Israel Corporation Ltd.

Condensed Consolidated Interim Financial Statements

As at June 30, 2017

(UNAUDITED)

This English Version of the Report is for the Convenience of the Reader.
The Hebrew Version of the Report is the Binding Version.

Contents

Report of the Corporation's Board of Directors

For the Three-Month and Six-Month Periods Ended June 30, 2017

Israel Corporation Ltd. (hereinafter – "the Corporation") is a public holding company the shares of which are traded on the Tel-Aviv Stock Exchange.

On January 7, 2016, the Corporation completed the split-up transaction (hereinafter – "the Transaction" or "the Transaction for Change of the Corporation's Holdings' Structure") further to the approval thereof on December 31, 2014 at the General Meeting of the Corporation's shareholders.

For additional details regarding the transaction for restructuring the Corporation's holdings – see Note 5 to the annual financial statements.

Commencing from the completion date of the Transaction, the Corporation operates to advance and develop its existing businesses in and outside of Israel. The Corporation operates through two main investee companies: Israel Chemicals Ltd. (hereinafter – "ICL") and Oil Refineries Ltd. (hereinafter – "ORL").

The Corporation is involved in management of the Group companies through directors serving on the Boards of Directors of the Corporation's investee companies.

This Directors' Report is submitted as part of the interim financial statements for the period ended June 30, 2017. The report was prepared in accordance with the Securities Law (Periodic and Immediate Reports), 1970, and on the assumption that the reader is also in possession of the interim financial statements for the period ended June 30, 2016, and the Periodic Report for 2016.

Various events in the Corporation in the period of the report and there after

1. On January 5, 2017, the Corporation issued, by means of expansion of the debentures (Series 11), NIS 790,170,000 par value debentures (Series 11). The proceeds from the issuance, net of the issuance expenses, amounted to about NIS 804 million (about $208 million – value on the transaction date). Standard & Poor's Maalot gave notice of provision of a rating of ilA for the above-mentioned expansion debentures (the Corporation was rated ilA/stable). For additional details – see Note 16.E.1(a) to the annual consolidated financial statements.

2. Further to that stated in Note 20B to the annual consolidated financial statements, on April 30, 2017, the District Court in Tel-Aviv–Jaffa accepted that request for certification of the filing of a derivative claim against the Corporation's controlling shareholders, the Corporation's former CEO, the Corporation's CEO, the Legal Advisor and Corporation Secretary and the former Vice-President of Business Development (hereinafter together – "the Officers"), the subject matter of which is bonuses paid to the Officers by the controlling shareholders in respect of completion of the distribution transaction, which is the subject of a Transaction Report of the Corporation, and determined, among other things, dates for commencement of the proceedings in the claim in the Corporation's name by the requesting party. For additional details – see Note 6.A.6 to the interim consolidated financial statements.

3. On June 19, 2017, the Corporation sold 128 million shares of Oil Refineries Ltd. (hereinafter – "ORL") it held, constituting about 4% of ORL's issued share capital, on a fully-diluted basis. The proceeds from the sale, net of selling expenses, amounted to about $56 million (about NIS 199 million). After the said sale, the Corporation holds about 33.08% of ORL's share capital, and together with partners it controls ORL. For additional details – see Note 5.A.4 to the interim consolidated financial statements.

Additional information (Cont.)

4. For details regarding the Corporation's liabilities – see the Immediate Report regarding the total liabilities based on repayment date that was published on August 17, 2017 (Reference No. 2017-01-071206). The information included therein is presented in this Report by means of references.

For additional information in connection with claims filed against the Corporation – see Note 6A to the interim consolidated financial statements and Note 20B(1) to the annual consolidated financial statements.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

– The total sales for the six-month and the three-month periods ended June 30, 2017 amounted to about $2,617 million and about $1,322 million, respectively, compared with about $2,642 million and about $1,377 million, respectively, for the corresponding periods ended June 30, 2016.

– The total net income attributable to the owners of the Corporation for the six-month and the three-month periods ended June 30, 2017 amounted to about $12 million and about $5 million, respectively, compared with net income attributable to the owners of the Corporation about $90 million and about $81 million, respectively, in the corresponding periods last year.

– The total assets, as at June 30, 2017, amounted to about $10,456 million, compared with about $11,285 million, as at June 30, 2016, and compared with about $10,423 million, as at December 31, 2016.

– The current assets net of current liabilities, as at June 30, 2017 amounted to about $949 million, compared with about $1,431 million as at June 30, 2016, and compared with about $913 million, as at December 31, 2016.

– The total non-current assets, as at June 30, 2017, amounted to about $7,054 million, compared with about $7,514 million, as at June 30, 2016, and compared with about $7,077 million, as at December 31, 2016.

– The non-current liabilities, as at June 30, 2017, amounted to about $5,649 million, compared with about $6,158 million, as at June 30, 2016, and compared with about $5,729 million, as at December 31, 2016.

– The total equity as at June 30, 2017 amounted to about $2,354 million and the total equity attributable to the owners of the Corporation amounted to about $844 million, compared with equity of $2,787 million and total equity attributable to the owners of the Corporation of $1,027 million as at June 30, 2016, and compared with total equity of about $2,261 and total equity attributable to the owners of the Corporation of about $804 million as at December 31, 2016.

Set forth below are the results of operations of the Group companies for the period April – June 2017:

– ICL finished the second quarter of 2017 with income of about $57 million, compared with income of about $120 million in the corresponding quarter last year.

– Oil Refineries Ltd. (hereinafter – "ORL"), which applies in its financial statements IFRS 9 (2013), finished the second quarter of 2017 with income of about $73 million, compared with income of about $87 million in the corresponding quarter last year.

  Without the impact of application of IFRS 9 (2013), which is not applied by Israel Corporation, ORL finished the period of the report with income of about $78 million, compared with income of about $87 million in the corresponding quarter last year.

FINANCIAL POSITION AND RESULTS OF OPERATIONS (Cont.)

Set forth below are the results of operations of the Group companies for the period January – June 2017:

– ICL finished the period of the report with income of about $125 million, compared with income of about $186 million in the corresponding period last year.

– ORL which applies IFRS 9 (2013) in its financial statements, finished the period of the report with income of about $92 million, compared with income of about $115 million in the corresponding period last year.

Without the impact of application of IFRS 9 (2013), which is not applied by Israel Corporation, ORL finished the period of the report with income of about $97 million, compared with income of about $124 million in the corresponding period last year.

Set forth below is the composition of the Corporation's results attributable to the owners:

	Three months ended June 30		**Six months ended June 30**	
	2017	**2016**	**2017**	**2016**
	$ Millions			
ICL	**27**	59	**60**	91
ORL	**28**	32	**36**	46
Amortization of excess cost	**(3)**	(3)	**(7)**	(4)
Administrative, general, financing and other expenses of the Corporation's headquarters	**(30)**	(17)	**(53)**	(51)
Gain (loss) from re-measurement to fair value of collar options (1)	**(14)**	13	**(20)**	6
Tax income (expenses) of the Corporation's headquarters	**(3)**	(3)	**(4)**	2
	5	81	**12**	90

(1) Further to that stated in Note 16.E.1(h) to the annual consolidated financial statements, the changes stem from re-measurement of the options based on their fair value in connection with the financial transaction in ICL shares (hereinafter – "the Collar Options"), including adjustment of the dividend component. The said changes are included in the "other income" category in the statement of income.

* Regarding an analysis of the results of ICL and ORL – see the sections below.

SOURCES OF FINANCING AND LIQUIDITY OF THE CORPORATION AND THE HEADQUARTERS COMPANIES

As at June 30, 2017, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to about $2,189 million. The balance of the fair value of the options in the financial transaction (hereinafter – "the Collar Options") economically reduces the liabilities by about $45 million and, in addition, the balance of the fair value of the currency and interest SWAP transactions economically decreases the liabilities by about $45 million.

SOURCES OF FINANCING AND LIQUIDITY OF THE CORPORATION AND THE HEADQUARTERS COMPANIES (Cont.)

As at the date of the report, the investments of the Corporation and of the Headquarters Companies in liquid assets amounted to about $820 million, of which the Corporation provided a short-term loan, in the amount of about $150 million, to ICL. For additional details – see the "Additional Information" Note in the Separate-Company Financial Information. The amounts are left invested in short-term deposits in financial institutions. In the period of the report, the Corporation released the amount of about $60 million that was deposited as collateral in favor of loans. For additional details – see Note 5.A.3 to the condensed consolidated interim financial statements.

The net financial liabilities of the Corporation and of the Headquarters Companies as at the date of the report was about $1,279 million, compared with net debt balances of about $1,351 million and about $1,379 million as at June 30, 2016 and as at December 31, 2016, respectively. As at the date of the report, the net financial liabilities of the headquarters companies standing alone amounted to about $225 million.

In September 2014, the Corporation entered into a financial transaction with financial entities, in connection with 36.2 million shares of ICL, which were loaned to the financial entities. As part of the transaction, the financial entities provided the Corporation with an initial amount of about $191 million, which is essentially a loan. Closing of the financial transaction is being executed in increments during a period of three years, commencing from the end of 2016. Accordingly, and subject to the terms of the financial transaction, during the period of the report, the Corporation chose not to receive return of the transaction shares and it was credited for their value against payment of the loans and the interest accrued (hereinafter – "the Physical Settlement"). For additional details – see Note 16.E.(1)(h) to the annual financial statements and Note 5.A.2 to the condensed consolidated interim financial statements.

The balances of the loan, including accrued interest, as at June 30, 2017, June 30, 2016 and December 31, 2016, which is included in the Corporation's net debt, amounted to about $163 million, $207 million and about $198 million, respectively.

As at the date of the report, the balance of the loan granted to Kenon as part of the credit framework is about $231 million (including accrued interest of $31 million). For additional details – see Note 11 to the annual financial statements.

In the period of the report, the Corporation and the Headquarters Companies repaid $267 million, of which partial payment of the debentures (Series 7 and Series 9) (net of hedging transactions), in the amount of about $212 million. Payments of principal and interest in respect of debentures, in the amount of about $60 million, were postponed in accordance with the provisions of the trust certificates to January 1, 2017, since December 31, 2016 was not a business day.

In addition, the Corporation made early repayment of a loan, in the amount of $50 million, and extended the repayment date of long-term loans, in the amount of $193 million, for a period of 3 years from the signing date. For additional details – see Note 5.A.3 to the condensed consolidated interim financial statements.

On January 5, 2017, the Corporation issued, by means of expansion of the U.S. dollar-linked debentures (Series 11), NIS 790,170,000 par value debentures (Series 11). The proceeds from the issuance, net of the issuance expenses, amounted to about $208 million (value on the transaction date). For additional details – see Note 16.E.1(a) to the annual consolidated financial statements. As at the date of the report, the corporation was in compliance with the financial covenants determined. For details regarding the Corporation's financial covenants – see Note 16.C.1 to the annual consolidated financial statements.

In addition, from time to time, the Corporation and the Headquarters Companies extend the repayment dates of long-term loans. As at the date of the report, the average duration of the balance of the loans and debentures of the Corporation and the Headquarters Companies is about 2.8 years.

SOURCES OF FINANCING AND LIQUIDITY OF THE CORPORATION AND THE HEADQUARTERS COMPANIES (Cont.)

In June 2017, the Corporation sold 128 million shares of Oil Refineries Ltd. (hereinafter – "ORL") it held, constituting about 4% of ORL's issued share capital, on a fully-diluted basis, for a net consideration of about $56 million. For additional details – see Note 5.A.4 to the condensed consolidated interim financial statements.

During the period of the report, the Corporation and the Headquarters Companies received dividends, net of tax, from ICL, in the amount of about $68 million, and received a dividend, net of tax, from ORL, in the amount of about $30 million.

On November 22, 2016, Standard & Poor's Maalot, announced a reduction of the Corporation's rating from ilA+/Negative to ilA/stable, due to erosion of the consolidated debt coverage ratio. The rating outlook is stable. For additional details – see Note 16.E.(1) to the annual consolidated financial statements.

On January 4, 2017, Standard & Poor's Maalot, announced provision of a rating of ilA to debentures in the aggregate scope of up to NIS 1 billion par value that are to be issued by the Corporation (ilA/stable) as part of expansion of the debentures (Series 11).

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES:

ISRAEL CHEMICALS LTD.

