where the water level would remain constant and the precipitating salt would be harvested, from the rest of the pond in which the water level would continue to rise each year. There is also an alternative of moving the hotels located on the water line of the pond and relocating them in a place that does not border the water line.

As at the date of publication of this report, the assessment is that the permanent solution will not be completed prior to 2017. Since the existing interim defenses do not provide a solution that will last until that date, this requires construction of additional interim defenses that will provide an effective solution until such time as the permanent solution is completed. There is no certainty as to whether the construction of these defenses will be completed on the dates required by the height of the pond level, since there may be delays stemming from, among other things, the need to receive the permits required by law (which are subject to complex and lengthy proceedings), and for other reasons. Delays in constructing the interim defenses could cause significant damage to the hotels and/or to Dead Sea Works (DSW).

The issue of defenses (both temporary and those that are part of the permanent solution) is being handled by the government, which has mandated that the Ministry of Tourism coordinate the issue and has declared the protections project a project of national importance. In order to promote the project, in 2008 the State set up a new government company called the Dead Sea Protection Company (DSP). As at the date of this report, the State had not yet decided which of the permanent solutions to adopt.

In 2006, the Dead Sea Hotels Union filed a petition to the High Court of Justice. It requested that the Court order the State: to abandon the hotel removal alternative; to decide which of the other two remaining alternatives (harvest or lagoon) would be implemented; that the permanent solution be completed no later than the end of 2007; and to declare that the hotels would not bear any expense relating to the permanent solution. An interim injunction was also requested prohibiting the raising of the water level in Pond 5 above the level planned for the end of 2008.

The Supreme Court held a number of hearings on the petition. The Court emphasized that there is a "need for special, constant and unwavering diligence" in handling the matter, and that it is important that budget decisions and statutory processes relating to the temporary defenses and the permanent solution be advanced with the relevant persons taking into account the time factor. The Court, which did not award the requested remedies, left the petition pending in order to receive reports from the State regarding the nature and speed of progress of the defenses project. Reports, as stated, were, in fact, provided.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

2. ICL (Cont.)

c. Increase in level of Pond 150 (Cont.)

Financing:

As at the date of the report, there is agreement between the State and DSW that financing of the temporary defenses (including feasibility studies), in an aggregate amount of NIS 300 million, will be born by DSW at the rate of 39.5% and the State will bear the balance of the financing. It was agreed that this agreement does not constitute a precedent for dividing the financing for the permanent solution. Any disputes regarding this matter are to be resolved by the means provided in the concession for settlement of disputes, namely, arbitration.

Site Plan – as part of the decision to declare the protection project a national infrastructure project, it was resolved to advance a special outline plan for this purpose named NIP 35. The plan is being led by the Dead Sea Protection Company. The plan has two stages – the first stage, which is slated to provide the statutory infrastructure for the interim defenses, and the second stage, which is slated to provide the statutory infrastructure for the permanent solution. The plan relating to the first stage is presently in stages close to being final. Approval of all stages of the program in a timely manner is critical for the production process of Dead Sea Works, and any delay may cause damage to the process and consequently cause damage and loss.

A National Site Plan for the Dead Sea region (including the concession area) known as NSP 13 is currently being prepared. DSW is participating in the various discussions being held with respect to the plan, while informing the parties involved of DSW's needs. At this stage it is not possible to determine the extent to which the plan ultimately approved will impact the activities of DSW in the area.

d. In 2008, Israel National Roads Company filed a suit for damages totaling $10 million for damages sustained by bridges located along Highway 90. The plaintiff alleges that the damages were sustained also as a result of ICL's materials, which spilled out of trucks that transported it to the Eilat Port. ICL, based on the assessment of its legal advisors, estimates that it is more reasonable than not that the lawsuit will be dismissed than it will be accepted. Therefore, no provision was recorded in ICL's books in respect of the above-mentioned amount.

e. In addition to the contingencies referred to in sections above, a number of claims are pending against ICL and various subsidiaries (including lawsuits). In respect of claims for an amount up to about $___ million as of December 31, 2010, ICL and the subsidiaries have recorded provisions at that date of about $___ million. In addition, part of the above claims are covered by insurance. In the opinion of the management of ICL, based on the opinions of its legal advisors, the provision recorded is sufficient to cover any liabilities that might arise.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. Oil Refineries Ltd. (hereinafter – "ORL")

a. Actions pending in connection with the Kishon River

(1) Between 2001 and 2005, financial claims were filed by about 50 plaintiffs (or their heirs or dependents) suffering from illnesses, mostly fishermen who had allegedly worked in the Kishon fishing port. According to the plaintiffs, the discharge of effluents into the Kishon by each of the chemical plants operating on the banks of the Kishon River caused the cancer (and other illnesses) from which they suffer. Tens of other plants (including Gadiv, Carmel Olefins), authorities and insurance companies were added to the suits as third parties and the authorities. During the course of the investigation of the suits, nine of the plaintiffs withdrew their suits and were removed.

Since the suits involve claims of bodily damage, the plaintiffs are not required to quantify the total amount being claimed. At the time of preparation of the report, the quantified damages in the suit amount to $37 million, in terms of their value on the date the suit was filed, as well as punitive damages and additional expenses such as treatments and third party assistance, as small part of which have not been quantified, attorney fees and expenses. It is clarified that these refer to the arithmetic sum of the quantified amounts in the statements of claim and not a risk assessment of the defendants, and certainly not the risk to which ORL, Gadiv and Carmel Olefins are exposed.

At the date of the financial statements, these suits are in the evidentiary stage. In the first stage, the court deliberated on the causal relationship in the narrow sense of the term, in other words, the relationship of the materials allegedly in the fishing port and the alleged illnesses. This is a very complicated factual framework which has continued for decades, with more than a hundred litigants (plaintiffs, defendants and third parties) and legal issues that are unprecedented, both from the standpoint of the body of the claim and as well as the breakdown of the liability between the defendants and the third parties.

Based on the assessment of its legal advisors, in view of the complexity of the suits, both factually and legally, the preliminary stage in which matters stand, and the numerous parties involved, ORL is unable to assess the risks involved and did not record a provision for these suits in its financial statements.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

a. Actions pending in connection with the Kishon River (Cont.)

(2) Between 2000 and 2007, financial claims were filed against a number of defendants, including the ORL, Gadiv and Carmel Olefins, by former soldiers claiming that they suffered from cancer and/or other illnesses after being in contact with toxic materials in and around the Kishon River. Dozens of other plants and authorities were added to the suits as third parties, including the State of Israel and insurance companies. As at the date of the report, 22 plaintiffs withdrew their claims and claims in respect of 91 soldiers remained with the court, which are presently being heard. A total amount of $132 million was stated in the claim, which does not reflect the full amount of the soldiers' claims. All amounts are as at the date the suit was filed. Since the suits involve claims of bodily damage, the plaintiffs are not required to accurately quantify the total amount being claimed. Additional principal damages, which were not quantified monetarily in the statements of claim, include loss of future earnings, medical expenses and in some of the cases, loss of earnings in the lost years, as well as interest and linkage differences, attorney fees and expenses. It is clarified that these refer to the arithmetic sum of the quantified amounts in the statements of claim and not a risk assessment of the defendants, and certainly not the risk to which ORL, Gadiv and Carmel Olefins are exposed.

These cases are in initial stages of hearing evidence or preliminary proceedings. Therefore, material factual details related to the plaintiffs and to the circumstances of the alleged exposure are for the most part unknown to the defendants and the third parties, including ORL, Gadiv and Carmel Olefins. This is a very complicated factual framework that has continued for decades, with more than a hundred litigants (plaintiffs, defendants and third parties) and unprecedented legal issues, both from the standpoint of the substance of the claim as well as the breakdown of the liability between the defendants and the third parties.

Based on the assessment of its legal counsel, in view of the complexity of the suits, both factually and legally, the preliminary stage in which matters stand, and the numerous parties involved, ORL is unable to assess the risks involved and did not record a provision for these lawsuits in its financial statements.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

a. Actions pending in connection with the Kishon River (Cont.)

(3) A claim was filed by Israel Shipyards Ltd. against ORL and 11 other parties, including Gadiv, Carmel Olefins and an affiliate, alleging that the defendants polluted the Kishon River, causing damage to the plaintiff's facilities at the river mouth. The suit was in an amount of $5.5 million as at the date of filing (January 2004). At the date of the financial statements, the lawsuit is in the stage of pretrial and hearing of evidence in a case that is expected to commence in 2010. Carmel Olefins reached a settlement, which was given the validity of judgment, and the claim against it was dismissed. In the agreement, Carmel Olefins undertook that if a compromise is achieved with the consent of most of the defendants and third parties, which will end all proceedings in the lawsuit, it will participate in 2.8% of the amount paid to the plaintiff under the settlement. Carmel Olefins is negotiating with the plaintiffs so that it will not be served a third-party notice, therefore, its final status in the case has yet to be finally clarified.

b. In a letter dated December 11, 2006, sent to ORL by Petroleum and Energy Infrastructures Ltd. (hereinafter – "PEI"), PEI sought to draw ORL's attention to two environment-related issues. One of the issues arises from the annual report of the Ministry for Environmental Protection in 1997, which states that in the area of the fuel pipelines corridor near the fuel port in Haifa, there is massive pollution of the soil and the groundwater, originating from leaks in the old pipelines, or from when the old pipelines were replaced by new ones (a corridor where ORL's pipelines are laid). The second issue is that of PEI's alleged claim of pollution from several sources within the tank farms at Kiryat Haim terminal and at El-Ro'I, (these two tank farms were operated by the Company, according to PEI's claim, until the middle of the 1990s). According to PEI, it is difficult to assess the financial and other implications of this problem, and PEI demands that these issues be discussed soon, in order to reach an agreed solution. ORL cannot rule out the possibility that there is exposure on this matter, in amounts that it cannot estimate at this stage, among other things, because the scope of the pollution, if any, is unknown. Moreover, ORL does not know whether there is any pollution, when it was created and who is responsible.

c. On May 12, 2008, a hearing was held in the Haifa offices of the Ministry of Environmental Protection. The hearing was attended by PEI, Eilat Ashkelon Pipeline Company Ltd. (EAPC) and ORL, after the Ministry of Environmental Protection alleged that it had discovered findings that could indicate pollution and that soil suspected as polluted was removed from the area to the Haifa refinery. At the hearing, the Company stated, among other things, that the test results indicate that there was no leakage from the pipeline. Notwithstanding the aforesaid, ORL cannot rule out the possibility that there is exposure on this matter, in amounts that it cannot estimate at this stage, among other things, because the scope of the pollution, if it exists, is unknown. In addition, ORL does not know whether there is any pollution, when it was created and who is responsible.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

c. (Cont.)

At the beginning of 2009, ORL and EAPC were required, under the terms added to their business licenses, to conduct soil surveys along the pipeline corridor and to apply the recommendations of the survey. ORL appealed this condition in its business license through the procedure set up in the law. In the period of the report, the Ministry of Environmental Protection cancelled these terms and issued new terms in the business license, requiring ORL to carry out a historic survey for the pipeline corridor before carrying out soil gas, soil and soil and water surveys along the sections of pipeline corridor suspected of pollution. This survey will include, under the terms, a risk survey and a proposal for treatment of the pollution. Under the terms in the business license, the Ministry will determine terms and stages for carrying out the soil treatment plan, after approving the plan. Subsequent to the period of the report, ORL informed the Ministry of Environmental Protection that that it would submit survey plans for its approval, following which it would perform a risk survey. Treatment of the length of the corridor, insofar as it is required according to the findings of the risk survey, will be conducted by ORL and other users of the corridor, for as long as ORL continues to operate the pipeline in the corridor, pursuant to the decision of the State. In the period of the report, the company executed a historical survey and it is preparing to perform a soil gas survey in accordance with an approval of the Ministry of Environmental Protection.

d. At the beginning of 2009, a hearing was held at the Ministry of Environmental Protection for ORL and PEI regarding two specific sites where, according to the Ministry, soil and groundwater had been contaminated by fuel products.

On March, 1, 2009, ORL received a removal order for toxic substances, pursuant to Section 16(A) of the Hazardous Substances Law, 1993 and a clean-up order, pursuant to Section 13(B) of the Maintenance of Cleanliness Law, 1984, demanding that ORL, PEI and their CEOs submit plans to the Ministry of Environmental Protection for soil gas, soil and groundwater surveys and to fence off the contaminated areas and conduct the survey in accordance with the approved plans. The parties are further required to submit to the Ministry a report of the survey findings, including recommendations for the clean-up and rehabilitation of the contaminated soil and groundwater and the restoration of the river and its banks to their former condition, based on the findings of the survey. The parties will also define a short-term and binding timetable for implementing the recommendations of the survey, until all waste and toxins are removed from the soil and groundwater.

ORL performed a soil gas, soil and water survey. Accordingly, the parties performing survey recommended taking certain action for treatment of the groundwater and recommended a risk survey for the soil. ORL submitted a treatment plan for the Gedura River area to the Ministry of Environmental Protection, based on the findings of the survey. It is performing the plan in accordance with the approval of the Ministry of Environmental Protection.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

d. (Cont.)

The Ministry of Environmental Protection started to investigate the source of the pollution in the Gedura River area, and employees and managers in ORL were also questioned.

As at the date of the report, ORL is unable to assess the actions that will be required according to the findings, and the expenses that it will incur when implementing these measures, in any.

e. The Ministry of Environmental Protection is investigating an event of alleged contamination of the Kishon River, during the rainfall on January 20 and 21, 2010. ORL's employees, managers and officers were also questioned.

f. The Clean Air Law, 2008 (hereinafter in this section – "the "Law"), which becomes effective as from January 1, 2011, regulates treatment of the air pollution in Israel in an extensive and comprehensive manner. The law is expected to tighten the monitoring of emissions and plants emitting substances will require an emission permit for their operation. In addition, the law will introduce harsher criminal and administrative sanctions that could be imposed on any party contravening the provisions of the Law and causing strong or unreasonable air pollution.

Pursuant to the interim provisions of the Law, a plant operating in ORL's field of operations and which operated an emission source pursuant to the provisions of the specific order it received, may continue to operate without a permit under the Law until September 30, 2016 or until a decision is made on its application for an emission permit, whichever earlier, provided that it applies for an emission permit no later than March 1, 2014. Furthermore, the secondary legislator has been certified to formulate material and key provisions relating to implementation of the Law, including provisions defining severe or unreasonable air pollution and measures to prevent such pollution. These provisions have not yet been formulated. In view of the foregoing, ORL is unable to assess the impact on its activities following enforcement of the law and the secondary legislation that will be promulgated thereunder.

g. On July 18, 2006, the Minister of Environmental Protection sent a letter to the Minister of Finance pertaining to privatization of ORL. The letter sets out the preliminary findings of a survey that assessed the extent of pollution in the Kishon River, which indicate that there is a polluted layer of riverbed several meters deep and several kilometers along the course of the river. The Minister of Environmental Protection adds that having received the findings of the survey, he intends to order that those plants regarding which the results of the survey prove have contributed to this pollution, bear the costs of removal of the pollutant sediments from the river, their treatment, and subsequent removal to an appropriate site.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

g. (Cont.)

In 2008, ORL and Gadiv were presented with the survey findings for their comments. The survey attributed 0.34% of the content of the heavy metals allegedly found in the sediments tested in the survey and 87.5% of the organic substances from fuel products to ORL and Gadiv. ORL believes that the findings of the survey do not comply with the audit test and it submitted an opinion to the Kishon River Authority in this matter.

At this stage, management cannot assess the final findings of the survey; to what extent these findings will prove the degree of liability of ORL, if any, for the pollution, should any be found; whether and by virtue of what legal authority ORL will be made to take the steps set out in the Minister's letter, or other actions as a result of the above; and what costs ORL will have to bear as a result thereof.

h. ORL filed a petition with the High Court of Justice against the Ministers of Finance, National Infrastructures, the Interior and Environmental Protection, demanding an explanation from the respondents as to why they have not applied their authority to implement the Government decision regarding the supply of natural gas to the Haifa region, which should have been implemented by December 31, 2007, so as to allow ORL ability to use natural gas as soon as possible and no later than 18 months from the date the new personal order for ORL was issued in November 2009. ORL also petitioned the Court to order the Minister of Environmental Protection to explain the reason for not postponing the effective date of certain orders in the new personal order, relating to reduction of emission from ORL's facilities ("the special orders"), until there is a regular supply of natural gas to ORL's facilities. The Court rejected the application for an ex-parte temporary injunction to freeze the dates set out in the personal order, and stated that it would debate the application for a temporary injunction after receiving the State's response to the petition. The petition of owners of land wherein pipe laying work is being performed objecting to continuation of the work is also pending before the High Court of Justice. As at the publication date of this report, there is no order instructing that the work be stopped.

At the publication date of this report, the State had yet to file its response to the ORL's petition. On March 26, 2006, two plaintiffs (hereinafter – "the Plaintiffs") filed a lawsuit with the Haifa District Court against ORL, Carmel Olefins, the CEO of ORL and the CEO of Carmel Olefins (hereinafter – "the Respondents"). The Plaintiffs filed an application for certification of a class action under the Law for Class Action Suits, 2006 (hereinafter – "the Application for Certification"). In respect of the smoke emissions from the Respondents' plants that occurred on September 15, 2003 and on October 5, 2003, the Plaintiffs set the total amount of their claim against the Respondents at about $40 million.

ORL, based on the opinion of its legal counsel, believes that the claim's chances are over 50% and, therefore, an appropriate provision was made in the financial statements. In addition, ORL is covered by an insurance policy.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

h. (Cont.)

In respect of these events, Carmel Olefins was served with an application for certification of another class action, in which the applicant asks to represent the residents of the Haifa Bay area and those who were present in the area ("members of the group") and were exposed to the smoke emissions on the those dates, and to compensate each of the members of the group for $265 (NIS 1,000) for the damage allegedly caused.

The petition does not quote the estimated number of the members of the group and does not quote the total amount the applicant claims should be paid to the members of the group.

The hearing of the new claim was transferred to the Haifa District Court, which is hearing the parallel claim. At the same time, negotiations are underway between the Carmel Olefins and the applicants in an administrative lawsuit in Haifa, to examine the possibility of including Carmel Olefins in a complementary settlement to the settlement agreement formulated in the claim against ORL.

Based on the opinion of the legal advisors of Carmel Olefins, in view of the early stage of the claim, the complexity of the process and the fact that no amount was quoted in the application, ORL's monetary exposure cannot be assessed.

i. On August 9, 2009, the Director of the Haifa District of the Ministry of Environmental Protection served Carmel Olefins and the CEO of Carmel Olefins notice and a summons for a hearing under the Prevention of Hazards Law, 1961, for alleged non-compliance with the provisions of the personal order applicable to Carmel Olefins for the smoke emission event at Carmel Olefins' plant on August 7, 2009. The hearing was held on August 16, 2010. On January 5, 2010, Carmel Olefins received the report of the investigations team, which stated that enforcement steps are not required in this case, however it recommended that preventative steps be taken to reduce the probability of reoccurrence of such an event.

In a meeting between representatives of Carmel Olefins and the Director of the Haifa District of the Ministry of Environmental Protection following the report of the investigating team and the report of Linde regarding the performance of Carmel Olefins, it was agreed that the Ministry would adopt the recommendations of the investigations team and that Carmel Olefins would carry out the following operations: Carmel Olefins will replace the steam pipeline below the torch at the monomers plant with a stainless steel pipeline; Carmel Olefins will replace the torch head at the monomers plant with a new head and at the same time, will replace the pair of torch heads at the polypropylene facility; Carmel Olefins will install a separating tank to treat fluids near the bottom of the torch of the monomers plant; Carmel Olefins will update the procedures for critical works at the plants and will refresh training accordingly, to prevent mistakes such as that which occurred on August 7, 2009. As part of the periodic maintenance work performed in the final quarter of 2010, Carmel Olefins performed the activities described above.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

j. There are a number of legal proceedings against three fuel distribution companies: the Fuel Administration of the Ministry of National Infrastructures, ORL, and an infrastructure company in the fuel industry. The claims relate to crude oil inventory of 38,000 tons ("the inventory") stored by the three marketing companies in the installation of the infrastructure company, which was not delivered to the plaintiffs upon their demand, claiming that it was sludge. The fuel distribution companies claim that the other parties are responsible to them for delivery of the aforementioned quantity of crude oil or for payment of its value. On the date of filing (November 2002), the value of the suit was $7 million. The State of Israel filed a suit against the fuel distribution companies, ORL and the infrastructure company, for damages in the amount of $32 million on the date of filing (February 2004), for alleged losses caused to the State as a result of the amounts it paid over the years for maintaining emergency stocks of crude oil, which the fuel distribution companies now claim is useless sludge. The State is also claiming an additional $6 million on the date of the filing (August 2008), based on the accounting system between the State and the marketing companies, regarding the value of the emergency stock. ORL and the infrastructure company were issued a third party notification.

ORL, for its part, filed a suit against the infrastructure company in the same matter, whereby the court was requested to declare that the crude oil reserves located in the facilities of the infrastructure company and appearing in its books as unowned crude oil, belong to ORL.

The infrastructure company filed a counter-claim against the fuel distribution companies and ORL, contending that the defendants owe storage fees for the inventory, from September 2000 onwards, in the amount of about $9 million. The remedy against ORL was claimed as alternative remedy.

The claims have been transferred for hearing before the same judge. Hearing of evidence has not yet to begun.

k. At the beginning of 2009, a hearing was held at the Ministry of Environmental Protection for ORL and Gadiv, for alleged violations and defective application of the provisions of the personal order. Most of the claims against ORL and Gadiv refer to the failure fulfill their duty to report on time. ORL and Gadiv reached an agreement with the Ministry of Environmental Protection regarding all the issues that arose at the conclusion of the hearing, and they are operating in accordance with these agreements.

l. The Haifa municipality ordered companies in the ORL Group to pay a sewage levy of about $40 million. The ORL Group, which disposes of sanitary waste under an agreement with the Kiryat Ata municipality, filed an appealed with the court. At the reporting date, the municipality has yet to respond to the appeal and an investigation has yet to begin.

Based on the opinion of the legal advisors of the ORL Group companies, there is a likelihood of over 50% that the claim will be rejected.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

3. ORL (Cont.)

m. ORL and its investee companies are in the practice of recording provisions in their books for claims that in the estimation of their managements, based on their legal advisors, are likely to be realized. The provisions are made based on an estimate of the expected payments required to settle the liability. The additional amount of ORL's exposure, not including the claims included in Sections a. through h. for which no provision has been made amounts to about 147 million.

4. ZIM Integrated Shipping Services (hereinafter – "ZIM")

a. ZIM and its subsidiaries are parties to various arbitration proceedings and lawsuits, in an aggregate amount of about $18 million.

b. During 2009, a shipping company initiated arbitration proceedings against ZIM in an aggregate amount of about $151 million. The dispute is in connection with cooperation agreements that the shipping company claims that were reached between the parties. In the estimation of ZIM's Management, based on the opinion of its legal advisors, ZIM will not bear any expenses due to the outcome of claims, in excess of the provision included in its financial statements. The parties are still in the process of finding a compromise including business cooperation.

c. ZIM is involved as a respondent in an application for the approval of a derivative action filed in the District Court by a shareholder of Israel Corporation Ltd. If the plaintiff is permitted to file the derivative action in the name of Israel Corporation and such claim ultimately succeeds, ZIM may be required to repay to Israel Corporation the sum of $246 million (or $111 million if the alternative relief requested by the plaintiff is granted). ZIM's management, based on the advice of its legal advisors, is of the opinion that ZIM will be required to repay monies to Israel Corporation are low.

5. Quantum (2009) LLC (hereinafter – "Quantum")

On July 20, 2008, a claim was filed against the Corporation, Quantum, Chery Automobile Co. Ltd. (hereinafter – "Chery") and individuals related to Chery, and against Cherry Quantum Auto Co. Ltd., a joint venture owned by Chery and Quantum. The claim was filed in Michigan in the United States by a U.S. company, V Cars LLC (formerly Visionary Vehicles) (hereinafter – "the Plaintiff"), which contended that it conducted negotiations with Chery for establishment of a joint venture for production of vehicles in China and distribution thereof in the United States.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

5. Quantum (Cont.)

The contentions against the Corporation and Quantum include claims regarding use of confidential information that was provided to the Corporation by the Plaintiff, non-fulfillment of promises and breach of fiduciary obligations vis-à-vis the Plaintiff and making of a connection with Chery to prevent the Plaintiff's participation in the production, export, distribution and sale of Chery's cars in the United States. The Plaintiff claims losses in the amount of about $26 million, allegedly caused to it, as well as a loss of future earnings from its anticipated share in the venture in the amount of about $14 billion during the 30 years the venture was expected to be in operation. The Plaintiff is requesting an injunctive order to protect the exclusive distribution franchise in the United States it was allegedly granted. In addition, the Plaintiff is requesting a reimbursement of legal expenses along with other legal remedies. On December 2, 2008 the Corporation and Quantum filed a request for cancellation of the claim due lack of jurisdiction of Michigan court to hear the matter. On January 23, 2009, the Plaintiff filed a response to the request and on February 13, 2009, the Corporation and Quantum submitted a reply to the response. On March 18, 2009, a hearing was held in the Michigan court wherein the court accepted the request of the Corporation and Quantum to cancel the claim and on March 20, 2009 an Order was issued formally recording the court's aforesaid decision. The Corporation and Quantum are no longer parties to the proceedings being carried on in the Michigan court. To the best of the Corporation's knowledge, on September 4, 2009, the Plaintiff filed an amended statement of claim in the Michigan court as a result of that stated in the above hearing. In the amended statement of claim, the Corporation, Quantum and the Joint Venture were omitted from the list of defendants, and only the names of the other defendants, including Chery, remained in the statement of claim, where the claims against them include violation of laws for prevention of corruption, fraud, breach of fiduciary obligation, false promise, causation of breach of contract, disclosure of commercial secrets, etc. In response, on September 24, 2009, Chery submitted a request to transfer all of the Plaintiff's claims to arbitration in Hong Kong. Subsequent to the date of the report, on February 4, 2009, the Michigan court issued an Order directing the dispute to arbitration in Hong Kong between the Plaintiff and Chery.

To the best of the Corporation's knowledge, on March 17, 2010, the plaintiff submitted a request to start arbitration proceedings in Hong Kong, wherein contentions similar (but not identical) to the contentions raised in the claim filed in Michigan were raised against Chery. To the best of the Corporation's knowledge, and as it was informed, on October 29, 2010, the plaintiff filed an amended statement of claim, as part of the arbitration proceedings, and Chery filed its response to the amended statement of claim on January 28, 2011. To the best of the Corporation's knowledge, and as it was informed, the plaintiff submitted a reply to the response submitted by Chery. Pursuant to an opinion of the Corporation's legal advisors, taking into account, among other things, the fact that the Corporation is not a party to the arbitration, they are unable to predict the outcome of the said arbitration proceedings. In addition, based on an opinion of the Corporation's legal advisors, prior to the basis for the decisions against Chery, if any, in the framework of the arbitration proceedings in Hong Kong being clarified, it is too early to assess the potential application of the indemnification proceedings included in the joint venture agreement, as stated below, to Chery and/or the Corporation, as applicable.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

5. Quantum (Cont.)

On October 23, 2009, the Plaintiff filed a claim against the Corporation in the Federal court in the State of New York alleging therein quasi-contract and tort damage causes of action, which are being claimed against the Corporation, including false promise, breach of the duty of trust and breach of the duty of confidentially where the background for the claim is the Plaintiff's unsuccessful attempt to sign a Joint Venture agreement with Chery. The Plaintiff is claiming, among other things, losses allegedly caused to it in the amount of $26 million, lost profits its contends it was expected to realize in the about of $1.1 billion during the first five years of the Joint Venture, and lost profits in the amount of about $1 billion as a distributor and importer of Chery vehicles in the United States. The Corporation agreed to service of the statement of claim.

In a preliminary hearing held on March 2, 2010, the main possible claims of the parties were discussed. Most of the hearing focused on the Corporation's contention that the Plaintiff did not establish a factual basis providing the New York court jurisdiction to hear the case. The Plaintiff argued in response that it has additional facts not spelled out in the statement of claim that establish jurisdiction on the part of the New York court. As a result of the hearing, an Order was issued whereby the Plaintiff is required to file within 30 days from the date of the hearing an amended statement of claim detailing all the facts it alleges establish jurisdiction on the part of the New York court. On March 31, 2010, the Plaintiff filed an amended statement of claim. On April 14, 2010, a statement was filed on behalf of the Corporation including its contentions to cancel the claim due to lack of jurisdiction and due to the fact that part, if not all, of the contentions raised in the claim do not constitute a cause of action based on the applicable rules of civil procedure. On April 22, 2010, the Plaintiff filed a response to the Corporation's statement as stated.

On April 29, 2010, the judge assigned to the case held a conference call with the participation of the parties wherein he expressed a position whereby it is still early to cancel the claim at this juncture. The case is presently in the stage of discovery of the facts, wherein the Court is permitting each party, among other things, to request from the other party to present documents and to require the other party to respond to queries and to provide evidentiary affidavits. Pursuant to the timetables set in the Order issued by the Court, the parties are to respond to the discovery requests of the other party no later than mid July 2010, and are to gather testimonies of the witnesses no later than October 11, 2010. This date was recently extended by an order of the court with the agreement of the parties, up to November 10, 2010. As at the present time, no additional factual disclosure is possible, however in the past the court determined certain exceptions to the disclosure timetables that could extend the duration of the factual disclosure with respect to those matters by several months.

In accordance with the said Order, the Corporation responded to the queries and the plaintiff's document discovery requests, and submitted on its behalf queries and document discovery requests to the plaintiff. The Corporation's legal advisors have completed review of most of the material presented by the Plaintiff in response to the Corporation's request and obtaining the testimonial affidavits from the individuals the Plaintiff identified as having knowledge regarding its contentions in the claim. Correspondingly, the Plaintiff has obtained testimonial affidavits from witnesses on behalf of the Corporation, including an expert witness.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

5. Quantum (Cont.)

In the opinion of the Corporation's legal advisors, based on the material provided by the Plaintiff as part of the document discovery process and on the testimony on its behalf, the Corporation requested that the Plaintiff complete its responses as part of the document discovery process with respect to part of the claims included in the statement of claim. If the document discovery process is not completed as requested the Corporation will request instructions from the Court instructing the Plaintiff to complete the document discovery process.

Based on their examination up to the present time of the documents and affidavits in the framework of the factual discovery, the Corporation's legal advisors believe that the Corporation has good defense arguments against the contentions raised in the amended statement of claim. It is noted that as part of the Joint Venture Agreement between Chery and Quantum, indemnification provisions were provided between the parties in connection with damages and causes of action caused as a result of legal proceedings taken by the Plaintiff in respect of certain causes of action.

6. I.C. Power

Crystal Power, (a holder of rights not conferring control in Nejapa Power Company Ltd. (hereinafter – "Nejapa Holdings")), together with a related company, filed a lawsuit claiming that, among other things, Crystal Power's rights as a holder of rights not conferring control in Nejapa Holdings were violated. The most significant contention out of those raised by Crystal Power stems from a compromise Nejapa made with CEL in March 2002. Prior to this date, Nejapa provided electricity to CEL in accordance with a PPA signed in May 1994. In 1999, CEL initiated arbitration proceedings in order to bring the PPA to an end, claiming that as a result of unforeseen circumstances the PPA became onerous and continuation of its execution has imposed an unnecessary burden on CEL. As a result of this arbitration, in March 2002 Nejapa received an arbitration decision that included a cash payment of $90,000 from CEL and preparation of an agreement for transmission costs whereby CEL agreed to pay transmission costs and certain related costs of Nejapa Holdings during a period of five years.

Pursuant to the shareholders' agreement of Nejapa Holdings that was in effect at the time of the above-mentioned arbitration decision was rendered, Crystal Power held 13.5% of the shares of Nejapa Holdings, however it was entitled to receive additional shares of Nejapa Holdings equal to 15.7% on the thirteenth anniversary of operation of the plant.