	4–6/2017		4–6/2016		1–6/2017		1–6/2016		2016	
	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales	$ millions	% of sales
Sales	**1,322**	**–**	1,377	–	**2,617**	**–**	2,642	–	5,363	–
Gross profit	**415**	**31**	417	30	**773**	**30**	783	30	1,660	31
Operating income (loss)	**144**	**11**	149	11	**260**	**10**	256	10	(3)	–
Adjusted operating income*	**153**	**12**	163	12	**269**	**10**	278	11	582	11
Net income (loss) attributable to ICL's shareholders	**57**	**4**	120	9	**125**	**5**	186	7	(122)	–
Adjusted net income attributable to ICL's shareholders*	**64**	**5**	132	10	**132**	**5**	217	8	451	8
Adjusted EBITDA (1)	**251**	**19**	278	20	**469**	**18**	501	19	1,051	20
Cash flows from operating activities	**199**	**–**	238	–	**394**	**–**	460	–	966	–
Capital expenses	**109**	**–**	196	–	**221**	**–**	359	–	652	–

(1) Calculation of the adjusted EBITDA was made as follows:

	4–6/2017	4–6/2016	1–6/2017	1–6/2016	2016
	$ millions				
Net income (loss) attributable to ICL's shareholders	**57**	120	**125**	186	(122)
Depreciation and amortization	**95**	99	**189**	198	401
Financing expenses, net	**49**	40	**63**	68	132
Taxes on income	**41**	5	**83**	27	55
Adjustments*	**9**	14	**9**	22	585
Total adjusted EBITDA	**251**	278	**469**	501	1,051

* See adjustments to the operating income and the reported net income below.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Adjustments to the operating income and the reported net income

	4–6/2017	4–6/2016	1–6/2017	1–6/2016	2016
			$ millions		
Operating income (loss)	**144**	149	**260**	256	(3)
Capital loss (gain) (1)	**(6)**	–	**(6)**	1	1
Write down and impairment of assets (2)	**–**	–	**–**	–	489
Provision for early retirement and dismissal of employees (3)	**15**	–	**15**	6	39
Provision in respect of prior periods resulting from an arbitration decision (4)	**–**	–	**–**	–	13
Retroactive electricity charges (5)	**–**	–	**–**	–	(16)
Provision for legal claims (6)	**–**	14	**–**	15	8
Provision for historical waste removal (7)	**–**	–	**–**	–	51
Total adjustments to operating income (loss)	**9**	14	**9**	22	585
Total adjusted EBITDA	**153**	163	**269**	278	582
Net income (loss) attributable to the shareholders of ICL	**57**	120	**125**	186	(122)
Total adjustments to operating income (loss)	**9**	14	**9**	22	585
Adjustments to financing expenses (8)	**–**	–	**–**	–	38
Total tax impact of the above operating income and financing expenses adjustments	**(2)**	(2)	**(2)**	(4)	(81)
Tax assessment and deferred tax adjustments (9)	**–**	–	**–**	13	36
Adjustments attributable to the non-controlling interests	**–**	–	**–**	–	(5)
Total adjusted net income attributable to the shareholders of ICL	**64**	132	**132**	217	451

(1) Capital (gain) loss from sale of non-core businesses. In 2017, additional consideration received regarding earn-out of 2015 divestitures.
(2) Impairment in value and write down of assets with respect to the write down of assets (including expected closure cost) relating to the global ERP project (Harmonization Project), in the amount of $282 million, write down of assets relating to discontinuance of the activities of Allana Afar in Ethiopia (including expected closure cost), in the amount of $202 million, and impairment in the value of assets of a subsidiary in the United Kingdom, in the amount of $5 million.
(3) Provision for early retirement and dismissal of employees in accordance with ICL's comprehensive global efficiency plan from 2012 in its production facilities throughout the group. In 2016, provisions relating to ICL's facilities in Israel of the Bromine companies (see also Q1 2016), ICL's facilities in the United Kingdom and ICL's facilities of the joint venture in China (reflected also in the non-controlling interests' adjustment below). In 2017, provisions relating to ICL's facilities in Israel at ICL Rotem.
(4) Provision in connection with prior periods in respect of royalties arbitration in Israel.
(5) Reversal of provision in connection with prior periods in respect of costs of management services of the electricity system in DSW and ICL Rotem.
(6) Provision for legal claims, mainly regarding two claims settled in 2016 related to prior periods. In Q1 2016, deriving from the settlement agreement that ended the class action brought by the farmers in Israel regarding potash prices, and in Q2 2016, deriving mainly from the commercial price dispute with Haifa Chemicals which ended with the arbitration award agreement in Q3 2016.
(7) Provision for removal of waste in respect of prior periods. In 2016, purification and removal of historical waste from the potash activities in Spain as a result of decisions made by the Spanish authorities in connection with the plan for treating the salt pile in the Sallent site leading to plan changes mainly related to the water pumping process involved in the salt treatment.
(8) Interest and linkage expenses in connection with the royalties arbitration and tax assessments in Israel relating to prior periods. $26 million in connection with the royalties arbitration and $12 million relating to a tax assessment in Israel.
(9) Tax assessments in Israel and Belgium (see also Q1 2016) relating to prior periods.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Adjustments to the operating income and the reported net income

ICL discloses in this Quarterly Report non-IFRS financial measures titled adjusted operating income, adjusted net income attributable to ICL's shareholders and adjusted EBITDA. ICL's management uses adjusted operating income, adjusted net income attributable to ICL's shareholders and adjusted EBITDA to facilitate operating performance comparisons from period to period. ICL calculates its adjusted operating income by adjusting the operating income to add certain items, as set forth in the reconciliation table under "Adjustments to reported operating and net income" above. Certain of these items may recur. ICL calculates its adjusted the net income attributable to ICL's shareholders by adjusting our net income attributable to ICL's shareholders to add certain items, as set forth in the reconciliation table under "Adjustments to reported operating and net income" above, excluding the total tax impact of such adjustments and adjustments attributable to the non-controlling interests. ICL calculates its adjusted EBITDA by adding back to the net income attributable to ICL's shareholders the depreciation and amortization, financing expenses, net, taxes on income and the items presented in the reconciliation table under "Adjusted EBITDA for the periods of activity" above which were adjusted for in calculating the adjusted operating income and adjusted net income attributable to ICL's shareholders.

One should not view adjusted operating income, adjusted net income attributable to ICL's shareholders or adjusted EBITDA as a substitute for operating income or net income attributable to ICL's shareholders determined in accordance with IFRS, and one should note that our definitions of adjusted operating income, adjusted net income attributable to ICL's shareholders and adjusted EBITDA may differ from those used by other companies. However, ICL believes adjusted operating income, adjusted net income attributable to ICL's shareholders and adjusted EBITDA provide useful information to both management and investors by excluding certain expenses that management believes are not indicative of the ongoing operations. ICL's management uses these non-IFRS measures to evaluate ICL's business strategies and management's performance. ICL believes that these non-IFRS measures provide useful information to investors because they improve the comparability of the financial results between periods and provide for greater transparency of key measures used to evaluate ICL's performance.

ICL presents a discussion in the period-to-period comparisons of the primary drivers of changes in ICL's results of operations. This discussion is based in part on management's best estimates of the impact of the main trends in its businesses. ICL has based the following discussion on its financial statements. One should read the following discussion together with ICL's financial statements.

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period April – June 2017

Sales:

Analysis of sales

	$ millions	
Total sales – 2nd quarter 2016	**1,377**	
Quantity	(21)	⬇
Price	(17)	⬇
Exchange rate	(17)	⬇
Total sales – 2nd quarter 2017	**1,322**	

Quantity – the decrease derives mainly from phosphate fertilizers in ICL Phosphate and dairy proteins in ICL Food specialties. The decrease was partly offset by an increase in potash quantities sold, mainly to Asia and South America and from acids in ICL Advanced Additives.

Price – the decrease derives mainly from a decline in the selling prices of phosphate fertilizers and phosphoric acid in ICL Phosphate.

Exchange rate – the decrease derives mainly from the devaluation of the euro and the Chinese yuan against the dollar compared to the corresponding quarter last year.

The following table presents the sales in accordance with geographic areas based on the location of the customers:

	4–6/2017		**4–6/2016**	
	$ millions	**%**	**$ millions**	**%**
Europe	**457**	**34**	480	35
Asia	**325**	**25**	320	23
North America	**276**	**21**	282	20
South America	**194**	**15**	177	13
Rest of the world	**70**	**5**	118	9
Total	**1,322**	**100**	1,377	100

The breakdown of the sales in the second quarter of 2017 shows a decrease in sales to Europe, deriving mainly from a decline in quantities and selling prices of potash, partly offset by an increase in sales of clear brine solutions and dairy proteins. The minor increase in sales to Asia derives mainly from an increase in quantities sold of potash and phosphoric acid, mostly offset by a decrease in phosphate fertilizers selling prices and quantities sold, together with a decrease in phosphate rock quantities sold. The sales to North America were stable compared to the corresponding quarter last year (with a minor reduction) despite the challenging business environment. The increase in sales to South America derives mainly from an increase in potash selling prices and quantities sold, partly offset by a decrease in phosphate fertilizers quantities sold. The decrease in sales to the rest of the world derives mainly from a decrease in the quantities of dairy proteins products sold and a decline in potash sales to an Israeli customer facing operational difficulties due to new local regulation.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period April – June 2017 (Cont.)

Analysis of operating expenses

	$ millions
Total operating expenses – 2nd quarter 2016	**1,228**
Quantity	(15)
Exchange rate	(5)
Raw materials	(6)
Transportation	–
Operating expenses	(36)
Other	12
Total operating expenses – 2nd quarter 2017	**1,178**

Quantity – the decrease in quantities-related costs derives mainly from the decrease in quantities sold, mainly in ICL Phosphate and ICL Food Specialties. The decrease was partly offset by an increase in potash quantities sold.

Exchange rate – the decrease derives mainly from the devaluation of the euro and the Chinese yuan against the dollar, partly offset by the upward revaluation of the shekel against the dollar compared to the corresponding quarter last year.

Raw materials – the decrease derives mainly from a decline in sulfur prices (used in ICL Phosphate and ICL Advanced Additives products) and a decline in commodity fertilizers prices (used in ICL Specialty Fertilizers).

Operating expenses – the decrease derives mainly from operational cost saving measures in YPH including the impact of the early retirement program implemented in YPH last year, and further G&A reduction initiatives. See additional factors which contributed to the decrease compared to the corresponding quarter last year under 'Adjustments to reported operating and net income' table above.

Other – the increase derives mainly from insurance income received in the corresponding quarter last year in respect of the fire in a fertilizer production facility in Israel, partly offset by a provision recorded in the corresponding quarter last year resulting from extension of the employment agreement in ICL Dead Sea.

Analysis of adjusted operating income

	$ millions
Total adjusted operating income – 2nd quarter 2016	**163**
Quantity	(6)
Price	(17)
Exchange rate	(12)
Raw materials	6
Transportation	–
Operating expenses	31
Other	(12)
Total adjusted operating income – 2nd quarter 2017	**153**

* See also – ‘Adjustments to reported operating and net income’ table above.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period April – June 2017 (Cont.)

Financing expenses, net:

The net financing expenses in the second quarter of 2017 amounted to $49 million, compared with $40 million in the corresponding quarter last year – an increase of $9 million. The increase includes an increase of about $31 million deriving mainly from fees paid with respect to early repayment, in the amount of about $13 million, of a long-term loan, and from exchange rate differences relating to provisions for employee benefits in the amount of about $13 million. On the other hand, there was a decrease in the financing expenses, in the amount of about $22 million, deriving from an increase in income in respect of changes in the fair value of transactions hedging foreign currency, energy and marine shipping, net, partly offset by revaluation of the net liabilities.

Taxes on income:

The tax expenses in the second quarter of 2017 amounted to $41 million, reflecting an effective tax rate of about 43%. The higher tax rate we see in 2017 is mainly due to an increase in the on-going Israeli effective tax rate on our Israeli operations. In addition the upward revaluation of the shekel against the dollar had an impact on our tax expenses. The lower than usual effective tax rate in the corresponding quarter last year was mainly due to recognition of deferred tax assets in the amount of $27 million.

Results of operations for the period January – June 2017

Sales:

Analysis of sales

	$ millions
Total sales – January–June 2016	**2,642**
Quantity	95
Price	(74)
Exchange rate	(46)
Total sales – January–June 2017	**2,617**

Quantity – the increase derives mainly from quantities of potash sold, mainly to Asia, North America and South America, clear brine solutions in ICL Industrial Products, mainly to North America, from acids in ICL Advanced Additives and specialty agriculture products in ICL Specialty Fertilizers. The increase was partly offset by a decrease in dairy proteins sales in ICL Food Specialties.

Price – the decrease derives mainly from a decline in the selling prices of phosphate fertilizers and phosphoric acid, together with a decline in the selling prices of acids in ICL Advance Additives and different products mix of clear brine solutions sold in ICL Industrial Products.

Exchange rate – the decrease derives mainly from the devaluation of the euro and the Chinese yuan against the dollar compared to the corresponding period last year.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period January – June 2017 (Cont.)

The following table presents the sales in accordance with geographic areas based on the location of the customers:

	1–6/2017		1–6/2016	
	$ millions	%	$ millions	%
Europe	**991**	**38**	1,039	39
Asia	**607**	**23**	559	21
North America	**570**	**22**	549	21
South America	**292**	**11**	269	10
Rest of the world	**157**	**6**	226	9
Total	**2,617**	**100**	2,642	100

The breakdown of the sales in the six months ended June 30, 2017 shows a decrease in sales to Europe, deriving mainly from a decline in quantities and selling prices of potash, a decline in phosphate fertilizers selling prices together with a decline in the quantities of phosphate rock sold. This decrease was partly offset by an increase in ICL Specialty Solutions segment products, mainly clear brine solutions, acids and P2S5. The increase in sales to Asia derives mainly from an increase in the quantities sold of potash, phosphoric acid, dairy proteins, acids and specialty agriculture products. This increase was partly offset by a decrease in phosphate fertilizers selling prices and in phosphate rock quantities sold. The increase in sales to North America derives mainly from an increase in the quantities and selling prices of potash together with an increase in clear brines solutions and phosphate fertilizers quantities sold. The increase in sales to South America derives mainly from an increase in potash selling prices and quantities sold. The decrease in sales to the rest of the world derives mainly from a decrease in the quantities of dairy proteins products sold and a decline in potash sales to an Israeli customer facing operational difficulties due to new local regulation.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period January – June 2017 (Cont.)

Analysis of operating expenses

	$ millions
Total operating expenses – January–June 2016	**2,386**
Quantity	61
Exchange rate	(27)
Raw materials	(33)
Transportation	23
Operating expenses	(48)
Other	(5)
Total operating expenses – January–June 2017	**2,357**

Quantity – the increase in quantities-related costs derives mainly from the increased quantities sold in ICL Potash, ICL Specialty Fertilizers, ICL Industrial Products and ICL Advanced Additives.

Exchange rate – the decrease derives mainly from the devaluation of the euro, the Chinese yuan and the pound against the dollar, partly offset by the upward revaluation of the shekel against the dollar compared to the corresponding period last year.

Raw materials – the decrease derives mainly from a decline in sulfur prices (used in ICL Phosphate and ICL Advanced Additives products) and a decline in commodity fertilizers prices (used in ICL Specialty Fertilizers).

Transportation – the increase derives mainly from an increase in transportation prices and from the increase in potash quantities sold.

Operating expenses – the decrease derives mainly from operational cost saving measures in YPH, including the impact of the early retirement program implemented in YPH last year, and further G&A reduction initiatives. See additional factors which contributed to the decrease compared to the corresponding quarter last year under 'Adjustments to reported operating and net income' table above.

Other – the decrease derives mainly from a capital gain due to the sale of an office building and insurance income in Israel, together with a provision recorded in the corresponding period last year resulting from extension of the employment agreement in ICL Dead Sea. This decrease was partly offset by insurance income received in the corresponding period last year.

Analysis of adjusted operating income

	$ millions
Total adjusted operating income – January–June 2016	**278**
Quantity	34
Price	(74)
Exchange rate	(19)
Raw materials	33
Transportation	(23)
Operating expenses	35
Other	5
Total adjusted operating income – January–June 2017	**269**

* See also – 'Adjustments to reported operating and net income' table above.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Results of operations for the period January – June 2017 (Cont.)

Financing expenses, net:

The net financing expenses in the six months ended June 30, 2017 amounted to $63 million, compared with $68 million in the corresponding period last year – a decrease of $5 million. The decrease includes a decline of about $38 million deriving from an increase in income in respect of changes in the fair value of transactions hedging foreign currency, energy and marine shipping, net, partly offset by revaluation of the net liabilities. On the other hand, there was an increase in the financing expenses, in the amount of about $33 million, deriving mainly from fees paid with respect to early repayment, in the amount of about $13 million, of long-term loans, and from exchange rate differences relating to provisions for employee benefits in the amount of about $15 million.

Taxes on income:

The tax expenses in the six months ended June 30, 2017 amounted to $83 million reflecting an effective tax rate of about 42%. The higher tax rate we see in 2017 is mainly due to an increase in the on-going Israeli effective tax rate on our Israeli operations. In addition the upward revaluation of the shekel against dollar had an impact on our tax expenses. The lower than usual effective tax rate in the corresponding period last year was mainly due to recognition of deferred tax assets in the amount of $27 million.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL:

<u>Specialty Solutions</u>

Industrial Products

– Seasonal-driven increased Chinese production resulted in a decrease in elemental bromine prices in China during May through mid-June. However, stricter environmental regulations and heavy rains impacted Chinese production, leading to a change in the trend and an increase in prices.

– Stable to moderate growth in demand for bromine-based flame retardants. ICL Industrial Products is continuing its efforts to secure long-term supply agreements for bromine-based flame retardants.

– Stable demand for bromine in the Butyl rubber industry.

– A new flammability standard (CPR) in the wire & cables for the building & construction market in Europe is driving higher demand for magnesium hydroxide-based flame retardants.

– Higher sales of phosphorous-based flame retardants compared to the second quarter of 2016, mostly as a result of higher pricing. Chinese production supply is stabilizing after supply interruptions of several Chinese producers that faced stricter environmental regulations.

– Demand for clear brine solutions continues to be soft as a result of the low level of oil prices. Overall 2017 sales are expected to be in line with 2016.[1]

– Stable demand for magnesia products for industrial uses.

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[1] The estimates regarding future trends in this paragraph constitute “forward-looking” information, and they are based on, among other things, estimates of ICL’s management based on its familiarity with the situation in the markets and on quotes of the expected prices for 2017 to the best of the knowledge of ICL’s management and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, changes in the levels of supply and demand of clear brine solutions, oil prices and input prices and they may be impacted by changes in regulation and actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Specialty Solutions (Cont.)

Advanced Additives

Total Advanced Additives performance was favorable compared to the corresponding quarter last year and was impacted by several factors:

– Global sales of salts and acids increased by 4% compared to the corresponding quarter last year as higher acid sales volumes in China and Europe partially offset price pressure resulting from declining merchant grade acid (MGA) market prices versus the previous year. The competitive market environment in North America led to both volume and price pressure which adversely affected acid sales in the region, whereas phosphate salts sales were stable compared to the corresponding quarter last year. The successful P2O5 growth strategy in China is driven by YPH JV's increased market share for acid. This, coupled with higher salt volumes to the oral care market, resulted in favorable revenue development in the region. Despite the economic downturn in Brazil, favorable demand for phosphate salts in the water treatment and oral care markets, as well as higher acid exports to other South American countries, led to a slightly improved performance in the region compared to the corresponding quarter of last year.

– P2S5 performance improved compared to the corresponding quarter last year, mainly driven by higher demand from key customers in Europe. The increase in sales was also favorably impacted by plant turnarounds of major customers in the corresponding quarter last year.

– The Fire Safety sub-business line performance was positively impacted by wildfire activity in North America and Europe towards the end of the quarter. The Class B foam business is showing continuing sales growth in both existing and new regions. As a result, fire safety sales were favorable compared to the corresponding quarter last year.

Food Specialties

– Sales volume of dairy proteins declined as a result of new local regulations for organic infant food in China, aimed at reducing the wide product portfolio currently available in the market in order to gain tighter control, and the subsequent destocking activity of a customer delivering proteins to China. Nevertheless, the general assessment of the Chinese infant food market remains positive and ICL Food Specialties was able to partially offset the decline through growth in other customer relationships existing in the growing Chinese market. First signs of recovery are expected during the second half of the year.[2]

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[2] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and they are based on, among other things, estimates of ICL's management based on its familiarity with the situation in the markets and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, changes in the levels of supply and demand and new products, and they may be impacted by changes in regulation and actions taken by governments, particularly China, manufacturers and consumers.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Specialty Solutions (Cont.)

Food Specialties (Cont.)

– ICL Food Specialties' phosphates business remained under pressure as the competitive business environment in North America and Europe was only partly offset by a recovery in sales in South America. The price increases in North America announced during the quarter had a favorable impact on the quarter's revenues, and are expected to have a further positive impact during the second half of the year.[3] Sales volumes in Europe were flat compared to the corresponding quarter last year, while sales in Russia decreased due to a transition process to a new distributor.

– Sales volumes of integrated solutions and new products have continued to grow consecutively and year over year as the business line continues to launch new products globally. Moreover, increased orders during the quarter are adding to the positive outlook for the rest of 2017.[4]

– Devaluation of the euro, British pound and Mexican peso against the dollar negatively impacted ICL Food Specialties' results in the quarter.

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[3] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, impact of the competitive business environment in North America and Europe, fluctuations in the world commodity markets, particularly in the target markets for ICL's markets, including, among other things, changes in the levels of supply and demand, competition and changes in regulation, and may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

[4] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, changes in the levels of supply and demand, competition and changes in regulation. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Specialty Solutions (Cont.)

Results of operations for the period April – June 2017 (millions of dollars)

	Industrial Products	Advanced Additives	Food Specialties	Eliminations	Total
Total sales in Q2 2016	**294**	**206**	**174**	**(7)**	**667**
Quantity	(3)	8	(26)	1	20
Price	2	(3)	–	(1)	(2)
Exchange rate	(2)	(3)	(1)	1	(5)
Total sales in Q2 2017	**291**	**208**	**147**	**(6)**	**640**

Quantity – the decrease derives mainly from the decrease in dairy protein quantities sold in ICL Food Specialties (which was slightly offset by an increase in quantities of new products sold). This decrease was partly offset by an increase in quantities sold in the acids sub-business line of ICL Advanced Additives.

Price – the decrease derives from lower selling prices of acids in ICL Advanced Additives.

Exchange rate – the decrease derives mainly from devaluation of the euro against the dollar compared to the corresponding quarter last year.

Analysis of operating income

	$ millions
Total operating income – 2nd quarter 2016	**136**
Quantity	–
Price	(2)
Exchange rate	(6)
Raw materials	6
Transportation	1
Other	–
Total operating income – 2nd quarter 2017	**135**

Quantity – in ICL Advanced Additives there was an increase deriving from the acids sub-business line which was fully offset by the decrease in the dairy proteins sub-business line in ICL Food Specialties.

Price – the decrease derives from lower selling prices of acids in ICL Advanced Additives.

Exchange rate – the decrease derives mainly from devaluation of the euro against the dollar which decreased revenues, coupled with the upward revaluation of the shekel against the dollar, which increased production costs.

Raw materials – the increase derives mainly from a decrease in sulfur prices used for products of ICL Advanced Additives.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Specialty Solutions (Cont.)

Results of operations for the period January – June 2017 (millions of dollars)

	Industrial Products	Advanced Additives	Food Specialties	Eliminations	Total
Total sales – January–June 2016	562	369	336	(16)	1,251
Quantity	48	25	(45)	6	34
Price	(7)	(10)	(1)	1	(17)
Exchange rate	(2)	(7)	(5)	(1)	(15)
Total sales – January–June 2017	**601**	**377**	**285**	**(10)**	**1,253**

Quantity – the increase derives mainly from an increase in sales of clear brine solutions quantities, together with bromine-based flame retardants and elemental bromine in ICL Industrial Products and from an increase in quantities sold in the acids and P2S5 sub-business lines of ICL Advanced Additives. This increase was partly offset by the decrease in dairy proteins quantities sold in ICL Food Specialties (which was slightly offset by an increase in quantities of new products sold).

Price – the decrease derives mainly from a decrease in the selling prices of acids in ICL Advanced Additives and the products mix of clear brine solutions sold in ICL Industrial Products.

Exchange rate – the decrease derives mainly from the devaluation of the euro against the dollar compared to the corresponding period last year.

Analysis of operating income

	$ millions
Total operating income – January–June 2016	242
Quantity	35
Price	(17)
Exchange rate	(12)
Raw materials	14
Transportation	–
Other	(12)
Total operating income – January–June 2017	**250**

Quantity – the increase derives mainly from the quantities of clear brine solutions, bromine-based flame retardants and elemental bromine sold in ICL Industrial Products, together with an increase of acids and P2S5 products sold in ICL Advanced Additives.

Price – the decrease derives mainly from lower selling prices of acids in ICL Advanced Additives and different products mix of clear brine solutions sold in ICL Industrial Products.

Exchange rate – the decrease derives mainly from devaluation of the euro against the dollar, which decreased revenues, and the upward revaluation of the shekel against the dollar, which increased production costs.

Raw materials – the increase derives mainly from a decrease in the prices of sulfur used for products of ICL Advanced Additives.