In October 2002, Crystal Power filed a claim in the local court in Brazoria, Texas, against El Paso, which at the time of the arbitration decision was the other shareholder in Nejapa Holdings, claiming that the compromise was signed in order to deny Crystal Power its enlarged proportionate share in the claim of Nejapa Holdings against CEL (hereinafter – "the Crystal Power Claim").

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. Claims (Cont.)

6. I.C. Power (Cont.)

In 2006, El Paso sold its holdings in Nejapa Holdings to Globaleq and agreed to indemnify Nejapa Holdings and Inkia Salvadorian Power (the sole shareholder of Nejapa Holdings) for losses sustained based on or as a result of contentions raised in the Crystal Power Claim or claims that Crystal Power or its associated companies were permitted to raise based on the facts alleged therein or that were caused to it.

In January 2010, El Paso signed a compromise agreement with Crystal Power whereby Crystal Power agreed, among other things, to withdraw all its claims against El Paso in its claim against Crystal Power. In the compromise agreement it was provided that Crystal Power will waive all claims against Nejapa Holdings and against Inkia Salvadorian Power (hereinafter – "the Inkia Group Companies") with respect to which an indemnification obligation applies to El Paso. Despite the compromise agreement, Crystal Power once again claimed in the Crystal Power Claim essentially the same claims against the Inkia Group Companies that it settled with El Paso in the local court in Brazoria, Texas.

In addition to these claims, in February 2008, a related claim was severed from the Crystal Power Claim wherein Crystal Power once again claimed that, among other things, claims against the Inkia Group Companies in the local court in Brazoria, Texas, on the grounds that it is entitled to 29.2% of the total amount of the dividends and/or other distributions paid by Nejapa Holdings after the thirteenth anniversary of the operation date of the plant. The actual date of operation of the plant constitutes an issue in dispute in the claim.

In February 2010, two claims were transferred to the District Court of Texas. In November 2010, the District Court of Texas rejected the request of Crystal Power to remand the claims to the local court in Brazoria, Texas. The Judge recommended that the requests of the Inkia Group Companies to consolidate the claims of Crystal Power into one proceeding be accepted. Crystal Power requested that the Inkia Group Companies agree to a reconciliation proceeding in connection with these disputes. The Inkia Group Companies filed a request to require the plaintiffs to agree to an arbitration proceeding and the Judge submitted an opinion on March 1, 2011, whereby he recommends that the District Court of Texas approve the arbitration request of the Inkia Group Companies despite the objection of the plaintiffs. The Judge's opinion is subject to court approval.

C. Commitments

1. The Corporation

a. In accordance with resolutions of the General Meetings of the shareholders of the Corporation and of its subsidiaries, their Articles of Association were amended so as to permit them to indemnify and to insure their directors and officers, subject to the provisions of the Companies Ordinance and other restrictions.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

1. The Corporation (Cont.)

b. In March 2001, a commitment for indemnification and the exemption of senior officers of the Corporation was approved (in addition to the insurance of senior officers), which does not apply to cases detailed in paragraph 263 of the Companies Law. The exemption is from the responsibility of senior offices for damages caused or to be caused by them as a result of a breach of the duty of care to the Corporation. The amount of the indemnification to be paid by the Corporation in excess of the amounts to be received from the insurance company, should such amounts be received, for each senior officer in the aggregate, in respect of one or more of the events detailed therein, was limited to 25% of the Corporation's shareholders' equity according to its latest financial statements published immediately prior to the beginning of the legal proceedings in respect of which the indemnification is to be paid, linked to the CPI up to the date of payment. From time to time indemnification certificates were issued to the Corporation's officers, as stated. Among the said officers are those considered to be controlling shareholders in the Corporation.

c. On September 11, 2007, the Corporation's General Meeting approved an undertaking whereby the Corporation will purchase insurance policies for its officers (including those considered to be controlling interests in the Corporation), as they will be from time to time, in two parts – the first part jointly with ICL – the policy will insure the liability of officers of the Corporation and of subsidiaries it controls (hereinafter but excluding ICL – "the Corporation Group"), and their responsibility and service in certain companies in which they were appointed by ICL or on its behalf; and the second part – separately, the policy will insure the liability of officers in the Corporation Group, as they will be from time to time. The maximum amount of the annual premium to be paid in the current insurance year will not exceed $350 thousand in connection with both parts. The said decision constitutes a framework decision within the meaning thereof in Regulation (31) of the Companies Regulations (Transactions with Interested Parties), 2000 (hereinafter – "the Remedy Regulations"), which permit during a period of 5 years, commencing from the said insurance year, renewal of purchase of the insurance policy with respect to officers and directors, provided the Corporation's Audit Committee and Board of Directors will confirm in connection with the renewal that the acquisition terms of the policies conform with the conditions of the framework decision. On March 24, 2010, the Corporation's Audit Committee and Board of Directors approved prior to the end of the policy period, renewal of the said policy effective from September 1, 2009. On August 30, 2010, the Corporation's Audit Committee and Board of Directors approved renewal of the said policy with validity up to September 1, 2010.

2. ICL

a. ICL and its subsidiaries have commitments in the amount of about $119 million to local and foreign suppliers for the purchase of raw materials in the regular course of business, and for various periods ending up to 3 years after the date of the report for all the agreement periods.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

2. ICL (Cont.)

b. Certain subsidiaries of ICL have commitments to suppliers to purchase property, plant and equipment. As at December 31, 2010, there are commitments to invest about $130 million in fixed assets.

c. A subsidiary in the UK has signed a number of contracts for the lease of land used for mining potash. In general, the lease rentals are determined based on the quantities of potash mined in each mine. The two main leases are up to 2035 and 2015. Alternatively the latter may end in 2012 subject to advance notification of six months. The balance of the contracts is generally for periods of 35 years to 50 years.

d. In September 2003, a long-term (20 year) supply agreement was signed between a subsidiary and the Chemtura Corporation, commencing from January 2004, under which the subsidiary will supply of bromine and bromine compounds.

e. Certain subsidiaries of ICL have commitments to pay royalties to the Government of Israel. The royalties are at the rate of 2% to 4% of the proceeds received from the sale of products regarding which the Government of Israel participated in the related research and development by way of grants. These commitments are not to exceed the rate of 100%–150% of the total dollar amount of the grants received by the subsidiaries (in respect of products manufactured in Israel). On the date of the receipt of the participation from the Government of Israel, the success of the development of the projects was not yet assured. In the event a project that was partially financed by Government participation involving the payment of royalties is not successfully completed, the ICL Group is not required to pay any royalties to the Government. As at December 31, 2010, the maximum amount of the royalties that the ICL Group may ultimately have to pay is about $7.7 million.

f. In 2008, a subsidiary of ICL in Spain signed an agreement with another company, Petroleum Oil & Gas Espania – (hereinafter – “Petroleum”), for the development of underground natural gas reserves.

Petroleum is interested in the development and utilization of natural gas reserves and plans to develop a production project to create spaces for the storage of natural gas using solution mining. An initial payment of €2 million was paid by Petroleum upon signing the agreement. If Petroleum should decide that the project is not feasible – the subsidiary will have to refund the proceeds received. In the financial statements a provision was recognized in the amount of the possible obligation. ICL’s management believes that the project is feasible and that the gas storage option can be carried out.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

2. ICL (Cont.)

g. A proportionately consolidated company – I.D.E. Technologies Ltd. (hereinafter – "I.D.E.") has agreements under the BOT (Build, Operate, Transfer) method in connection with water desalinization, which are based on the "take or pay" principle, as follows:

1) A proportionately consolidated company of I.D.E. signed an agreement from 2001 with the State of Israel for the financing, planning, construction, operation and transfer to the State of Israel of a seawater desalinization plant in Ashkelon. The plant currently produces about 118 million cubic meters of desalinized seawater per year. The agreement is for a period of approximately 25 years. Construction of the plant was completed in 2005 and its commercial operation was commenced in 2006.

2) A consolidated partnership of I.D.E. has an agreement with the Water Authority of Cyprus for the financing, planning, construction and operation of water desalinization plant having a capacity of about 21.5 million cubic meters of water per year. The agreement is for a ten-year period. Construction of the project ended in 2001 at which time the consolidated partnership commenced its activities.

Thereafter, an agreement was signed to expand the facility by a further about 20 million cubic meters of seawater, until the end of the agreement period.

3) A proportionately consolidated company of I.D.E. has an agreement from 2006 with the State of Israel for the financing, planning, construction, operation and transfer to the State of Israel of a seawater desalinization plant in Hadera. The plant currently produces about 127 million cubic meters of desalinized seawater per year. The agreement is for a period of about 25 years.

4) A subsidiary of I.D.E. held at the rate of 51% has a new agreement, from January 2010, with the State of Israel for financing, planning, construction, operation and transfer to the State of Israel of a seawater desalination facility in Soreq in an overall scope of 150 million cubic meters of desalinized seawater per year. The agreement is for a period of about 26.5 years.

h. On March 25, 2008, an agreement was signed ("the Agreement") was signed between a subsidiary of ICL, DSW, and the partners in the Yam Thetys Group for the supply of natural gas to the Group's factories in Israel. Under the Agreement, the Group undertook in the agreement to purchase from the Partners in the Yam Thetys Group approximately 2 BCM of gas (about 2 billion cubic meters), subject to the adjustments described in the Agreement ("the Contractual Quantity of Gas").

Supply of the gas will end at the earlier of the following (subject to adjustments):

(i) Five years from the date of the end of the start-up period, but no later than September 2015 (subject to extension);

(ii) Completion of the purchase of the Contractual Quantity of Gas.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

2. ICL (Cont.)

h. (Cont.)

The price of the gas was set according to a formula based on the price of the crude oil, with a discount component, including floor and ceiling prices. ICL Group undertook to take or pay for a minimum annual quantity of gas in a volume and in accordance with a mechanism described in the Agreement.

The total scope of the undertaking in the agreement is estimated at $260–$330 million.

Conversion of use from fuel to gas will enable the ICL Group to reduce emissions from its production stacks and is part of the ICL Group's policy of preserving natural resources and of savings.

The gas is supplied by Israel Gas Lines Ltd. (hereinafter – "Israel Gas Lines"). Israel Gas Lines completed connection of the pipeline system (and systems accompanying the pipeline) to ICL's plants in Sdom, and commenced supplying the gas to DSW's power plant as of December 2009. In July 2010, supply of the gas also began to the subsidiary Dead Sea Magnesium and to one of DSW's production facilities. During 2011, DSW intends to complete the gas connections to the rest of the plants.

In addition, Israel Gas Lines plans to complete during the first quarter of 2011 connection of the said pipeline system to the Company's sites in Mishor Rotem and Ramat Hovav. ICL's plants on these sites are planning to connect accordingly.

On December 12, 2010, DSW signed a conditional agreement with East Mediterranean Gas S.A. E. for supply of gas for use in a power plant DSW is contemplating to construct in Sdom, if DSW decides to construct the plant, as stated. The agreement period will commence upon completion of the power plant's test run period, which is planned for the end of 2014, and will end on March 31, 2030. The agreement relates to an annual quantity of gas of 0.2 BCM.

The price of the gas will be linked to the changes in the electricity production cost component of the Electricity Authority, which are published by the Authority, as part of the changes in the electricity prices (hereinafter – "the Gas Price for Energy"). The price includes a "floor" and "ceiling" price.

The agreement is contingent on approval of construction of the power plant by the Investments Committee and the Board of Directors of ICL Fertilizers and ICL and receipt of building permits for the power plant up to and no later than June 30, 2012.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

2. ICL (Cont.)

h. (Cont.)

In addition, DSW received and option to purchase an additional quantity of gas in an annual quantity of up to 0.53 BCM (hereinafter – "the Option"). The Option is exercisable up to March 31, 2011. If it is decided to exercise the option, part of the quantity of gas covered by the Option will be used by the power plant and will be acquired at the Gas Price for Energy. The balance will be used for operating industrial facilities and will be acquired at a price that is linked in accordance with a formula based on the gas price, including a "floor" and "ceiling" price.

The undertaking includes a "take or pay" commitment on the part of DSW in respect of a minimum quantity of gas, in an amount and in accordance with a mechanism provided in the agreement with the supplier.

The aggregate monetary scope of the undertaking for the entire agreement period up to 2030, pursuant to the current electricity production cost component, amounts to about $370 million up to about $460 million (assuming the option is not exercised).

3. ZIM

a. <u>Plan for restructuring of ZIM's debts in 2009</u>

As a result of the global economic crises that began in 2008 and directly impacted the international trade activity, in which ZIM's vessels transport merchandise from various points around the world, ZIM was caused heavy operating losses that had a negative effect on its equity and working capital.

Accordingly, and due to the cash flow difficulties that ZIM faced, it did not have sufficient sources of financing to support the payment of its liabilities on their original due dates. In addition, as a result of ZIM's non-compliance with financial covenants determined with its creditors (including those caused as a result of cross default – defaults in complying with other debt arrangements), the creditors were granted the right to demand full and immediate payment of all the liabilities.

Accordingly, ZIM announced in May 2009 that it is ceasing to pay the principal of its liabilities and is opening negotiations with its creditors in order to reschedule its debts to them.

In the fourth quarter of 2009, after the Board of Directors and General Meeting of Israel Corporation Ltd., the controlling shareholder of ZIM, approved an inflow of capital and granted a safety net to ZIM (see e. and f. below), ZIM signed new agreements with its creditors, as part of a full restructuring plan, which came into effect before December 31, 2009 and the main principles of which are as follows:

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

a. Plan for restructuring of ZIM's debts in 2009 (Cont.)

(i) Financial creditors, whose debt is secured against existing vessels, containers and other

These creditors have agreed to grant ZIM a grace period for principal payments of between 3 and 36 months, (depending on the original maturity of the debt and the nature of the collateral securing such debt) and a revised amortization profile for repayment of the relevant debts.

In return ZIM agreed to an increase in the interest rate to levels between LIBOR plus 200 basis points per annum and LIBOR plus 400 basis points per annum, and a one-time commission to each such creditor of an amount equal to up to 1% of the debt owed to that creditor.

As a result of the arrangement that was reached as aforementioned with these creditors, certain original loans amounted to about $805 million, in which the change in the debt terms was determined to be substantially different (regarding the substantially different changes, see Note 3(c)(2)), were eliminated and new loans were recorded instead of these loans. The difference between the original loans and the fair of value of the new loans, in the amount of about $59 million, was recorded as financing income in the statement of income for 2009.

(ii) Secured financial creditors where debts to them are secured (or on delivery of the relevant vessel will be secured) against vessels under construction financed by such debts and future payment obligations

This group of creditors has agreed to continue to provide the necessary debt finance for ZIM to take delivery of 8 vessels that were to be financed under the original loan agreements entered into with these creditors (although on amended terms).

The restructuring arrangements include, among other things, agreement of the shipyards to postpone delivery of some vessels and accordingly to reschedule payments in respect of these vessels, while receiving certain financing from the shipyards themselves and transfer of financing between different vessels.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

a. Plan for restructuring of ZIM's debts in 2009 (Cont.)

(iii) Unsecured financial creditors, including debenture holders

This group of creditors has agreed to a new repayment and amortization schedule such that principal repayment is due on October 13, 2016, subject to the ZIM Group's total leverage (being the ZIM Group's consolidated net debt divided by adjusted EBITDA) as at June 30 2016 being equal to or less than 3:1. If the total leverage exceeds 3:1 on June 30, 2016 (according to ZIM's financial statements as at that date), the outstanding amounts owed to each unsecured financial creditor will be paid in four equal annual installments payable on October 13, 2017, October 13, 2018, October 13, 2019, and October 13, 2020, in each case subject to the total leverage not exceeding 3:1 as at June 30 immediately prior to such payment date and, if the total leverage exceeds 3:1, such payment amount will be deferred until October 13 of the subsequent year (with payment in that year again being subject to total leverage on June 30 of that subsequent year). In the event that the principal repayment is postponed beyond October 13, 2016, ZIM will also repay to each unsecured financial creditor an amount equal to about 1.2% of the outstanding principal amount on each of the dates January 13, April 13, July 13 and October 13 in each of 2017, 2018 and 2019 and on January 13, April 13 and July 13 in 2020 (to the extent any principal remains outstanding at the time such payment is to be made).

The final repayment date is October 13, 2020 and such payment will not be subject to any total leverage test.

ZIM has also agreed with this class of lenders with respect to increased interest whereby the interest rate with respect to a certain portion of the debt will increase on certain dates, as defined in the trust or the relevant facilities agreements by the applicable Margin Increase Rate (defined below). The first increase shall be an increase in the cash-pay interest and thereafter the increases shall be by way of payment-in-kind ("PIK") interest that is to be paid on October 13, 2016 (subject to total leverage described above).

"Margin Increase Rate" means 1.20% per annum (or 0.75% per annum if the value of collateral provided by ZIM to unsecured creditors is at least $100 million (but less than $150 million) or 0.40% per annum if the value of collateral provided to unsecured creditors is at least $150 million).

Unsecured financial creditors shall be entitled to convert up to 35% of the outstanding principal of their debt (including any PIK interest and related accumulated linkage differences) into ZIM shares at par at a 15% discount to the IPO / exit price (as applicable) prior to such conversion upon the occurrence of any of the following:

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

a. Plan for restructuring of ZIM's debts in 2009 (Cont.)

(iii) Unsecured financial creditors, including debenture holders (Cont.)

– An initial public offering of ZIM's shares; or

– An Exit Event (being a change of control, a merger of ZIM with a third party, the sale of all or substantially all of ZIM's assets, or an in-kind dividend distribution of ZIM's shares to shareholders of Israel Corporation).

In addition, each unsecured financial creditor shall receive options to purchase its pro rata share of an aggregate of approximately 15% of the ordinary shares of ZIM (following the capital injections from Israel Corporation described in v. below and on a fully diluted basis, with each creditors pro rata share based on the aggregate amount outstanding under all of ZIM's unsecured financial debt) and with an exercise price of $7.91. The options are exercisable: (i) on an initial public offering of ZIM's shares and in the 24 months period thereafter; (ii) on an Exit Event (as defined above); and (iii) during the 14 trading days prior to December 31, 2020, which shall be the termination date for the options.

ZIM may prepay any unsecured financial debt early (in whole or in part) at any time (but in the case of the Series A and Series C debentures (which are fixed interest instruments) subject to payment of certain make-whole compensation). Israel Corporation was granted the right to drag along the unsecured creditors if it should cease to be the controlling shareholder of ZIM and the unsecured creditors received a proportional right to tag along in the event of a transfer of shares that results in Israel Corporation ceasing to be the controlling shareholder of ZIM. In addition, an early repayment right was granted to those who will be shareholders of ZIM as a result of the restructuring arrangement.

The arrangement with the unsecured creditors, including the debenture holders, included, among others, the following changes:

– Postponing the repayment of the debt principal.
– Provision of an option to ZIM to repay the debentures in advance.
– Change in the interest rates.
– Provision of an option to the unsecured creditors to convert 35% of the principal into shares of ZIM.
– Provision of an option to the unsecured creditors to assign up to 15% of ZIM's shares.
– Provision of a safety net by the controlling shareholders
– Provision of a negative pledge (with certain exceptions).
– Compliance with restrictions regarding dividend distributions.
– Additions to and amendments of the existing events of defaults.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

a. Plan for restructuring of ZIM's debts in 2009 (Cont.)

(iii) Unsecured financial creditors, including debenture holders (Cont.)

Consequently, these debts in the original amount of $440 million are considered exchanges with substantially different terms and therefore the debentures were eliminated and in their place, in accordance with the relevant fair value on the date of replacement, new liabilities were recorded, as well as the early redemption component and the equity instruments that were issued.

The difference between the original liabilities and the fair value of the new liabilities, component and equity instrument, in the amount of $221 million was recorded as finance income in the statement of income. Furthermore in January 2010, agreements that were reached with the rest of the unsecured financial creditors prior of December 31, 2010 were signed. Accordingly financial income in the amount of $11 million will be included in the financial statements for the first quarter of 2010.

(iv) Ship owners that charter vessels to ZIM

(a) ZIM has agreed to with its non-related party ship owners reductions in the contractual hire of the relevant charter party agreements until the earlier of the end of the relevant charter period for the vessel and an agreed date (such date depending on the term of the existing charter period and whether the vessel is active, but in any event is no later than December 31, 2012 for any vessel).

In respect of the reduction in the original hire during the reduction period (hereinafter – "the discount difference"), agreements with the ship owners were reached on the basis of a number of different alternatives:

– Class 1 – the ship owner will be granted callable exchange notes in an amount equal to the discount difference, convertible (at their face value, and at the ship owner's election) into ZIM shares if ZIM makes an initial public offering of its shares prior to July 1, 2016. The callable exchange notes will bear PIK interest and will be repayable on July 1, 2016 (unless converted). In addition, ship owners will be compensated if there is an increase in the market hire rate such that the market hire exceeds the contractual charter hire (hereinafter – "the increase in the charter rate component").

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

a. Plan for restructuring of ZIM's debts in 2009 (Cont.)

(iv) Ship owners that charter vessels to ZIM (Cont.)

(a) (Cont.)

– Class 2 – in exchange for the discount difference the charter party is extended (at the original charter hire or at the market hire during the extension period, whichever is the higher). The length of the extension is determined by reference to the agreed reduction in the charter hire.

– Class 3 – combination of Class 1 and Class 2 above.

Accordingly, ZIM measures the increase in the charter rate component according to its fair value on the basis of a model that estimates the difference between scenarios of future anticipated charter rates and the contractual charter rates. As at the date of the financial statements the fair value of the aforementioned component is about $22.3 million (2009 – immaterial).

(b) ZIM has also agreed with its related party ship owners, with respect to reductions in the contractual hire of the relevant charter party agreements. This reduced amount shall be subordinated to ZIM's unsecured finance debt and repayable (in its principle amount only) no earlier than 2016 and not before ZIM's unsecured finance debt.

The related party ship owners transferred to Israel Corporation the right to receive these repayments. In the period of the report, as a result of the waiver of the controlling shareholders of the charter fees, in 2009 and 2010 Israel Corporation recorded expenses for charter fees against a capital reserve, in the amount of about $44 million and $20 million, respectively.

(v) Shareholders

Israel Corporation agreed to contribute as a share capital to ZIM an amount equal to $450 million of which $300 million was contributed in 2009 (of which $200 million was originally contributed by way of convertible shareholder loans which were converted by the end of 2009). In the period of the report, an additional $150 million was contributed.

The share capital that been issued to Israel Corporation in exchange for such contributions will be determined by reference to the amount of ZIM's equity on its books as at June 30, 2009.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

a. Plan for restructuring of ZIM's debts in 2009 (Cont.)

(v) Shareholders (Cont.)

In addition, Israel Corporation has approved a security net (see vi. below) of an additional $50 million that will serve as a financial reserve, to be injected if ZIM requires it for its liquidity or operational needs (to be injected at the discretion of the board of directors of Israel Corporation).

Furthermore, Ofer Group (the controlling shareholder of Israel Corporation) has also agreed to provide a security net as described in vi. below.

(vi) Security net

Israel Corporation and the Ofer Group have each agreed to provide ZIM with a safety net in the amount of $50 million each to be contributed if any one of the following events occurs:

– An immediate repayment event of default occurs in respect of any series of the debentures (see also iii. above) issued by ZIM that is not remedied in accordance with the terms of the bonds (except for an immediate repayment event which is a change of control of ZIM).

– ZIM's auditors include a 'going concern' qualification in ZIM's financial statements.

– ZIM does not make a payment to its debenture holders on time, and this is not remedied in accordance with the terms of the debentures; and

– ZIM requests any additional settlement with its creditors other than in the ordinary course of business.

The safety net shall remain in place until at least 50% of the unpaid principal amount of the debentures (and interest accrued thereon) has been paid.

If called, the safety net shall be injected as a subordinated loan and shall bear interest at a rate that is 10% lower than the interest rate paid to the bondholders (Series B).

As a result of the benefit inherent in the terms of the safety net provided as aforementioned by the interested parties, Israel Corporation recorded a capital reserve in the amount of $21 million.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

b. Undertakings in respect of operating leases of ships and related equipment (for a period exceeding one year from December 31, 2010):

The contractual leasing fees for the upcoming years:

	Interested party	Others	Total
	$ millions		
2011	86	246	332
2012	70	223	293
2013	76	239	315
2014	52	215	267
2015	47	183	230
2016 and thereafter	202	550	752
	533	1,656	2,189

1) ZIM signed agreements, with interested parties, for the acquisition of 12 container ships – eight container ships having a capacity of 4,250 containers each, of which three were delivered to ZIM during 2006, five were delivered by ZIM in 2008 (hereinafter – "the Eight Ships"), and four container ships having a capacity of 6,350 containers each, two of which were delivered in 2009 and the others were received during 2010 (hereinafter – "the Four Ships"). Out of the Eight Ships, ZIM will acquire two ships for $54.5 million each, will lease two ships for ten years, at a lease rental fee of $23,000 per day, and will acquire four ships in a joint transaction (in equal shares) between ZIM and Ofer Shipping Ltd. (an related party of ZIM), for $54.5 million each, which will be leased to ZIM in exchange for a lease rental fee of $23,000 per day. Out of the Four Ships, ZIM will acquire two ships for $74.3 million each, and will lease two ships for ten years, at a lease rental fee of $31,500 per day from Ofer Shipping Ltd.

During 2006, the Four Ships were leased to a third party for a period of five years from the date of delivery of the ships to ZIM following their construction. In August 2008, ZIM entered into an agreement to sell two ships of the Four Ships it owns, including the existing sublease agreement to APL Ltd. During 2009, one of the two ships was received and delivered to it in exchange for the amount of about $111 million. A capital gain of about $33 million from the sale was recorded (about $25 million after tax).

During 2009, the second ship was received and was sold for a consideration of about $111 million. The capital gain amounted to about $33 million (about $25 million after tax).

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

b. Undertakings in respect of operating leases of ships and related equipment (for a period exceeding one year from December 31, 2010): (Cont.)

1) (Cont.)

During 2009, ZIM's Board of Directors approved an undertaking between ZIM and related parties, wherein two vessels that are leased from the related party and subleased by ZIM to APL Ltd. (a non related party) would be novated to APL and APL will pay the interested parties directly.

Since the charter hire under the subleases is higher than the charter hire ZIM is obliged to pay to the interested parties ("the profit margin"), the interested parties agreed to precede and transfer to ZIM the profit margin in respect of the sublease period, discounted to its present value, which amounted to approximately $17 million (if APL exercises the option periods mentioned in the agreement with ZIM an additional profit margin will be added on the exercise date and transferred to ZIM).

According to the agreement with the interested parties, if for any reason APL does not pay the charter hire, ZIM will be charged for the payments, and therefore the interested parties were left with an amount of approximately $1 million as a reserve in order to secure the aforementioned payments.

2) In 2007, ZIM entered into an undertaking with a Taiwan shipyard, signed construction contracts and acquired 6 container ships having a capacity of 1,700 TEUs each at a price of about $37 million per ship. The ships are scheduled to be delivered during the years 2010–2011. In October 2007, the details of the joint cooperation in connection with the said acquisition were agreed to between ZIM and a related party Ofer (Ships Holdings) Ltd., Ofer Shipping Ltd. and companies they control (hereinafter – "Ofer Shipping"), as detailed below:

– ZIM will transfer to Ofer Shipping (an interested party in Israel Corporation), by means of a renewal (novation) of the construction contracts, its rights and obligations under the agreement between it and the Taiwan shipyard in connection with the Six Ships, on "back-to-back" terms, such that upon signing of the novation contracts Ofer Shipping will repay to ZIM the payments made to the shipyard on account of the purchase price of the Six Ships plus interest at the annual rate of 12% and ZIM will be released from its guarantees and liabilities to the shipyard in all that related to the Six Ships.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

b. Undertakings in respect of operating leases of ships and related equipment (for a period exceeding one year from December 31, 2010): (Cont.)

2) (Cont.)

– Concurrently with that stated above, ZIM will enter into a lease agreement with Ofer Shipping, wherein the Six Ships will be leased for a period of 12 years at a price of $17,500 per day per ship. The lease fees for the ships, as stated, will include fees for their management and operation (including, crews, maintenance, sustenance, provisions, insurance, oils, repairs, administration, etc.).

– At the end of the lease period, ZIM will have the option to acquire 50% of each of the said ships for a consideration of $15 million per ship. Exercise of the aforesaid option is subject to law.

At the request of ZIM, on March 31, 2009, Ofer (Ship Holdings) Ltd., Ofer Shipping Ltd. and companies they control (hereinafter – "Ofer Shipping") informed the shipyard of its intention to cancel the ship building contracts in respect of the Six Ships of 1,700 TEUs. Negotiations were held with the Taiwanese shipyard, following which it was agreed by the shipyard to cancel the shipbuilding contract against a cancellation fee at 17.5% of the purchase price of the vessels, namely a total cancellation fee of $38.6 million. ZIM reached agreement with Ofer Shipping whereby ZIM will pay 75% of the cancellation fee as required by the shipyard. ZIM's share as stated amounts to $28.9 million. In the period of the report, a provision was recorded in ZIM's books, in the amount of $28.9 million, of which $16.5 million was included in "other payables and credit balances" and $12.4 million was included in loans from banks and others. During the period of the report, ZIM paid the $16.5 million that was included in other payables.

3) During 2009, ZIM and a party related to it agreed to return leased ships prior to the end of the lease period in exchange for the amount of about $8.6 million, reflecting the difference between the lease fees for the remaining lease period less the daily operating expenses. ZIM signed agreements for leasing of two ships having a capacity of 4,860 TEUs each from a third party (unrelated). The ships were leased by ZIM for a period of 7 years at a daily lease fee of $32,588 per ship. During the period of the report, the ships were delivered.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

c. Commitments in respect of acquisitions of ships and the equipping thereof (for a period in excess of one year from December 31, 2010):

Agreement years	2006–2007
Number of ships	13
Size of ships (TEUs)	10,000–12,600
Acquisition amount in $ millions	133.2–170.9
Expected delivery date	2015

As at December 31, 2010, unpaid balances in respect of acquisition of the ships amounts to about $1,838 million, to be paid as follows:

	$ millions
2013	188
2014	397
2015	1,253
	1,838

1. In 2007, ZIM entered into an undertaking for the acquisition of 2 container ships having a capacity of 2,450 TEUs each. The price of each ship is $47.6 million (as determined on the acquisition date) and is denominated in Japanese yens.

   In 2008, ZIM signed an agreement with a third party (unrelated) for sale of one ship at the price as it is denominated in the acquisition contract in Japanese yens (back-to-back) and a re-lease thereof for a period of 15 years. ZIM has an option to acquire the ship at the end of the period, for a price of $13.5 million or, alternatively, to extend the lease period by an additional 5 years, at the conclusion of which it will acquire the ship for a price of $1. In the first 15 years, the lease payments will amount to $13,400 per day. In the following 5 years the lease payments will amount to $9,500 per day.

   Subsequent to the date of the report, at the request of ZIM, it was decided with the shipyard to cancel construction of the ship against a compensatory payment of 10% of the original acquisition price. As a result, ZIM recorded an expense of $5.5 million

2. In 2007, ZIM entered into an agreement with an unrelated third party (hereinafter – "the Seller") for acquisition of 2 container ships having a capacity of 4,250 TEUs each (hereinafter – "the Two Ships") for a price of about $73 million each. The ships were delivered in the period of the report.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

c. Commitments in respect of acquisitions of ships and the equipping thereof (for a period in excess of one year from December 31, 2010): (Cont.)

2. (Cont.)

Arrangements with related parties regarding the two ships, as detailed below:

ZIM and Ofer Shipping Ltd. agreed in connection with the two ships, as detailed below:

– Pursuant to a decision of the Audit Committee and Board of Directors of Israel Corporation, sold the Two Ships to Ofer Shipping on a "back-to-back" basis.