Other – the decrease derives from, among other things, an increase in royalties paid as a result of the increase in sales.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Essential Minerals

Review of the business environment

– Since the second half of 2016, the economic activity of the developed countries has shown signs of recovery. Global growth is expected, by the FAO (Food and Agriculture Organization of the UN), to continue to increase slowly beyond 2017 and is expected to reach 3.8% by 2022. Growth in emerging and developing economies, where output is projected to increase at up to 5% annually by 2022, is adding support to these assumptions. Developed countries are expected, by the FAO, to show a more modest medium-term growth rate of 1.7% by 2022.[5]

– Based on the WASDE report published by the USDA in July 2017, a small decrease is expected in the ratio of the inventories of grains to annual consumption, to 23.8% at the end of the 2017/2018 agricultural year, compared to 24.9% at the end of both the 2016/2017 and the 2015/2016 agricultural years.[6]

– Early prospects for 2017/2018 indicate a decline in cereal production, driven by coarse grains and wheat. Cereal inventories, which have increased in the past four consecutive years are expected to show a moderate decline in the current season. Therefore, prices are projected to remain low in the short term.[7]

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[5] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly in the target markets for ICL's markets, including, among other things, changes in the levels of supply and demand, changes in the weather, prices of products, commodities and grains, prices of inputs, transportation and energy costs, and may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

[6] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly in the target markets for ICL's markets, including, among other things, changes in the levels of supply and demand, changes in the weather, prices of products, commodities and grains, prices of inputs, transportation and energy costs, and may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

[7] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly in the target markets for ICL's markets, including, among other things, changes in the levels of supply and demand, extreme changes in the weather, prices of products, commodities and grains, prices of inputs, transportation and energy costs, and may be impacted by actions taken by governments, particularly the U.S. government, and manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Essential Minerals (Cont.)

Potash and Magnesium

– The conclusion of the new MOP contract in China, agreed upon by Uralkali and a consortium of Chinese buyers on July 13, at an $11 per ton increase, is expected to set a new benchmark price in the market. The first contract that was affected is the contact in India, which ended in June 2017. On July 28, Uralkali signed a new contract to supply potash to Indian Potash Limited (IPL) at $240 per ton CFR (a $13 per ton increase from the 2016/2017 contract), with 180 days' credit, from August 2017 through June 2018. However, in the long term, market prices for potash would also depend on the behavior of major producers in light of the new capacity introduced to the market by the K+S Bethune mine, which produced its first salable product during July 2017.[8]

– Subsequent to the date of the report, in July 2017, ICL signed several contracts with its customers in China to supply an aggregate 925,000 tons of potash for delivery during 2017. The selling prices stipulated in the contracts are in line with the new contract prices in China mentioned above. The contracts are part of three-year framework agreements between ICL and its Chinese customers.

– According to Customs data, China imported about 3.914 million tons of potash during the first half of 2017, about 16% more than during the corresponding period last year.

– Potash imports into India during the first half of 2017 amounted to 2.187 million tons, a 78% increase over the corresponding period last year. The sharp increase derives from the importers' projection of higher prices in the 2017/2018 contract and the 20% (about $28 per ton) reduction of the NBS (Nutrient Based Subsidy) during the 2017/2018 fiscal year (starting April 1, 2017). The reduction of the NBS may impose an additional challenge to the sales of potash to local farmers. However, the potash to nitrogen fertilizer ratio (K to N) in India is already considered very low, hence a further reduction in that ratio could have an adverse effect on yields. Therefore, we don't anticipate a significant decline in demand for potash.[9] During the second quarter of 2017, ICL continued its potash deliveries under the 2016 supply contracts, which ended in June 2017.

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[8] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly in the target markets for ICL's markets, including, among other things, changes in the levels of supply and demand, competition and regulatory changes, and may be impacted by actions taken by governments, manufacturers and consumers. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

[9] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what rate. These estimates may change due to, among other things, fluctuations in the world agricultural markets, particularly in the target markets for ICL's markets, including, among other things, changes in the levels of supply and demand, competition, regulatory changes, and changes in the weather, and may be impacted by actions taken by governments, and manufacturers and consumers, particularly the actual production of existing and new mines. There is also a possible impact from the situation in the capital markets, including changes in the currency exchange rates, the credit situation and the interest costs.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

<u>**Essential Minerals**</u> **(Cont.)**

Potash and Magnesium (Cont.)

– Subsequent to the date of the report, on August 11, 2017, ICL signed a number of supply agreements with customers in India for supply of potash, in the cumulative amount of 750,000 tons, including options, which is to be supplied in the period between August 2017 and July 2018. The sale price provided in the contracts is $13 per ton higher than the price provided in the prior supply contracts, and is the same as the sale prices to the Indian market recently announced by other potash producers.

– Demand for potash in Brazil was particularly strong. According to ANDA (Brazilian National Fertilizer Association), potash imports into Brazil during the first half of 2017 amounted to 4.3 million tons, a 10% increase over the corresponding period last year. Although imports are high, local sales are slightly lower, and inventories are on the rise.

– ICL UK resumed its potash production in the beginning of the second quarter of 2017 after suspending the potash operations in the first quarter of 2017 due to an operational breakdown in the mine tailings channel. Total 2017 production is expected to remain as planned at the level of about 290 thousand tons.[10] Production of polysulphate was not affected and ICL Potash & Magnesium is continuing to develop new polysulphate-based products and new markets.

– Further to Note 20.B.2 to the Annual Financial Statements, on June 30, 2017, the Supreme Court determined that the permit to pile up the salt in Sallent, which includes certain conditions, will be extended by one year, up to June 30, 2018. In addition, the Court determined that before March 31, 2018, ICL will be entitled to request an extension for an additional year, up to June 30, 2019. With respect to the extension for the second year, the Court determined that the competent authorities are permitted to provide conditions for granting an extension as stated.

– In April 2017, after receiving all the permits for execution of the Salt Harvesting with the Government of Israel, ICL's Board of Directors approved a budget of about $280 million to further proceed with the execution of the Salt Harvesting in the Dead Sea. This budget which is part of the Salt Harvesting project, will be executed over the next 13 years, and constitutes ICL's share (80%) in the cost of performing this part. For more information, see Section 8.10.3.4 of the Periodic Report for 2016.

– Metal magnesium – global demand for magnesium continues to be constrained by lower economic activity in China, Brazil and Europe. Chinese exports were lower during the quarter, however remained above those recorded during the corresponding quarter last year. Additionally, consumption is being displaced as key sectors, such as primary aluminum and titanium production, are shifting to other markets, including Asia and Canada. Chinese price indicators showed recovery toward the end of the quarter returning to the $2,220 per ton level. Pure magnesium prices in the US market remain under pressure as a consequence of changes in the supply dynamics.

[10] The estimates regarding future trends in this paragraph constitute "forward-looking" information, and there is no certainty that they will be realized, at what time and at what scope. These estimates may change due to, among other things, the level of government subsidy, operational breakdowns in the mine, changes in reserve estimates, fluctuations in the world commodity markets, including, among other things, changes in the levels of supply, changes in input prices and labor relationships.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Essential Minerals (Cont.)

Potash and Magnesium (Cont.)

– During the second quarter of 2017, ICL Dead Sea continued commissioning the new power plant. Currently, the gas turbine is operational and connected to the national grid, while the steam turbine is still under commissioning. The existing power plant will continue to operate until the new power plant is fully operational.

Phosphate

– With the exception of Brazil, where strong imports of MAP were recorded, demand for phosphate remained relatively low worldwide and prices continued their downward trend. Suppliers of phosphate fertilizers (DAP, MAP and TSP) were forced to accept lower prices in order to generate new sales, as demand was insufficient to absorb availability. Supply from the recently commissioned OCP phosphate hub and China being out of season, are diverting more products to international trade markets.

– In India, high inventories, increased domestic production and lower sales resulted in a reduction of DAP imports during the 2016/2017 financial year (April 2016 to March 2017). During that period, local production increased to 4.3 million tons, 0.5 million tons more than during the corresponding period a year earlier. Domestic sales decreased from 9.8 to 8.8 million tons and imports were down from 5.6 to 4.4 million tons. Imports during the first three months of the 2017/2018 financial year (April 2017 to March 2018) have declined to 1.098 million tons from 1.558 million tons imported in the corresponding period a year earlier.

– Phosphoric acid (100% P_2O_5) contracts in India for the third and fourth quarters of 2017 were set at $567 per ton CFR including 30 days' credit, a $23 per ton decrease from the second quarter contract price. It is however quite common that the price of acid is affected by seasonal pressure during the last quarter of the year.

– Exports of phosphate fertilizers from China increased substantially in the first half of 2017, despite continued talk of production curtailments. During January to June 2017 China exported 4.035 million tons of phosphate fertilizers (DAP, MAP and TSP), a 26% increase over the corresponding period last year.

– Over-supply in the domestic market in China along with lower international prices continue to negatively affect the results of the YPH JV in China. Nevertheless, in the second quarter of 2017 the results of YPH significantly improved, driven by lower exposure to commodity fertilizers and a shift to specialty products, as well as by implementation of efficiency and cost reduction program.

– Brazilian imports of phosphate fertilizers (MAP, DAP, TSP & SSP) during the first half of 2017 amounted to 2.642 million tons, a 26.6% increase over the corresponding period last year. The increase is attributable mainly to higher planted areas of soybeans and improvement in farmers' profitability. The MAP CFR Brazil price in the first half of 2017 was stable to firm, with a moderate decline in July. At an average price of $355 CFR, July 2017 price is practically equal to the average price in the third quarter of 2016. The TSP CFR Brazil price in July 2017 is just 1% below the price in the third quarter of 2016.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Essential Minerals (Cont.)

Phosphate (Cont.)

– The United States phosphate market is between the spring season and the summer fill for the next fall season. DAP imports in January to May 2017 amounted to about 396 thousand tons compared to about 302 thousand tons in the corresponding period last year. MAP imports amounted to about 490 thousand tons compared to about 410 thousand tons in the corresponding period last year. Despite the pressure on phosphate prices, most markets west of the Suez are showing stability.

– On June 30, 2017, there was a partial collapse of the dyke in Pond 3 in the plants of Rotem Amfert Israel, which is used for accumulation of phosphogypsum water that is created as a by-product of the production processes. The Company ceased immediately use of the active phosphogypsum ponds. Subsequent to the date of the report, on July 3, 2017, ICL returned to production at full capacity under a temporary approval to activate Pond 4 by the Ministry of Environmental Protection. ICL was instructed by the Ministry of Environmental Protection to submit a plan within the next few months relating to the future operation of the phosphogypsum water ponds. To the best of ICL's knowledge, investigations have been commenced by the Ministry of Environmental Protection and the Israeli authorities. ICL is taking action to explore solutions for, among other things, restoration of the ponds in the short- and long-term and to rectify any environmental harm caused, to the extent required. ICL's actions are being carried out in full coordination and close cooperation with the Israeli environmental authorities, including the Ministry of Environmental Protection and the Nature and National Parks Authority. ICL is committed to environmental responsibility, and for years has worked closely with the Israeli's environmental authorities to maintain the Negev's natural reserves in the area of its facilities. For further information, including the applications for class action claims, see Note 6.B.1 and 2 to the condensed consolidated interim financial statements as at June 30, 2017.

Specialty Fertilizers

– The first half of 2017 was very strong in terms of quantities sold compared to the corresponding period, offsetting the negative impact of the exchange rates, the deflating prices effects and the ammonia shortage.

– ICL Specialty Fertilizers' second quarter sales were largely flat compared to the corresponding quarter in 2016, as higher sales volumes and profitability in the European and Asia Pacific regions, especially in the water soluble NPK (WSNPK) product line, were offset by competitive price pressures. The increase in profitability also derives from the implementation of cost reduction initiatives and the slightly higher market prices of the end customers' crops.

– During the second quarter, the business line was negatively impacted by the Israeli ammonia shortage, which led to lower sales and profitability of ammonia-based products in Israel and out of Israel (mainly in North America).

– Higher demand in the ornamental horticulture markets, mainly in the European and Asia Pacific regions, drove an increase in sales and margins compared to the corresponding quarter in 2016, which was partially offset by a decrease in sales to North America, mainly in coated fertilizers.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Essential Minerals (Cont.)

Specialty Fertilizers (Cont.)

– A global increase in demand for MKP fertilizers was recorded during the second quarter compared to the corresponding quarter in 2016. However, market prices were still low. Increased interest and orders were recorded in the beginning of the third quarter.

– In the Asia Pacific region, ICL Specialty Fertilizers' sales in the first half of 2017 increased by over 30% compared to the corresponding period in 2016, primarily due to higher sales volumes of straights fertilizers (MAP) and coated fertilizers, partially compensating for the overall lower production of MAP as a result of the ammonia supply interruptions by Haifa Chemicals.

Essential Minerals

Results of operations for the period April – June 2017 (millions of dollars)

	Potash and Magnesium	Phosphate	Specialty Fertilizers	Eliminations	Total	
Total sales in Q2 2016	**299**	**319**	**189**	**(42)**	**765**	
Quantity	20	(38)	7	7	(4)	⬇
Price	(3)	(11)	(4)	3	(15)	⬇
Exchange rate	(2)	(6)	(2)	–	(10)	⬇
Total sales in Q2 2017	**314**	**264**	**190**	**(32)**	**736**	

Quantity – the decrease derives mainly from a decline in phosphate fertilizers and phosphate rock quantities sold, which was partly offset by an increase in potash sales (mainly to Asia and South America) and an increase in the quantities of ICL Specialty Fertilizers products sold.