– Concurrently, ZIM is leasing from Ofer Shipping the ships for a period of 12 years. During the first 6 years, the daily lease rentals will be $28,200 per day per ship, while the daily lease rentals will be $30,200 per day per ship during the second 6 years. The said lease rentals will include management and operation fees. At the end of the period, ZIM will acquire 50% of each ship at a price of about $20 million per ship.

In addition, during 2007, ZIM entered into a lease agreement for a period of 7–8 years with the seller, whereby ZIM will lease from the seller two 2 additional container ships having a capacity of TEU 4,250 each for a lease rental of $28,200 per day per ship. During the period of the report, one ship was received, while the other ship was received in January 2011.

d. ZIM reached agreement to terminate the lease agreement of the vessel "Car Star 1", which is leased from a related party until April 13, 2011. It was agreed between the parties as follows:

ZIM reserves the right, during certain period, to lease from the related party (or any of its subsidiaries) a car carrier vessel that has characteristics similar to those of "Car Star 1" for a period equal to the balance of the lease period and for the charger hire specified in the original agreement.

If at the end of the option period ZIM has not exercised its said right, ZIM will pay the interested party the originally contracted charter hire less the operating cost component of the vessel throughout the balance of the charter period in 24 equal monthly payments.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

3. ZIM (Cont.)

d. (Cont.)

On March 23, 2010 ZIM's Audit Committee and Board of Directors approved, as a transaction that is not an extraordinary transaction, a settlement reached with the related party as follows:

– ZIM will exercise its right for a replacement vessel in a way that the balance of the charter term of the said vessel will be realized starting from the end of the charter term of the alternate vessel which shall be made available to "Car Bridge I" as detailed below.

– Replacement of the Car Bridge I vessel, chartered from a related party, with a remaining contract term until March 2011 at a price of $20,000 per day, with an alternate and more modern vessel ("the Alternate Vessel") under the same conditions as set out in the charter agreement of the Car Bridge I vessel (including the balance of the charter term and the charter fees).

– It was further approved, that after termination of the charter term of Car Bridge I, the Alternate Vessel will continue to be charted by ZIM on to the contract of Car Star I for the balance of the said period as stated above.

On April 4, 2010, the Alternate Vessel was delivered, and on April 17, 2010, Car Bridge I was returned to the interested party.

e. On November 28, 2000, ZIM signed an agreement with interested parties, according to which, commencing from February 2002, ZIM leased, a vessel (with a capacity of 5,000 TEUs) for a period of 10 years. Under the said agreement, three options were granted to ZIM whereby in the framework of each option ZIM will be given the opportunity to extend the lease period for additional 2 years period, provided that each option will be exercised 12 months prior to expiration of the previous lease period, i.e. ZIM is required to exercise the first option up to February 2011 (hereafter – "the First Option Period"). Along with that stated above, at ZIM's request, the lessor company of the vessel advised that ZIM may give notice of exercise of the option up to April 30, 2011. According to the said agreement, the lease fees during the original lease period were between $22,700 and $23,150 per day (updated on a bi-annual basis as set forth in the agreement) and the lease fees for the First Option Period are $23,550 per day.

In February 2011, ZIM's Audit committee and Board of Directors approved, as non-exceptional transaction, the exercise of the First Option Period.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

4. ORL

a. On January 24, 2007, the State of Israel and ORL entered into a new asset agreement that resolves the dispute between the parties regarding ORL's rights to the assets (hereinafter – "ORL Assets") and that replaces the previous agreement from 2002. Pursuant to the agreement, ORL agrees to the State's position in the dispute as it was defined in the original assets agreement from 2002, and it waives every claim stemming from the dispute or from ORL's position in the dispute or in connection therewith.

Pursuant to the new agreement, ORL's rights in ORL's assets are as follows:

Rights in assets that are not real estate assets – ORL has the rights in each and every one of its assets that are not real estate assets that it would have had if not for the State's position in the dispute.

1) Rights of the State of Israel – regarding each of ORL's parcels of property in which ORL would have ownership were it not for the position of the State of Israel in the dispute, including the right to be registered as the owner in the land registry – the State of Israel is the owner and ORL has and will have no claim against the State of Israel in respect of such rights.

   Regarding these parcels of property – ORL has a long-term lease (hereinafter – "the Lease Agreements) and ORL has and will have no claim against the State of Israel in respect of these rights.

   The period of each leasing agreement is 49 years, commencing on the date of signature (January 24, 2007), with ORL having an option to extend the period for an additional 49 years (hereinafter – "the Option Period"), subject to the fulfillment of all of its obligations under the leasing agreement and the new asset agreement. At the end of the leasing period, including the option period should it be exercised, ORL will transfer possession of each parcel of leased real estate to the State of Israel, including any construction and permanent appurtenances.

2) Regarding each parcel of property of ORL which is not included in section A above – ORL will have the same rights it would have in the parcels of property were it not for the position of the State of Israel in the dispute.

3) According to the agreement, ORL will pay the State of Israel, every year, an annual fee comprised of a fixed amount of $2.25 million and additional annual amounts, that are contingent on the annual income of ORL, according to the profit levels, as follows: 8% of the annual pre-tax income and the annual payment, in the range of $0–$30 million; plus 10% of the annual pre-tax income and the annual payment, in the range of $30–$52.5 million; plus 12% of the annual pre-tax income and the annual payment, in the range of $52.5–$67.5 million. In any event, the amounts paid to the State in respect of the annual payment (including the fixed component) will not exceed $8.7 million. All amounts will be translated into shekels at a rate of NIS 4.80 per dollar and are linked to the CPI of May 2002.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

4. ORL (Cont.)

a. (Cont.)

Rights in ORL's real estate assets

3) (Cont.)

According to the asset agreement, ORL has started to pay the annual fee. For 2010, ORL paid an annual fee of $4 million to the State (for 2009 ORL paid $13 million, and for 2008 ORL paid $4 million).

The new asset agreement set out the objectives of the leasing of the property and stipulated provisions regarding the need for the agreement of various parties for the transfer of the rights of ORL in the property, except for a lien and/or pledge of its rights in the leased property in favor of a financial institution only for purposes of obtaining financing for its operations in the normal course of business.

Rights in ORL's real estate assets

ORL will not be entitled to make or initiate a change in the zoning or utilization of the leased property, including any part thereof, until it gives notice of its intention to do so in advance and in writing to the CEOs (hereinafter – "the notice of rezoning or change in utilization") and provided none of the CEOs notify ORL of his objection to ORL's notice.

Should ORL breach any of its commitments in respect of any specific parcel of property, all the rights of ORL in that property will be cancelled and all the rights in that property will revert back to the State (hereinafter – "the returned property"), in addition to a possible liability in respect of compensation.

4) Distillates pipeline

Upon signing the agreement, ORL will restore to the State of Israel all of its rights in or related to the distillates pipeline, leading from the Haifa oil refinery to Haifa Port, including any right ORL had before the agreement was signed, to the land in which the pipeline is installed.

During the period from the privatization date until February 28, 2010 (hereinafter – "the interim period"), ORL will be entitled to operate and use the distillates pipeline, in accordance with and subject to the State's provisions pertaining to operation and use of the pipeline, as may be issued from time to time (hereinafter – "the operation permit").

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

4. ORL (Cont.)

a. (Cont.)

Rights in ORL's real estate assets (Cont.)

4) (Cont.)

Under the new agreement, ORL will transfer possession to the State of Israel of the distillates pipeline no later than February 28, 2010. The pipeline will be in compliance with all of the requirements of any law, especially laws relating to environmental protection. ORL applied to the Ministry of National Infrastructures for an extension of the period in which it is permitted to operate and use the distillates pipeline for another 15 years. In the period of the report, ORL received notice that under certain circumstances, the State is prepared to extend ORL's right to the distillates pipeline for three months. On December 29, 2010, the Accountant General of the Ministry of Finance requested that ORL submit, immediately, a schedule for completion of fulfillment of the requirements of the Ministry of Environmental Protection regarding the corridor of the distillates pipeline and transfer of the holding of the pipeline to the State. The Accountant General clarified that this does not derogate from its right to demand payment for ORL's use of the distillates pipeline. ORL responded to the Office of the Accountant General and made reference to its request to extend its use and operation period of the refining pipeline for the long run and requested to continue the contacts regarding this matter. ORL is also cooperating with the Ministry of National Infrastructures.

ORL will be liable and will indemnify the State, upon the State's demand, for any damage and/or expense incurred and/or that may be incurred to the State as a result of breach of ORL's undertakings under this section. ORL will not be entitled to collect any payment from other persons for their permitted use of the distillates pipeline, other than in accordance with the State's instructions from time to time.

b. In order to carry out its operations, ORL is dependent upon services from the infrastructure companies, Petroleum & Energy Infrastructures Ltd. ("PEI") and Eilat Ashkelon Pipeline Company Ltd. ("EAPC"), which own crucial infrastructures pertaining to the unloading, shipping, storage, and production of crude oil and distillates. According to information in ORL's possession, the work for replacement of part of the offshore pipeline used for unloading crude oil in Haifa Bay and delivery to ORLs refinery has not been completed. Such work was scheduled to have been performed in November-December 2010, and ORL has no information as to when the work will be completed. To the best of ORL's knowledge, the replacement process is expected to continue for about one month, and ORL will make preparations, to the extent possible, to reduce the effect of the shutdown to a minimum, but in any event, some reduction in the scope of refining during this period is to be expected.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

4. ORL (Cont.)

c. <u>The municipal regime applicable to the area of the plants</u>

The site area of the plants in Haifa Bay (Cont.) constitute part of the municipal property of the Haifa municipality.

On August 23, 2006, ORL, Gadiv, Carmel Olefins and another plant entered into an agreement with the Haifa municipality and other adjacent municipal authorities, designed to regulate the municipal regime that will apply to the area of the plants (hereinafter – "the Authorities Agreement"). In the reporting period, the Ministry of the Interior ratified the Authorities Agreement. The Authorities Agreement stipulates that a municipal corporation will be set up (hereinafter – "the Municipal Corporation"), in which all of the rights in capital and most of the voting rights will be held by the authorities, with the balance being held by the plants, and the goal of which is to provide municipal services in the area of the plants, including the setting of guidelines, planning and development.

The agreement stipulated that the Haifa municipality, as the licensing authority in the area of the plants, shall handle the request for a business permit submitted by ORL and that it will not add additional conditions to the business permit beyond those conditions stipulated by the relevant government ministries for the business permit of ORL.

It was further stipulated in the agreement, that the by-laws of the city of Haifa will apply in the area of the plants, and such laws will be applied in an equal manner to the other areas at Haifa. According to the agreement, a Joint Committee was established pursuant to the provisions of the Planning and Construction Law. The Joint Committee was granted the authority of a local committee and local licensing committee. By the end of the concession period, ORL had not received construction permits relating to the construction in most of the area of the plant. In 2004, ORL and additional plants located in the area of the plants submitted a detailed plan for the area to the Haifa Regional Planning and Construction Council. In 2008, the Regional Planning and Construction Council approved the plan, under the terms stipulated in its decision.

On September 13, 2010, the building permit for the new plant was approved by the Joint Committee for Planning and Construction for ORL's compound and was approved by the Haifa District Committee for Planning and Construction on September 21, 2010, and ORL commenced its construction. In this context, ORL undertook that operation of the plant will not cause additional emission in Haifa Bay, the plant will be run on natural gas only and the fuel oil produced at the plant has environmental advantages and is intended for sale in Israel and not for export. ORL further undertook to participate in financing the project initiated by the Ministry of Environmental Protection to treat drainage of the Kishon River and to place the river and its environment to the benefit of the public, including diverting the course of the river and cleaning the Kishon riverbed ("the Kishon Project"), at a total of up to $90 million out of the cost of the Kishon Project.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

4. ORL (Cont.)

c. The municipal regime applicable to the area of the plants (Cont.)

Commencing from the end of the concession period, ORL has received building permits for all new construction on its premises, according to the relevant provisions of the Planning and Construction Law. As at the publication date of the report, ORL is about to complete the conditions prescribed by the Council for deposit of the plan.

d. Agreements with ORL Ashdod for transfer of intermediate materials

On March 9, 2006, the date of the signing of the split-up agreement, ORL signed an agreement with ORA for the transfer of intermediate materials (hereinafter – “the Intermediate Materials Agreement”) whereby a mechanism was set up for the submission and receipt of proposals to purchase and/or sell a number of intermediate materials, designed for the sole use of the parties during the course of their refining business.

The prices of intermediate materials are determined on the basis of price formulas that are based on international publications.

The Intermediate Materials Agreement is valid until the end of the third quarter of 2011, with the parties having the option to extend the agreement for additional periods of one year each, upon mutual consent based on a mechanism set out in the agreement.

On March 8, 2006, the Restrictive Business Practices Authority announced that the Intermediate Materials agreement is not a restrictive agreement and does not require the filing of a request for exemption with the Supervisor.

e. Agreements with employees

1) Collective bargaining employment agreement for 2006–2010, an agreement for transfer of employees from ORL to ORA, an a early retirement agreement, and an agreement for providing a loan to Haifa Early Pension Ltd., which guarantees ORL’s liability under the early retirement agreement.

In November 2008, ORL and its employees signed an amendment to the collective agreement, extending the period in which ORL’s employees will be eligible for early retirement and extending the security net to additional employees who were employed by ORL at the time of privatization, and who were included in the list of names attached to the agreements.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

4. ORL (Cont.)

e. Agreements with employees (Cont.)

2) In 2009, ORL and the workers union signed a special collective agreement. Under the agreement, in 2009 only, ORL's employees will not receive certain payments due to them under the special collective agreements between ORL and its employees. However, if ORL has a net profit, after taxes, in its financial statements for 2009, each employee will be paid, in the month after publication of the financial statements, the amounts that were not paid in 2009, provided this payment, had it been made in 2009, would not have resulted in a net loss after taxes in 2009. In accordance with ORL's operating results in 2009, it paid its employees in 2010 the payments not paid in 2009, the provision for which was included in 2009.

On January 21, 2010, ORL and the workers union signed a memorandum of understanding, which set out agreed principles for implementing the merger in the different organizational units, in cooperation with the employees of ORL, borrowing employees from Carmel Olefins, and extension of the collective employment agreement until June 2016. The agreements and the collective arrangements that apply to employees in each of the companies will remain in force.

3) In 2010, ORL and representatives of the workers union (and Carmel Olefins and representatives of its workers union) signed a special collective agreement, which stipulates work conditions for future employees. These conditions are the same in ORL and in Carmel Olefins.

4) Most of the senior employees from the level of department manager upwards are employed under personal work contracts. A number of department managers are employed under collective agreements. The personal work agreements of the senior employees include pension and insurance cover, and social conditions and benefits that do not deviate from the standard, other than the rights of some of the senior employees to a severance bonus of up to 200%, for part of their years of service, and a grant for completion of severance up to 150% for some of the years of their service. Some of the senior employees are eligible to choose an early retirement or increased compensation track in the event of dismissal.

5) On January 26, 2011, a judgment was rendered in legal proceedings between employees of ORL and the Tax Authority whereby the privatization and split grants paid to employees pursuant to the special collective bargaining agreements were classified as capital income (according to the employees) and not as employment income (according to the Tax Authority). In the discussions between the Tax Authority, the employees and ORL, the full disputed amounts were deposited with a trustee and if the final tax amount exceeds the amounts accrued in the trustee account, ORL will be responsible for paying the difference (if the total disputed amount, plus linkage differences, is higher than the amounts deposited with the trustee plus the yields accrued on them). In addition, ORL undertook that until the dispute is resolved, it will not claim recognition of payments of these grants, which were deposited with the trustee, as an expense for tax purposes.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

4. ORL (Cont.)

f. As part of the agreement signed between the State of Israel, ORL and foreign investment banks (hereinafter – "the International Distributors") regarding the private placement of ORL's shares held by the State of Israel, ORL undertook to indemnify the international distributors for amounts that they may be required to pay to any third party as a result of a misstatement in the prospectus and/or as a result of an incorrect translation of the prospectus into English, up to the equivalent of the total proceeds from the sale of the shares through them.

g. Agreement for acquisition of 50% of Carmel Olefins from IPE

Under the agreement for acquisition of 50% of Carmel Olefins from IPE, each party undertakes to indemnify the other party for any damages or losses resulting from any inaccuracy or misstatement given by that party to the agreement (subject to exceptions). In general, the duty to indemnify will only apply after the cumulative amounts of all damages caused to the injured party, for which it is entitled to indemnification, exceeds $15 million, in which case the duty to indemnify will apply from $7.5 million up to a maximum of $75 million. The right to indemnification is limited to 18 months after the closing date of the transaction, excluding a demand for indemnification relating to matters of the environment or taxes, which can be given up to 36 months after the closing date of the transaction. Each party waived its right to claim for indemnification from subsidiaries and officers of the other party in respect of incorrect representation given in the context of the agreement. Each of the parties waives all claims against the other party, including against subsidiaries and officers, for any matter related to Carmel Olefins, the grounds of which originated prior to the completion of the transaction.

h. Agreement for acquisition of natural gas as combustible material in ORL's plants

On December 12, 2010, ORL entered into an agreement with East Mediterranean Gas S.A.E. (hereinafter – "EMG") for the supply of natural gas to the companies' plants, for 20 years commencing from the start of supply, according to the following principles:

i. Supply of natural gas will commence when the natural gas pipeline is completed and connected to ORL's plants in Haifa Bay.

ii. The annual quantity of natural gas that ORL is expected to purchase (including for its subsidiaries) in 2011 will reach an annual rate of 22.5 million MMBtu and it may gradually increase gas purchases to 38 million MMBtu per year from 2014 onwards. Before the end of 2011, the Company will inform EMG of the quantity of gas that it intends to purchase as from 2013 onwards, which will be at least 22.5 million MMBtu per year.

iii. According to the agreement, the price of gas is based on the price of oil, including a "floor" and "ceiling" price, and a "take or pay" commitment for a minimum quantity of gas per year in accordance with the mechanism set out in the agreement.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

4. ORL (Cont.)

h. Agreement for acquisition of natural gas as combustible material in ORL's plants (Cont.)

iv. The total financial scope of the agreement will be affected by a number of conditions, the main ones being the price of oil and the rate of gas consumption.

ORL has installed the systems required to receive natural gas and has signed an agreement for delivery with Israel Natural Gas Lines Ltd. ("INGL"), which is establishing the national gas pipeline.

v. Further to reports published by the gas supplier EMG and Ampal, which holds 12.5% of the shares of EMG, on February 5, 2011, EMG suspended the flow of natural gas from Egypt following damage to the natural gas pipeline to Jordan. Starting from March 15, 2011, EMG gradually resumed the supply of natural gas to its customers in Israel.

Subject to completion of connection of the natural gas pipeline to Haifa Bay, the companies will be able to replace fuel oil with natural gas, and after the conversion to natural gas, the companies will be able to reduce air emissions at their plants and comply with the provisions of the new Personal Order. Regarding this matter – see Note 22.B.3.h., above.

i. On June 29, 2010, ORL signed a financing agreement with a syndicate of financers led by Bank Hapoalim Ltd.

According to the agreement, the syndicate will provide ORL with a credit line (hereafter – "the Loans") of up to $600 million (with no collaterals) for partial financing of the Hydrocracker project, financing for the Company's other investments and in certain conditions, also to finance the Company's debt due between 2009 and 2012. The loans bear variable interest, linked to LIBOR plus a margin and is repayable over 8.5 years. Repayment of the principal of the Loan will commence 12 months after the Hydrocracker is operational. According to the terms of the Loan, ORL is required to fulfill financial covenants in the period of the loan.

The financing agreement was conditional upon the fulfillment of a number of preconditions, including signing of the financing agreement of $300 million backed by the Export-Import Bank of the United States.

In August 2010, the preconditions of the financing agreement with the local syndicate were fulfilled. Therefore, ORL withdrew $200 million on account of this credit line.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

4. ORL (Cont.)

j. In the period of the report, ORL signed a financing agreement with a financial institute in the United States, backed by the Export-Import Bank of the United States (“EXIM”) (hereinafter – “the Financing Agreement”). According to the Financing Agreement, ORL will receive a credit line of $300 million for acquisition of equipment for the Hydrocracker backed by EXIM (hereinafter – “the Loan”). The Loan will be repaid in 20 semi-annual payments over ten years, starting from October 2012. The Loan is at variable interest, linked to LIBOR plus a margin. According to the Financing Agreement, ORL has undertaken, among other things, to comply with financial covenants that are similar to those set out in the financing agreement with the local syndicate (see Note - 22.C.4.i., below – Details about ORL). The Loan is not secured by collateral. ORL may terminate the Financing Agreement or repay the Loan prematurely subject to payment of agreed cancellation fees. In addition, the Financing Agreement includes provisions for immediate repayment that are customary in such financing agreements.

The Financing Agreement includes various preconditions for withdrawing the first credit, including the finalization of Financing Agreement with the local syndicate. The Loan, together with the Financing Agreement with the local syndicate, will provide ORL’s credit requirements up to the end of 2012, including the financing required for investments in accordance with ORL's strategic plan, including establishment of the new plant and repayment of the long-term loan. In August 2010, the Financing Agreement with the credit agency and financing bank was finalized and signed. All the preconditions were fulfilled by October 2010 and ORL withdrew the first $6.7 million on account of the Loan.

k. As part of allocation of the acquisition cost in the transaction for acquisition of shares of Carmel Olefins by ORL, the responsibility of the party performing the work was limited for every cause except for a case of malice, to $150 thousand. In addition, the party was granted indemnification whereby if he is sued to pay any amount to a third party in connection with a cause of action that could derive directly or indirectly from expression of his opinion, ORL will back him up, with respect to an amount he is required to pay in a legal proceeding to a third party as well as expenses in the proceeding, in excess of $150 thousand. No indemnification will be provided if the party providing his opinion acted maliciously.

l. As part of allocation of the acquisition cost in the transaction for acquisition of shares of Haifa Basic Oils by ORL, the responsibility of the party performing the work was limited from every source in respect of the valuation to the party providing his opinion. In addition, the party was granted indemnification whereby if he is sued to pay any amount to a third party in connection with a cause of action that could derive directly or indirectly from expression of his opinion, ORL will back him up, with respect to an amount he is required to pay in a legal proceeding to a third party as well as expenses in the proceeding, in excess of the fee he was actually paid for his services.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

5. I.C. Power

a. Based on the terms of a tender for construction of a power plant, on November 2, 2009, O.P.C. signed a "power purchase agreement" agreement for sale of electricity (hereinafter – "the PPA") with the Israel Electric Company Ltd. (hereinafter – "the Electric Company") whereby O.P.C. undertook to construct the plant within 52 months from the signing date of the PPA, and the Electric Company undertook to purchase from O.P.C. capacity and energy pursuant to the terms of the PPA, over a period of 20 years from the commencement date of commercial operation of the plant. The PPA is a "capacity and energy" agreement, meaning, a right of O.P.C. to provide the plant's entire available capacity (that is, the plant's entire production capacity) to the Electric Company, and to produce electricity in the quantities and on the dates as required by the Electric Company. In exchange, the Electric Company undertakes to pay O.P.C. a fixed payment (which is intended to cover all the fixed costs involved with construction and operation of the plant, including capital and interest costs) for provision of the plant's net available capacity to the Electric Company, whether or not the Electric Company requested production of the electricity, and will also pay O.P.C. a variable monthly payment for the energy the plant supplied to the Electric Company based on its request in the prior month, covering certain variable expenses of O.P.C. in production of the energy. With respect to the costs involved with consumption of natural gas, the PPA provides that these costs will be returned to O.P.C. on a "pass through" basis, and the Electric Company will return to O.P.C. the full amount of the costs it bears in connection with consumption of natural gas.

Pursuant to the PPA, O.P.C. bears the responsibility for obtaining all the approvals and permits required for construction of the power plant, as well as the responsibility for its construction and operation.

The main milestones provided in the PPA for construction of the power plant are: obtaining a building permit for construction of the power plant, within 23 months from the signing date of the PPA, execution of a financial close, within 24 months from its signing date, and commercial operation of the project, within 49-52 months from its signing date.

The PPA includes additional sections governing the liabilities of each of the parties for the construction period of the plant and supply of the electricity, as well as a compensation mechanism for a case of non-compliance by one of the parties with its liabilities under the PPA.

Pursuant to the PPA, O.P.C. is permitted to notify the Electric Company that it will reduce the available capacity provided to the Electric Company in order for O.P.C. to make sales of electricity to consumers.

Subsequent to the period of the report, in January 2011, an amendment to the PPA was signed dealing mainly with provisions relating to financing of the project, in light of requests by the project's financing parties, and without there being a significant change in its provisions. As part of the amendment, as stated, there was an update in the amount of the agreed-to compensation referred to above.

Regarding execution of the financial close after the period of the report – see Note 22.C.5.g.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

5. I.C. Power Ltd. (hereinafter – "I.C. Power") (Cont.)

b. Pursuant to the terms of the tender for construction of the power plant, O.P.C. provided a bank guarantee in favor of the Ministry of Infrastructures, in the amount of $1 million (NIS 4 million).

On the signing date of the PPA, O.P.C. provided a bank guarantee in favor of the Electric Company in the amount of NIS 32 million ($9 million) (linked to the CPI of 12.2000). In order to secure the guarantee, O.P.C. made an interest-bearing deposit in the bank reflecting about 80% of the value of the guarantee, the balance of which as at the date of the report was NIS 34,118 thousand ($9,613 thousand), and Israel Dalkia Company Ltd. (hereinafter – "Dalkia") provided additional collateral in favor of the guarantee constituting about 20% of the value of the guarantee. Pursuant to the PPA agreement, after the financial close O.P.C. is required to increase the amount of the guarantee to be provided during the construction period, from NIS 32 million ($9 million) (linked to the CPI of 12.2000) to NIS 96 million ($27 million) (linked to the CPI of 12.2000). In this connection, in coordination with the Electric Company, subsequent to the period of the report, the company and Dalkia provided this amount to the Electric Company, based on their shares in the bank guarantees. Accordingly, the securities used for the bank guarantees were released and returned to their owners.

c. On June 27, 2010, O.P.C. signed detailed and binding agreements with Daewoo International (hereinafter – "Daewoo") from Korea for construction of a combined cycle power plant with a production capacity of about 440 megawatts on the turnkey basis (hereinafter – "the Construction Agreement"), and with Mitsubushi Heavy Industries (hereinafter – "Mitsubushi") from Japan for long-term maintenance of the power plant after commencement of its commercial operation, for a period of about 12 years (hereinafter – "the Maintenance Agreement"). The aggregate cost of the two agreements amounts to about $440 million.

In accordance with the Construction Agreement, Daewoo committed to complete construction of the power plant by December 2012. Payment of the consideration will be made by O.P.C. to Daewoo against progress of the construction and compliance with milestones as is customary in this industry. Daewoo committed to compensate O.P.C. in a case of delay or non-compliance with the commitments for execution up to the amounts stipulated in the Construction Agreement, and to provide O.P.C. a bank guarantee to secure the commitments. In addition, Daewoo will see to provision of a manufacturer's warranty for periods as is customary in this industry.

In accordance with the Maintenance Agreement, Mitsubushi will execute maintenance work with respect to the main components of the power plant (the gas turbines, the steam turbines and the generators), for a period of about 12 years, for a pre-determined consideration to be paid over the period of the agreement based on a formula provided in the agreement. The Maintenance Agreement is subject to commencement of commercial operation of the power plant. The Maintenance Agreement includes certain obligations of Mitsubushi regarding the quality of the power plant's performance.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

5. I.C. Power Ltd. (hereinafter – "I.C. Power") (Cont.)

c. (Cont.)

Mitsubushi committed to compensate O.P.C. in a case of non-compliance with the performance commitments, and O.P.C., on its part, committed to pay bonus amounts in a case of improved performance of the plant as a result of the maintenance work – all up to an aggregate annual ceiling provided in the Maintenance Agreement. It is noted that O.P.C.'s commitments under the Maintenance Agreement are backed up by a guarantee of I.C. Power Israel.

Daewoo and Mitsubushi provided an option to O.P.C. for a period of 18 months, to sign construction and maintenance agreements for an additional power plant based on the price and conditions agreed to in connection with the Rotem project, subject to certain adjustments that may be required with reference to the additional project. At the same time, O.P.C. will be required to turn to Daewoo and Mitsubushi, if and to the extent it will be interested in constructing an additional power plant during the said option period.

During the third quarter of 2010, Daewoo commenced work on the site.

Subsequent to the date of the report, on March 18, 2011, as a result of the earthquake in Japan, Daewoo provided early notification to O.P.C. of an "Act of G-d" that may impact its performance as a subcontractor operating in Japan supplying equipment intended for the power plant (although it was noted in its notification to Daewoo that its plants are not in the area of the disaster). As at the date of the report, O.P.C. is unable to estimate the validity of the said early notification and its impact on the project for construction of the power station, if any.

d. On July 13, 2010, O.P.C. signed a gas transport agreement with Israel Natural Gas Routes Ltd. The agreement is for a period of 15 years with an option to extend for 5 additional years. The agreement includes a payment for a reduction and allocation plant to be constructed for O.P.C. for a cost of about $10 million and a current monthly payment for use of the transport infrastructure. As part of the agreement, O.P.C. Power Israel provided a guarantee for the benefit of O.P.C. in the amount of NIS 5.1 million.

e. As part of a shareholders' agreement, O.P.C. it was agreed that the current operation and maintenance of the power plant will be executed by means of the operating company IPP Rotem Operation and Maintenance Ltd., which is held by Dalkia and I.C. Power Israel at the rates of 65% and 35%, respectively, (hereinafter – "the Operating Company").

A shareholders' agreement was signed among the shareholders of the Operating Company constituting essentially a mirror of most of the provisions of the shareholders' agreement in O.P.C. (that are relevant to the agreement applying from the commercial operation stage), such that Dalkia will enjoy the majority status and I.C. Power Israel will be entitled to minority protection.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

5. I.C. Power Ltd. (hereinafter – "I.C. Power") (Cont.)

e. (Cont.)

On December 28, 2010, an operating agreement was signed for the power plant between O.P.C. and the Operating Company. The agreement is effective for a period of 20 years from the plant's expected operation date. As part of the agreement, the Operating Company committed to perform all the services required for operation and maintenance of the plant, except for services under the responsibility of O.P.C. and/or Mitsubushi by virtue of its position as the "long-term maintenance agreement" contractor. In exchange, O.P.C. will pay the Operating Company the cost of the services as will be approved every year as part of the annual budget plus a pre-agreed margin or a fixed amount to be determined during the first 3 operating years. In any case, the Operating Company committed under the agreement that the total charge for provision of the services will not exceed an agreed maximum amount.

f. On December 12, 2010, O.P.C. signed an agreement with East Mediterranean Gas S.A. E. (hereinafter – "the Supplier") for supply of gas to the power plant for a period of 20 years commencing from the end of the plant's test run period (that is, commercial operation), which is planned for the first part of 2013 (hereinafter – "the Gas Agreement").

The agreement relates to an annual quantity of gas of about 0.3 BCM (subject to the quantity adjustments provided in the agreement), a quantity constituting about 50% of the plant's expected gas consumption. In addition, O.P.C. received an option, exercisable up to March 31, 2011, to purchase from the Supplier an additional quantity of gas, on conditions determined in advance, in an annual quantity of 0.3 BCM, which will serve the power plant. O.P.C. committed to purchase from the Supplier or pay the Supplier for ("take or pay" principle) a minimum annual quantity of gas in the scope and according to a mechanism provided in the agreement with the Supplier.

The price of the gas will be linked to a certain tariff, including a floor and ceiling price. A mechanism was provided in the agreement for a price reduction (including an update of the floor and ceiling price), to be made every five years, pursuant to the mechanism was provided in the agreement. The monetary scope of the agreement is estimated at about $700 million to $900 million (not including the option).

The gas agreement includes a compensation mechanism in connection with damages caused to O.P.C. due to a failure to supply gas, where the rate of the compensation is determined based on ascending brackets in accordance with the quantity of gas not supplied.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

5. I.C. Power Ltd. (hereinafter – "I.C. Power") (Cont.)

f. (Cont.)

Supply of the gas from the Supplier is unclear due to the political developments in Egypt. As at the date of the report, there is a significant doubt whether the Egyptian gas supplier will be able to supply the gas quantities in accordance with the agreement. At the same time, there is also uncertainty with respect to the ability and the date on which the company will be able to conduct negotiations with the Israeli gas supplier, the Tamar Partnership, in light of its recent notification that it does not intend, at this stage, to conduct negotiations for the sale of gas until application of the conclusions of the Sheshensky Committee are clarified and until the Tamar Partnership finishes its discussions with the State regarding supply of gas to the Electric Company. The company is examining its steps regarding the matter.

g. Subsequent to the date of the report, on January 2, 2011, an agreement was signed with a consortium of lenders led by Bank Leumi L'Israel Ltd. (hereinafter – "Bank Leumi") for financing construction of the power plant (hereinafter – "the Financing Agreement"). The project for construction of the power plant will be financed based on the project financing method.

As part of the Financing Agreement, the financing parties committed to provide O.P.C. a long-term credit framework (including a framework for variances in the construction costs), a working capital framework, and a framework for financing the debt service, in the overall amount of about NIS 1,800 million.

As part of the Financing Agreement, it was provided that only after provision of all of the shareholder's equity required for the project (which was set at 20% of the construction cost of the project (without variances)), is O.P.C. permitted to commence drawing down monies from the above-mentioned credit frameworks. Subsequent to the period of the report, in January 2011, the required shareholder's equity, as stated, was provided. In addition, a number of various conditions were provided for making the initial draw down from the credit frameworks, including signing of an agreement for supply of natural gas in a minimum consumption amount as provided in the Financing Agreement. In addition, it was provided that O.P.C. is required to present a lease agreement covering the area on which the power plant is located by the end of 2011, and that after this date withdrawals from the credit frameworks will not be permitted until the lease agreement is obtained. As at the date of the report, all the conditions for making the first withdrawal from the credit frameworks in accordance with the Financing Agreement had not yet been fulfilled.

As part of the Financing Agreement, certain restrictions wee provided with respect to distribution of a dividend and repayment of shareholders' loans to the shareholders of O.P.C., commencing from the third year after completion of the power plant.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

5. I.C. Power Ltd. (hereinafter – "I.C. Power") (Cont.)

g. (Cont.)

In January 2010, as part of the Financing Agreement, I.C. Power Israel and Dalkia International S.A. provided guarantees of NIS 80 million and NIS 20 million, respectively (which gradually decline over the period of the Financing Agreement commencing from construction of the power plant).

As part of the Financing Agreement, O.P.C. took out a bridge loan with respect to the shareholders' equity provided by Dalkia. The repayment date of the loan is January 2013, and proximate to this date O.P.C. will issue a payment demand to Dalkia for repayment of the loan. This obligation of Dalkia is backed up by a bank guarantee from B. & F. Farbes (the amount of the bank guarantee also includes the interest payments on the loan). To the extent there are expenses in respect of this loan, they will be borne by Dalkia. As a result of the above-mentioned conditions, the loan will not be recorded in O.P.C.'s books and O.P.C.'s liability will be presented as a capital note to Dalkia.

O.P.C. made a withdrawal of NIS 400 million as part of the credit framework for a deposit in order to fix the interest. Use of the deposit monies is conditioned on compliance with certain preconditions, as stated above. In addition, O.P.C. executed an interest hedging transaction of the "lock agreement" type, in the additional amount of NIS 400 million.

h. In April 2010, Kallpa, which is registered in Peru, in which the Corporation owns a 75% through a subsidiary, signed a number of long-term agreements with distribution companies in Peru, for periods of 8-10 years, whereby Kallpa will sell electricity to those distribution companies, commencing from 2014, in a scope of 560 megawatts. The total financial scope of the agreements is estimated at $1.5 billion, which will be spread out over the period of the agreements.

i. Kallpa reached a compromise agreement with Calidda, the concessionaire for distribution of gas for Lima and Callao, whereby Kallpa agreed: (A) to transfer to Calidda the natural gas pipeline that connects its power plant with the main pipeline for transport of natural gas; (B) to withdraw all its legal proceedings against imposition of a distribution tariff on natural gas; and (C) to pay the natural gas distribution tariff commencing from January 1, 2014. In exchange, Calidda agreed to pay Kallpa compensation in the amount of $11 million. Of this amount, $5 million was recorded as income in 2010, and the balance of $6 million will be recognized as income in the years 2014-2019, in order to offset part of the distribution tariff costs.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. Commitments (Cont.)

5. I.C. Power Ltd. (hereinafter – "I.C. Power") (Cont.)

j. Subsequent to the date of the report, in March 2011, Inkia won a tender (through its subsidiary) published for supply of electricity from hydro-electric power plants in Peru, in an overall scope of 200 megawatts, whereby Inkia will supply electricity to the electric company owned by the government of Peru. Inkia will supply the electricity during a period of 15 years and the supply is expected to begin in the second half of 2015. The aggregate amount of the tender is about $75 million (the scope of the tender for the entire period is about $1.1 billion). For purposes of participation in the tender, the Corporation provided a bank guarantee as required by the tender. Winning the electricity supply agreement in the tender will allow Inkia to make progress with respect to the financial close and other matters, in connection with construction of the planned project, Cerro del Aguilla, the aggregate scope of which is planned for 400 megawatts, with a total contemplated investment of about $750 million.

D. Concessions

1. Dead Sea Works Ltd.

Pursuant to the Dead Sea Concession Law, 1961 (hereinafter – "the Concession Law"), as amended in 1986, and the concession indenture attached as an addendum to the Concession Law, DSE was granted a concession to utilize the resources of the Dead Sea and to lease the land required for its plants in Sdom for a period ending on March 31, 2030, accompanied by a priority right to receive the concession after its expiration. In consideration of the concession, DSW pays royalties to the Government of Israel, calculated at the rate of about 5% of the value of the products at the factory gate, less certain expenses, and also pays lease fees to ICL Fertilizers. DSW grants a sub-concession to Dead Sea Bromine Ltd. to produce bromine and its compounds from the Dead Sea, the expiration date of which is concurrent with DSW's concession. The royalties for the products manufactured by the Bromine Company are received by DSW from the Bromine Company, which pays them to the State. In addition, there is an arrangement relating to payment of royalties by Dead Sea Magnesium (hereinafter – "DSM") for production of magnesium metals by virtue of a specific arrangement with the State provided in the Government's decision dated September 5, 1993. Pursuant to the arrangement, royalties are paid by DSM on the basis of carnallite used for production of magnesium.

As for the royalties payment by DSW, the State is permitted to demand reconsideration with respect to the rate of the royalties relating to the quantity in excess of three million tons of potash manufactured in any year from 2010 and thereafter, provided the rate of the royalties with respect to such excess does not exceed 10% of the value of the product at the factory gate, less certain expenses.

In December 2010, a letter was received from the Accountant General containing a demand for reconsideration of the amount of the royalties relating to the said excess quantity.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

D. Concessions (Cont.)

1. Dead Sea Works Ltd. (Cont.)

The arrangement with Dead Sea Magnesium provides that during 2006 the State may demand a reconsideration in connection with the amount of the royalties and the method or their calculation for 2007 and thereafter. The State's demand for reconsideration was first received at the end of 2010.

In 2006, a letter was received from the Accountant General at that time claiming an underpayment of royalties amounting to hundreds of millions of shekels.

Pursuant to the concession, disputes between the parties relating to the concession, including royalties, are to be decided by an arbitration panel of three arbitrators (each side appoints an arbitrator and these two appoint the third). On January 9, 2011, the State and DSW decided to turn to arbitration for purposes of deliberating and deciding the issue of the manner of calculation of the royalties by the concessionaire, payment of the royalties with respect to the excess above 3 million tons of potash per year commencing from 2010 and thereafter, and royalties to be paid for magnesium metals and payment or refunds (if any) due deriving from these matters. Each of the parties appointed an arbitrator on its behalf and these arbitrators are to appoint a third arbitrator.

On March 14, 2011, a statement of claim was received from the State of Israel against DSW in the framework of the arbitration proceedings wherein the State is demanding the amount of $265 million in respect of an underpayment of royalties for the years 2000 through 2009, where such amount bears interest and linkage differences, an additional amount of $26 million in respect of an increase in the royalties' rate, commencing from 2010, in connection with the annual sales' quantity in excess of 3 million tons of potash, as well as a change in the calculation method for payment of royalties relating to metal magnesium.

An initial reading of the State's contentions in connection with past years indicates that no new significant contentions are being raised that were not known to DSW and with respect to which DSW believes, based on an opinion it has from its legal advisors, that the royalties it paid and the manner of their calculation conform to the provisions of the concession. A calculation method is involved that was applied consistently since the time DSW was a government company, which was known to the State and acceptable to it. Also based on the legal opinion it received, DSW did not record a provision in the financial statements in respect of royalty amounts (which are not defined) that the Accountant General claims were underpaid.

Regarding increase of the royalties' rate commencing from 2010 in connection with annual sales' quantity in excess of 3 million tons of potash, in light of the fact that this is a re-hearing without instructions having been provided to the parties as to the parameters to be considered in order to decide on the royalty rate exceeding the present rate (5%), and in light of the fact that the arbitration proceedings have not yet commenced, ICL is not able to determine that a certain outcome out of the range of possible outcomes between the present royalty rate and the maximum royalty rate is more probable than other outcomes. Accordingly, ICL recorded a provision equal to half of the difference.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

D. Concessions (Cont.)

1. Dead Sea Works Ltd. (Cont.)

The amount of the royalties paid to the State for 2010 and 2009 amounts to about $23 million and $90 million, respectively.

2. Rotem Amfert Negev Ltd.

Rotem Amfert Negev Ltd. (hereinafter – "Rotem") has been mining phosphates in the South for more than last fifty years. The mining is conducted in accordance with phosphate mining concessions, which are granted from time to time by the Ministry of National Infrastructures under the Mines Ordinance, through the Supervisor of Mines in his Office (hereinafter – "the Supervisor"), accompanied by mining authorizations issued by the Israel Lands Administration (hereinafter – "the ILA"). The concessions relate to the quarry (rock and phosphates) whereas the authorizations relate to use of land as active mine sites.

<u>Mining concessions</u>:

Rotem has the following four mining concessions:

i. Sadeh Rotem – valid up to the end of 2021;

ii. Sadeh Zafir – (Oron-Zin) – valid up to the end of 2021;

iii. Sadeh Effa – valid up to the end of 2013;

iv. Sadeh Hatrurim – the Supervisor of Mines decided to expand the area of the Sadeh Rotem concession (valid up to the end of 2021), such that it will also include the area of Sadeh Hatrurim. The area of the Rotem concession was expanded, as stated, and the matter was transferred to the Supervisor of Israel Lands Administration for handling of expansion of the area authorized for mining in Sadeh Rotem, in accordance with the expansion of this area.

<u>Mining royalties</u>:

In respect of mining of the phosphate, Rotem is required to pay the State royalties based on a calculation format stipulated in the Mines Ordinance. The calculation format for the royalties was updated in February 2010 as part of a compromise agreement that settled all the disputes regarding past royalties and formulas for future royalties.

Rotem paid royalties to Israeli government of about $12,787 thousand and $629 thousand in 2010 and 2009, respectively.

3. Regarding mining rights of a subsidiary in Spain – see Note 16.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

D. Concessions (Cont.)

4. CPL's mining rights are based on approximately 113 mining leases and concessions for extracting various minerals, in addition to numerous easements and rights of way from private owners of land under which CPL operates or, in the case of mining underneath the North Sea, granted by the British Crown. The terms of all of these leases, concessions, easements and rights of way extend until 2015-2038. In 2010, the mining royalties amounted to about £2.4 million.

5. Up to December 2010, Compania Boliviana de Energia Electrica (hereinafter – "COBEE") was engaged in production of electricity and local distribution under a concession granted to it by the Government of Bolivia, in October 1990 for a period of 40 years. As part of Bolivian law, COBEE is required to move from a concession to a license. COBEE completed all its procedural obligations in the process. In addition, COBEE has received a temporary license. As at the date of the report, there is no certainty that COBEE will receive a permanent license.

In the period of the report, the government of Bolivia nationalized companies that were privatized in the past. In addition, the President of Bolivia announced that the government intends to control the electricity market and it intends to hold an open discussion regarding the conditions wherein the process will take place. As at the date of the report, the government of Bolivia has not yet clarified its intentions. As indicated to the Corporation, Inkia has no information regarding the existence of an intention on the part of the government of Bolivia to privatize COBEE.

E. Liabilities secured by liens

1. The Corporation and the wholly owned and controlled companies of the Corporation (100%) (hereinafter – "the Headquarters Companies")

a. As security for loans in the amount of about $661 million, the Corporation has placed liens on shares of ICL at the rate of 19.1% of ICL's share capital. Based on the credit agreements, the Corporation has the right to release shares from the lien such that a lien will remain on shares at the rate of only 12.4%.

b. As security for loans in the amount of about $225 million, the Headquarters Companies have placed liens on shares of ICL at the rate of 12% of ICL's share capital. Based on the credit agreements, these companies have the right to release shares from the lien such that a lien will remain on shares at the rate of only 5.1%.

c. In the framework of loan agreements and in accordance with that defined therein, there are various commitments and obligations to maintain certain financial ratios, including:

- The Corporation's minimum shareholders' equity in the consolidated financial statements will not drop below $300 million.
- The ratio of the liabilities plus 50% of the guarantees will not exceed 60% of the assets.
- A minimum ratio between the value of the collaterals and the balance of the credit. The value of the collaterals for purposes of the loan agreements is derived from their stock-market value.
- Continued control over the company by the present controlling interests.
- Continued control by the Corporation of its investee companies.

As at December 31, 2010, the Corporation is in compliance with these financial covenants.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

E. Liabilities secured by liens (Cont.)

2. ICL

a. Some of the companies in the ICL Group undertook towards certain Israeli and foreign banks in respect of loans and other credit received from them not to create pledges (a “negative pledge”). Pursuant to the negative pledge, the above-mentioned companies are required not to place liens on their assets. Lenders are entitled to request the advance repayment of their loans if the State of Israel no longer holds the special state shares it was issued by ICL and certain of its subsidiaries.

ICL has undertaken various obligations in respect of loans and credit received from non-Israeli banks (mentioned above). Among others, it has undertaken to restrict guarantees and indemnities to third parties (other than the guarantees in respect to subsidiaries up to an agreed amount for $550 million. ICL has also undertaken to grant loans only to subsidiaries and to associated companies in which it holds at least 25% of the voting rights – up to the amount stipulated by the agreement with the banks. ICL has also undertaken not to grant any credit, other than in the ordinary course of business, and not to register any charges, including rights of lien, except those defined in the agreement as “liens permitted to be registered” on its present or future assets or income.

b. Restrictions on the ICL Group with respect to receipt of credit – in connection with some of the loans received from banks, ICL committed to maintain certain financial ratios, as follows:

- The ratio of the net debt to EBITDA will not exceed 4.5.
- The ratio of the EBITDA to net interest expenses will be at least 3.5.
- ICL’s shareholders’ equity will not drop below $700 million plus 25% of the net income for 2005 and the upcoming years on a cumulative basis.
- The total financial liabilities of ICL’s subsidiaries are limited to 10% of the total assets in ICL’s consolidated financial statement (in certain cases loans to subsidiaries are not included in the said restriction).

As at December 31, 2010, ICL is in compliance with these financial statements ratios.

c. In order to secure compliance with the conditions relating to receipt of investment grants from the State of Israel, which were received by certain ICL subsidiaries, floating liens have been recorded on its assets in favor of the State of Israel.

3. ZIM

a. In order to hedge liabilities to banks, ZIM and its subsidiaries have provided bank guarantees in the amount of about $15 million.

b. In order to hedge liabilities to various parties, ZIM and its subsidiaries have provided bank guarantees in the amount of about $47 million (this amount includes guarantees for an associated company, in the amount of about $16 million).

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

E. Liabilities secured by liens (Cont.)

3. ZIM (Cont.)

c. Part of ZIM's secured loans include a requirement to comply with the following covenants:

i. Commencing from 2010, ZIM is required to have minimum cash and cash equivalents, marketable securities and available deposits in the amount of US$40 million. As at the date of the report, ZIM is in compliance with this covenant.

ii. Every quarter, commencing from January 1, 2011, ZIM is required to comply with a number of covenants:

a) Consolidated EBITDA (EBITDA after a number of adjustments as specifically defined in the loan agreements) shall not fall below the rate defined, which changes every quarter.

b) The ratio of Consolidated Net Secured Debt (as defined in the loan agreements) to the Consolidated EBITDA shall not fall below defined ratio, which changes every quarter.

c) The ratio of the Consolidated EBITDA to the Interest Expenses (as defined in the loan agreements) shall not fall below defined ratio, which changes every quarter.

d) Israel Corporation shall, at all times retain control of ZIM, and must not alter its shareholding in ZIM in way which results in change of control except with the consent of the Security Agent (as defined in the loan agreements).

e) ZIM or any of its subsidiaries (as defined in the loan agreements) (hereinafter – "the Borrowers") may not pay or create a grant of a dividend, or make a distribution or redemption of any payment of shares or a benefit to a shareholder of the Parent Guarantor or any of the Borrowers, or sign an agreement to carry out any of the above-mentioned actions, as follows:

(1) During the Grace Period or the Reduced Amortization Period.

(2) The value of such action, when aggregated with a number of similar actions executed in one fiscal year, exceeds net income for that fiscal year.

(3) Where an Event of Default, as defined in the loan agreements, has occurred and is continuing or would occur as a result of such action.

(4) The Total Leverage Ratio, as defined in the loan agreements, exceeds 3:1.

(5) ZIM's most recent audited consolidated financial statements indicate a lack of income or negative net income.

Note 22 – Contingent Liabilities, Commitments and Concessions (Cont.)

E. Liabilities secured by liens (Cont.)

3. ZIM (Cont.)

c. Part of ZIM's secured loans include a requirement to comply with the following covenants: (Cont.)

ii. Every quarter, commencing from January 1, 2011, ZIM is required to comply with a number of covenants: (Cont.)

f) If on March 31, 2013 the market value of the ships is less than the applicable individual required amount, the margin for the period from March 31, 2013 to March 30, 2014, will be adjusted as defined in the loan agreements. If on or after March 31, 2014, the market value falls below the applicable individual required amount, the relevant Borrower shall, within 30 days of notice shall act as follows:

1. Repay the amount of the Post Delivery Loan.

2. Make an interest bearing cash deposit with the Facility Agent (as defined in the loan agreements).

3. Provide or cause to be provided additional collateral to the Facility Agent.

d. In case of Excess Cash (as defined in the loan agreements) ZIM must make an early repayment of the secured debt corresponding to the relevant percentage of the Excess Cash Flow, however this is true only if immediately following such a payment ZIM's consolidated group has a minimum of US$50 million of available cash, cash equivalents, marketable securities and available deposits.

Note 23 – Share-Based Payments

A. In the Corporation

1. On May 15, 2005, the Corporation's Board of Directors decided that the Corporation shall issue to H.L. Management and Consultants (1986) Ltd. a wholly owned subsidiary of the Corporation (hereinafter – "Management and Consultants") 70,300 of the Corporation's shares of NIS 1 par value, which will be used by Management and Consultants in the framework of a new plan it adopted on that date for compensating its employees and officers (hereinafter – "the Plan"). Pursuant to the Plan, Management and Consultants will issue options to employees and officers for acquisition of the Corporation's shares, which will be issued as stated to Management and Consultants. According to the Plan, 70,300 options were issued to employees and officers of Management and Consultants (some of the options were issued to the CEO at that time).

Note 23 – Share-Based Payments (Cont.)

A. In the Corporation (Cont.)

1. (Cont.)

The securities issued to Management and Consultants are ordinary shares of NIS 1 par value of the Corporation. The options being offered to the offerees are not marketable and for each such option the offeree will be entitled to acquire from Management and Consultants one ordinary share of NIS 1 par value of the Corporation subject to the terms of the Plan.

Entitlement to receive options will vest in three increments: one-third on the second business day after advance approval by the Assessing Officer, an additional one-third on December 31, 2005 and the balance on December 31, 2006.

The exercise price of each option is the equivalent of NIS 880 (which is equal to the average stock market price of a Corporation share during the 30 trading days preceding December 31, 2004, less a dividend distributed in the beginning of 2005), plus linkage differences to the CPI beginning from the index for November 2004 and up to the date of exercise.

The options included in the first increment will be exercisable commencing December 31, 2007 and up to December 31, 2009; the options included in the second increment will be exercisable commencing June 30, 2008 and up to June 30, 2010; and the options included in the third increment will be exercisable commencing December 31, 2008 and up to December 31, 2010. In addition, rules were provided for a case of termination of the service or employment of the offerees.

On the exercise date of the options, the offerees will be entitled to that quantity of shares determined based on the value of the benefit.

The economic value of an option computed based on the Black and Scholes formula is NIS 429.21 for the first increment, NIS 443.79 for the second increment and NIS 457.96 for the third increment.

The cost of the benefit embedded in the options included in the third increment granted, as stated, based on the fair value on the date of their grant, amounted to a total of $8.5 million. This amount was recorded in full on the statement of earnings over the vesting period of each increment.

2. On June 25, 2007, the Corporation's Board of Directors decided with respect to the issuance of 60,000 shares of NIS 1 par value of the Corporation's share capital to H.L. Management and Consulting (1986) Ltd. (hereinafter – "Management and Consulting"), a wholly owned subsidiary of the Corporation, which will be used by Management and Consulting in the framework of a new plan it adopted on that date for compensation of its employees and senior officers (hereinafter – "the Plan"). Pursuant to the Plan, Management and Consulting will issue options to its employees and senior officers for acquisition of the Corporation's shares that were issued, as noted, to Management and Consulting.

Note 23 – Share-Based Payments (Cont.)

A. In the Corporation (Cont.)

2. (Cont.)

The grant conditions are as follows:

Grant date / entitled employees	Number of instruments (in thousands)	Vesting terms	Projected life of options (in years)
Grant of options to the CEO in August 2007	20	1–3 years from grant date	3–5
Grant of options to five employees (two officers) in August 2007	23.8	1–3 years from grant date	3–5
Grant of options to officers in October 2007	10	1–3 years from grant date	3–5
Grant of options to two employees (one officer) in October 2008	5.3	1–3 years from grant date	3–5
	59.1		

The exercise price of each option is the equivalent of NIS 3,031 plus linkage differences to the CPI beginning from the index for May 2007 and up to the date of exercise.

The options granted to the offerees are non-marketable options, where pursuant to each such option the offeree will be entitled to acquire from Management and Consulting one of the Corporation's ordinary shares of NIS 1 par value subject to the Plan's conditions. The eligibility of each of the offerees to receive the options granted will vest in three increments: one-third one year after the grant date, one-third two years after the grant date and one-third three years after the grant date.

In addition, rules were provided for a case of termination of the service or employment of the offerees and rules protecting the offerees. On the exercise date of the options, the offerees will be entitled to that quantity of shares determined based on the value of the benefit.

The cost of the benefit embedded in the options granted, as stated, based on their fair value on the date of their grant included in the first, second and third increments amounted to a total of $11 million. These amounts will be recorded on the statement of income over the vesting period of each increment. Accordingly, in 2009 and 2010 the Corporation included an expense in the amount of about $1 million and $3 million, respectively, in connection with the said Plan.

3. On August 30, 2010, the Corporation's Board of Directors approved a private offer for issuance of 65,600 options exercisable for Corporation shares to 10 of the Corporation's senior personnel. The offer includes issuance of 12,000 options to the Chairman of the Board of Directors and 15,000 options to the CEO.

Note 23 – Share-Based Payments (Cont.)

A. In the Corporation (Cont.)

3. (Cont.)

In addition, after approval of the Audit Committee, the Board of Directors approved that up to an additional 19,400 options for acquisition of Corporation shares may be issued in the future to additional Corporation officers, pursuant to the options' plan and subject to approval of actual allotments in accordance with law.

On September 16, 2010, the General Meeting of the Corporation's shareholders approved the issuance to the Chairman of the Board of Directors. The options were issued to the offerees in accordance with Section 102(B)(2) of the Income Tax Ordinance under the Capital Gain track, by means of a trustee. The options are non-marketable options, where pursuant to each one of them the offeree will be entitled to acquire one ordinary share of the Corporation of NIS 1 par value.

Entitlement of each of the offerees to receive the options presently being granted will vest in three equal portions on August 31 of 2011, 2012 and 2013, except for an officer that was granted 4,000 options, where the vesting date of his entitlement will be half on August 31, 2012 and half on August 31, 2013.

The exercise price of each option will be equal to NIS 3,119 per share. The exercise price was determined on the basis of the known closing price of a Corporation share on the stock exchange on the date of the Board of Directors' approval, that is, the closing price on August 29, 2010. The exercise price will be linked to the Consumer Price Index known on August 30 and up to the exercise date, and is subject to adjustments.

The options included in the first and second portions will be exercisable (subject to the terms of the plan) commencing from September 30, 2012 and up to August 31, 2013; the options included in the third portion will be exercisable (subject to the terms of the plan) commencing from August 31, 2013 and up to August 31, 2014.

It is clarified that at the end of every exercise period, as stated above (subject to the terms of the plan) the relevant options that are not exercised will automatically expire.

The economic value of every option included in the first and second portions is about NIS 1,207.5; the economic value of every option included in the third portion is about NIS 1,274.1. The economic value the options issued to the Chairman of the Board of Directors on September 16, 2010 in the first and second portions is about NIS 1,256.2 per option and in the third portion about NIS 1,327.5 per option.

The economic value of the said options was calculated using the "Black and Scholes" formula taking into account the closing price of a Corporation share on the stock exchange on August 29, 2010, NIS 3,119 per share, where the annual standard deviation of the share is: with respect to the first and second portions 64.05% and with respect to the third portion 56.97%. The annual discount rate for the first and second portions is 0.03% and for the third portion 0.25%.

Note 23 – Share-Based Payments (Cont.)

A. In the Corporation (Cont.)

3. (Cont.)

In calculation of the economic value as referred to above, the following assumptions were taken into account:

Every option will be exercised six months prior to the end of the exercise period;

Calculation of the economic value does not take into account the fact that the options will not be registered for trading on the stock exchange, nor does it take into account the vesting period and the restriction period.

The life of the options was determined based on the estimate of Corporation management with respect to the period the employees will hold the options, taking into account their positions with the Corporation along with the Corporation's past experience in connection with employee attrition.

The cost of the benefit embedded in the options issued, as stated, based on the fair value on their issuance date, amounted to about NIS 81 million (about $21 million). This amount will be recorded on the statement of income over the vesting period of each portion. Accordingly, in 2010, the Corporation included an expense of about $4.3 million.

4. Set forth below is the movement in the options during 2008–2010:

	2010 plan	2008 plan	2005 plan	Total
Balance as at January 1, 2008	–	53,800	70,300	124,100
Granted during 2008	–	5,300	–	5,300
Exercised during 2008	–	–	(61,965)	(61,965)
Balance of options as at December 31, 2008	–	59,100	8,335	67,435
Granted during 2009	–	–	–	–
Exercised during 2009	–	–	(6,151)	(6,151)
Balance of options as at December 31, 2009	–	59,100	2,184	61,284
Granted during 2010	65,600	–	–	65,600
Expired during 2010	–	(18,999)	–	(18,999)
Exercised during 2010	–	(4,734)	(2,184)	(6,918)
Balance of options as at December 31, 2010	65,600	35,367	–	100,967

The weighted-average of the remaining contractual lives of the options outstanding as at December 31, 2008, 2009 and 2010 are 2 years, 3 years and 4 years, respectively.

Note 23 – Share-Based Payments (Cont.)

A. In the Corporation (Cont.)

5. The fair value of the options granted, as stated above, was estimated using the Black and Scholes model for pricing options. The parameters used in application of the model are as follows:

	2010 plan	2007 plan	2005 plan
Share price (in NIS)	3,119–3,025	3,004–3,350	1,191
Exercise premium (in NIS)	3,119	3,031	880
Expected volatility	56.97%–64.05%	23.80%	24.95%
Life of the options (in years)	2.5–3.5	3–5.5	4.5–5.5
Riskless interest rate	(0.03%)–0.75%	3%	2%

The expected volatility (fluctuations) was determined on the basis of the historic volatility of the Corporation's share price. The life of the options was determined based on management's estimate with respect to the employees' holding period of the options taking into account their positions with the Corporation and the Corporation's past experience regarding employee attrition rates. The riskless interest rate was determined based on the yield to maturity on shekel government bonds having a remaining outstanding term to maturity equal to the expected lives of the options.

6. In 2010, options granted as part of the 2005 plan were exercised for 1,536 ordinary shares of NIS 1 par value, and options granted as part of the 2007 plan were exercised for 593 ordinary shares of NIS 1 par value.

7. As at the signing date of the financial statements, the balance of the options from the 2007 plan amount to about 20,835 options.

B. ICL

1. On January 28, 2007, (hereinafter – "the Effective Date"), ICL's Board of Directors approved a plan for a private issuance, for no consideration, of 12.9 million options exercisable for ICL shares, to a group of officers and other senior employees holding management positions with ICL and companies it controls, in and outside of Israel.

   Out of the 2007 plan, during the period of the report 11.8 million options were issued and the balance of the unissued options expired.

   Upon exercise, each option may be exercised for one of ICL's ordinary shares of NIS 1 par value. Immediately upon their issuance, the ordinary shares issued as a result of exercise of the options will have all the same rights as ICL's ordinary shares. The options to be issued to the employees in Israel will be covered by Section 102 of the Income Tax Ordinance (New Version), and the regulations promulgated thereunder. ICL elected that the issuance shall be through a trustee under the "Capital Gains" alternative.

Note 23 – Share-Based Payments (Cont.)

B. ICL (Cont.)

1. (cont.)

The options will vest in three equal portions as follows: one-third at the end of 12 months from the Effective Date, one-third at the end of 24 months from the Effective Date, and one-third at the end of 36 months from the Effective Date. Each portion will be locked-up for an additional year from its vesting. The expiration date of the options is at the end of 60 months from the Effective Date. In addition, rules have been provided for a case of termination of service or employment of any of the option holders. The exercise price was set at NIS 25.59 per share linked to the Consumer Price Index "known" on the payment date (the base index is the index for December 2006). In the case of distribution of a dividend by ICL, the exercise price will be reduced on the ex-dividend date in the (gross) amount of the dividend per share, based on the amount thereof in NIS on the Effective Date.

Alternatively, and based on ICL's discretion, it may transfer or issue shares at the rate of the difference between the price per share on exercise date and the exercise price. The options are not marketable and may not be transferred.

The weighted-average value of each option on the eve of the Effective Date, computed using the Black and Scholes options-pricing model is NIS 6.43, based on the stock market price of one of ICL's ordinary shares of NIS 1 par value, on the eve of the Effective Date – NIS 25.59.

The cost of the benefit inherent in the options allotted as aforementioned, on the basis of the fair value on the date they were granted, amounted to $17.9 million. This amount will be recorded in the statements of income over the vesting period of each portion. In accordance with the above, in 2010 and 2009 ICL included an expense of about $0.317 million and about $2 million, respectively, in connection with the aforementioned plans.

2) Set forth below is the movement in the options in 2010 and 2009.

	Number of options
	2007 plan
Balance as at January 1, 2009	11,765,000
Movement in 2009:	
Exercised during the year	(1,781,148)
Forfeited during the year	(140,000)
Total options outstanding as at December 31, 2009	9,843,852
Movement in 2010:	
Exercised during the year	**(4,678,849)**
Forfeited during the year	**–**
Total options outstanding as at December 31, 2010	**5,165,003**

Note 23 – Share-Based Payments (Cont.)