Price – the decrease derives mainly from a decline in phosphate fertilizers and phosphoric acid selling prices, lower prices of commodity fertilizers and a decline in potash and magnesium selling prices.

Exchange rate – the decrease derives mainly from the devaluation of the euro, the Chinese yuan and the pound against the dollar compared to the corresponding quarter last year.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

<u>Essential Minerals</u> (Cont.)

Analysis of operating income

	$ millions
Total operating income – 2nd quarter 2016	**113**
Quantity	2
Price	(15)
Exchange rate	(6)
Raw materials	2
Transportation	(1)
Other	(14)
Total operating income – 2nd quarter 2017	**81**

<u>Quantity</u> – the increase in quantities of potash sold (mainly to Asia and South America) and the increase in quantities of ICL Specialty Fertilizers products, was offset by a decrease in phosphate fertilizers and phosphate rock quantities sold.

<u>Price</u> – the decrease derives mainly from a decline in phosphate fertilizers and phosphoric acid selling prices, lower prices of commodity fertilizers and a decline in potash and magnesium selling prices.

<u>Exchange rate</u> – the decrease derives mainly from the upward revaluation of the Israeli shekel against the dollar.

<u>Other</u> – the decrease derives mainly from insurance income received in the corresponding quarter in 2016 in respect of the fire in a fertilizer production facility in Israel. The decrease was partly offset by a provision recorded in the corresponding quarter last year resulting from extension of the employment agreement in ICL Dead Sea.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Essential Minerals (Cont.)

Results of operations for the period January – June 2017 (millions of dollars)

	Potash and Magnesium	Phosphate	Specialty Fertilizers	Eliminations	Total
Total sales January–June 2016	**572**	**618**	**377**	**(79)**	**1,488**
Quantity	44	(3)	22	9	72
Price	(9)	(47)	(11)	6	(61)
Exchange rate	(10)	(12)	(6)	(1)	(29)
Total sales January–June 2017	**597**	**556**	**382**	**(65)**	**1,470**

Quantity – the increase derives mainly from an increase in potash sales (mainly to Asia, North America and South America) and from an increase in the quantities of specialty agriculture products sold to Asia and Europe.

Price – the decrease derives mainly from a decline in phosphate fertilizers and phosphoric acid selling prices, lower prices of commodity fertilizers and a decline in potash and magnesium selling prices.

Exchange rate – the decrease derives mainly from the devaluation of the euro, the Chinese yuan and the British pound against the dollar compared to the corresponding period last year.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Essential Minerals (Cont.)

Analysis of operating income

	$ millions
Total operating income – January–June 2016	**206**
Quantity	13
Price	(61)
Exchange rate	(9)
Raw materials	22
Transportation	(23)
Other	(1)
Total operating income – January–June 2017	**147**

Quantity – the increase derives mainly from potash sales (mainly to Asia, North America and South America) and an increase in the quantities of ICL Specialty Fertilizers products sold.

Price – the decrease derives mainly from a decline in phosphate fertilizers and phosphoric acid selling prices, lower prices of commodity fertilizers and a decline in potash and magnesium selling prices.

Exchange rate – the decrease derives mainly from the upward revaluation of the Israeli shekel against the dollar compared to the corresponding period last year.

Raw materials – the increase derives mainly from a decline in sulfur prices (used in the green phosphoric acid production) and a decline in commodity fertilizers prices (used for products of ICL Specialty Fertilizers).

Transportation – the decrease derives mainly from an increase in transportation prices and from the increase in quantities sold.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Essential Minerals (Cont.)

Additional Information – Essential Minerals

	4–6/2017	4–6/2016	1–6/2017	1–6/2016	2016
	Thousands of Tons				
Phosphate rock					
Production of rock	**1,284**	1,553	**2,683**	2,894	5,744
Sales*	**83**	195	**242**	558	1,032
Phosphate rock used for internal purposes	**1,088**	1,116	**2,184**	1,867	4,099
Fertilizers					
Production of rock	**479**	586	**1,049**	1,158	2,725
Sales*	**577**	713	**1,226**	1,218	2,645

* To external customers.

April – June 2017

Sales of phosphate rock – the quantity of phosphate rock sold in the second quarter of 2017 was 112 thousand tons lower than in the corresponding quarter last year, due to low global demand and challenging prices environment.

Production of phosphate rock – in the second quarter of 2017, production of phosphate rock was lower by 269 thousand tonnes than in the corresponding quarter last year, mainly due to production optimization process in YPH and adjusting production volumes to the business environment, at ICL Rotem.

Sale of phosphate fertilizers – the quantity of phosphate fertilizers sold in the second quarter of 2017 was 136 thousand tons lower than in the corresponding quarter last year, mainly due to a decrease in sales to Asia and South America.

Production of phosphate fertilizers – the second quarter of 2017, production of phosphate fertilizers was lower by 107 thousand tons than in the corresponding quarter last year, mainly due to decreased production in YPH, as a result of implementation of efficiency measures and acceleration of the shift to specialty products.

January – June 2017

Sales of phosphate rock – the quantity of phosphate rock sold in the six months ended on June 30, 2017 was 316 thousand tons lower than in the corresponding period last year, due to low global demand and challenging prices environment.

Production of phosphate rock – in the six months ended on June 30, 2017, production of phosphate rock was lower by 211 thousand tons than in the corresponding period last year, mainly due to production optimization process in YPH and adjusting production volumes to the business environment, at ICL Rotem.

Sale of phosphate fertilizers – the quantity of phosphate fertilizers sold in the six months ended on June 30, 2017 was 8 thousand tons higher than in the corresponding period last year.

Production of phosphate fertilizers – in the six months ended on June 30, 2017, production of phosphate fertilizers was lower by 109 thousand tons than in the corresponding period last year, mainly due to decreased production in YPH, as a result of implementation of efficiency measures and acceleration of the shift to specialty products.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Main developments and the business environment in ICL: (Cont.)

Essential Minerals (Cont.)

Additional Information – Essential Minerals (Cont.)

	4–6/2017	4–6/2016	1–6/2017	1–6/2016	2016
	Millions of Dollars				
Average potash selling price – FOB (in $)	**216**	221	**216**	225	211
Sales to external customers	**261**	242	**492**	463	1,134
Sales to internal customers*	**41**	43	**78**	83	151
Total sales	**302**	285	**570**	546	1,285
Gross income	**125**	112	**209**	199	513
Operating income	**65**	65	**106**	116	291

* Sales to other business lines of ICL including the Magnesium business.

The potash stand-alone activities include, among other things, Polysulphate produced in a mine in the UK and salt produced in underground mines in UK and Spain.

Potash – Production and Sales

	4–6/2017	4–6/2016	1–6/2017	1–6/2016	2016
	Thousands of Tons				
Production	**1,232**	1,363	**2,289**	2,711	5,279
Sales to external customers	**1,051**	1,010	**1,993**	1,893	4,818
Sales to internal customers	**80**	114	**152**	148	347
Total sales (including internal sales)	**1,131**	1,124	**2,145**	2,041	5,165
Closing inventory	**810**	1,222	**810**	1,222	666

April – June 2017

Sales to external customers – the quantity of potash sold to external customers in the second quarter of 2017, was 41 thousand tons higher than in the corresponding quarter last year, mainly due to an increase in sales to Asia and South America.

Production – production of potash in the second quarter of 2017 was 131 thousand tons lower than in the corresponding quarter last year, due to a decrease in the production of ICL UK as a result of the transition from extracting and producing potash to producing polysulphate.

January – June 2017

Sales to external customers – the quantity of potash sold to external customers in the six months ended on June 30, 2017, was 100 thousand tons higher than in the corresponding period last year, mainly due to an increase in sales to Asia, North and South America.

Production – production of potash in the six months ended on June 30, 2017 was 422 thousand tons lower than in the corresponding period last year, due to a decrease in the production of ICL UK as a result of an operational breakdown in the mine tailings channel during the first quarter and transition from extracting and producing potash to producing polysulphate.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Set forth below are the highlights of the changes in the cash flows of ICL in the second quarter of 2017, compared with the corresponding quarter last year:

Net cash provided by operating activities:

In the second quarter of 2017, the cash flows provided by operating activities decreased by $39 million compared with the corresponding quarter last year. This decrease derives mainly from a decline in the net income and a decline in the working capital in the corresponding quarter last year, due to an increase in phosphate sales in China, which was accompanied by a decrease in inventories.

Net cash used in investing activities:

In the second quarter of 2017, the cash flows used in investing activities decreased compared with the corresponding quarter last year, by $13 million. This decrease derives mainly from a decrease in the cash flows used for investments in property, plant and equipment, and other assets, in the amount of $41 million. The decrease was mostly offset by an increase in deposits.

Net cash used in financing activities:

In the second quarter of 2017, there was an increase of $10 million in the cash flows used in financing activities compared with the corresponding quarter last year. This increase derives mainly from repayment of long-term loans net of long-term loans received, in the amount of $125 million, compared with receipt of net long-term loans, in the amount of $141 million, in the corresponding quarter last year. The increase was partly offset due to a receipt of short-term credit from banks and others, net, in the amount of $152 million, compared with repayment of short-term credit from banks and others, net, in the amount of $91 million, in the corresponding quarter last year.

Debt movement:

As at June 30, 2017, the net financial liabilities of ICL amounted to $3,300 million, an increase of $32 million compared with the balance at the end of 2016. The increase of the net financial liabilities derives mostly from dividend payments in the amount of $149 million and from the exchange rate impact, which were partially offset by the operating cash flow generated during the first six months of 2017.

The total amount of the securitization framework and credit facility deriving therefrom amounts to $405 million. As at June 30, 2017, ICL had used $311 million of the securitization facility.

ICL also has long-term credit facilities of $2,026 million and €100 million, of which $1,335 million was unutilized as at June 30, 2017.

As the date of the report, ICL is in compliance with the financial covenants stipulated in its financing agreements.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Critical accounting estimates

In the six months ended June 30, 2017, there were no significant changes in the critical accounting estimates.

Risk factors

In the six months ended June 30, 2017, there were no significant changes in ICL's risk factors as they were described in the Annual Report in Section 8.23.

Legal proceedings

Derivative claims

Pursuant to the resolution of ICL's Board dated December 15, 2016, ICL appointed a special independent external committee (the "Special Committee") to examine all aspects arising from the application for certification of a derivative action regarding the annual bonuses paid to office holders for the years 2014-2015 (the "Certification Application"). The Hon. Judge (ret.) Oded Mudrick was appointed to head the Special Committee and the Special Committees' other members are: Prof. Sharon Hannes and Prof. Haim Assayag, CPA. For purposes of its operations, the Special Committee appointed a legal advisor to accompany its work – Dr. Asaf Eckstein.

On April 18, 2017 the Special Committee submitted its report to the Board of Directors, wherein it determined, among other things, that in its opinion the adjustments to the net profit as approved by ICL's Compensation Committee for the years 2014 and 2015 were duly made and in accordance with ICL's compensation policy. Therefore, ICL does not have a cause of action against the directors who approved the bonus adjustments for the years 2014 and 2015, or against the officers who received the bonuses due to the said adjustments. In light of the foregoing, it would be improper for ICL to demand any restitution or reparation due to the events specified in the Certification Application filed by the Applicant. Accordingly, the Committee recommended that ICL oppose the Application filed with the Court by the Applicant.

On April 26, 2017 ICL's Board resolved to fully adopt the Special Committee's report and the recommendation therein to deny the Applicant's demand in the Certification Application and to instruct ICL to file an objection to the Certification Application.

On May 11, 2017 the Applicant applied to Court, arguing that ICL is not permitted to attach the Special Committee's report to its response. On June 6, 2017, the response of ICL and the responses of the remaining respondents to the Certification Application were submitted. For cautionary purposes the Special Committee's report was not attached to ICL's response; however as part of ICL's response the Court was requested to allow submission of the Special Committee's report.

In accordance with the Court's decision, the date for submission of the Applicant's reply to the responses of ICL and the other respondents to the Certification Application was set as September 24, 2017.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Legal proceedings (Cont.)

Investment treaty claim against Ethiopia

Further to Note 15 of the Corporation's annual financial statements for 2016, and according to the announcement issued by ICL on May 10, 2017, ICL Europe Coöperatief U.A. ("ICL Europe"), a subsidiary of ICL, filed a claim under the Bilateral Investment Treaty (BIT) against the Federal Democratic Republic of Ethiopia ("Ethiopia") in relation to State violations of the Agreement on Encouragement and Reciprocal Protection of Investments between the Ethiopia and the Netherlands. The violations relate to, inter alia, the State's imposition of an illegal tax assessment against, and its failure to provide infrastructure support to, Allana Potash Afar Plc, a second-tier subsidiary of ICL Europe. ICL Europe filed the claim under the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL), and requested the Permanent Court of Arbitration at The Hague to administer the arbitration proceedings. On June 12, 2017, Ethiopia filed its response to the notice of arbitration. As at the date of the report, ICL has a full tax provision in respect of the said tax assessment.

For additional details regarding legal proceedings and other contingencies, see Note 6.B to the condensed consolidated interim financial statements as at June 30, 2017.

Additional information

Enhancement of resources availability for growth initiatives and/or debt leverage reduction

On June 22, 2017, ICL announced that as part of its plan for generating available sources for financing additional investments, as well as to reduce its current leverage level, it is exploring, among other things, various opportunities to divest subsidiaries and/or assets that have a low synergy profile with ICL's mineral chain and/or portfolio, in the amount of about $500 million or more. In the framework of the said plan, ICL signed an agreement for sale of its holdings in IDE Technologies Ltd., constituting 50% of IDE's share capital, in exchange for a consideration of about $178 million. For additional details regarding the sale transaction – see Note 5.B.4 to the condensed consolidated interim financial statements as at June 30, 2017.

Negotiations for Purchase of Natural Gas

1. On August 8, 2017, ICL and Energean Israel Limited (hereinafter – "Energean"), a holder of interests in the Karish and Tanin gas fields (hereinafter – the "Gas Field"), signed a non-binding memorandum of understandings (hereinafter – "the Memorandum of Understandings"), after which the parties will carry on negotiations in contemplation of signing a detailed and binding natural gas supply agreement (if signed), under which ICL will purchase natural gas in the quantities and for the periods as will be agreed upon therein, for purposes of running the power plant in Sodom and ICL's other facilities in Israel.

2. The Memorandum of Understandings, as stated, includes, among other things, the following provisions:

   A. The total quantity of gas ICL is anticipated to purchase from Energean is about 13 BCM with respect to the entire expected supply period (hereinafter – "the Total Contractual Quantity");

   B. The supply period will commence on the date on which Energean commences operation of the Gas Field, and is expected to end on the earlier of the date on which the Total Contractual Quantity is consumed or after the passage of 15 years from the commencement date of supply of the natural gas to ICL; to the extent the Total Contractual Quantity is not consumed, the parties will be permitted to extend the period of the supply agreement (if signed) for an additional period – this being subject to compliance with conditions and targets that will be stipulated in the supply agreement.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Additional information (Cont.)

<u>Negotiations for Purchase of Natural Gas</u> (Cont.)

2. (Cont.)

   C. A “take or pay” payment mechanism for a minimum annual quantity of natural gas in the amount and according to the mechanism that will be determined;

   D. The price of the natural gas will be linked to the electricity generation component and will include a minimum price.

   E. The aggregate monetary amount of the gas purchased by ICL from Energean, if and to the extent the negotiations are completed and a binding supply agreement is signed in accordance with the Memorandum of Understandings, could reach about $2 billion, and it is contingent on, among other things, a change in the electricity price to which the gas price is linked and the total quantities that ICL actually purchases during the period of the binding agreement.

   F. The parties to the Memorandum of Understandings agreed that in the period of 180 days from the signing of the Memorandum of Understandings, Energean will not carry on negotiations for sale of gas that will adversely impact its ability to supply the gas covered by the Memorandum of Understandings, and ICL committed that it will not carry on negotiations that will prevent the possibility of purchasing from Energean the quantity of gas described above.

3. It is noted that the negotiations with Energean were conducted jointly by the Company, Oil Refineries Ltd.[11] and OPC Energy Ltd.[12] (hereinafter – “the Purchasers”). However, each of the Purchasers signed a separate Memorandum of Understanding with Energean. The Memorandum of Understandings are non-binding, and the undertaking in the gas supply agreement and the actual supply of the gas thereunder are subject to, among other things, completion of the negotiations, signing the binding agreement, receipt of all the required approvals and compliance with various milestones and preconditions, including arrangement and supply of natural gas to ICL in a case where the said gas field is not actually developed.

4. A binding agreement, if and to the extent signed, will require proper approval by ICL’s authorized organs.

5. At the present time, there is no certainty with respect to ICL’s signing a binding agreement or regarding the terms of the binding agreement, to the extent signed.

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[11] A public company controlled by Israel Corporation Ltd., ICL’s controlling shareholder, together with partners, in Oil Refineries Ld.,which is controlled (directly and indirectly) by Mr. Idan Ofer.

[12] A public company that is controlled, indirectly, by one of ICL’s controlling shareholders.

FOLLOWING IS A BRIEF SUMMARY OF THE FINANCIAL RESULTS OF THE CORPORATION AND THE PRINCIPAL INVESTEES: (Cont.)

ISRAEL CHEMICALS LTD. (Cont.)

Significant events during the period of the report and thereafter

Legal proceedings and regulation:

A. Permit to pile up salt at the Sallent site – for details regarding extension of the validity of the permit to pile up sale – see Note 6.B.3 to the consolidated interim financial statements.

B. Tax assessment – for details regarding the tax assessment in Israel received for the years 2012-2014 – see Note 6.B.4 to the consolidated interim financial statements.

C. Legal claim of Great Lakes Chemicals against Dead Sea Works – for details see Note 6.B.6 to the consolidated interim financial statements.

D. Developments in connection with the mining plan in Barir Field – for details see Note 6.B.7 to the consolidated interim financial statements.

E. ICL's intention to file a treaty claim against Ethiopia for breach of contract – for details see the "Legal Proceedings" section in the Report of the Board of Directors (ICL section) above.

F. A derivative claim in connection with the annual bonus paid to officers of ICL for 2014 and 2015 – for details see the "Legal Proceedings" section in the Report of the Board of Directors (ICL section) above.

G. Provision of equity remuneration – for details regarding provision of equity remuneration – see Note 5B to the consolidated interim financial statements.

Financing:

A. A short-term loan from Israel Corporation – for details regarding receipt of a short-term loan, in the amount of $150 million, for ICL's controlling shareholder – see "Additional Information" in the interim separate-company financial statements.

B. ICL's credit rating – for details regarding reduction of ICL's international credit rating to BBB– with a stable rating outlook, see Note 5.B.3 to the consolidated interim financial statements.

Other:

A. Signing of an agreement for sale of all of ICL's holdings (50%) in IDE – for details regarding the sale agreement, see Note 5.B.4 to the consolidated interim financial statements.

B. Partial collapse of the dyke in the evaporation pond of Rotem Amfert Israel – for details regarding the event and requests for class action claims regarding the matter – see Note 6.B.1 and Note 6.B.2 to the consolidated interim financial statements.

C. Salt harvesting – for details regarding approval of ICL's Board of Directors with respect to a budget for purposes of progressing with execution of the salt harvesting at the Dead Sea – see "Main Events and Business Environment – Potash and Magnesium" section in the Report of the Board of Directors (ICL section) above.

D. Collective bargaining agreement in Rotem – for details regarding signing of a collective bargaining agreement in Rotem Israel for a period of 5 years, see Note 6.B.5 to the consolidated interim financial statements.

OIL REFINERIES LTD.

In the first quarter of 2017, the trend that began in December last year, which was affected by the decision of OPEC member countries to limit output, continued and Brent oil was traded at US$ 50 – 55 per barrel. In the second quarter, the Brent price dropped to US$44 per barrel, the lowest price in seven months. This is despite the fact that the OPEC countries decided at the end of May to continue reducing production through to March 2018. The decline in price was mainly due to the increase in oil production in non-OPEC countries and in the US. At the end of June, the Brent price increased following publication of information regarding the expected decrease in output in the US and Libya. Close to Reporting Date, the Brent price was fixed at US$47 per barrel.

In the period of the report, the price of Ural crude oil, which is heavy crude oil, strengthen compared to Brent prices (which is light crude oil), with a disparity of US$1.3 per barrel, compared with USD 1.7 per barrel in the corresponding period last year. The difference in the price of heavy crude compared with light crude was extremely volatile, ranging between US$1 and US$2.5 per barrel, due to the increase in the supply of Ural crude oil substitutes from outside the Mediterranean region.

In the period of the report, the futures market for crude oil continued to be contango at average rate of US$0.3 per barrel per month.

Raw material prices, that used mainly in the polymers activity, particularly naphtha prices, increased in the period of the report compared with the corresponding period last year, parallel to the increase in crude oil prices. Polypropylene prices increased and polyethylene decreased in the period of the report compared with the compared to the corresponding period last year. The difference in the volatility of polymer prices is due to the changes in the prices of raw material for the production of polymers in Europe (propylene and ethylene). In the period of the report, the difference between the price of polypropylene and the price of naphtha was higher compared with the corresponding period last year and the difference between the price of polyethylene and the price of naphtha was lower compared to the corresponding period last year. This was consistent with the behavior of the polypropylene and polyethylene prices, which are affected by, among other things, the prices of the raw materials for the production of polymers in Europe (propylene and ethylene).

Results of operations for the period April – June 2017

ORL applies after making early adoption, the provisions of IFRS 9 (2013). The Corporation has not made early adoption of the said Standards, and it makes reconciliations to the books of ORL in its financial statements. The data below includes impacts from early adoption of the Standards, as stated.

ORL completed the six-month and three-month periods ended June 30, 2017, with income of about $92 million and about $73 million, respectively, compared with income of about $115 million and about $87 million, respectively, in the corresponding periods last year.

Without the impact of IFRS 9 (2013), ORL completed the six-month and three-month periods ended June 30, 2017, with income of about $97 million and about $78 million, respectively, compared with income of about $124 million and about $87 million, respectively, in the corresponding periods last year.

In order to present the results of the activities of the Fuels' segment on an economic basis as well, and for purposes of comparison with the Ural margin, the accounting effects in the fuel segment are adjusted and presented in a way that allows a better comparison of the performance of the Fuels' segment to the Ural margin. Therefore, in this Report, the term "adjusted consolidated EBITDA" relates to the adjusted EBITDA of the Fuels' segment together with the EBITDA reported in the Group's other activity sectors.

OIL REFINERIES LTD. (Cont.)

Results of operations for the period April – June 2017 (Cont.)

Set forth below is a breakdown of selected figures from the reported consolidated statements of income after adjustment for accounting effects for the six-month and three-month periods (USE millions)

	1-6.2017	1-6.2016	4-6.2017	4-6.2016
Revenue	**2,583**	2,057	**1,378**	1,132
EBITDA	**286**	267	**170**	170
Depreciation	**(72)**	(60)	**(39)**	(30)
Other expenses, net	**(6)**	(7)	**(3)**	(4)
Operating profit	**208**	200	**128**	136
Financing expenses, net	**(83)**	(62)	**(36)**	(26)
Income tax	**(33)**	(23)	**(19)**	(23)
Net income	**92**	115	**73**	87
Fuel segment adjustments	**(55)**	(31)	**(13)**	(57)
Adjusted EBITDA	**231**	236	**157**	113
Adjusted operating profit	**153**	169	**114**	79
Net adjusted profit	**37**	84	**60**	30

In the first quarter of 2017, ORL carried out planned periodic maintenance work on part of its downstream facilities, in particular the CCR plant, due to which part of the refining facilities were also shut down. In addition, all of Gadiv's plants were shut down to carry out planned periodic maintenance work. ORL estimates that the projected total loss of earnings caused due to these shutdowns, as reflected in the results of the period, amounts to approximately US$69 million (US$61 million in the Fuels segment, US$4 million in the Aromatics segment and US$4 million in the Polymers – Carmel Olefins segment, due to derivative effects).

In the second quarter of 2016, all of Carmel Olefins' plants and part of ORL's downstream plants, including for gasoline production, were shut down for periodic maintenance. ORL estimates that the total loss of profits to ORL due to such shutdown, most of which are reflected in the results of the second quarter, amounts to US$50 million (US$5 million in the Fuels segment and US$45 million in the Polymers – Carmel Olefins segment).

Sales in the fuels segment amounted to about US$1,190 million in the second quarter of 2017, compared to about US$975 million in the corresponding period last year. The average price per ton of the product index in the Mediterranean region, similar to ORL's product index, amounted to about US$452 in the second quarter of 2017, compared to about US$384 in the corresponding period last year. The increase in the average price of the product index is mainly due to the increase in energy prices, together with the increase in raw material prices. The increase in sales volume is also due to the income from insurance indemnification for loss of profits of about US$7 million.

Domestic consumption of distillates (transportation, industrial and heating fuels) rose by 2% in the second quarter of 2017 compared to the corresponding period last year. There was an increase of 5% in consumption of transportation fuels (gasoline, diesel and kerosene) compared to the corresponding period last year.