B. ICL (Cont.)

2. (cont.)

The fair value of the options granted under the 2008 plan above was estimated using the Black & Scholes model for pricing options. The parameters used in application of the model are as follows:

	2007 plan
Share price (in NIS)	25.59
Exercise premium linked to the CPI (in NIS)	25.59
Expected volatility	24.60%
Life of the options (in years)	4
Risk-free interest rate	3.34%
Economic value (in millions of dollars)	17.9

The expected volatility was determined based on the historical volatility of the price of ICL's shares.

The life of the options was determined based on the estimate of ICL's management of the period the employees will hold the options, taking into consideration their position with the ICL, and the ICL's past experience regarding employee attrition. The risk-free interest rate was determined on the basis of the yield to maturity of shekel-denominated government debentures, with a remaining life equal to the anticipated life of the options.

3) In January 2010, ICL's Board of Directors approved an issuance of 10,930,500 non-marketable options for no consideration to 318 ICL executives and senior employees in Israel and overseas. The issuance included a material private placement of 1,100,000 options to ICL's CEO and 800,000 options to ICL's Chairman of the Board. On February 15, 2010, ICL's the Extraordinary General Meeting of ICL's shareholders approved the issuance to the Chairman of the Board. The options may be exercised and converted into shares at an exercise price of NIS 53.1 (the base price of the shares at the beginning of the trading day on which the resolution was made), linked to the CPI and subject to adjustments. The options may be exercised in three equal portions on January 7, 2011, 2012, and 2013. The expiration date of the options for the first and second portions is at the end of 36 months from the date of approval by the Board of Directors and the expiration date of the options for the third portion is at the end of 48 months from the date of approval by the Board of Directors. The options to employees in Israel were issued to a trustee under Section 102 of the Income Tax Ordinance, under the "Capital Gains" tax track.

Note 23 – Share-Based Payments (Cont.)

B. ICL (Cont.)

3. (cont.)

The fair value of the option issued in the said 2010 plan was valued on the basis of the Black & Scholes model to the pricing of the options. The following parameters were used in applying the formula:

	2010 plan
Share price (in NIS)	53.1
Exercise price linked to the index (in NIS)	53.1
Expected volatility:	
First and second portions	54.98%
Third portion	48.45%
Life of options (years):	
First and second portions	2.5
Third portion	3.5
Risk free interest rate:	
First and second portions	0.59%
Third portion	1.29%

Expected volatility was determined on the basis of historic volatility of ORL's share price.

Option lifetime was determined according to management's estimation of employees' period of holding the options, taking into consideration their positions with the Company and the Company's experience in employee attrition.

The risk free interest rate was determined on the basis of the yield to maturity of shekel-based government debentures, whose duration is different from the expected lifetime of the option.

The cost of the benefit inherent in the options allotted as aforementioned, on the basis of the fair value on the date they were granted, amounted to $54.3 million. This amount will be recorded to the statement of income over the vesting period of each portion. Accordingly, ICL included during the period of the report an expense in respect of the said plan in the amount of about $32.2 million.

Note 24 – Share Capital and Reserves

A. Share Capital and Premium

	Ordinary shares	
	2010	2009
	Thousands of shares of NIS 1 par value	
Issued and paid-up share capital as at December 31 (1)	**7,698**	7,698
Authorized share capital	**160,000**	160,000

Each ordinary share from the Corporation's share capital has the right to dividends, to bonus shares and to distribution of the Corporation's assets upon liquidation, in proportion to the par value of each share, without taking any premium paid in respect thereof, all subject to the Corporation's Articles of Association. Each of the shares entitles its holder to participate in the Corporation's General Meetings and to one vote.

The Corporation's shares are registered for trading on the Tel-Aviv Stock Exchange. On December 31, 2010, the closing price of a share on the Stock Exchange was $1,213 (December 31, 2009 – $730).

(1) As at the date of the report, a wholly owned subsidiary of the Corporation holds 75,480 ordinary shares of NIS 1 par value each of the Corporation, constituting about 0.97% of the Corporation's issued share capital.

B. Translation reserve of foreign operations

The translation reserve includes all the foreign currency differences stemming from translation of financial statements of foreign activities as well as from translation of liabilities defined as investments in foreign activities commencing from January 1, 2007.

C. Capital reserves of foreign activities

Capital reserves include:

A hedge fund, which includes the effective part of the accrued net change in the fair value of instruments hedging the cash flows and that relate to hedged transactions not yet realized that have not yet been recorded on the statement of income.

A capital reserve in respect of assets available for sale, which includes the accrued net change in the fair value of financial assets available for sale, up to the time of elimination of the investment or decline in the value of the investment.

A capital reserve including charge of salaries expenses against a corresponding increase in capital in connection with share-based payments to employees.

D. Regarding issuance of options to employees – see Note 23 regarding Share-Based Payments.

E. Subsequent to the date of the report, on March 29, 2011, the Corporation's Board of Directors decided to distribute a dividend in the amount of $70 million – about $9.18 per share.

Note 24 – Share Capital and Reserves (Cont.)

E. Other comprehensive income

	Attributable to the Corporation's shareholders					
	Translation reserve for foreign activities	Capital reserves	Retained earnings	Total	Rights not conferring control	Total other comprehensive other income (expense), net of tax
	$ millions					
2010						
Foreign currency translation differences in respect of foreign activities	**13**	**–**	**–**	**13**	**(4)**	**9**
Actuarial losses, net, from defined benefit plans	**–**	**–**	**(13)**	**(13)**	**(10)**	**(23)**
Group's share in other comprehensive income of equity-base associated companies	**1**	**2**	**–**	**3**	**–**	**3**
Effective portion of the change in fair value of cash flow hedges	**–**	**(9)**	**–**	**(9)**	**–**	**(9)**
Net change in fair value of financial assets available for sale	**–**	**(20)**	**–**	**(20)**	**(1)**	**(21)**
Net change in fair value of cash flow hedges transferred to the statement of income	**–**	**7**	**–**	**7**	**–**	**7**
Income taxes in respect of other components of other comprehensive income (expense)	**–**	**6**	**–**	**6**	**(3)**	**3**
Total other comprehensive income (expense) for the year, net of tax	**14**	**(14)**	**(13)**	**(13)**	**(18)**	**(31)**

Note 24 – Share Capital and Reserves (Cont.)

E. Other comprehensive income (Cont.)

	Attributable to the Corporation's shareholders					
	Translation reserve for foreign activities	Capital reserves	Retained earnings	Total	Rights not conferring control	Total other comprehensive other income (expense), net of tax
	$ millions					
2009						
Foreign currency translation differences in respect of foreign activities	28	–	–	28	16	44
Actuarial gains, net, from defined benefit plans	–	–	1	1	1	2
Group's share in other comprehensive income of equity-base associated companies	7	40	–	47	11	58
Effective portion of the change in fair value of cash flow hedges	–	15	–	15	–	15
Net change in fair value of financial assets available for sale	–	23	–	23	5	28
Net change in fair value of cash flow hedges transferred to the statement of income	–	22	–	22	–	22
Income taxes in respect of other components of other comprehensive income	–	(7)	–	(7)	(1)	(8)
Total other comprehensive income for the year, net of tax	35	93	1	129	32	161

Note 24 – Share Capital and Reserves (Cont.)

E. Other comprehensive income (Cont.)

	Attributable to the Corporation's shareholders					
	Translation reserve for foreign activities	Capital reserves	Retained earnings	Total	Rights not conferring control	Total other comprehensive other income (expense), net of tax
	$ millions					
2008						
Foreign currency translation differences in respect of foreign activities	(43)	–	–	(43)	(44)	(87)
Actuarial gains (losses), net, from defined benefit plans	–	–	(47)	(47)	(46)	(93)
Group's share in other comprehensive income (expense) of associated companies	–	(16)	–	(16)	–	(16)
Effective portion of the change in fair value of cash flow hedges	–	(47)	–	(47)	–	(47)
Net change in fair value of financial assets available for sale	–	(2)	–	(2)	–	(2)
Net change in fair value of cash flow hedges transferred to the statement of income	–	1	–	1	–	1
Net change in fair value of financial assets available for sale transferred to the statement of income	–	2	–	2	–	2
Income taxes in respect of other components of other comprehensive expense	2	9	10	21	6	27
Total other comprehensive expense for the year net of tax	(41)	(53)	(37)	(131)	(84)	(215)

Note 25 – Revenues

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Revenues from shipping and shipping-related services	**3,694**	2,436	4,302
Revenues from sales of fuel and fuel products	**–**	5,141	8,257
Revenues from other sales and services	**6,171**	4,921	7,243
	9,865	12,498	19,802
From associated companies	**5**	140	167

Note 26 – Cost of Sales

A. Composition

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Payroll and related expenses	**749**	*909	*867
Manufacturing, operating expenses and outside contractors	**979**	819	1,449
Materials and merchandise	**1,260**	5,760	9,357
Depreciation and amortization	**350**	423	443
Expenses related to handling of cargo	**1,398**	1,131	1,541
Ship leasing fees	**449**	575	816
Fuel and oil for ships	**811**	448	967
Agents' commissions and other	**1,119**	842	1,072
	7,115	10,907	16,512
To associated companies	**102**	95	104

* Reclassified.

B. Detail by type of revenue

Shipping and shipping-related services	**3,475**	2,973	4,476
Sales, refining and services	**–**	*4,875	*8,297
Sales and other services	**3,640**	3,059	3,739
	7,115	10,907	16,512

* Reclassified.

Note 27 – Research and Development Expenses

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Total R&D expenses	**69**	60	64
Less participation of the State of Israel in the R&D expenses	**1**	1	–
	68	59	64

Note 28 – Selling, Transport and Marketing Expenses

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Transport and insurance	**584**	*427	*626
Payroll and related expenses	**75**	107	113
Commissions	**25**	25	32
Other	**78**	64	49
	762	623	820

* Reclassified.

Note 29 – General and Administrative Expenses

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Payroll and related expenses	**268**	*237	*248
Bad and doubtful debts	**2**	–	3
Depreciation and amortization	**26**	41	77
Other expenses	**151**	156	193
	447	434	521

* Reclassified.

Note 30 – Other Income and Expenses

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Other income			
Capital gain on sale of property, plant and equipment	**35**	46	59
Capital gain from sale of holdings and change in rate of holdings	**166**	150	25
Other	**20**	9	47
	221	205	131
Other expenses			
Decline in value of assets	**21**	–	60
Provisions and reductions	**–**	35	55
Capital loss from changes in rates of holdings	**–**	79	–
Miscellaneous expenses	**13**	117	31
	34	231	146

Note 31 – Financing and Other Expenses, Net

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Financing income			
Net change in fair value of derivative financial instruments	**(155)**	(247)	(41)
Net changes in fair value of loan granted	**–**	(7)	(6)
Interest income from bank deposits	**(23)**	(33)	(50)
Net change in the fair value of financial assets held for trade	**–**	(18)	–
Income from replacement of debt	**–**	(263)	–
Other income	**(21)**	(10)	(10)
Financing income recorded on the statement of income	**(199)**	(578)	(107)
Financing expenses			
Interest expenses to banks and others	**374**	388	428
Net loss from change in exchange rates	**111**	50	92
Net change in fair value of financial assets held for trade	**–**	–	191
Interest expenses in respect of securitization transactions	**–**	6	18
Loss from decline in value financial assets available for sale	**3**	1	17
Financing expenses in respect of employee benefits	**35**	27	*17
Change in the fair value of cash flow hedge transferred to the statement of income	**5**	22	1
Other expenses	**–**	8	*13
Financing expenses	**528**	502	777
Less – capitalized credit costs	**(15)**	(33)	(37)
Financing expenses recorded on the statement of income	**513**	469	740
Net financing expenses (income) recorded on the statement of income	**314**	(109)	633

* Reclassified.

Note 32 – Taxes on Income

A. Components of the taxes on income

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Current taxes on income (tax benefits)			
In respect of current period	**273**	232	279
Adjustments in respect of prior years, net*	**38**	(34)	(38)
	311	198	241
Income from deferred taxes			
Creation and reversal of temporary differences (1)	**15**	(188)	(219)
Total taxes on income	**326**	10	22
(1) Of which the amount of the benefit deriving from tax losses, tax credits or temporary differences from a prior period not previously recognized and that served to reduce the deferred taxes	–	76	111

* Includes change in tax rates due to enactment of the Economic Efficiency Law.

Note 32 – Taxes on Income (Cont.)

B. Reconciliation between the theoretical tax on the pre-tax income and the tax expenses

	For the year ended December 31		
	2010	**2009**	**2008**
	$ millions		
Income before taxes on income	**1,307**	507	1,192
Statutory tax rate	**25%**	26%	27%
Tax computed at the principal tax rate applicable to the Corporation	**326**	132	322
Increase (decrease) in tax in respect of:			
Tax benefits deriving from reduction in the tax rate in respect of Approved Enterprise and Benefited Enterprise	**(104)**	(79)	(288)
Different tax rates applicable to subsidiaries operating overseas	**14**	31	10
Elimination of tax calculated in respect of the Corporation's share in losses of associated companies	**10**	2	13
Exempt income	**(1)**	(26)	(2)
Income subject to tax at a different tax rate	**3**	(46)	1
Non-deductible expenses	**20**	3	11
Additional deduction for tax purposes of subsidiaries overseas	**(16)**	(20)	(12)
Tax in respect of foreign dividend	**–**	16	7
Differences between the measurement base of income reported for tax purposes and the income reported in the financial statements (dollar)	**(5)**	14	(1)
Utilization of losses and benefits from prior years for which deferred taxes were not created	**–**	(72)	(69)
Change in temporary differences regarding which deferred taxes were not recognized	**–**	7	–
Tax losses and other tax benefits for the period regarding which deferred taxes were not created	**39**	128	71
Taxes in respect of prior years	**38**	(35)	(53)
Impact of change in tax rate	**2**	(37)	9
Other differences	**–**	(8)	3
Taxes on income included in the statement of income	**326**	10	22

Note 32 – Taxes on Income (Cont.)

C. Deferred tax assets and liabilities

1. Deferred tax assets and liabilities recognized

The deferred taxes in respect of companies in Israel are calculated based on the tax rate expected to apply at the time of the reversal as detailed above. Deferred taxes in respect of subsidiaries operating outside of Israel were calculated based on the tax rates relevant for each country.

The deferred tax assets and liabilities are allocated to the following items:

	Property plant and equipment	Employee benefits	Inventory	Carryforward of losses and deductions for tax purposes	Other	Total
	$ millions					
Balance of deferred tax asset (liability) as at January 1, 2009	(957)	127	43	*348	*(101)	(540)
Changes recorded on the statement of income	265	2	(12)	(33)	4	226
Changes recorded to capital	–	2	–	(7)	(1)	(6)
Losses from translation reserves	(5)	–	–	(1)	(1)	(7)
Business combinations	(1)	–	–	–	(1)	(2)
Exit from the consolidation	340	(18)	–	(95)	6	233
Balance of deferred tax asset (liability) as at December 31, 2009	(358)	113	31	212	(94)	(96)
Changes recorded on the statement of income	**(24)**	**(8)**	**5**	**(36)**	**105**	**42**
Changes recorded to capital	**–**	**2**	**–**	**25**	**–**	**27**
Losses from translation reserves	**(1)**	**–**	**–**	**–**	**(3)**	**(4)**
Business combinations	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Balance of deferred tax asset (liability) as at December 31, 2010	**(383)**	**107**	**36**	**201**	**2**	**(37)**

* Reclassified.

2. The deferred taxes are presented in the statements of financial position as follows:

	As at December 31	
	2010	2009
	$ millions	
As part of non-current assets	**130**	110
As part of non-current liabilities	**(167)**	(206)
	(37)	(96)

Note 32 – Taxes on Income (Cont.)

C. Deferred tax assets and liabilities (Cont.)

3. Deferred tax assets and liabilities not recognized

Deferred tax assets and liabilities were not recognized in respect of the following items:

	As at December 31	
	2010	2009
	$ millions	$ millions
Losses for tax purposes	**715**	748

Pursuant to the existing tax laws, there is no time limitation on the utilization of tax losses and on utilization of deductible temporary differences. Deferred tax assets were not exercised in respect of these differences, since it is not expected that there will be taxable income in the future against which it will be possible to utilize the tax benefits.

D. Taxation of companies in Israel

1. Measurement of the results for tax purposes in accordance with the Income Tax Law (Adjustments for Inflation) (hereinafter – "the Inflationary Adjustments Law")

a. The Group companies in Israel are taxed under the Income Tax Law (Adjustments for Inflation), 1985. In accordance therewith, the taxable income is measured on a real (inflation-adjusted) basis as measured by the increase in the CPI. The companies in the ICL Group in Israel present their financial statements in dollars. ZIM measures its results for tax purposes in dollars based on maintenance of its books for tax purposes in dollars, as provided in the Regulations. The difference between the rate of increase in the CPI and the rate of change in the dollar exchange rate, both on an annual basis and on a cumulative basis, impacts the relationship between the actual tax and the reported income.

On February 26, 2008, the Knesset (the Israeli Parliament) passed the Income Tax Law (Adjustments for Inflation) (Amendment 20) (Limitation of the Application Period), 2008 (hereinafter – "the Amendment"). Pursuant to the Amendment, application of the above-mentioned law will end in 2007 and starting from 2008, the law's provisions will no longer apply, except for the transitional rules the purpose of which is to prevent distortions in the tax calculations.

According to the Amendment, in the 2008 tax year and thereafter, adjustment of the revenues for tax purposes to a real (inflation-adjusted) base will no longer be made. In addition, linkage to the index of the depreciation amounts on fixed assets and the amounts of carryforward tax losses will be discontinued, such that these amounts will be adjusted up to the index for the end of the 2007 tax year, and their linkage to the index will cease from this date forward. The impact of the Amendment to the Inflationary Adjustments Law was reflected in calculation of the current taxes and the deferred taxes commencing from 2008.

Note 32 – Taxes on Income (Cont.)

D. Taxation of companies in Israel (Cont.)

1. Measurement of the results for tax purposes in accordance with the Income Tax Law (Adjustments for Inflation) (hereinafter – "the Inflationary Adjustments Law") (Cont.)

   The Income Tax Regulations – Adjustments for Inflation (Depreciation Rates), 1986, which allow depreciation at rates different than those in Section 21 of the Ordinance, will continue to apply even after the Inflationary Adjustments Law goes out of effect and, therefore, the Corporation will be able to claim accelerated depreciation in the upcoming periods.

   By virtue of the Inflationary Adjustments Law, the industrial subsidiaries are entitled to claim accelerated depreciation on the property, plant and equipment.

2. Tax rates

   a. According to the Israel Corporation Ltd. Law, 1969, the Corporation was exempted from capital gains tax for a period of 30 years, which ended in 1999.

   b. On July 25, 2005, the Law for Amendment of the Income Tax Ordinance (No. 147), 2005, was passed by the Knesset, which provided, among other things, for the gradual reduction of the Companies Tax rate to 25% in the 2010 tax year and thereafter.

      On July 14, 2009, the Economic Efficiency Law (Legislative Amendments for Implementation of the Economic Plan for the years 2009 and 2010), 2009, was passed by the Israel Knesset, which provided, among other things, an additional gradual reduction in the Companies Tax rate to 18% in 2016 and thereafter. Pursuant to the said Amendments, the Companies Tax rates applicable in the 2009 tax year and thereafter are as follows: in the 2009 tax year – 26%, in the 2010 tax year – 25%, in the 2011 tax year – 24%, in the 2012 tax year – 23%, in the 2013 tax year – 22%, in the 2014 tax year – 21%, in the 2015 tax year – 20% and in the 2016 tax year and thereafter the applicable Companies Tax rate will be 18%. The impact of the said changes in the income tax rates is reflected in 2009 as a reduction in deferred tax liability and recognition of an income tax benefit in the amount of about $129 million (of which the amount of about $64 million is attributable to the Corporation's owners).

      The current taxes and the balances of the deferred taxes for the periods reported in these financial statements are calculated in accordance with the new tax rates as provided in the Economic Efficiency Law.

   c. On September 17, 2009, the Income Tax Regulations (Determination of Interest Rate for purposes of Section 3(J)) (Amendment), 2010, were published, wherein the provisions of the Income Tax Regulations (Determination of Interest Rate for purposes of Section 3(J)), 1986, were comprehensively changed.

      The Amendment applies to a loan granted commencing from October 1, 2009, and it also provides transitional rules in connection with loans granted prior to the Amendment's effective date.

Note 32 – Taxes on Income (Cont.)

D. Taxation of companies in Israel (Cont.)

2. Tax rates (Cont.)

c. (Cont.)

The interest rate for purposes of Section 3(J) of the Ordinance, with respect to taxpayers subject to its provisions that grant a loan in shekels, was set at 3.3% per year (this rate may change depending on the total average cost of unlinked credit provided to the public by the banks).

E. Taxation of companies outside of Israel

Non-Israeli subsidiaries are assessed based on the tax laws in their resident countries.

F. Encouragement laws in Israel

1. Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law")

The production facilities of some of the subsidiaries in Israel (hereinafter – "the companies") have been granted "approved enterprise" or "preferred enterprise" status under the Encouragement Law, including Amendment No. 60 to the Law enacted in April 2005.

The main benefits for which the company is eligible are:

a. Reduced tax rates

During the benefits' period – ten years commencing with the first year in which there was taxable income from the approved or preferred enterprise (provided that the limitation period provided in the Law has not yet passed) – the companies are subject to tax on the income from the approved or preferred enterprises they own at preferential rates or they enjoy a full exemption from tax in respect of such income, as follows:

(i) Companies Tax on Approved Enterprises at the rate of 0% or 25% in place of tax at the regular rate.

(ii) Companies Tax on Benefited Enterprises at the rate of 0% under the Regular Track and 11.5% under the Ireland Track in place of tax at the regular rate.

The Corporation has Approved Enterprises having tax rates of 0% and 25%. In addition, the Corporation has Benefited Enterprises under the Regular Track (tax rate of 0%) and Benefited Enterprises under the Ireland Track (tax rate of 11.5%).

In the case of distribution of a cash dividend out of the income with respect to which an exemption applied, as stated above, the Corporation will be subject to payment of tax at a grossed-up rate of 25% on the amount distributed. The temporary difference related to the dividend from exempt income as at December 31, 2010 amounts to about $1,144 million.

Note 32 – Taxes on Income (Cont.)

F. Encouragement laws in Israel (Cont.)

1. Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law") (Cont.)

   a. Reduced tax rates (Cont.)

   The portion entitled to be taxed at preferential rates out the total amount of taxable income, is based in the ratio of the revenues attributable to the "Approved Enterprise" or "Benefited Enterprise", to the company's total revenues; in general, the revenues attributable to the "Approved Enterprise" are computed based on the increase in revenues over the "base" revenues relating to the year preceding the commencement year of the "Approved Enterprise", or other base as provided in the Letter of Approval. The revenues attributable to the "Benefited Enterprise" are computed based on the increase in revenues over the "base" revenues relating to the three years preceding the election year of the "Benefited Enterprise".

   b. Accelerated Depreciation

   With respect to buildings, machinery and equipment used by the Approved Enterprise, the Corporation is entitled to deduct accelerated depreciation pursuant to the provisions of the Law, commencing with the year in which the asset is placed into service.

   c. Conditions for Application of the Benefits

   The benefits described above are contingent on compliance with conditions stipulated in the law, the regulations promulgated thereunder and the Letters of Approval in accordance with which the investments in the Approved Enterprises were made. A failure to comply with the conditions could give rise to a cancellation of the benefits, in whole or in part, and repayment of the benefit amounts together with delinquency interest.

   d. On December 29, 2010 the Knesset approved the Economic Policy Law for 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments – 1959 (hereinafter – "the Amendment to the Law"). The Amendment to the Law is effective from January 1, 2011 and its provisions will apply to preferred income derived or accrued by a preferred company (industrial plant that fulfills the law's provisions regarding the matter, since it is a competitive plant contributing to the Gross Domestic Product (GDP) or a competitive plant in the area of renewable energy). In 2011 and thereafter companies can choose to not be included in the scope of the Amendment to the Law and to stay in the scope of the law before its amendment until the end of the benefits period. The 2012 tax year is the last year the Group companies can choose as the year of election, providing that the minimum qualifying investment began in 2010.

   The Amendment provides that the existing tax benefit tracks were eliminated (the tax exempt track, the "Ireland track" and the "Strategic" track) and two new tax tracks were introduced in their place, a Preferred Enterprise and a Special Preferred Enterprise, which mainly provide a uniform and reduced tax rate for all the Corporation's income entitled to benefits, such as:

Note 32 – Taxes on Income (Cont.)

F. Encouragement laws in Israel (Cont.)

1. Tax benefits under the Law for Encouragement of Capital Investments, 1959 (hereinafter – "the Encouragement Law") (Cont.)

d. (Cont.)

i. Preferred Enterprise – in the 2011-2012 tax years – a tax rate of 10% for Development Area A and of 15% for the rest of the country. In the 2013-2014 tax years – a tax rate of 7% for Development Area A and of 12.5% for the rest of the country, and as from the 2015 tax year – 6% for Development Area A and 12% for the rest of the country.

ii. Special Preferred Enterprise – for a period of 10 consecutive years and a reduced tax rate of 5% if it located in Development Area A or of 8% if is located in a different area.

The Amendment to the Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is a company, for both the distributing company and the shareholder. A tax rate of 15% will continue to apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties, which means that there is no change from the existing law. Furthermore, the Amendment to the Law provides relief with respect to tax paid on a dividend received by an Israeli company from profits of an approved/alternative/beneficiary enterprise that accrued in the benefits period according to the version of the law before its amendment, if the company distributing the dividend notifies the tax authorities by June 30, 2015 that it is applying the provisions of the Amendment to the Law and the dividend is distributed after the date of the notice.

The Amendment to the law does not apply to an industrial company that is a mine, other facility for production of minerals or a facility for exploration of fuel. Therefore ICL plants that are defined as mining plants and mineral producers will not be able to take advantage of the tax rates proposed as part of the new law.

Nonetheless, the proposal for amendment of the law as worded after the amendment does not cancel tax benefits to which a Benefited Plant is entitled in respect of investments up to December 31, 2012. Therefore, those plants will be able to utilize the tax benefits in respect of qualifying investments made up to December 31, 2012, in accordance with the provisions of the old law. As at the approval date of the financial statements, ICL is examining the impacts of the law and its application with respect to the companies operating in Israel.

Some of the companies in the ORL Group comply with the conditions provided in the amendment to the Law for the Encouragement of Capital Investments for entry into application of the benefits' track, As a result of the change of the Law, the ORL Group recognized income from deferred taxes in the amount of about $71 million. ORL's assessment may change in the future – up to the time the final decision of each of its subsidiaries with respect to the transition year is submitted to the Tax Authorities, as provided in the amendment to the Law.

Note 32 – Taxes on Income (Cont.)

F. Encouragement laws in Israel (Cont.)

2. The Law for Encouragement of Industry (Taxes), 1969 (hereinafter – "the Industry Law")

   a. Some of the Group companies in Israel are "Industrial Companies" within the meaning of the Industry Law. By virtue of this status, the companies are entitled to claim depreciation at accelerated rates with respect to equipment used in the industrial activities, as provided in the Regulations promulgated under the Encouragement Law.

   b. The industrial plants owned by some of the Group companies in Israel have a common line of production and, therefore, are entitled to file consolidated tax returns in accordance with Section 23 of the Industry Law. Accordingly, each of the said companies is entitled to set off its tax losses against the taxable income of the other company.

G. Non-application of International Financial Reporting Standards (IFRS) for tax purposes

On February 4, 2010, the Law for Amendment of the Income Tax Ordinance No. 174 – Temporary Order for the Years 2008, 2009 and 2010 (hereinafter – "the Amendment to the Ordinance"), was published in the Official Publications. Pursuant to the Amendment to the Ordinance, Israeli Accounting Standard No. 29, regarding "Early Adoption of International Financial Reporting Standards (IFRS)" will not apply for purposes of determination of the taxable income in the said years, even if it was applied in preparation of the financial statements.

Subsequent to the date of the report, a memorandum law was published for amendment of the Income Tax Ordinance, wherein the Temporary Order will be extended such that it will also to 2010.

The impact of the Amendment to the Ordinance on the financial statements is not significant.

H. Tax loss carryforwards

As at December 31, 2010, the Group has losses and deductions for tax purposes that may be carried forward to the succeeding year in the amount of about $1,665 million and capital losses for tax purposes in the amount of about $214 million. The Group recorded deferred taxes in respect of tax loss carryforwards in the amount of $931 million. The balance of loss carryforwards for which no deferred taxes have been created amounts to about $734 million. No deferred taxes were provided with respect to capital losses.

I. Temporary Order – Amendment No. 169 to the Income Tax Ordinance

On January 1, 2009 Amendment No. 169 to the Income Tax Ordinance was passed as a Temporary Order effective only for the 2009 tax year, whereby a company may elect to pay income tax of 5% on dividend income it received in 2009 that was paid by a foreign resident body of persons, providing that the conditions provided in the Temporary Order have been met.

After a subsidiary examined the means of implementing the said amendment to the Ordinance, the subsidiary's Board of Directors approved a one-time withdrawal of profits from the foreign subsidiaries in the amount of $209 million.

Note 32 – Taxes on Income (Cont.)

J. Final tax assessments

The Corporation and the Headquarters companies have received final tax assessments up to and including the 2006 year.

ICL and the subsidiaries consolidated with it for tax purposes are under audit with the Israeli tax authorities for the years 2008.

The rest of the ICL Group companies in Israel have received final tax assessments up to and including the 2005 tax year.

Subsequent to the date of report, in January 2011 assessment agreements were signed between ICL and the subsidiaries consolidated with it for tax purposes and the Israeli tax authorities for the years 2004–2008. As a result of the assessment agreements, ICL recorded tax expenses of about $40 million in the year ended December 31, 2010. The main subsidiaries of ICL outside of Israel have received final tax assessments up to and including the2003 tax year (for most of the companies).

ZIM has received final tax assessments up to and including the 1997 year. Nonetheless, the tax assessments up to and including the 2006 year are considered closed.

Note 33 – Earnings per Share

Data used in calculation of the basic and diluted earnings per share

A. Income allocated to the holders of the ordinary shareholders

	For the year ended December 31		
	2010	2009	2008
	$ millions		
Income for the year allocable to the Corporation's owners	**474**	6	320
Plus – impacts of share in income of investee companies	**1**	–	4
Income for the year allocated to the holders of the ordinary shares (basic)	**475**	6	324
Difference in respect of:			
Corporation's share in income of investee companies	**(3)**	(1)	(4)
Income for the year allocated to the holders of the ordinary shares (diluted)	**472**	5	320

B. Weighted-average number of ordinary shares

	For the year ended December 31		
	2010	2009	2008
	Thousands of ordinary shares		
Balance at beginning of the year	**7,618**	7,611	7,568
Plus –			
Options held by a subsidiary exercised for shares of the Corporation	**3**	7	43
Weighted-average number of shares used in calculation of the basic earnings per share	**7,621**	7,618	7,611
Plus –			
Impact of exercise of options for shares	**12**	1	8
Weighted-average number of shares used in calculation of the diluted earnings per share	**7,633**	7,619	7,619

Note 34 – Segment Information

A. General

Breakdown of the Group into reportable activity segments in accordance with the Standard derives from the Management Reports, which are based on the areas of activity of the main subsidiaries making up the Group – ICL, ORL and ZIM, as follows:

1) **Israel Chemicals Ltd.** – ICL is a multi-national group, operating mainly in the areas of fertilizers and special chemicals. The ICL Group has concessions and licenses for production of minerals from the Dead Sea, concessions for mining phosphate rock in the South, and mining agreements and licenses covering the mining of potash and salt from underground mines in Spain and the United Kingdom. ICL is engaged in production of these minerals, in the sale thereof throughout the world and development, production and marketing of extension products based mainly on these raw materials.

2) **Oil Refineries Ltd.** – ORL and its subsidiaries are engaged, mainly, in refining crude oil, production of fuel products, raw materials for the petrochemical industry and materials for the plastics industry. Most of the ORL Group's sales derive from ORL's purchase of crude oil and intermediary products, refining thereof and separation of the refined products into various other products – some of which are final products and of which serve as raw materials in the manufacture of other products. Commencing from December 31, 2009, ORL is an associated company.

3) **ZIM Integrated Shipping Services Ltd.** – ZIM operates in the shipping lines' industry through use of tankers, that is, operation of shipping routes between fixed ports based on set timetables while anchoring in harbors in accordance with a predetermined plan. ZIM provides significant services that are auxiliary to its shipping activities, such as, delegation, Customs clearance, overland transport, distribution, warehousing, insurance, container terminals, marine terminal operation services and logistic services.

4) **Other** – In addition to the segments detailed above, the Corporation has other activities, such as advanced technology, vehicles, infrastructures for electric-powered vehicles, power plants and clean energy.

Evaluation of the Corporation's performance as part of the reports is based on the EBITDA income.

Information regarding the results of the activity segments is detailed below. Inter-segment pricing is determined based on transaction prices during the ordinary course of business.

Note 34 – Segment Information (Cont.)

B. Information regarding reportable segments

Information regarding activities of the reportable segments is set forth in the following table.

	ICL	ORL	ZIM	Other	Adjustments	Total
	$ millions					
2010:						
Sales to external customers	5,692	6,792	3,694	479	(6,792)	9,865
Inter-segment sales	–	–	23	–	–	23
	5,692	6,792	3,717	479	(6,792)	9,888
Elimination of inter-segment sales	–	–	(23)	–	–	(23)
Total sales	5,692	6,792	3,694	479	(6,792)	9,865
EBITDA income	1,564	165	403	151	(175)	2,108
Depreciation and amortization	217	119	191	36	(115)	448
Financing income	(32)	(89)	(38)	(141)	101	(199)
Financing expenses	86	140	175	264	(152)	513
Share in losses (income) of associated companies	(3)	–	(14)	56	–	39
	268	170	314	215	(166)	801
Income (loss) before taxes	1,296	(5)	89	(64)	(9)	1,307
Taxes on income	267	(82)	28	34	79	326
Income (loss) for the year	1,029	77	61	(98)	(88)	981
Other significant non-cash items:						
Decline in value of fixed and intangible assets	–	–	21	–	–	21
Segment assets	6,360	4,357	4,061	2,135	(4,240)	12,673
Investments in associated companies	28	16	29	5,120	(3,844)	1,349
						14,022
Sector liabilities	3,747	3,232	3,344	3,933	(4,069)	10,187
Capital expenses	353	231	486	140	(231)	979

Note 34 – Segment Information (Cont.)

B. Information regarding reportable segments (Cont.)

	ICL	ORL	ZIM	Other	Adjustments	Total
	$ millions					
2009:						
Sales to external customers	4,550	5,141	2,436	371	–	12,498
Inter-segment sales	4	1	13	–	–	18
	4,554	5,142	2,449	371	–	12,516
Elimination of inter-segment sales	(4)	(1)	(13)	–	–	(18)
Total sales	4,550	5,141	2,436	371	–	12,498
EBITDA income (loss)	1,245	282	(518)	(27)	–	982
Depreciation and amortization	229	79	157	26	42	533
Financing income	(90)	(61)	(295)	(152)	20	(578)
Financing expenses	83	87	120	198	(19)	469
Share in losses (income) of associated companies	1	(5)	(1)	56	–	51
	223	100	(19)	128	43	475
Income (loss) before taxes	1,022	182	(499)	(155)	(43)	507
Taxes on income	169	(14)	(70)	3	(78)	10
Income (loss) for the year	853	196	(429)	(158)	35	497
Other significant non-cash items:						
Decline in value of fixed and intangible assets	31	–	5	–	–	36
Segment assets	5,879	3,871	3,210	2,009	(4,106)	10,863
Investments in associated companies	29	14	83	1,172	(14)	1,284
						12,147
Sector liabilities	3,113	2,733	2,765	3,454	(3,243)	8,822
Capital expenses	429	181	317	54	–	981

Note 34 – Segment Information (Cont.)

B. Information regarding reportable segments (Cont.)

	ICL	ORL	ZIM	Other	Adjustments	Total
	$ millions					
2008:						
Sales to external customers	6,899	8,257	4,302	344	–	19,802
Inter-segment sales	5	–	24	–	–	29
	6,904	8,257	4,326	344	–	19,831
Elimination of inter-segment sales	(5)	–	(24)	–	–	(29)
Total sales	6,899	8,257	4,302	344	–	19,802
EBITDA income (loss)	2,769	(77)	(20)	4	–	2,676
Depreciation and amortization	434	75	230	12	55	806
Financing income	(56)	(65)	(11)	(28)	53	(107)
Financing expenses	178	126	212	277	(53)	740
Share in losses (income) of associated companies	(14)	3	(12)	68	–	45
	542	139	419	329	55	1,484
Income (loss) before taxes	2,227	(216)	(439)	(325)	(55)	1,192
Taxes on income	233	(107)	(101)	12	(15)	22
Income (loss) for the year	1,994	(109)	(338)	(337)	(40)	1,170
Other significant non-cash items:						
Decline in value of fixed and intangible assets	206	–	97	–	–	303
Segment assets	5,711	2,369	3,260	2,106	634	14,080
Investments in associated companies	27	36	80	477	6	626
						14,706
Sector liabilities	3,227	1,854	2,835	3,558	(424)	11,050
Capital expenses	444	142	461	15	–	1,062

Note 34 – Segment Information (Cont.)

C. Information at the entity level

Information based on geographic areas

In presentation of the information on the basis of geographic areas, the segment revenues are based on the geographic location of the customers. The assets are based on the geographic location of the assets.

The Group's revenues from sales to outside customers on the basis of the geographic location of the assets are as follows:

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Europe	**1,993**	3,342	4,508
Asia	**–**	204	2,243
America	**1,269**	1,404	2,563
Israel	**2,537**	4,699	5,669
ZIM (1)	**3,694**	2,436	4,302
Other and adjustments	**372**	413	517
Total revenues	**9,865**	12,498	19,802

The Group's non-current assets on the basis of geographic areas*:

	As at December 31	
	2010	**2009**
	$ millions	
Europe	**782**	792
America	**1,092**	1,043
Israel	**1,878**	1,711
ZIM (2)	**2,885**	2,585
Other and adjustments	**46**	80
Total revenues	**6,683**	6,211

* Composed of property, plant and equipment and intangible assets.

Note 34 – Segment Information (Cont.)

C. Information at the entity level (Cont.)

Information based on geographic areas (cont.)

Set forth below is data with respect to ZIM:

(1) The Group's revenues from sales to outside on the basis of their geographic location from as follows:

	For the year ended December 31		
	2010	**2009**	**2008**
		$ millions	
Trans Pacific	**1,447**	899	1,418
Asia Europe	**635**	294	917
Trans Atlantic	**547**	456	643
Inland America	**205**	173	221
Inland Europe	**198**	194	235
Inland Asia	**107**	66	184
Other	**555**	354	684
	3,694	2,436	4,302

(2) ZIM's non-current assets on the basis of geographic areas:

	As at December 31	
	2010	**2009**
	$ millions	
Trans Pacific	**1,122**	800
Asia Europe	**401**	220
Trans Atlantic	**302**	223
Inland America	**64**	77
Inland Europe	**64**	91
Inland Asia	**40**	83
Other	**585**	533
Unallocated	**307**	558
	2,885	2,585

Note 35 – Related and Interested Parties

A. Benefits to key management personnel

The benefits in respect of employment of key management personnel (including directors) include:

	For the year ended December 31					
	2010		2009		2008	
	No. of persons	$ millions	No. of persons	$ millions	No. of persons	$ millions
Short-term employee benefits	**3**	**9**	2	3	2	3
Share-based payments	**2**	**4**	1	1	1	2
		13		4		5

Regarding an options plan for officers – see Note 23.

The benefits in respect of key management personnel (including directors) not employed by the Corporation:

	For the year ended December 31					
	2010		2009		2008	
	No. of persons	$ millions	No. of persons	$ millions	No. of persons	$ millions
Directors not employed	**14**	**1**	12	1	11	1

B. Transactions with interested and related parties:

	For the year ended December 31		
	2010	2009	2008
	$ millions		
Sales	**1**	–	–
Operating expenses of voyages and services	**112**	120	156
Administrative expenses	***–**	*–	*–
Other expenses	**5**	4	–

* Amount less than $1 million

Note 35 – Related and Interested Parties

C. Balances with interested and related parties:

	December 31				
	2010				2009
	Ofer group	Bank Leumi group	Bank Mizrahi group	Total interested and related parties	Total interested and related parties
	$ millions				
Cash and cash equivalents	–	342	155	497	172
Short-term deposits and loans	–	105	121	226	25
Trade and other receivables	1	5	1	7	6
Long-term deposits	–	–	–	–	29
Long-term debit balances	12	35	–	47	21
Short-term liabilities	33	154	4	191	173
Trade and other payables	1	4	1	6	3
Long-term liabilities	–	4	–	4	2
Long-term credit					
In dollars or linked thereto	284	128	40	452	199
Weighted-average interest rates (%)	8.59	2.52	4.60		
In CPI-linked Israeli currency	–	17	1	18	15
Weighted-average interest rates (%)	–	7.75	2.10		
CPI-linked shekel debentures	–	4	–	4	13
Interest rate (%)	–	5.1	–		
Unlinked shekel debentures	–	2	–	2	–
Interest rate (%)	–	6.00	–		
CPI-linked debentures	–	4	–	4	–
Interest rate (%)	–	2.9	–		

Repayment Years:			
Current maturities	29	1	–
Second year	30	25	40
Third year	27	29	–
Fourth year	20	25	–
Fifth year	21	38	–
Sixth year and thereafter	157	37	1
	284	155	41

Note 35 – Related and Interested Parties

D. During 2006, ZIM's Board of Directors decided that, in light of the special characteristics of the shipping industry, transactions involving leasing of ships from interested parties for periods not in excess of five years will be considered transactions that are not extraordinary, this being subject to limitations regarding the number of ships leased from interested parties for short time periods and the financial obligations in respect thereof. Every lease transaction for a short time period with an interested party that deviates from the limitations provided will be considered an extraordinary transaction.

As at December 31, 2009 and 2010, ZIM was in compliance with the limitations provided.

In addition, it was decided to approve the joint venture agreement (hereinafter – "the Framework Agreement") between ZIM and the interested parties in ZIM. The subject matter of the Framework Agreement is joint cooperation between ZIM and an interested party for 12 years commencing from May 2006 (the date of its approval ZIM's General Meeting). ZIM committed that every 4 years the agreement will be renewed by its General Meeting. The Framework Agreement includes a number of limitations, tests and benchmarks that are intended to ensure the appropriateness, extent, fairness and transparency of every transaction executed under the framework agreement and will allow the Audit Committees and the Boards of Directors of ZIM and of Israel Corporation to examine each separate transaction's compliance with the said conditions. As at the approval date of the financial statements, the Framework Agreement had not been renewed.

Regarding commitments with interested parties in respect of operating leases of ships and the equipping thereof – see Note 22C(3).

E. In 2007 Audit Committees and Boards of Directors of ZIM and the Corporation approved a procedure for use of private jet services from an interested-party company. In respect of the private jet services by the Corporation's Chairman of the Board of Directors, Mr. Idan Ofer, and a position holder in the Corporation, the Corporation will pay the flight company an amount not in excess of the amount equal to the price of a "business class" flight ticket to the same destination as it will be from time to time, for every position-holder passenger on the relevant flight.

F. As part of establishment of the Corporation's presence in China, which will be responsible for development and advancement of its matters in China, the Corporation's Audit Committee approved an undertaking in an arrangement with a related company of its controlling interest whereby the Corporation will receive office services in China from the office of the said company in exchange for participation, at the rate of 75%, in the total monthly cost of these services. Pursuant to the conditions of the arrangement, the Corporation's participation in the cost as stated is about U.S.$19,000 per month.

G. Regarding indemnification and liability insurance of officers – see Note 22.C.1.c.

H. Disclosure of transactions with associated companies is provided as part of the notes.

Note 36 – Financial Risk Management

A. General

The Group has extensive international activity in which it is exposed to credit, liquidity and market risks (including currency, interest, inflation and other price risks). In order to reduce the exposure to these risks, the Group holds derivative financial instruments, (including forward transactions, SWAP transactions, and options) for the purpose of economic (not accounting) hedging of foreign currency risks, inflation risks, commodity price risks, interest risks and risks relating to the price of inputs. Furthermore, the Company holds derivative financial instruments to hedge its risk in respect of changes in the cash flows of issued bonds, and such instruments are accounting hedges.

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing the risk.

The risk management of the Group companies is executed by them as part of the ongoing current management of the companies. The Group companies monitor on a regular basis. The hedge policies with respect to all the different types of exposures are discussed by the boards of directors of the companies.

The comprehensive responsibility for establishing the base for the Group's risk management and for supervising its implementation lies with the Board of Directors. The Board of Directors appointed the Corporation's CFO to manage the risks of the Corporation and of the headquarters companies. The Finance Committee discusses the Corporation's risk management on a current basis.

The Audit Committee of the Board of Directors, in accordance with the work plan provided from time to time, also supervises Management's monitoring of compliance with the Corporation's risk management policies and procedures.

B. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables and from investments in securities, as well as from investments in securities and transactions in derivatives.

The Group's cash and cash equivalents, short-term deposits and short-term marketable investments are deposited mainly in banks and financial institutions in Israel, Europe and the United States. The Group's marketable securities are mainly debentures of Israeli and foreign corporations as well as debentures of the Government of Israel and mutual funds that invest mainly in debentures. In the Group's evaluation, the credit risk in respect of these balances is low.

The Group companies deposit most of their liquid monetary assets in short-term bank deposits only. All the deposits are with first-rate banks while spreading the amounts appropriately among the banks and preferring use of banks that provide loans to the company.

The Group limits the exposure to credit risk by investing solely in liquid securities where restrictions have been set for investment in rated credit and treasury notes.

Note 36 – Financial Risk Management (Cont.)

B. Credit risk (Cont.)

The transactions in derivatives are executed with large financial institutions in Israel and abroad, and therefore, in the opinion of the Group's management the credit risk in respect thereof is low.

Most of the Group's sales are made to a large number of customers with a wide geographic dispersion and, therefore, exposure to a concentration of credit risk in respect of trade receivables is limited. The Group companies have established customer credit policies and they also regularly examine the quality of their trade receivables and include in their accounts an appropriate provision for doubtful debts. Some of the trade receivables are covered by foreign trade risk insurance.

C. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and pressure conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Corporation manages the liquidity risk by means of holding cash balances, short-term deposits, other liquid financial assets and credit lines.

D. Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, the CPI, interest rates and prices of capital products and instruments will affect the fair value of the future cash flows of a financial instrument.

The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Boards of Directors of the companies. For the most part, the Group companies enter into hedging transactions for purposes of avoiding economic exposures created by their activities. Most of the transactions entered into do not meet the conditions for recognition as an accounting hedge and, therefore, differences in their fair values are recorded on the statement of income.

E. Currency risk

The Group's functional currency is the U.S. dollar. The exposures of the Group companies are measured with reference to the changes in the exchange rate of the dollar vis-à-vis the other currencies in which it transacts business.

The Group is exposed to currency risk on sales, purchases, assets and liabilities that are denominated in a currency other than the respective functional currencies of Group entities. The primary exposure is to the shekel, euro, pound, yuan, yen and Brazilian real.

Note 36 – Financial Risk Management (Cont.)

E. Currency risk (Cont.)

The Group uses option and forward exchange contracts on exchange rates for purposes of hedging short-term currency risks, usually up to one year, in order to reduce the risk with respect to the final cash flows in dollars deriving from the existing assets and liabilities and sales and purchases of goods and services within the framework of firm or anticipated commitments, including in connection with future operating expenses.

The Group is exposed to currency risk in connection with loans it has taken out and debentures it has issued in currencies other than the dollar. The principal amounts of these bank loans and debentures have been hedged by swap transactions the repayment date of which corresponds with the payment date of the loans and debentures.

F. Interest rate risk

The Group is exposed to changes in the interest rates in respect of loans bearing interest at variable rates, as well as in connection with swap transactions of liabilities in foreign currency for dollar liabilities bear a variable interest rate.

The Group has not set a policy limiting the exposure and it hedges this exposure based on forecasts of future interest rates.

The Group enters into transactions mainly to reduce the exposure to cash flow risk in respect of interest rates. The transactions include IRS interest swaps and “collar” interest swaps. Some of the transactions include hedging above a certain interest rate (highest level) while, on the other hand, in order to finance them there is a commitment at an interest rate at the lowest level. In addition, options are acquired and written for hedging the interest rate at different rates.

The Group’s assets and liabilities bearing fixed interest are not measured at fair value through the statement of income. Therefore, changes in the interest rate as at the date of the report are not expected to have an impact on the income or loss due to changes in the value of the assets and liabilities bearing fixed interest.

F. Inflation risk

The Group companies have issued shekel debentures or CPI-linked debentures. In order to reduce part of the exposure to changes in the CPI, the Group makes use of interest and currency swaps (see exchange rate risk management). In addition, hedging transactions are executed against a rise in the CPI above the CPI anticipated on the execution date of the transactions by fixed the rate of change in the CPI.

Some of the current expenses of the Group companies are linked to the CPI while the revenues are linked to the dollar. This difference in the linkage base is a source of exposure from inflationary developments, this being in addition to other CPI-linked liabilities.

This exposure is discussed by the managements of the companies only where there is a forecast of significant changes in the macro-economic indicators.

Note 36 – Financial Risk Management (Cont.)

F. Other market price risks

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements.

From time to time, the Group companies enter into hedging transactions in order to reduce the exposure to the changes in fuel prices on the cash flows in connection with acquisition in the upcoming year of fuel intended for current operations, as well as in respect of marine shipping costs.

An associated company enters into transactions hedging the risks deriving from a change in the price of crude oil and its related products.

Note 37 – Financial Instruments

A. Credit risk

(1) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the balance sheet date was as follows:

	As at December 31	
	2010	**2009**
	Book value	
	$ millions	
Cash and cash equivalents	**1,477**	713
Marketable securities	**13**	6
Short-term investments, loans and deposits	**678**	212
Trade receivables	**1,334**	1,252
Receivables and other debit balances, including derivative instruments	**245**	201
Deposits, loans and other debit balances	**240**	318
Long-term derivative instruments	**421**	*235
	4,408	2,937

* Reclassified.

Note 37 – Financial Instruments (Cont.)

A. Credit risk (Cont.)

(1) Exposure to credit risk (Cont.)

The maximum exposure to credit risk for trade receivables, as at the date of the report, by geographic region was as follows:

	As at December 31	
	2010	**2009**
	Book value	
	$ millions	
Domestic	**136**	131
Euro-zone countries	**378**	325
India	**104**	268
The Far East	**231**	60
South America	**102**	127
North America	**193**	186
Other regions	**190**	155
	1,334	1,252

(2) Aging of debts and impairment losses

Set forth below is an aging of the trade receivables:

	As at December 31, 2010		As at December 31, 2009	
	Gross	**Impairment**	**Gross**	**Impairment**
	$ millions			
Not past due	**1,135**	**1**	1,008	1
Past due up to 3 months	**176**	**2**	218	3
Past due 3–6 months	**7**	**1**	11	4
Past due 6–9 months	**3**	**–**	3	1
Past due 9–12 months	**10**	**–**	10	2
Past due more than one year	**15**	**8**	21	8
	1,346	**12**	1,271	19

The movement in the provision for impairment in respect of trade receivables was as follows:

	2010	**2009**
	$ millions	
Balance as at January 1	**19**	26
Loss from decline in value of trade receivables recognized in the period	**5**	3
Write off of customer receivables defined as uncollectible	**(4)**	(3)
Cancellation of provision previously recognized	**(8)**	(4)
Exit from the consolidation	**–**	(3)
Balance as at December 31	**12**	19

Note 37 – Financial Instruments (Cont.)

B. Liquidity risk (Cont.)

Set forth below are the anticipated repayment dates of the financial liabilities, including an estimate of the interest payments. This disclosure does not include amounts regarding which there are offset agreements:

	As at December 31, 2010					
	Book value	Projected cash flows	Up to 1 year	1–2 years	2–5 years	More than 5 years
	$ millions					
Non-derivative financial liabilities						
Credit from banks and others*	227	227	227	–	–	–
Trade payables	870	870	870	–	–	–
Other payables and credit balances	701	701	701	–	–	–
Non-convertible debentures**	2,652	3,715	355	492	1,521	1,347
Loans from banks and others**	3,739	4,550	444	1,089	1,511	1,506
Liabilities in respect of financing lease	619	1,007	307	106	225	369
Financial liabilities hedging instruments						
Interest SWAP contracts	13	13	5	2	6	–
Financial liabilities not for hedging						
Interest SWAP contracts and options	86	81	30	25	25	1
Cylinder instruments	29	29	15	11	3	–
Derivatives on exchange rates	5	5	5	–	–	–
Derivatives from change in capital structure	22	22	–	–	5	17
Derivatives on commodities and oversea transport	6	6	2	4	–	–
	8,969	11,226	2,961	1,729	3,296	3,240

* Not including current maturities.
** Including current maturities.

Note 37 – Financial Instruments (Cont.)

B. Liquidity risk (Cont.)

	As at December 31, 2009					
	Book value	Projected cash flows	Up to 1 year	1–2 years	2–5 years	More than 5 years
	$ millions					
Non-derivative financial liabilities						
Credit from banks and others*	303	304	304	–	–	–
Trade payables	784	784	784	–	–	–
Other payables and credit balances	471	471	471	–	–	–
Non-convertible debentures**	2,308	3,199	294	317	1,510	1,078
Loans from banks and others**	3,146	4,050	256	449	1,950	1,395
Liabilities in respect of financing lease	494	620	75	90	202	253
Financial liabilities hedging instruments						
Interest SWAP contracts	13	13	8	3	2	–
Forward contracts on exchange rate	4	4	(3)	(1)	1	7
Financial liabilities not for hedging						
Interest SWAP contracts and options	57	57	30	20	7	–
Cylinder instruments	18	13	9	4	–	–
Derivatives on exchange rates	5	10	(2)	2	10	–
	7,603	9,525	2,226	884	3,682	2,733

* Not including current maturities.
** Including current maturities.

Note 37 – Financial Instruments (Cont.)

B. Liquidity risk (Cont.)

The following tables indicate the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur.

	For the year ended December 31, 2010					
	Book value	Projected cash flows	0–1 years	2–3 years	4–5 years	More than 5 years
	$ millions					
Interest rate swap contracts	**(1)**	**(1)**	**–**	**1**	**(2)**	**–**
Forward contacts on exchange rates	**–**	**–**	**3**	**2**	**(5)**	**–**
	(1)	**(1)**	**3**	**3**	**(7)**	**–**

	For the year ended December 31, 2009					
	Book value	Projected cash flows	0–1 years	2–3 years	4–5 years	More than 5 years
	$ millions					
Interest rate swap contracts	(9)	(9)	(5)	(4)	–	–
Forward contacts on exchange rates	(4)	(4)	3	2	(2)	(7)
	(13)	(13)	(2)	(2)	(2)	(7)

Note 37 – Financial Instruments (Cont.)

C. CPI and foreign currency risks (Cont.)

(1) Exposure to CPI and foreign currency risks

The Group's exposure to CPI and foreign currency risk, based on nominal amounts, is as follows:

	As at December 31, 2010					
	Shekel		Foreign currency			
	Unlinked	CPI linked	Dollar	Euro	British pound	Other
	$ millions					
Non-derivative instruments						
Cash and cash equivalents	277	–	1,047	76	1	76
Short-term investments, deposits and loans	90	–	471	77	14	19
Trade receivables	92	–	780	286	41	133
Other receivables and debit balances	31	–	95	13	–	25
Investments in other companies	1	–	14	–	–	–
Deposits, loans and debit balances	116	79	21	51	–	3
Total financial assets	607	79	2,428	503	56	256
Credit from banks and others	43	168	620	11	8	34
Trade payables	289	–	324	180	11	97
Other payables and credit balances	339	5	217	82	10	29
Long-term loans from banks and others and debentures	114	2,085	3,921	244	–	83
Total financial liabilities	785	2,258	5,082	517	29	243
Total non-derivative financial instruments, net	(178)	(2,179)	(2,654)	(14)	27	13
Derivative instruments	816	1,441	(1,157)	(176)	–	108
Net exposure	638	(738)	(3,811)	(190)	27	121

Note 37 – Financial Instruments (Cont.)

C. CPI and foreign currency risks (Cont.)

(1) Exposure to CPI and foreign currency risks (Cont.)

The Group's exposure to CPI and foreign currency risk, based on nominal amounts, is as follows: (Cont.)

	As at December 31, 2009					
	Shekel		Foreign currency			
	Unlinked	CPI linked	Dollar	Euro	British pound	Other
	$ millions					
Non-derivative instruments						
Cash and cash equivalents	78	–	515	67	1	52
Short-term investments, deposits and loans	49	–	111	29	10	19
Trade receivables	71	–	816	264	34	67
Other receivables and debit balances	22	–	123	12	–	16
Investments in other companies	–	–	31	–	–	–
Deposits, loans and debit balances	100	75	77	44	–	5
Total financial assets	320	75	1,673	416	45	159
Credit from banks and others	7	107	490	40	6	32
Trade payables	255	–	244	190	14	81
Other payables and credit balances	150	22	150	94	11	46
Long-term loans from banks and others and debentures	319	1,551	3,547	164	–	1
Total financial liabilities	731	1,680	4,431	488	31	160
Total non-derivative financial instruments, net	(411)	(1,605)	(2,758)	(72)	14	(1)
Derivative instruments	616	1,408	(1,157)	(120)	17	(5)
Net exposure	205	(197)	(3,915)	(192)	31	(6)

Note 37 – Financial Instruments (Cont.)

C. CPI and foreign currency risks (Cont.)

(2) Sensitivity analysis

A strengthening at the rate of 5%–10% of the dollar exchange rate against the following currencies would have increased (decreased) the income or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

	As at December 31, 2010			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Non-derivative instruments				
Shekel/dollar	**221**	**113**	**(124)**	**(258)**
Dollar/euro	**4**	**2**	**(2)**	**(3)**
Dollar/pound	**(2)**	**(1)**	**1**	**2**
Yen/dollar	**(1)**	**(1)**	**1**	**1**
Real/dollar	**(1)**	**–**	**–**	**(1)**
Yuan/dollar	**(3)**	**(1)**	**1**	**3**
Canadian dollar/dollar	**–**	**–**	**–**	**1**
Sual/dollar	**5**	**3**	**(3)**	**(4)**
CPI	**(201)**	**(101)**	**101**	**201**

	As at December 31, 2009			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Non-derivative instruments				
Shekel/dollar	208	105	(114)	(241)
Dollar/euro	9	5	(5)	(7)
Dollar/pound	(1)	(1)	1	1
Yen/dollar	(2)	(1)	1	2
Real/dollar	(2)	(1)	1	2
CPI	(166)	(83)	83	163

Note 37 – Financial Instruments (Cont.)

C. CPI and foreign currency risks (Cont.)

(2) Sensitivity analysis (Cont.)

Set forth below is a sensitivity analysis in connection with the Corporation's foreign-currency derivative instruments as at December 31, 2010 and December 31, 2009. A change in the exchange rates of the main currencies as at December 31, would have increased (decreased) the income or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	As at December 31, 2010			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Derivative instruments				
Dollar/shekel	**(201)**	**(106)**	**122**	**256**
Dollar/euro	**18**	**8**	**(8)**	**(16)**
Dollar/pound	**1**	**–**	**–**	**(1)**
Yen/dollar	**2**	**1**	**(2)**	**(3)**
Yuan/dollar	**(17)**	**(8)**	**10**	**20**
Shekel/yen	**10**	**5**	**(5)**	**(10)**
Pound/euro	**(4)**	**(2)**	**1**	**4**
Sual/dollar	**(8)**	**(4)**	**4**	**8**
CPI	**148**	**74**	**(74)**	**(148)**

	As at December 31, 2009			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Derivative instruments				
Shekel/dollar	(148)	(79)	87	186
Dollar/euro	38	18	(16)	(31)
Dollar/pound	2	1	(1)	(3)
Yen/dollar	1	–	–	(1)
CPI	144	71	(71)	(144)

Note 37 – Financial Instruments (Cont.)

D. Interest rate risk

(1) Type of interest

Set forth below is detail of the type of interest borne by the Group's interest-bearing financial instruments:

	As at December 31	
	2010	**2009**
	Carrying amount	
	$ millions	
Fixed rate instruments		
Financial assets	**2,140**	2,009
Financial liabilities	**(4,024)**	(3,249)
	(1,884)	(1,240)
Variable rate instruments		
Financial assets	**890**	462
Financial liabilities	**(4,371)**	(2,441)
	(3,481)	(1,979)

(2) Fair value sensitivity analysis for fixed-rate instruments

The Group's assets and liabilities bearing fixed interest are not measured at fair value through the statement of income, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in the interest rates as at the date of the report would not be expected to affect the income or loss in respect of changes in the value of fixed-interest assets and liabilities.

Note 37 – Financial Instruments (Cont.)

D. Interest rate risk (Cont.)

(3) Cash flow sensitivity analysis for variable rate instruments

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	As at December 31, 2010			
	Impact on income or loss			
	1% decrease in interest	0.5% decrease in interest	0.5% increase in interest	1% increase in interest
	$ millions			
Non-derivative instruments	(2)	(1)	1	11
Interest rate swap contracts	(3)	(2)	1	3
Cylinder instruments	(10)	(5)	4	7
Swap transactions	(4)	(2)	1	(1)
	(19)	(10)	7	20

	As at December 31, 2010			
	Impact on capital			
	1% decrease in interest	0.5% decrease in interest	0.5% increase in interest	1% increase in interest
	$ millions			
Non-derivative instruments	(3)	(1)	1	12
Interest rate swap contracts	4	1	(2)	(4)
Cylinder instruments	(6)	(3)	3	4
Swap transactions	(8)	(4)	3	2
	(13)	(7)	5	14

Note 37 – Financial Instruments (Cont.)

D. Interest rate risk (cont.)

(3) Cash flow sensitivity analysis for variable rate instruments (cont.)

	As at December 31, 2009			
	Impact on income or loss			
	1% decrease in interest	0.5% decrease in interest	0.5% increase in interest	1% increase in interest
	$ millions			
Non-derivative instruments	29	14	(14)	(29)
Interest rate swap contracts	(17)	(9)	11	21
Cylinder instruments	(6)	(4)	4	8
Swap transactions	(8)	(4)	4	8
	(2)	(3)	5	8

	As at December 31, 2009			
	Impact on capital			
	1% decrease in interest	0.5% decrease in interest	0.5% increase in interest	1% increase in interest
	$ millions			
Non-derivative instruments	29	14	(14)	(29)
Interest rate swap contracts	(17)	(9)	11	21
Cylinder instruments	(6)	(4)	4	8
Swap transactions	(8)	(4)	4	8
	(2)	(3)	5	8

Note 37 – Financial Instruments (Cont.)