OIL REFINERIES LTD. (Cont.)

Results of operations for the period April – June 2017 (Cont.)

Sales of the Polymers segment – Carmel Olefins amounted to about US$180 million in the second quarter of 2017, compared to about US$107 million in the corresponding period last year, an increase of about US$73 million. This increase is mainly the result of an increase in sales volume of about US$63 million due to the periodic maintenance work carried out in the corresponding period last year, and income from insurance indemnification for loss of profits of about US$10 million. The average price of the product mix was about US$1,268 per ton compared to about US$1,266 per ton in the corresponding period last year.

Sales of the Polymers segment – Ducor amounted to about US$57 million in the second quarter of 2017, compared to about US$52 million in the corresponding period last year. The increase of about US$5 million is mainly due to a price increase amounting to about US$7 million offsetting a decrease in sales volume of about US$2 million. The average price of the product mix was about US$1,294 per ton compared to about US$1,116 per ton in the corresponding period last year.

Sales of the Aromatics segment – Gadiv amounted to about US$103 million in the second quarter of 2017, compared to about US$105 million in the corresponding period last year. The decrease of about US$2 million is mainly due to a decrease in sales volume of about US$14 million offset by an increase in prices of about US$10 million. The average price of the product mix was about US$736 per ton compared to about US$651 per ton in the corresponding period last year.

Set forth below is a breakdown of the adjustment components in the Fuels segment and their effect on the EBITDA (US$ millions):

	April–June	
	2017	**2016**
	$ millions	
Increase (decrease) in the accounting income		
Expenses (income) from timing differences (1)	**17**	(32)
Income from adjustment of value of inventory to market value, net (2)	**(1)**	(5)
Effect of changes in fair value of derivatives and realizations (3)	**(29)**	(20)
Total adjustments in the fuels' segment	**(13)**	(57)

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance with ORL's policy, it does not engage in hedging contracts for inventory of up to 730 thousand tons, other than the inventories under the available inventory transaction as set out in Note 5.C.2 to the consolidated interim financial statements. As at June 30, 2017, the volume of unhedged inventories is about 480 thousand tons.

(2) Expenses (income) arising from changes in the accounting provision for adjustment of hedged inventory to market value and expenses (income) from changes in accounting provision for impairment of unhedged inventory, at the end of the period of the report.

(3) Expenses (income) arising from re-evaluation of the fair value of open positions that do not relate to hedged inventory (hedging transactions on future cash flow exposure for base inventory purchase and hedging of refining margins). The cumulative profit or loss with regard to these positions, which are non-cash, will be attributed to the adjusted EBITDA when disposed. In the second quarter of 2017, most of this amount is due to non-cash disposal of the loss in positions relating to the purchase of basic inventories due to the termination of the available inventory transaction as set out in Note 9.C.7 to the annual financial statements.

OIL REFINERIES LTD. (Cont.)

Results of operations for the period April – June 2017 (Cont.)

Set forth below is a comparison of ORL's refining margins with the Ural margin.

	4-6.2017	4-6.2016
Accounting margin (USD/ton)	**58.4**	69.6
Adjustments in the Fuels segment (USD/ton)	**(4.9)**	(23.7)
Adjusted margin (USD/ton)	**53.5**	45.9
Adjusted margin (USD/barrel)	**7.3**	6.3
Ural margin (USD/barrel)	**5.8**	3.2

In the second quarter of 2017, the adjusted refining margin amounted to about US$7.3 per barrel compared with about US$6.3 per barrel in the corresponding quarter last year. The main reasons for the increase in refining margin compared with the corresponding quarter last year is an increase in the Ural margin of about US$2.6 per barrel that was offset by an adjustment of about US$1 per barrel from a loss for closing of positions relating to the purchase of base inventory due to the termination of the non-cash available inventory transaction during the quarter, net of income from insurance indemnification for loss of profits.

The net financing expenses in the period of the report amounted to about $36 million, compared with about $26 million in the corresponding period last year. Without the impact of IFRS 9 (2013), which is not applied by the Corporation, the net financing expenses in the period of the report amounted to about $38 million, compared with about $28 million in the corresponding period last year.

Results of operations for the period January – June 2017

Revenues of ORL segments including inter-segment sales

Sales in the fuels segment amounted to about US$2,227 million in the period of the report, compared to about US$1,742 million in the corresponding period last year. The average price per ton of the product index in the Mediterranean area, similar to ORL's product index, amounted to about US$462 in the period of the report, compared to about US$349 in the corresponding period last year. The increase in the average price of the product index is mainly due to the increase in energy prices, together with the increase in raw material prices. Part of the increase in sales is due to income from insurance indemnification for loss of profits of about US$7 million, which was offset by a decrease in sales as a result of the shutdown of part of ORL's plants in the first quarter of 2017 for periodic maintenance.

Domestic consumption of distillates (transportation, industrial and heating fuels) rose by about 2% compared to the corresponding period last year. There was an increase of about 3% in consumption of transportation fuels (gasoline, diesel and kerosene) compared to the corresponding period last year.

Sales in the polymers segment – Carmel Olefins amounted to about US$346 million in the period of the report, compared to about US$250 million in the corresponding period last year, an increase of about US$96 million. The increase is mainly due to an increase in sales volume of about US$80 million following the periodic maintenance work carried out on Carmel Olefins facilities in the corresponding period last year, a selling price increase of about US$6 million and income from insurance indemnification in respect for loss of profits of about US$10 million. The average price of the product mix was about US$1,257 per ton compared to about US$1,227 per ton in the corresponding period last year.

OIL REFINERIES LTD. (Cont.)

Results of operations for the period January – June 2017 (Cont.)

Sales in the polymers segment – Ducor turnover amounted to about US$112 million in the period of the report, compared to about US$98 million in the corresponding period last year. The increase of about US$14 million is mainly due to a price increase amounting to about US$15 million offsetting a decrease in sales volume of about US$1 million. The average price of the product mix was about US$1,256 per ton compared to about US$1,086 per ton in the corresponding period last year.

Sales in the aromatics segment – Gadiv amounted to about US$140 million in the period of the report, compared to about US$197 million in the corresponding period last year. Most of the about US$57 decrease is the result of a decrease in the amount of about US$72 million in sales volume due to the periodic maintenance work carried out on all of Gadiv's facilities in the first quarter of 2017, offsetting a selling price increase in the amount of about US$17 million. The average price of the product mix was about US$721 per ton compared to about US$625 per ton in the corresponding period last year.

Set forth below is a breakdown of the adjustment components in the Fuels segment and their effect on the EBITDA (US$ millions):

	January–June	
	2017	**2016**
	$ millions	
Increase (decrease) in the accounting income		
Expenses (income) from timing differences (1)	**10**	(17)
Expenses (income) from adjustment of value of inventory to market value, net (2)	**(27)**	19
Effect of changes in fair value of derivatives and realizations (3)	**(38)**	(33)
Total adjustments in the fuels' segment	**(55)**	(31)

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance with ORL's policy, it does not engage in hedging contracts for inventory of up to 730 thousand tons, other than the inventories under the available inventory transaction as set out in Note 5.C.2 to the consolidated interim financial statements. As at June 30, 2017, the volume of unhedged inventories is about 480 thousand tons.

(2) Expenses (income) arising from changes in the accounting provision for adjustment of hedged inventory to market value and expenses (income) from changes in accounting provision for impairment of unhedged inventory, at the end of the period of the report.

(3) Expenses (income) arising from re-evaluation of the fair value of open positions that do not relate to hedged inventory (hedging transactions on future cash flow exposure for base inventory purchase and hedging of refining margins). The cumulative profit or loss with regard to these positions, which are non-cash, will be attributed to the adjusted EBITDA when disposed. In the first half of 2017, most of this amount is due to non-cash disposal of the loss in positions relating to the purchase of basic inventories due to the termination of the available inventory transaction as set out in Note 9.C.7 to the annual financial statements.

OIL REFINERIES LTD. (Cont.)

Results of operations for the period January – June 2017 (Cont.)

Analysis refining margins of the Fuels segment and comparison with the Ural margin

Set forth below is table summarizing the comparison of ORL's refining margins to the Ural margin:

	January–June		
	2017	2017 Proforma*	2016
Accounting margin – dollar per ton	**57.0**	**64.3**	54.0
Adjustments in the fuels' segment – dollar per ton	**(12.1)**	**(11.0)**	(6.5)
Adjusted margin – dollar per ton	**44.9**	**53.3**	47.5
Adjusted margin – dollar per barrel	**6.2**	**7.3**	6.5
Ural margin – dollar per barrel	**5.4**	**5.4**	3.5

* The proforma margins for the period of the report shown in the table above were calculated in the following manner:

1. The estimate of the lost profits, in the amount of $61 million was added to ORL's actual refining margin in the period of the report, which is about $204 million (hereinafter – "the Revised Margin").
2. The Adjusted Margin was divided by the total number of barrels for the period of the report of 36.3 million barrels (the median number of barrels of crude oil and intermediate materials of 17.5 million barrels processed per quarter plus the actual number of barrels processed in the second quarter of 2017).

The Ural margin increased in the period report compared with the corresponding period last year. The main reasons for the increase were the relatively harsh winter in Europe and the United States, and planned and unplanned shutdowns of refining facilities.

It is noted that there are differences in a number of parameters between ORL's refining margin and the Ural margin. These include composition of crude oil (ORL also refines crude oil types that are not Ural), composition and quality of products produced by the refineries, the energy source used for refining, and the difference generated due to the fact that the quote takes into account purchase and sale on the same day, while in practice, there is a gap between the purchase date of the crude and the selling date of distillates produced from the crude oil. Comparison to the Ural margin could provide insight in relation to development trends of the Company's refining margin, and does not constitute a precise parameter for estimating ORL's refining margin in the short term.

The net financing expenses in the period of the report amounted to about $83 million, compared with about $62 million in the corresponding period last year. Without the impact of IFRS 9 (2013), which is not applied by the Corporation, the net financing expenses in the period of the report amounted to about $79 million, compared with about $53 million in the corresponding period last year.

Other developments in the period of the report and thereafter

1. Further to that stated in Section 9.15.8 of the Periodic Report for 2016, regarding licenses held by companies in the ORL Group, the temporary permits held by the ORL Group companies from time to time, were extended up to October 15, 2017.

OIL REFINERIES LTD. (Cont.)

Other developments in the period of the report and thereafter (Cont.)

2. Further to that stated in Section 9.12.4 of the Periodic Report for 2016, regarding decision of the National Council for Planning and Building (hereinafter – "the National Council") to hold an additional hearing in connection with the site plan for the site on which the facilities of companies in the ORL Group are situated, on June 8, 2017, ORL received the decision of the National Council, which approved the plan with the revisions provided in the decision, primarily, reduction of the additional construction permitted on the site to 5% of the presently existing construction on the site. Subsequent to the period of the report, an administrative appeal was filed against the decision of the National Council.

3. Further to that stated in Section 9.12.4 of the Periodic Report for 2016, during the period of the report the Ministry of Environmental Protection notified ORL that in certain monitoring stations in the Haifa Bay area higher pollution levels were recorded for benzene than in the past and that it is considering adopting measures including the issue of a temporary injunction and an order to reduce air emissions pursuant to the Clean Air Law, which will include a requirement to map and treat suspected sources of benzene emissions, reducing time schedules for implementing emission reducing measures in benzene containing equipment and other measures. ORL has submitted its mapping plan to the Ministry as required and is in touch with it regarding this matter.

4. Further to that stated in Section 9.6.14.6 of the Periodic Report for 2016, regarding the dates of the planned periodic maintenance work on ORL's plants, periodic maintenance work was carried out in the period of the report on part of ORL's plants and on Gadiv's plants. ORL also decided that the periodic maintenance work on the crude refining plant 3 and related facilities planned for 2017 will be carried out in 2018.

5. Further to that stated in Section 9.2.6 of the Periodic Report for 2016, and further to ORL's report dated July 16, 2017, regarding carrying on of negotiations for purchase of natural gas, subsequent to the date of the report, on August 8, 2017, ORL notified that:

   A. ORL and Energean Israel Limited (hereinafter – "Energean"), signed a non-binding Memorandum of Understanding (hereinafter – "the MOU") based on which, if and when it is signed, the parties will conduct negotiations for signing a detailed and binding agreement for the supply of natural gas (if it will be signed), under which ORL will purchase natural gas in volumes and for periods that will be agreed upon under the supply agreement (hereinafter – "the Supply Agreement"). That stated is for the purpose of running the plants of ORL and its subsidiaries operating in the Haifa Bay.

   B. The negotiations with Energean are being conducted jointly by ORL, ICL[13] and OPC Energy Ltd.[14] (hereinafter – "the Purchasers"), in order to leverage the combined purchasing power of the Purchasers and thus to obtain preferred purchase terms from Energean.