D. Interest rate risk (cont.)

(4) Terms of derivative instruments used to hedge dollar interest risks

	As at December 31, 2010			
	Impact on income or loss			
	Book value (fair value)	Par value	Range of expiration years	Range of interest rate
	$ millions	$ millions	Years	%
Non-hedging instruments				
Fixed to variable interest swap contracts	**7**	**68**	**1–5**	**4.5–4.7**
Variable to fixed interest swap contracts	**(80)**	**1,534**	**1–6**	**1.0–5.3**
Cylinder instruments	**(37)**	**745**	**1–5**	**2.3–5.5**
Other options	**(1)**	**30**	**1–6**	**3.2**
Hedging instruments				
Variable to fixed interest swap contracts	**(4)**	**30**	**4**	**3.0**

	As at December 31, 2009			
	Impact on income or loss			
	Book value (fair value)	Par value	Range of expiration years	Range of interest rate
	$ millions	$ millions	Years	%
Non-hedging instruments				
Fixed to variable interest swap contracts	7	106	1–7	4.0–4.7
Variable to fixed interest swap contracts	48	1,485	1–5	2.4–5.3
Cylinder instruments	(21)	654	1–6	1.5–5.5
Other options	(4)	86	5	7.6
Hedging instruments				
Fixed to variable interest swap contracts	(1)	75	5	3.0
Cylinder instruments	(3)	90	4	2.9–5.0

Note 37 – Financial Instruments (Cont.)

E. Fair value

(1) Fair value compared with book value

The Group's financial instruments mostly include non-derivative assets, such as: cash and cash equivalents, investments, deposits and short-term loans, receivables and debit balances, investments and long-term receivables; non-derivative liabilities: such as: short-term credit, payables and credit balances, long-term loans and other liabilities; as well as derivative financial instruments.

Due to their nature, the fair value of the financial instruments included in the Group's working capital is generally identical or approximates the value, according to which they are stated in the accounts. The fair value of the long-term deposits and receivables and the long-term liabilities also approximates their stated value, as these financial instruments bear interest at a rate that approximates the accepted market rate of interest.

The following table shows in detail the stated value and the fair value of financial instrument groups presented in the financial statements not in accordance with their fair value.

	As at December 31			
	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	$ millions			
Convertible and non-convertible debentures	**2,652**	**2,914**	2,308	2,365
Loans from banks and others	**4,323**	**4,016**	3,363	3,305

The fair value of the long-term loans received is based on a calculation of the present value of the cash flows based on the Libor rate customary for similar loans having similar characteristics – 3.7%–15.1% (December 31, 2009 – 3.2%–23.0%).

The fair value of the debentures received is based on a calculation of the present value of the cash flows based on the Libor rate customary for similar debentures having similar characteristics – 1.7%-17.6% (December 31, 2009 – 2.0%-29.4%).

The market value of the marketable debentures is based on the stock market price on the date of the report.

Note 37 – Financial Instruments (Cont.)

E. Fair value (Cont.)

(2) Hierarchy of fair value

The following table presents an analysis of the financial instruments measured at fair value, using an evaluation method. The various levels were defined as follows:

– Level 1: Quoted prices (not adjusted) in an active market for identical instruments.
– Level 2: Observed data, direct or indirect, not included in Level 1 above.
– Level 3: Data not based on observed market data.

	As at December 31, 2010			
	Level 1	Level 2	Level 3	Total
	$ millions			
Assets				
Marketable securities held for trade	13	–	–	13
Financial assets available for sale	14	–	–	14
Derivatives used for hedging	–	1	–	1
Derivatives not used for hedging	–	347	124	471
	27	348	124	499
Liabilities				
Derivatives used for hedging	9	9	–	18
Derivatives not used for hedging	3	83	22	108
	12	92	22	126

(3) Financial instruments measured at fair value at Level 3

	Financial assets	Financial liabilities
	Derivatives not for hedging	
	$ millions	
Balance at January 1, 2010	66	(2)
Total income recognized in the statement of income	55	(20)
Issuances	3	–
Balance at December 31, 2010	124	(22)

Note 37 – Financial Instruments (Cont.)

E. Fair value (Cont.)

(4) Sensitivity analysis for the fair value of financial instruments measured at fair value at Level 3

Notwithstanding the fact that in the Group's estimation the fair value amounts determined for purposes of measurement and/or disclosure are appropriate, use of different measurement assumptions or methods could change the fair value amounts. Regarding measurements of fair value classified as Level 3 in the fair value hierarchy, a possible and reasonable change in one or more unobserved data item/s would increase (decrease) the income or loss and the equity as follows (after taxes):

	As at December 31, 2010			
	Impact on income or loss		Impact on equity	
	10% increase	10% decrease	10% increase	10% decrease
	$ millions			
Sensitivity to changes in the Corporation's interest rate	(5)	1	(5)	1
Sensitivity to changes in the standard deviation of the lease prices	(3)	2	(3)	2
Sensitivity to changes in the standard deviation of debenture yields	15	(16)	15	(16)

Note 38 – Group Entities

Significant subsidiaries

		December 31, 2010		December 31, 2009	
	State of incorporation	Ownership rate %	Voting rate %	Ownership rate %	Voting rate %
Israel Chemicals Ltd.	Israel	***52.6**	***52.6**	*53.2	*53.2
ZIM Integrated Shipping Services Ltd.	Israel	**99.7**	**99.7**	99.6	99.6
Inkia Energy Ltd.	Bermuda	**–**	**–**	100.0	100.0
I.C. Power Ltd.	Israel	**100.0**	**100.0**	–	–

* Including through subsidiaries.

Note 39 – Events Occurring Subsequent to the Balance Sheet Date

A. Regarding completion of acquisition of a business unit by ICL – see Note 12.A.6.
B. Regarding an undertaking of ICL with a group of banks – see Note 17.F.
C. Regarding an agreement for financing a power plant project – see Note 22.C.5.g.
D. Regarding an agreement of ORL for purchase of natural gas – see Note 22.C.4.h.e.
E. Regarding an agreement with employees of ORL – see Note 22.C.4.e.g.
F. Regarding winning a tender by Inkia for supply of electricity – see Note 22.C.5.j.
G. Regarding a claim against DSW in respect of royalties – see Note 22.D.1.
H. Regarding distribution of a dividend – see Note 24.E.
I. Regarding assessment agreements of ICL – see Note 32.J.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Corporation Ltd.	ZIM Israel Navigation Co. Ltd.	99.7	99.7	fully consolidated subsidiary
	Israel Chemicals Ltd.	*28.1	28.1	fully consolidated subsidiary
	Elram Housing Corporation – limited partnership	*49.0	49.0	proportionately consolidated partnership
	H.L. Management and Consultants (1986) Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. (Holdings – ICL) Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. Acquisitions ICL (1998), Ltd.	100.0	100.0	fully consolidated subsidiary
	H.L. (Kislev, 1998), Ltd.	100.0	100.0	fully consolidated subsidiary
	Orchot Cochavim, Ltd.	100.0	100.0	fully consolidated subsidiary
	Israel Corporation Trust Company Ltd.	100.0	100.0	fully consolidated subsidiary
	Tower Semiconductor Ltd. ***	5.4	5.4	associated company
	Sorbie Holdings Ltd. (in voluntary liquidation)	62.2	62.2	fully consolidated subsidiary
	Mars Information Products Group Ltd.	50.0	50.0	proportionately consolidated subsidiary
	Udi International (1994) Ltd.	100.0	100.0	fully consolidated subsidiary
	Quantum (2007) LLC	100.0	100.0	fully consolidated subsidiary
	Oil Refineries Ltd.**	37.1	37.1	associated company
	I.C.G. Energy Ltd.	100.0	100.0	fully consolidated subsidiary
	I.C. Power Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place Inc. ****	29.9	29.9	associated company
	Asik Investments Inc.	50.0	50.0	proportionately consolidated subsidiary
ZIM Integrated Shipping Services Ltd.	Overseas Freighters Shipping Inc.	40.0	40.0	associated company
	Thai Star Shipping Co.	49.0	49.0	associated company
	Overseas Warehouse Services Ltd.	50.0	50.0	proportionately consolidated subsidiary
	Star Shipping Portugal Ltd.	50.0	50.0	associated company
	ZIM–Rom Shipping Ltd.	100.0	100.0	fully consolidated subsidiary
	Lagos & Niger Shipping Agencies Ltd. Nigeria	97.0	97.0	fully consolidated subsidiary
	Joint Transport International Services Ltd.	100.0	100.0	fully consolidated subsidiary
	Alhouty Yam Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM Germany	100.0	100.0	fully consolidated subsidiary
	ZIM Netherlands	100.0	100.0	fully consolidated subsidiary
	Gal Marine Ltd.	100.0	100.0	fully consolidated subsidiary
	M. Dizengoff & Co. Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM Integrated Shipping Services Hellas	100.0	100.0	fully consolidated subsidiary
	Hellastir Maritime	100.0	100.0	fully consolidated subsidiary
	ZIM France	100.0	100.0	fully consolidated subsidiary
	ZIM Do Brazil Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM Belgium	100.0	100.0	fully consolidated subsidiary
	ZIM Kenya	100.0	100.0	fully consolidated subsidiary
	Star Shipping Agencies (Singapore) Pty	50.0	50.0	associated company
	ZLN Filuet Pilot S.A.	51.0	51.0	fully consolidated subsidiary
	ZLN S.A. Switzerland	100.0	100.0	fully consolidated subsidiary
	ZIM Ports 2006	100.0	100.0	fully consolidated subsidiary
	ZLN Russia	51.0	51.0	fully consolidated subsidiary
	Sela Technology Co. Ltd.	100.0	100.0	fully consolidated subsidiary
	Stellhaven Expeditiebedrijf NV	100.0	100.0	fully consolidated subsidiary
	ZIM South Africa	100.0	100.0	fully consolidated subsidiary
	ZIM America (Zaisco)	100.0	100.0	fully consolidated subsidiary
	ZIM Integrated Shipping Serives (Canada)	100.0	100.0	fully consolidated subsidiary
	Carib Star Shipping Limited	100.0	100.0	fully consolidated subsidiary
	Ramon Inter. Insurance Brokers Ltd.	100.0	100.0	fully consolidated subsidiary

* The company is held by other Group Companies.
** The company is traded on the Tel-Aviv Stock Exchange
*** The company is traded on the Tel-Aviv Stock Exchange and on the NASDAQ.
**** Rate of holdings on a fully diluted basis.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
ZIM Integrated Shipping Services Ltd. (cont.)	Fartop	50.0	50.0	associated company
	Pacific Sun	50.0	50.0	associated company
	Jamaica Container Repair Services Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM UK	100.0	100.0	fully consolidated subsidiary
	Sun Cypress Shipping Co. Ltd.	80.0	80.0	fully consolidated subsidiary
	Star Shipping Argentina S.A.	50.0	50.0	associated company
	ZIM Integrated Shipping Services (China) Ltd.	100.0	100.0	fully consolidated subsidiary
	Intermodal Shipping Agencies Ghana	50.0	50.0	associated company
	Intermodal Shipping Agencies Benin	50.0	50.0	associated company
	Star Lanka Shipping (Private) Ltd.	40.0	40.0	associated company
	ZIM Tanzania	100.0	100.0	fully consolidated subsidiary
	ZIM Logistic (China) Ltd.	100.0	100.0	fully consolidated subsidiary
	ZIM Italia S.R.L.U.	100.0	100.0	fully consolidated subsidiary
	BelZIM (Holdings) A/S	50.0	50.0	associated company
	Belstar A/S	50.0	50.0	associated company
	Qingdao Lu Hai Int. Logistic Co. Ltd.	32.0	32.0	associated company
	ZIM Japan	100.0	100.0	fully consolidated subsidiary
	Russian Container	50.0	50.0	associated company
	MPL Multi Purpose Logistics Ltd.	50.0	50.0	associated company
	Zino Star Shanghai	49.0	49.0	associated company
	Star World Aviation (S) PTE. Ltd.	50.0	50.0	associated company
	Arebee Star	100.0	100.0	fully consolidated subsidiary
	ZIM India	100.0	100.0	fully consolidated subsidiary
	Star India	100.0	100.0	fully consolidated subsidiary
	ZIM Logistics (H.K.) Company Limited	100.0	100.0	fully consolidated subsidiary
	Container Star International (Qingdao)	55.0	55.0	fully consolidated subsidiary
	ZIM Korea	85.0	85.0	fully consolidated subsidiary
	ZIM Hong Kong	100.0	100.0	fully consolidated subsidiary
	C.X.I.C. Hutznau International Container	25.0	25.0	associated company
	ZIM Ukraine	100.0	100.0	fully consolidated subsidiary
	ZIM Poland	100.0	100.0	fully consolidated subsidiary
	ZIM Ports & Logistics	100.0	100.0	fully consolidated subsidiary
	Jamaica Free Zone Development	25.0	25.0	associated company
	Kingston Logistics Center	85.0	85.0	fully consolidated subsidiary
	U.T.I.	25.0	25.0	associated company
	ZIM Georgia	51.0	51.0	fully consolidated subsidiary
	American West	75.0	75.0	fully consolidated subsidiary
	ZIM Taiwan	100.0	100.0	fully consolidated subsidiary
	ZIM Vietnam	51.0	51.0	fully consolidated subsidiary
	Antwerp Gateway	20.0	20.0	associated company
	ZLA India	100.0	100.0	associated company
	Interlog	100.0	100.0	fully consolidated subsidiary
	Omega Depot	51.0	51.0	fully consolidated subsidiary
	Ziss Capital	100.0	100.0	fully consolidated subsidiary
	Tarragona	40.0	40.0	associated company
	ZIM Integrated Shipping Services Hungary	100.0	100.0	fully consolidated subsidiary
	Martini Island Container Limited	51.0	51.0	fully consolidated subsidiary
	ZIM Austria	100.0	100.0	fully consolidated subsidiary

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd.	Dead Sea Works Ltd.	100.0	100.0	fully consolidated subsidiary
	Dead Sea Bromine Company Ltd.	100.0	100.0	fully consolidated subsidiary
	Rotem Amfert Negev Ltd.	100.0	100.0	fully consolidated subsidiary
	Dead Sea Periclase Ltd.	100.0	100.0	fully consolidated subsidiary
	Mifalei Tovala Ltd.	100.0	100.0	fully consolidated subsidiary
	Rotem Amfert Negev B.V., The Netherlands	*32.6	32.6	fully consolidated subsidiary
	I.D.E. Technologies Ltd.	50.0	50.0	proportionately consolidated subsidiary
	ICL Financing and Issuing Ltd.	100.0	100.0	fully consolidated subsidiary
	Ferson Chemicals Ltd.	100.0	100.0	fully consolidated subsidiary
	ICL Fine Chemicals Ltd.	100.0	100.0	fully consolidated subsidiary
	P.A.M.A. (Energy Resources Development) Israel	*25.0	25.0	associated company (inactive)
	Dead Sea Magnesium Ltd.	100.0	100.0	fully consolidated subsidiary
	ICL Finance B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	ICL Finance Inc. U.S.A.	100.0	100.0	fully consolidated subsidiary
	Twincap Forsakrings A.B., Sweden	100.0	100.0	fully consolidated subsidiary
	H.V.B. Inc., USA	80.0	80.0	fully consolidated subsidiary (inactive)
Dead Sea Works Ltd.	ICL Fertilizers – Partnership	*50.0	50.0	fully consolidated subsidiary
	Ashli Chemicals Ltd., England	100.0	100.0	fully consolidated subsidiary (inactive)
	Ashli Chemicals (Holland) B.V., Israel	100.0	100.0	fully consolidated subsidiary
	Cleveland Potash Ltd. (CPL), U.K.	*75.0	75.0	fully consolidated subsidiary
Ashli Chemicals (Holland) B.V. Israel	Cleveland Potash Ltd. UK	*25.0	25.0	fully consolidated subsidiary
	I.C.L. Finanace Belgium N.V.	100.0	100.0	fully consolidated subsidiary
Cleveland Potash Ltd. U.K	Constantine & Company (Export) Limited, UK	50.0	50.0	proportionately consolidated subsidiary (inactive)
	ISL Iberia Ltd. UK	100.0	100.0	fully consolidated subsidiary
	ISL Iberia Ltd. Spain	100.0	100.0	fully consolidated subsidiary
ICL Iberia SSCS Spain	Iberpotash S.A. Spain	100.0	100.0	fully consolidated subsidiary
	Trafico de Mercancias S.A., Spain	100.0	100.0	fully consolidated subsidiary
	Medentech Ltd., Ireland	100.0	100.0	fully consolidated subsidiary
	Ibsia SA, Spain	100.0	100.0	fully consolidated subsidiary
Medentech Ltd., Ireland	Patentways Limited, Ireland	100.0	100.0	fully consolidated subsidiary (inactive)
Dead Sea Bromine Company Ltd.	Bromine Compounds Ltd.	100.0	100.0	fully consolidated subsidiary
	ICL IP Eurobrom B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Tami (IMI) Investment for R&D Ltd. Israel	100.0	100.0	fully consolidated subsidiary
	ICL IP America Inc. USA	100.0	100.0	fully consolidated subsidiary
	ICL IP Ltd. Japan	100.0	100.0	fully consolidated subsidiary
	Landchem Ltd., South Africa	100.0	100.0	fully consolidated subsidiary
	Bromine and Chemicals Limited, England	100.0	100.0	fully consolidated subsidiary
	Euro Clearon Netherlands B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Dead Sea Periclase Fused Products – partnership	*99.0	99.0	fully consolidated subsidiary
	Ameribrome Inc. USA	100.0	100.0	fully consolidated subsidiary (inactive)
Bromine Compounds Ltd.	Tetrabrom Technologies Ltd.	*50.0	50.0	proportionately consolidated subsidiary
	Chemada Fine Chemicals Ltd.	*26.0	26.0	associated company
	Bromine Compounds Marketing (2002) Ltd., Israel	100.0	100.0	fully consolidated subsidiary
	Dead Sea Periclase Fused Products – registered partnership in Israel	*1.0	1.0	consolidated partnership

* The investee is also held by other Group companies.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
ICL IP Eurobrom B.V. The Netherlands	ICL IP Terneuzen B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Societe Pour le Traitment des sols et L'alimentation Animale SA France	100.0	100.0	fully consolidated subsidiary
	Bromchemie Holdings B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Bromisia Industry and Commerce Ltd., Brazil	*90.9	90.9	fully consolidated subsidiary
	Lianwangeng DD C Bromine Corporation Ltd., China	60.0	60.0	fully consolidated subsidiary
	Sinobrom, China	75.0	75.0	proportionately consolidated subsidiary
	Rotem Amfert Negev B.V., The Netherlands	*67.4	67.4	fully consolidated subsidiary
Rotem Amfert Negev B.V., The Netherlands	Eurocil Holding B.V. the Netherlands	*0.0	41.9	fully consolidated subsidiary
Tami (IMI) Institute for R&D Ltd. Israel	Potassium Nirate Ltd., Israel	50.0	50.0	proportionately consolidated subsidiary
	Novetide Ltd. Israel	50.0	50.0	proportionately consolidated subsidiary
	Magsens Ltd., Israel	22.2	22.2	proportionately consolidated subsidiary
ICL IP Tranuzen B.V., The Netherlands	Bromisia Industry and Trade Ltd. Brazil	*9.1	9.1	fully consolidated subsidiary
Rotem Amfert Negev Ltd.	I.C.L. Fertilizers	*50.0	50.0	fully consolidated subsidiary
	Eurocil Holding B.V., The Netherlands	*100.0	50.1	fully consolidated subsidiary
	Agro-Vant, Israel	98.5	98.5	fully consolidated subsidiary
	Fertilizers and Chemicals Ltd.	100.0	100.0	fully consolidated subsidiary
	Zuari Rotem Specialty Fertilizers Ltd., India	50.0	50.0	fully consolidated subsidiary
	I.C.L. Holding The Netherlands Corporation U.A. The Netherlands	100.0	100.0	fully consolidated subsidiary
Fertilizers and Chemicals Ltd.	Industrial Chemical Equipment Ltd., Israel	100.0	100.0	fully consolidated subsidiary
	Revivim in the Bay Water Enivronment Ltd., Isr.	100.0	100.0	fully consolidated subsidiary
	Agriphuzia – Israel	*49.5	49.5	consolidated partnership
Industrial Chemical Equipment Ltd., Israel	Agripo Management Services Ltd.	50.0	50.0	fully consolidated subsidiary
Agripo Management Services Ltd.	Agriphuzia – Israel	*1.0	1.0	consolidated partnership
Eurocil Holding B.V., The Netherlands	Rotem Holding GMBH, Germany	*10.0	10.0	fully consolidated subsidiary
	I.C.L. F.E. Potash B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Amsterdam Fertilizers B.V. The Netherlands	100.0	100.0	fully consolidated subsidiary

* The investee is also held by other Group companies.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
Pekafert B.V., The Netherlands	Eurocil Luxembourg S.A. Luxembourg	100.0	100.0	fully consolidated subsidiary
ICL Brazil Ltd.,	FosBrazil S.A., Brazil	44.0	44.0	associated company
	Anti-Germ Deutschland G.M.B.H. Germany	100.0	100.0	fully consolidated subsidiary
	Anti-Germ Austria G.M.B.H., Austria	100.0	100.0	fully consolidated subsidiary
	Anti-Germ France S.A.S., France	100.0	100.0	fully consolidated subsidiary
	Speciality Technologies Europe B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Euro Clearon B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
Anti-Germ France S.A.S. France	Anti-Germ Ibrika, Spain	100.0	100.0	fully consolidated subsidiary
Euro Clearon B.V. The Netherlands	Clearon Holdings Inc., USA	100.0	100.0	fully consolidated subsidiary
I.C.L. F.A. Potash BV. The Netherlands	Florett S.A., Luxembourg	85.0	85.0	fully consolidated subsidiary
Clearon Holdings Inc., U.S.A	Clearon Corp., U.S.A	100.0	100.0	fully consolidated subsidiary
Clearon Corp., U.S.A	CC Receivables Purchasing LLC, U.S.A	100.0	100.0	fully consolidated subsidiary
Anti-Germ Austria G.M.B.H. Austria	Anti-Germ CZ S.R.O. Czech Republic	100.0	100.0	fully consolidated subsidiary
	OAG Hungary Kft., Hungary	100.0	100.0	fully consolidated subsidiary
	Anti-Germ Slovakia SRO, Slovakia	100.0	100.0	fully consolidated subsidiary
	Merak CZ, Czech Republic	100.0	100.0	fully consolidated subsidiary
Merak CZ, Czech Republic	Merak, Russia	100.0	100.0	fully consolidated subsidiary
	Merak, Slovakia	100.0	100.0	fully consolidated subsidiary
Anti-Germ CZ S.R.O. Czech Republic	Merak CZ, Czech Republic	100.0	100.0	fully consolidated subsidiary
Anti-Germ France S.A.S., France	Penngar Hispania SL, Spain	100.0	100.0	fully consolidated subsidiary
Speciality Technologies Europe B.V. Holland	Scora S.A. France	100.0	100.0	fully consolidated subsidiary

* The investee is also held by other Group companies.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
Rotem Holding G.M.B.H., Germany	B.K. Giulini Chemie GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Fibrisol Service Ltd., Great Britain	100.0	100.0	fully consolidated subsidiary
	Fibrisol Service Australia Pty. Ltd., Australia	100.0	100.0	fully consolidated subsidiary
	Sofima S.A.S., France	100.0	100.0	fully consolidated subsidiary
	B.K. Giulini Argentina S.A., Argentina	*95.0	95.0	fully consolidated subsidiary
	Shanghai Tari International Ltd., China	51.0	51.0	fully consolidated subsidiary
	Yunnan B.K. Giulini Qunli Phosphate Co. Ltd., China	60.0	60.0	fully consolidated subsidiary
	Fibrisol Muscalla GmbH, Germany	34.65	34.65	fully consolidated subsidiary
	B.K. Giulini Polska Sp. z.o.o. Poland	*95.0	95.0	fully consolidated subsidiary
	B.K. Giulini Japan Ltd., Japan	100.0	100.0	fully consolidated subsidiary
	B.K. Giulini Leather Chemistry Co. Ltd. Hong Kong, China	100.0	100.0	fully consolidated subsidiary
	B.K.G. Parnes SAS France	100.0	100.0	fully consolidated subsidiary
	B.K.G. Personal Care Co., Ltd. Hong Kong	100.0	100.0	fully consolidated subsidiary
	ICL Performance Products Holding Inc., USA	100.0	100.0	fully consolidated subsidiary
	Flexotex GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	B.K.G. Performance Products Jiangyin Co. China	46.03	46.03	fully consolidated subsidiary
	ICL North America Inc. USA	100.0	100.0	fully consolidated subsidiary
	B.K. Giulini Specialities Private Limited, India	51.0	51.0	fully consolidated subsidiary
	Turris Ashkuranz, GmbH	100.0	100.0	fully consolidated subsidiary
	I.C.L. Biogamba SAS, France	100.0	100.0	fully consolidated subsidiary
	I.C.L. A.P. Bitterfeld GmbH Germany	100.0	100.0	fully consolidated subsidiary
	Supresta Verwaltungs GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Primalab SAS, France	100.0	100.0	fully consolidated subsidiary
BK Giulini Leather Chemistry Co. Ltd., Hong Kong	BK Performance Products Jiangyin Co. Ltd. China	9.54	9.54	fully consolidated subsidiary
Flexotex G.M.B.H., Germany	BKG Finance GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	BKG Sup Finance GmbH	100.0	100.0	fully consolidated subsidiary
ICL North America Inc., USA	Phosphorus Derivatives Inc. USA	100.0	100.0	fully consolidated subsidiary
	ICL Performance Products Inc., USA	100.0	100.0	fully consolidated subsidiary
	ICL IP America Inc. USA	100.0	100.0	fully consolidated subsidiary
ICL Performance Products Inc., USA	ICL Performance Products LLC, USA	100.0	*100.0	fully consolidated subsidiary
	ICL Performance Products LP, USA	99.0	99.0	fully consolidated subsidiary
	ICL Performance Products Limited, Canada	100.0	100.0	fully consolidated subsidiary
ICL Performance Products LLC, USA	ICL Performance Products LP, USA	1.0	1.0	fully consolidated subsidiary
BKG Personal Care, Hong Kong	BK Performance Products Jiangyin Co. Ltd. China Jiangyin, China	44.43	44.43	fully consolidated subsidiary

* The investee is also held by other Group companies.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
BKG Puriphos B.V., The Netherlands	ICL Asia Ltd., Hong Kong	100.0	100.0	fully consolidated subsidiary
ICL Asia Ltd., Hong Kong	ARM Ltd., Hong Kong	100.0	100.0	fully consolidated subsidiary
	ICL Asia Shanghai Representative Office, China	100.0	100.0	fully consolidated subsidiary
	ICL Fertilizers (India) Private Ltd., India	100.0	100.0	fully consolidated subsidiary
	Jiaxing I.C.L. Chemical, China	100.0	100.0	fully consolidated subsidiary
	Zhangjiagang F.T.Z. ICL Trading Co. China	100.0	100.0	fully consolidated subsidiary
ARM Ltd., Hong Kong	ICL Trading Co. (HK) Hong Kong	100.0	100.0	fully consolidated subsidiary
	D.D.F.R Corporation Ltd., Hong Kong	50.0	50.0	proportionately consolidated subsidiary
	BK Giulini Hong Kong Limited, Hong Kong	100.0	100.0	fully consolidated subsidiary
	AUB Storing and Services (Hong Kong) Ltd., Hong Kong	55.0	55.0	fully consolidated subsidiary
BK Giulini Hong Kong Limited, Hong Kong	BK Giulini Hygiene Hong Kong Ltd. Hong Kong	100.0	100.0	fully consolidated subsidiary
	Angang BK Giulini Water Treatment Co. Ltd. China	50.0	50.0	fully consolidated subsidiary
B.K. Giulini Chemie GmbH & Co. Germany	Fibrisol Muscalla GmbH, Germany	*65.3	65.3	fully consolidated subsidiary
	Hoyerman Chemie GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	B.K. Mercosur S.A., Uruguay	100.0	100.0	fully consolidated subsidiary
	Rhenoflex GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Rotem Do Brazil Ltd., Brazil	100.0	100.0	fully consolidated subsidiary
	Tari International N.Z. Ltd., New Zealand	100.0	100.0	fully consolidated subsidiary
	Rhenoflex Dreyer S.A.R.L., France	*10.0	10.0	fully consolidated subsidiary
	B.K. Giulini Polska S.p.0.0., Poland	*5.0	5.0	fully consolidated subsidiary
	B.K. Giulini Argentina S.A Argentina	*5.0	5.0	fully consolidated subsidiary
Rhenoflex GmbH Germany	Gurit Worbla GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Rhenoflex Dreyer S.A.R.L., France	*90.0	90.0	fully consolidated subsidiary
Nutrisi Holding Belgium	Fertilizantes Naturlis de Chili S.A. Spain	66.7	66.7	proportionately consolidated subsidiary
	NU3 NV, Belgium	50.0	50.0	proportionately consolidated subsidiary
NU3 NV, Belgium	NU3 BV, The Netherlands	100.0	100.0	proportionately consolidated subsidiary

* The investee is also held by other Group companies.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
Amsterdam Fertilizers B.V., The Netherlands	ICL Holdings Beschrankt Haftende O.H.G., Germany	*95.0	95.0	consolidated partnership
	Finacil EEIG (European Economic Interest Grouping), The Netherlands	12.5	*12.5	fully consolidated subsidiary
	BKG Puriphos B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	ICL Fertilizers Europe S.V., The Netherlands	100.0	100.0	limited partnership
	Nutrisi Holding N.V., Belgium	50.0	50.0	proportionately consolidated subsidiary
	Incap B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	Pekafert B.V., The Netherlands	100.0	100.0	fully consolidated subsidiary
	ICL Brazil, Ltd. Brazil	100.0	100.0	fully consolidated subsidiary
	P.M. Chemicals S.R.L., Italy	100.0	100.0	fully consolidated subsidiary
	B.K.G. Puriphos CV, The Netherlands	*0.4	0.4	fully consolidated subsidiary
	B.K. Giulini Kimya Ve Sanayi Ticaret IC Turkey	100.0	100.0	fully consolidated subsidiary
	Rotem Kimyevi Maddeler Sanayi Ve Sinai Ticaret AS Turkey	100.0	100.0	fully consolidated subsidiary
ICL Fertilizers Europe S.V.	B.K.G. Puriphos CV, The Netherlands	99.7	99.7	fully consolidated subsidiary
ICL Holdings Beschrankt Haftende O.H.G., Germany	Stendik Dunger GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	ICL Holding Germany O.H.G., Germany	100.0	100.0	fully consolidated subsidiary
	Rotem Holding GmbH, Germany	90.0	90.0	fully consolidated subsidiary
	ICL Fertilizers Deutschland GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Eisenbacher Dentalwaren ED GmbH, Germany	100.0	100.0	fully consolidated subsidiary
	Adentatec GmbH Competence in Dental, Germany	100.0	100.0	fully consolidated subsidiary
ICL Holding Germany GmbH, Germany	ICL Holding Beschrankt Haftende O.H.G. Germany	*5.00	5.00	consolidated partnership
Incap B.V. The Netherlands	Intracap Insurance, Switzerland	100.0	100.0	fully consolidated subsidiary
Mifalei Tovala Ltd.	Sherut Rail & Road Transportation Services 1990 Registered Partnership in Israel	50.0	50.0	proportionately consolidated partnership
	M.M.M. Company United Landfill, Industries (1998), Ltd. Israel	33.3	33.3	proportionately consolidated partnership
I.D.E. Technologies Ltd.	Ambient Technologies Inc., Virgin Islands	100.0	100.0	proportionately consolidated subsidiary
	IDE Canaries S.A., Canary Islands	100.0	100.0	proportionately consolidated subsidiary
	Lancara Water Partners, Cyprus	*95.0	95.0	proportionately consolidated subsidiary
	Pelagos Desalination Services, Cyprus	100.0	100.0	proportionately consolidated subsidiary
	Detelca UTE, Spain	20.0	20.0	proportionately consolidated subsidiary
	Indian Desalinization Engineering PVT, India	50.0	50.0	other investment
	V.I.D. Desalination Company Ltd., Israel	50.0	50.0	proportionately consolidated subsidiary
	OTID Desalination Partnership, Israel	50.0	50.0	proportionately consolidated subsidiary
	ADOM (Ashkelon Desalination)	40.5	45.0	proportionately consolidated subsidiary
	West Galilee Desalinization Ltd., Israel	50.0	50.0	inactive
	IDESB Desalinization Partnership	50.0	50.0	proportionately consolidated subsidiary

* The investee is also held by other Group companies.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Israel Chemicals Ltd. (cont.)				
I.D.E. Technologies Ltd. (cont.)	H2ID Ltd., Israel	50.0	50.0	proportionately consolidated subsidiary
	IDE-HCH O & M Company, Ltd.	*60.0	60.0	proportionately consolidated subsidiary
	Omis Water Ltd., Israel	60.0	60.0	proportionately consolidated subsidiary
	IDE Technologies India Private Ltd., India	99.0	99.0	proportionately consolidated subsidiary
	IDE Holdings Hong Kong Ltd.	100.0	100.0	fully consolidated subsidiary
	IDE Technology (Australia) PTV, Ltd.	100.0	100.0	fully consolidated subsidiary
	Soreq Desalinization Ltd., Israel	51.0	51.0	proportionately consolidated subsidiary
	IDE Americas Inc., USA	100.0	100.0	fully consolidated subsidiary
Ambient Technologies Inc., Virgin Islands	Larnaca Water Partners, Cyprus	*5.0	5.0	proportionately consolidated subsidiary
	IDE Technologies India Private Ltd., India	*1.0	*1.0	proportionately consolidated subsidiary
Dead Sea Magnesium Ltd.	M.R.I. Research & Development Ltd., Israel	*99.0	77.8	fully consolidated subsidiary
	Dead Sea Magnesium Inc., USA	100.0	100.0	fully consolidated subsidiary
	Magnesium Castings Inc., USA	100.0	100.0	fully consolidated subsidiary
	Israel Light Metal Initiative Ltd., Israel	9.0	9.0	other investment
Oil Refineries Ltd.	Basic Oils Haifa Ltd.	100.0	100.0	fully consolidated subsidiary
	Gadot Biochemical Industries Ltd.	23.07	23.07	associated company
	The Consolidated Company for Fuel Export Ltd.	25.0	25.0	associated company
	Tankers Service Ltd.	25.0	25.0	associated company
	PMA (Energy Resources Development) Ltd.	*25.0	25.0	(inactive)
	Carmel Olefins Ltd.	100.0	100.0	fully consolidated subsidiary
	Gadiv Petrochemical Industries Ltd.	100.0	100.0	fully consolidated subsidiary
	Israeli Petrochemical Works Ltd.	12.29	12.29	associated company
	Mercury Aviation (Israel) Ltd.	31.25	31.25	associated company
Basic Oils Haifa Ltd.	Habol Trade and Insurance Ltd.	100.0	100.0	fully consolidated subsidiary
Carmel Olefins Ltd.	Dumo Chemicals	49.0	49.0	fully consolidated subsidiary
	Koland Palumarim	100.0	100.0	fully consolidated subsidiary
	Carmel Olefins (UK) Ltd.	100.0	100.0	fully consolidated subsidiary
	Collins Ltd.	100.0	100.0	fully consolidated subsidiary
	Carmel Olefins (Marketing) 1990 Ltd.	100.0	100.0	fully consolidated subsidiary
	Carmel Olefins Investments 2007 Ltd.	100.0	100.0	(inactive)
H.L. (Holdings – ICL) Ltd.	Israel Chemicals Ltd.	*13.6	13.6	fully consolidated subsidiary
H.L. Acquisitions ICL (1998) Ltd.	Israel Chemicals Ltd.	* 7.7	7.7	fully consolidated subsidiary
H.L. (Kislev, 1998) Ltd.	Israel Chemicals Ltd.	* 3.2	3.2	fully consolidated subsidiary
Orchot Cochavim Ltd.	Elram Housing Corporation – Limited Partnership	* 1.0	1.0	proportionately consolidated partnership

* The investee is also held by other Group companies.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Tower Semiconductor Ltd.	Tower Semiconductor U.S.A.	100.0	100.0	associated company
	Jazz Technologies Inc.	100.0	100.0	associated company
	S. & T. Medical Solutions Ltd.	37.620	37.620	investee company
Jazz Technologies Inc.	Jazz Semiconductor Inc.	100.0	100.0	associated company
	Jazz Israel	100.0	100.0	associated company
I. C. Power Ltd.	Inkia Energy Ltd.	100.0	100.0	fully consolidated subsidiary
		100.0	100.0	fully consolidated subsidiary
I. C. Power Israel Ltd.	I.P.C. Rotem	80.0	80.0	fully consolidated subsidiary
Inkia Energy Ltd.	Inkia Americas Ltd. (Bermuda)	100.0	100.0	fully consolidated subsidiary
Inkia Americas Ltd. (Bermuda)	Inkia Americas Holdings Ltd. (Bermuda)	100.0	100.0	fully consolidated subsidiary
Inkia Americas Holdings Ltd. (Bermuda)	Inkia Holdings (Kallpa) Ltd. (Bermuda)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (Cobee) Ltd. (Bermuda)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (JPPC) Ltd. (Barbados)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (CEPP – Cayman) Ltd.	100.0	100.0	fully consolidated subsidiary
	Inkia CEPP Operations S.A. (Dominican Republic)	*0.1	0.1	fully consolidated subsidiary
	Inkia Holdings (CEPP) Ltd. (Bermuda)	100.0	100.0	fully consolidated subsidiary
	Inkia Holdings (Panama Generation) Ltd. (Cayman)	100.0	100.0	fully consolidated subsidiary
	Inkia Panama Management SRL (Panama)	*95.0	95.0	fully consolidated subsidiary
	Inkia Holdings (Nejapa) Ltd. (Cayman)	100.0	100.0	fully consolidated subsidiary
	Compania de Enegia de Centro America S.A. (El Salvador)	*99.0	99.0	fully consolidated subsidiary
	Inkia Holdings (Acter) Ltd. (Cayman)	100.0	100.0	fully consolidated subsidiary
	Inkia Energy Guatemala Ltd. (Guatemala)	*57.5	57.5	fully consolidated subsidiary
Inkia Holdings (Kallpa) Ltd. (Bermuda)	Kallpa Generacion S.A. (formerly Globeleq Peru S.A.) (Peru)	74.9	74.9	associated company
	Samari A.S.I.	100.0	100.0	fully consolidated subsidiary
Inkia Holdings (Cobee) Ltd. (Bermuda)	Compania Bolivia De Energy Electra S.A. (Nova Scotia)	100.0	100.0	fully consolidated subsidiary
	Compania Bolivia de Energy Electra S.A. – Bolivia Branch Office (Bolivia)	100.0	100.0	fully consolidated subsidiary
Inkia Holdings (JPPC) Ltd. (Barbados)	West Indies Development Corporation Ltd. (Jamaica)	100.0	100.0	fully consolidated subsidiary
Inkia Holdings (CEPP) Ltd. (Bermuda)	Compania de Electricidad de Puerto Plata S.A. (Dominican Republic)	48.34	48.34	fully consolidated subsidiary
	Inkia Energy Guatemala Ltd. (Guatemala)	*0.58	*0.58	fully consolidated subsidiary
	Inkia SP Operation SA (Dominican Republic)	*99.4	99.4	fully consolidated subsidiary

* The investee is also held by other Group companies.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Inkia Energy Ltd. (cont.)				
Inkia Holdings (Panama Generation) Ltd. (Cayman)	Pedregal Power Company S.R.L. (Panama)	21.2	21.2	associated company
	Inkia SP Operation SA (Dominican Republic)	0.1	*0.1	fully consolidated subsidiary
Inkia Holdings (Nejapa) Ltd. (Cayman)	Inkia Salvador Power Ltd. (Cayman)	100.0	100.0	fully consolidated subsidiary
	Inkia CEPP Operation SA (Dominican Republic)	0.1	*0.1	fully consolidated subsidiary
Compania de Enegia de Centro America S.A. (El Salvador)	Inkia Energy Guatemala Ltd. (Guatemala)	*41.09	41.09	fully consolidated subsidiary
Inkia Holdings (Acter) Ltd. (Cayman)	Southern Cone Power Ltd.	100.0	100.0	fully consolidated subsidiary
	Latin America Holding I Ltd. (Cayman)	100.0	100.0	fully consolidated subsidiary
	Latin America Holding II Ltd. (Cayman)	*99.9	100.0	fully consolidated subsidiary
Compania Bolivia De Energy Electra S.A. Bolivian Branch Office (Bolivia)	Servicios Energeticos S.A. (SESA) (Bolivia)	99.99	99.99	fully consolidated subsidiary
Latin America Holding I Ltd. (Cayman)	Latin America Holding II Ltd. (Cayman)	0.1	0.1	fully consolidated subsidiary
	Southern Cone Power Peru S.A. (Peru)	*99.9	100.0	fully consolidated subsidiary
West Indies Development Corporation Ltd. (Jamaica)	Jamaica Private Power Company Ltd. (Jamaica)	15.6	15.6	other investment
Inkia Salvadorian Power Ltd. (Cayman)	Nejapa Power Company LLC (a Delaware Company)	*1.0	1.0	fully consolidated subsidiary
	Nejapa Holdings Company Ltd. (Cayman)	70.85	70.85	fully consolidated subsidiary
Nejapa Holdings Company Ltd. (Cayman)	Nejapa Power Company LLC (a Delaware Company)	99.0	99.0	fully consolidated subsidiary
	Nejapa Power Company LLC (a Delaware Company) branch in El Salvador	100.0	100.0	fully consolidated subsidiary
Southern Cone Power Peru S.A. (Peru)	Generandes Peru S.A. (Peru)	39.0	39.0	associated company
Generandes Peru S.A. (Peru)	Edegel S.A.A. (Peru)	54.2	54.2	associated company

* The investee is also held by other Group companies.

Israel Corporation Ltd.
Annex – Rate of Holdings in Group Companies
As at December 31, 2010

Name of Holding Company	Name of Investee Company	Share in Equity %	Share in Control %	
Mars Information Product Group Ltd.	S.I.T. Software for Information Technology Ltd.	100.0	100.0	proportionately consolidated subsidiary
	CMS Compucenter Ltd.	100.0	100.0	proportionately consolidated subsidiary
	Mars Information Computer Networking Solution Ltd.	100.0	100.0	proportionately consolidated subsidiary
	C.P.M. Computer Services Ltd.	100.0	100.0	proportionately consolidated subsidiary
Quantum (2007) LLC	Cherry Quantum Auto Co. Ltd.	50.0	50.0	associated company
Asik Investments Inc.	Asik Group Israel. Ltd.	100.0	100.0	proportionately consolidated subsidiary
I.C.G. Energy Ltd.	Petrotec A.G.	48.03	48.03	associated company
	I.C.G. Fuel U.S.A. Inc.	100.0	100.0	fully consolidated subsidiary
	Primus Green Energy Inc.	67.35	67.35	fully consolidated subsidiary
	HelioFocus Ltd.	47.1	47.1	associated company
	I.C. Green Energy B.V.	100.0	100.0	fully consolidated subsidiary
	I.C. Green Projects Ltd.	100.0	100.0	fully consolidated subsidiary
Petrotec A.G.	Petrotec Bio Diesel GmbH	100.0	100.0	fully consolidated subsidiary
	Vital Peat Recycling GmbH	100.0	100.0	fully consolidated subsidiary
HelioFocus Ltd.	HelioFocus Technologies Inc.	100.0	100.0	fully consolidated subsidiary
I.C. Green Projects Ltd.	I.C. Green Solar 1 (Israel) Ltd.	100.0	100.0	fully consolidated subsidiary
	I.C. Green Solar 2 Ltd.	100.0	100.0	fully consolidated subsidiary
	I.C. Green Solar 3 Ltd.	100.0	100.0	fully consolidated subsidiary
	I.C. Green Solar 4 Ltd.	100.0	100.0	fully consolidated subsidiary
	I.C. Green Solar 5 Ltd.	100.0	100.0	fully consolidated subsidiary
Better Place Inc.	BPDH LLC	100.0	100.0	fully consolidated subsidiary
	Better Place Cooperatief	99.0	99.0	fully consolidated subsidiary
	Better Place Israel (H.T.) (2009) Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place Labs Israel Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place Hawaii Inc.	100.0	100.0	fully consolidated subsidiary
	Better Place Japan Co. Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place Mobility Servers Co.	100.0	100.0	fully consolidated subsidiary
BPDH LLC	Better Place Cooperatief	1.0	1.0	fully consolidated subsidiary
Better Place Cooperatief	Better Place B.V.	100.0	100.0	fully consolidated subsidiary
Better Place B.V.	Better Place France SAS			
	Better Place Israel (H.T.) (2009) Ltd.	100.0	100.0	fully consolidated subsidiary
	Better Place The Netherlands B.V.	100.0	100.0	fully consolidated subsidiary
	Better Place Denmark A/S	85.0	85.0	fully consolidated subsidiary
	Better Place (New Zealand) Limited	100.0	100.0	fully consolidated subsidiary
	Better Place (Australia) PTI Ltd.	90.0	90.0	fully consolidated subsidiary
	Better Place GmbH	100.0	100.0	fully consolidated subsidiary
	Better Place U.K. Limited	100.0	100.0	fully consolidated subsidiary
Better Place Israel (H.T.) (2009) Ltd.	Better Place Motors Ltd.	100.0	100.0	fully consolidated subsidiary

The investee is also held by other Group companies.

Israel Corporation Ltd.

Separate information provided in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

Financial data from the consolidated financial statements relating to the Corporation on a separate-company basis as at December 31, 2010

Israel Corporation Ltd.

Separate information provided in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

Contents

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To the Shareholders of Israel Corporation Ltd.

Re: Special Report of the Auditors' with respect to Separate-Company Financial Data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate-company financial data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970 of Israel Corporation Ltd. (hereinafter – "the Corporation"), as at December 31, 2010 and 2009, and for each of the three years the last one of which ended on December 31, 2010. This separate-company financial data is the responsibility of the Corporation's Board of Directors and its Management. Our responsibility is to express an opinion on the separate-company financial data based on our audits.

We did not audit the financial statements of investee companies accounted for using the equity method of accounting, regarding which the investment therein is about $23 million and about $6 million as at December 31, 2010 and 2009, respectively, and the Group's share in their losses is about $15 million, about $31 million and about $22 million for each of the three years the last one of which ended on December 31, 2010, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us and our opinion, insofar as it relates to amounts included in respect of those such companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audits to obtain reasonable assurance that the separate-company financial data is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate-company financial data. An audit also includes assessing the accounting principles used and significant estimates made by the Corporation's Board of Directors and by its Management, as well as evaluating the overall presentation of the separate-company financial data. We believe that our audits and the reports of the other auditors provide a fair basis for our opinion.

In our opinion, based on our audits and on the reports of other auditors, the separate-company financial data is prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 29, 2011

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2010
Data with respect to Financial Position

	As at December 31	
	2010	2009
	$ millions	
Current assets		
Cash and cash equivalents	**458**	230
Short-term deposits	**53**	–
Securities held for trade	**–**	1
Loans to investee companies	**16**	–
Receivables and other debit balances	**49**	1
Derivative instruments	**54**	*39
Income tax receivable	**22**	35
Total current assets	**652**	306
Non-current assets		
Investment in respect of investee companies	**3,338**	3,078
Investments in other companies	**14**	32
Loans to investee companies	**559**	445
Other debit balances, including derivate instruments	**327**	*173
Total non-current assets	**4,238**	3,728
Total assets	**4,890**	4,034

* Reclassified.

Amir Elstein	**Nir Gilad**	**Avisar Paz**
Chairman of the Board of Directors	CEO	CFO

Date of approval of the financial statements: March 29, 2011

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2010
Data with respect to Financial Position

	As at December 31	
	2010	**2009**
	$ millions	
Current liabilities		
Current maturities of non-current liabilities	**265**	178
Other payables and credit balances	**29**	24
Derivative instruments	**35**	*29
Total current liabilities	**329**	231
Non-current liabilities		
Loans from banks	**534**	569
Debentures	**1,563**	1,348
Long-term liabilities, including derivative instruments	**75**	*42
Deferred taxes	**–**	33
Total long-term liabilities	**2,172**	1,992
Total liabilities	**2,501**	2,223
Equity		
Share capital and premium	**282**	281
Capital reserves	**107**	97
Controlling shareholders reserve	**90**	46
Retained earnings	**1,910**	1,387
Total equity attributable to the shareholders of the parent company	**2,389**	1,811
Total liabilities and equity	**4,890**	4,034

* Reclassified.

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2010
Data with respect to Income

	Additional information	For the Year Ended December 31 2010	2009	2008
		$ millions		
Administrative and general expenses		**(14)**	(4)	(5)
Other expenses		**–**	(65)	(2)
Other income		**59**	36	26
Operating income (loss)		**45**	(33)	19
Financing expenses		**(220)**	(145)	(210)
Financing income		**143**	119	71
Financing expenses, net		**(77)**	(26)	(139)
Share in income of investee companies, net	4	**527**	64	441
Income before taxes on income		**495**	5	321
Taxes on income (tax benefit)		**21**	(1)	1
Income for the year attributable to the Corporation's shareholders		**474**	6	320

Israel Corporation Ltd.

Financial Data on a Separate-Company Basis as at December 31, 2010

Data with respect to Comprehensive Income

	For the Year Ended December 31		
	2010	**2009**	**2008**
		$ millions	
Income for the year	**474**	6	320
Components of other comprehensive income			
Effective portion of the change in fair value of cash flow hedges	**(5)**	(2)	–
Net change in fair value of cash flow hedges transferred to the statement of income	**2**	1	–
Net change in fair value of financial assets available for sale	**(18)**	18	(2)
Net change in fair value of financial assets available for sale transferred to the statement of income	**–**	–	2
Other comprehensive income in respect of investee companies	**8**	112	(131)
Total other comprehensive income for the year, net of tax	**(13)**	129	(131)
Total comprehensive income for the year attributable to the Corporation's owners	**461**	135	189

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2010
Data with respect to Cash Flows

	For the Year Ended December 31		
	2010	2009	2008
	$ millions		
Cash flows from operating activities			
Income for the year attributable to the Corporation's shareholders	**474**	6	320
Adjustments:			
Financing expenses, net	**77**	28	139
Capital (gains) losses, net	**(59)**	29	(25)
Income in respect of investee companies	**(527)**	(64)	(441)
Loss from investment in available-for-sale securities	–	–	4
Share-based payment transactions	**5**	–	–
Taxes on income (tax benefit)	**21**	(1)	1
	(9)	(2)	(2)
Change in receivables	**(22)**	(18)	(22)
Change in provisions and payables	**(39)**	4	(5)
	(70)	(16)	(29)
Dividend received	**536**	398	551
Net cash provided by operating activities	**466**	382	522
Cash flows from investing activities			
Investments in investee and other companies	**(239)**	(386)	(291)
Short-term deposits and loans, net	**(59)**	133	(48)
Investment in available for sale securities	**–**	–	(10)
Sale (acquisition) of securities held for trade, net	**1**	(2)	5
Provision of long-term loans to investee companies	**(122)**	(200)	(92)
Collection of long-term loans from investee companies	**13**	201	89
Interest received	**26**	*5	*16
Proceeds from sale of derivatives, net	**11**	*(1)	*1
Net cash used in investing activities	**(369)**	(250)	(330)
Cash flows from financing activities			
Acquisition of rights not conferring control	**(16)**	–	–
Proceeds from sale of holding in investee company	**106**	–	–
Dividend paid	**–**	–	(50)
Receipt of long-term loans and issuance of debentures	**392**	75	434
Repayment of long-term loans and debentures	**(266)**	(92)	(72)
Short-term credit	**–**	–	(210)
Interest paid	**(103)**	*(94)	(121)
Payment in respect of settlement of derivatives used for hedging	**(2)**	–	–
Net cash provided by (used in) financing activities	**111**	(111)	(19)
Net increase in cash and cash equivalents	**208**	21	173
Cash and cash equivalents at the beginning of the year	**230**	216	29
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**20**	(7)	14
Cash and cash equivalents at the end of the year	**458**	230	216

*Reclassified.

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2010
Additional Information

Note 1 – Financial Instruments

Set forth below is financial data taken from the Corporation's consolidated financial statements as at December 31, 2010, which are published as part of the Annual Report (hereinafter – "the Consolidated Financial Statements"), relating to the Corporation on a separate-company basis (hereinafter – "the Separate-Company Financial Data") and presented in accordance with Regulation 9C (hereinafter – "the Regulation") and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 2010 (hereinafter – "the Tenth Addendum") regarding separate-company financial data of a company.

In this separate-company financial data –

(1)	The Corporation	–	Israel Corporation Ltd.
(2)	Subsidiaries	–	Companies, including partnerships, the financial statements of which are fully consolidated, directly or indirectly, with those of the Corporation.
(3)	Investee companies	–	Subsidiaries and companies, including partnerships or joint ventures, where the Corporation's investment therein is included, directly or indirectly, in the financial statements using the equity basis of accounting.
(4)	Dollar	–	The United States dollar.

Note 2 – Significant Accounting Principles Applied in the Financial Data on a Separate-Company Basis

The significant accounting policies detailed in the consolidated financial statements were applied consistently to all periods presented by the Corporation in the financial data on a separate-company basis, including the manner of classification of the financial data in the consolidated financial statements with the required changes as stated below:

A. Presentation of the financial data

(1) Data on the statement of financial position

This data includes information regarding amounts of the assets and liabilities included in the financial statements relating to the Corporation itself (except with respect to investee companies), while providing detail based on the types of the assets and liabilities. In addition, as part of this data, information is included regarding a net amount, based on the consolidated financial statements, relating to the Corporation's shareholders itself, of the total assets less the total liabilities, in respect of investee companies, including goodwill.

Note 2 – Significant Accounting Principles Applied in the Financial Data on a Separate-Company Basis (Cont.)

A. Presentation of the financial data (Cont.)

(2) Data on the statement of income and the comprehensive income

This data includes information regarding amounts of the income and expenses included in the consolidated financial statements, broken down between income or expense and other comprehensive income, relating to the Corporation itself (except with respect to investee companies), while providing detail based on the types of the revenues and expenses. In addition, as part of this data, information is included based on the consolidated financial statements relating to the Corporation's shareholders itself, of the total revenues less the total expenses in respect of the results of operations of investee companies.

(3) Data on the statement of cash flows

This data includes information regarding amounts of the cash flow included in the consolidated financial statements relating to the Corporation itself (except with respect to investee companies), taken from the consolidated statement of cash flows, broken down by cash flows from current operating activities, cash flows from investing activities and cash flows from financing activities along with detail of their components. Cash flows in respect of current operating activities, investing activities and financing activities in respect of transactions with investee companies are presented separately on a net basis, as part of the related activities, in accordance with the nature of the transaction.

B. Transactions between the Corporation and Investee Companies

(1) Presentation

Intercompany balances within the Group and revenue and expenses deriving from intercompany transactions, which were eliminated as part of preparation of the consolidated financial statements, were presented separately from the balance in respect of the investee companies and the income in respect of the investee companies, together with similar balances with related parties.

(2) Measurement

Transactions executed between the Corporation and its subsidiaries are measured in accordance with the recognition and measurement principles provided in the International Financial Reporting Standards (IFRS), which outline the accounting treatment of these types of transactions executed with related parties.

Israel Corporation Ltd.
Financial Data on a Separate-Company Basis as at December 31, 2010
Additional Information

Note 3 – Financial Instruments

A. Non-derivative financial assets

(1) Details with respect to linkage

	As at December 31, 2010			
	New Israeli shekels		Foreign currency	
	Unlinked	CPI-linked	Dollar	Total
	$ millions			
Cash and cash equivalents	207	–	251	458
Loans and receivables				
Current:				
Short-term deposits	53	–	–	53
Receivables and other debit balances	1	–	48	49
Loans to investee companies	16	–	–	16
Non-current:				
Loans to investee companies	381	1	177	559
Debit balance	–	–	68	68
Financial assets available for sale				
Marketable shares	–	–	13	13
Total non-derivative financial instruments	**658**	**1**	**557**	**1,216**

	As at December 31, 2009			
	New Israeli shekels		Foreign currency	
	Unlinked	CPI-linked	Dollar	Total
	$ millions			
Cash and cash equivalents	7	–	223	230
Financial instruments measured at fair value through the statement of income				
Securities held for trade	–	1	–	1
Loans and receivables				
Current:				
Receivables and other debit balances	1	–	–	1
Non-current:				
Loans to investee companies	309	–	136	445
Debit balance	–	–	11	11
Financial assets available for sale				
Marketable shares	–	–	31	31
Total non-derivative financial instruments	**317**	**1**	**401**	**719**

(2) Analysis of the projected realization dates

The repayment dates of the loans to investee companies have not yet been determined.

Note 3 – Financial Instruments (Cont.)

B. Non-derivative financial liabilities

(1) Composition

Current liabilities

	December 31	
	2010	2009
	$ millions	
Current maturities of long-term liabilities:		
Loans from banks	**75**	73
Non-convertible debentures	**190**	105
Total current maturities	**265**	178

Non-current liabilities

	December 31	
	2010	2009
	$ millions	
Non-convertible debentures	**1,753**	1,453
Loans from banks	**609**	642
Total long-term liabilities	**2,362**	2,095
Less current maturities	**265**	178
Total non-current liabilities	**2,097**	1,917

(2) Classification based on currencies and interest rates

	Weighted average interest rate	As at December 31	
	12/31/10	2010	2009
	%	$ millions	
Non-current liabilities (including current maturities)			
Non-convertible debentures			
In CPI-linked shekels	4.7	**1,523**	1,360
In unlinked shekels	6.2	**230**	93
		1,753	1,453
Loans from banks			
In dollars	3.1	**609**	642
		2,362	2,095

(A) The interest in respect of the dollar liabilities is determined based on the Libor rate plus a margin of 0.905%–3.6%.

(B) The interest in respect of the CPI-linked non-convertible debentures plus interest of 4.55%–5.40%.

Note 3 – Financial Instruments (Cont.)

C. Derivative financial instruments

Details with respect to linkage:

	As at December 31, 2010				
	New Israeli shekels		Foreign currency		
	Unlinked	CPI-linked	Dollar	Other	Total
	$ millions				
Derivative financial instruments for hedging cash flows	–	–	(4)	–	(4)
Derivative instruments not for hedging	(22)	1,349	(1,266)	179	240

	As at December 31, 2009			
	New Israeli shekels		Foreign currency	
	Unlinked	CPI-linked	Dollar	Total
	$ millions			
Derivative financial instruments for hedging cash flows	–	–	(1)	(1)
Derivative instruments not for hedging	6	1,316	(1,179)	143

D. Liquidity risk

Set forth below are the contractual repayment dates of financial liabilities, including an estimate of the interest payments. This disclosure does not include amounts with respect to which there are offset agreements.

	As at December 31, 2010					
	Book value	Projected cash flows	Up to 1 year	1–2 years	2–5 years	More than 5 years
	$ millions					
Non-derivative financial liabilities						
Other payables and credit balances	29	29	29	–	–	–
Non-convertible debentures*	1,753	2,120	276	376	775	693
Loans from banks	609	677	94	99	440	44
Financial liabilities						
Derivative instruments for hedging cash flows						
Interest SWAP contracts	4	4	2	2	–	–
Derivative instruments not for hedging cash flows						
Cylinder instruments	22	21	11	8	2	–
Interest SWAP contracts	48	45	21	16	8	–
	2,465	2,896	433	501	1,225	737

* Includes current maturities.

Note 3 – Financial Instruments (Cont.)

D. Liquidity risk (Cont.)

	As at December 31, 2009					
	Book value	Projected cash flows	Up to 1 year	1–2 years	2–5 years	More than 5 years
	$ millions					
Non-derivative financial liabilities						
Other payables and credit balances	24	24	24	–	–	–
Non-convertible debentures*	1,453	1,767	175	241	843	508
Loans from banks	642	728	93	108	527	–
Financial liabilities						
Derivative instruments for hedging cash flows						
Interest SWAP contracts	1	1	2	1	(2)	–
Derivative instruments not for hedging cash flows						
Interest SWAP contracts	27	27	18	10	(1)	–
Cylinder instruments	18	13	9	4	–	–
Derivatives on exchange rates	3	8	(3)	1	10	–
	2,168	2,568	318	365	1,377	508

* Includes current maturities.

E. CPI and foreign currency risk

Sensitivity analysis

A strengthening at the rate of 5%–10% of the dollar exchange rate against the following currencies would have increased (decreased) the capital and the income or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

	As at December 31, 2010 Impact on income or loss			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Non-derivative financial instruments				
Dollar/shekel	**141**	**74**	**(82)**	**(173)**
CPI	**(164)**	**(82)**	**82**	**164**

	As at December 31, 2010 Impact on capital			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Non-derivative financial instruments				
Dollar/shekel	**141**	**74**	**(82)**	**(173)**
CPI	**(164)**	**(82)**	**82**	**164**

Note 3 – Financial Instruments (Cont.)

E. CPI and foreign currency risk (Cont.)

Sensitivity analysis (Cont.)

	As at December 31, 2009			
	Impact on income or loss			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Non-derivative financial instruments				
Dollar/shekel	135	71	(78)	(166)
CPI	(143)	(71)	71	140

	As at December 31, 2009			
	Impact on capital			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Non-derivative financial instruments				
Dollar/shekel	135	71	(78)	(166)
CPI	(143)	(71)	71	140

Set forth below is a sensitivity analysis with respect to the Corporation's financial derivatives in foreign currency, as at December 31, 2010 and December 31, 2009. Changes in the exchange rates of the main currencies as at December 31 would have increased (decreased) the capital and the income or loss in the amounts shown in the table. This analysis assumes that all other variables, in particular interest rates, remain constant.

	As at December 31, 2010			
	Impact on income or loss			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Derivative financial instruments				
Shekel/dollar	**(120)**	**(64)**	**70**	**147**
Yuan/dollar	**(17)**	**(8)**	**10**	**20**
CPI	**135**	**68**	**(68)**	**135**

	As at December 31, 2010			
	Impact on capital			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Derivative financial instruments				
Shekel/dollar	**(120)**	**(64)**	**70**	**147**
Yuan/dollar	**(17)**	**(8)**	**10**	**20**
CPI	**135**	**68**	**(68)**	**135**

Note 3 – Financial Instruments (Cont.)

E. CPI and foreign currency risk (Cont.)

Sensitivity analysis (Cont.)

	As at December 31, 2009			
	Impact on income or loss			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Derivative financial instruments				
Shekel/dollar	(120)	(63)	69	147
CPI	132	66	(66)	(132)

	As at December 31, 2009			
	Impact on capital			
	10% increase	5% increase	5% decrease	10% decrease
	$ millions			
Derivative financial instruments				
Shekel/dollar	(120)	(63)	69	147
CPI	132	66	(66)	(132)

Note 4 – Significant Contacts, Undertakings and Transactions with Investee Companies

A. Income from investee companies, net, includes the Corporation's share in the income of subsidiaries, proportionately consolidated companies and associated companies.

B. Significant transactions with investee companies

	For the Year Ended December 31		
	2010	2009	2008
	$ millions		
Dividends from investee companies	**536**	398	551
Financing from investee companies, net	**28**	7	24

C. Loans

(1) The Corporation provided dollar loans to an investee company with no scheduled repayment date. The loans are in the amount of $127 million and bear quarterly Libor interest plus a margin of 2%, and one loan of $50 million bearing annual interest of 8%.

(2) Investee companies have issued capital notes to the Corporation. The capital notes are shekel-denominated notes, unlinked, do not bear interest and are repayable after five years from their issuance date.

* For additional information regarding investee companies – see Note 11 to the consolidated financial statements.