[13] A public company controlled by Israel Corporation Ltd., ICL's controlling shareholder, together with partners, in Oil Refineries Ld.,which is controlled (directly and indirectly) by Mr. Idan Ofer.

[14] A public company that is controlled, indirectly, by one of ICL's controlling shareholders.

OIL REFINERIES LTD. (Cont.)

Other developments in the period of the report and thereafter (Cont.)

C. Pursuant to the MOU:

(1) The total volume of gas that ORL is expected to purchase from Energean is BCM 17 throughout the entire expected supply period (hereinafter – "the Total Contractual Volume").

(2) The supply period will commence once the flow of gas from the Gas Reservoir begins and is expected to end once the Total Contractual Volume is consumed or 15 years from the date on which the natural gas is piped to ORL, on the earlier of these dates, and if the Total Contractual Volume is not consumed, the parties may extend the term of the agreement (if it will be signed) for an additional term, and this subject to compliance with conditions and targets that will be defined in the Supply Agreement.

(3) A "Take or Pay" payment mechanism is to be included for a minimum annual volume of natural gas to be fixed and in accordance to a mechanism that will be defined.

(4) The aggregate monetary amount of the gas purchased by ORL from Energean, if and to the extent the negotiations are completed and a binding supply agreement is signed in accordance with the Memorandum of Understandings, could reach about $2.5 billion, and it is contingent on, among other things, the electricity production component and the scope and rate of consumption of the gas. It is noted that this scope could reflect a significant savings on ORL's energy costs, compared with its present level of energy costs.

(5) The parties to the Memorandum of Understandings agreed that in the period of 180 days from the signing of the Memorandum of Understandings, Energean will not carry on negotiations for sale of gas that will adversely impact its ability to supply the gas covered by the Memorandum of Understandings, and ORL committed that it will not carry on negotiations that will prevent the possibility of purchasing from Energean the quantity of gas described above.

D. It is clarified that signing of the Supply Agreement and the actual supply of gas thereunder are subject, among other things, to conclusion of the negotiations, signing of a binding agreement, receipt of all the required approvals and compliance with various milestones and preconditions.

E. The Supply Agreement, if and to the extent it will be signed, will be brought for approval as required by the competent organs of ORL.

Forward-looking information: The information set out above concerning the draft MOU, including with regard to concluding negotiations, signing the MOU and its terms and conditions, is forward looking information, as defined in the Securities Law, and is contingent and dependent on several factors. The foregoing information may not materialize or may materialize in a manner significantly different from that set out above due to various factors, including failure to reach an agreement between the parties or failure to obtain the required approvals regarding the MOU criteria.

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS

Set forth below are significant updates and/or changes in the Corporation's business that occurred from the publication date of the of the Corporation's Annual Report for 2016 on March 29, 2017 and up to the publication date of this report[15]:

To Section 1 of Paragraph A of the Periodic Report – Description of general developments of the Corporation's business – transactions of the Corporation and description of its business development and to Section 9 of Paragraph A of the Periodic Report – Description of the Corporation's business based on activity areas – Oil Refineries Ltd. (ORL)

Regarding sale of 128 million shares of ORL by the Corporation in exchange for a gross consideration of about NIS 200 million – see the Corporation's Immediate Report dated June 19, 2017 (Ref. No. 2017-01-062472).

To Section 8 of Paragraph A of the Periodic Report – Description of the Corporation's business based on activity areas – Israel Chemicals Ltd. (hereinafter – "ICL")

A. Regarding a claim filed in the United States against a subsidiary of ICL alleging breach of a supply agreement from 2003 – see the Corporation's Immediate Report dated April 3, 2017 (Ref. No. 2017-01-036315).

B. Regarding negotiations being carried on for sale of ICL's share in IDE Technologies (50%) – see the Corporation's Immediate Report dated April 25, 2017 (Ref. No. 2017-01-042738).

C. For details regarding an independent committee appointed by ICL in connection with a request for certification of a derivative claim with respect to annual bonuses paid to officers of ICL in the years 2014–2015 – see the Corporation's Immediate Report dated April 27, 2017 (Ref. No. 2017-01-043476).

D. For details regarding a claim filed by a subsidiary of ICL against Ethiopia in connection with violations of the Agreement for Encouragement and Reciprocal Protection of Investments treaty – see the Corporation's Immediate Report dated May 11, 2017 (Ref. No. 2017-01-047580).

E. For the financial statements of ICL as at March 31, 2017 and a slide presentation for investors published by ICL further thereto – see the Corporation's Immediate Reports dated May 11, 2017 (Ref. Nos. 2017-01-047574 and 2017-01-047577, respectively).

F. For a report regarding the Report of the Board of Directors of ICL for the first quarter of 2017 – see the Corporation's Immediate Report dated May 14, 2017 (Ref. No. 2017-01-048363).

G. Regarding sale of ICL's share in IDE Technologies (50%) – see the Corporation's Immediate Report dated June 8, 2017 (Ref. No. 2017-01-058380).

H. Regarding a conference for investors held by ICL for the Israel Capital Market and the representations made at the said conference – see the Corporation's Immediate Report dated June 22, 2017 (Ref. No. 2017-01-064203).

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[15] Update of the Corporation's business is prepared in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes significant changes or new developments in the Corporation's business that occurred from the publication date of the Corporation's Annual Report for 2016 and up to the publication date of this report. Unless it is expressly determined otherwise or where the context of the matters requires otherwise, all the terms and expressions used in this report shall have the meaning existing for them in the Corporation's Periodic Report for 2016, which was published on March 29, 2017 (Ref. No. 2017-01-032967) (hereinafter – "the Periodic Report"). Every reference to an Immediate Report includes as part of this document all the information included in the Immediate Report as stated.

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS (Cont.)

To Section 8 of Paragraph A of the Periodic Report – Description of the Corporation's business based on activity areas – Israel Chemicals Ltd. (hereinafter – "ICL") (Cont.)

I. On July 2, 2017, the Corporation published ICL's notification regarding a partial collapse of a dyke in a plant of a subsidiary of ICL. For details regarding collapse of the dyke, the cooperation between ICL and the government and the Israeli authorities in order to restore the damages caused by collapse of the dyke, and two requests for certification of class actions claims filed against ICL's subsidiary alleging contamination as a result of collapse of the dyke – see the Corporation's Immediate Reports dated July 2, 2017 (Ref. No. 2017-01-068190), July 5, 2017 (Ref. No. 2017-01-069870) and July 10, 2017 (Ref. No. 2017-01-072045).

J. Regarding ICL's notification with respect to negotiations with Energean Israel Limited to formulate a non-binding memorandum of understanding relating to supply of natural gas – see the Corporation's Immediate Report dated July 16, 2017 (Ref. No. 2017-01-073692).

K. Regarding the signing by ICL of supply contracts with its customers in China for supply of potash covering a quantity of 925,000 tons – see the Corporation's Immediate Report dated July 30, 2017 (Ref. No. 2017-01-077967).

L. Regarding ICL's financial statements as at June 30, 2017 and the presentation to investors published by ICL as a result thereof – see the Corporation's Immediate Reports dated August 3, 2017 (Ref. Nos. 2017-01-079560 and 2017-01-079563).

M. Regarding ICL's notification of signing a memorandum of understandings with Energean in connection with supply of natural gas – see the Corporation's Immediate Report dated August 9, 2017 (Ref. No. 2017-01-068548).

N. Regarding the signing by ICL of supply contracts to its customers in India for supply of potash in the aggregate amount of 750,000 tons, including options – see the Corporation's Immediate Report dated August 13, 2017 (Ref. No. 2017-01-069610).

For additional details regarding ICL's business developments – see the Report of the Corporation's Board of Directors as at June 30, 2017.

To Section 9 of Paragraph A of the Periodic Report – Description of the Corporation's business based on activity areas – Oil Refineries Ltd. (hereinafter – "ORL")

Regarding ORL's notification with respect to negotiations with Energean Israel Limited to formulate a non-binding memorandum of understanding relating to supply of natural gas – see the Corporation's Immediate Report dated July 16, 2017 (Ref. No. 2017-01-073692), and regarding ORL's notification with respect to signing a memorandum of understandings in connection with supply of natural gas – see the Corporation's Immediate Report dated August 9, 2017 (Ref. No. 2017-01-068548).

For additional details regarding ORL's business developments – see the Report of the Corporation's Board of Directors as at June 30, 2017.

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS (Cont.)

To Section 10 of Paragraph A of the Periodic Report – Human Resources

A. For details regarding Dr. Joshua Rosensweig, who commenced serving as an external director of the Corporation on May 8, 2017 – see the Corporation's Immediate Reports dated March 29, 2017 and May 9, 2017 (Ref. Nos. 2017-01-032589, 2017-01-046698, 2017-01-046701 and 2017-01-046776).

B. Regarding conclusion of the service of Mr. Michael Bricker as an independent director of the Corporation – see the Corporation's Immediate Report dated May 9, 2017 (Ref. No. 2017-01-046713).

C. The Remunerations Committee and the Board of Directors approved, at their meetings held on May 22, 2017 and May 24, 2017, respectively, in accordance with the Corporation's remuneration policy, granting of bonuses in respect of 2016, in the amount of NIS 180 thousand, to each of the two Deputy CEOs serving in the Corporation.

To Section 12 of Paragraph D of the Periodic Report – Financing

A. For reports of the trustees of the Corporation's debentures – see the Corporation's Immediate Reports dated June 19, 2017 (Ref. Nos. 2017-01-06267 and 2017-01-062688) and June 20, 2017 (Ref. Nos. 2017-01-063042 and 2017-01-063048).

B. For additional details regarding closing of the financial transaction with respect to shares of ICL, as stated in Sections 12.2 and 15.2 of the Periodic Report – see Note 5.A.2 to the Corporation's consolidated interim financial statements as at June 30, 2017.

To Section 16 of paragraph D of the Periodic Report – Legal Proceedings

Regarding certification of a request for filing a derivate claim against the Corporation's controlling shareholders and officers, regarding bonuses paid to the officers by the controlling shareholders in respect of completion of the distribution transaction that is the subject of the Corporation's Transaction Report dated December 23, 2014 (Ref. No. 2014-01-229086) – see the Corporation's Immediate Report dated May 1, 2017 (Ref. No. 2017-01-044589).

For details regarding legal proceedings to which the Corporation is a party – see Note 6.A to the Corporation's consolidated interim financial statements as at June 30, 2017.

To Section 24A of Part D of the Periodic Report – Additional details regarding the Corporation

For details regarding holdings of interested parties in the Corporation – see the Corporation's Immediate Reports dated April 9, 2017 (Ref. No. 2017-01-039108), May 28, 2017 (Ref. Nos. 2017-01-054075 and 2017-01-054084) and July 18, 2017 (Ref. Nos. 2017-01-074460 and 2017-01-074466).

To Section 24A of Part D of the Periodic Report – Additional details regarding the Corporation

For details regarding changes in the Corporation's capital subsequent to the publication date of the Periodic Report – see the Corporation's Immediate Report dated May 28, 2017 (Ref. No. 2017-01-054135).

To Section 24B of Part D of the Periodic Report – Additional details regarding the Corporation

For details regarding changes in the Corporation's shareholders register subsequent to the publication date of the Periodic Report – see the Corporation's Immediate Reports dated May 28, 2017 (Ref. No. 2017-01-054135) and July 12, 2017 (Ref. No. 2017-01-072762).

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS (Cont.)

To Section 26 of Part D of the Periodic Report – Additional details regarding the Corporation

For details regarding Dr. Joshua Rosensweig, who commenced serving as an external director of the Corporation on May 8, 2017 – see the Corporation's Immediate Reports dated March 29, 2017 and May 9, 2017 (Ref. Nos. 2017-01-032589, 2017-01-046698, 2017-01-046701 and 2017-01-046776).

To Section 29B of Part D of the Periodic Report – Additional details regarding the Corporation

On May 8, 2017, An Extraordinary General Meeting of the Corporation's shareholders was held whereat the appointment of Dr. Joshua Rosensweig as an external director of the Corporation was approved, commencing from May 8, 2017. For additional details regarding the General Meeting and its results – see the Corporation's Immediate Reports dated March 29, 2017 and May 9, 2017 (Ref. Nos. 2017-01-032589 and 2017-01-046698).

ADDITIONAL INFORMATION INCLUDED IN THE AUDITORS' REVIEW REPORT

Set forth below is a quote from the Auditors' Review Report regarding a direction of attention:

Without qualifying our above-mentioned conclusion, we direct attention to that stated in Note 6.C.3–5 regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly, no provision in respect thereof has been included in the financial statements.

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.

Aviad Kaufman	**Avisar Paz**
Chairman of the Board of Directors	**CEO**

August 16, 2017

Israel Corporation Ltd.

Condensed Consolidated Interim Financial Statements

As at June 30, 2017

(Unaudited)

In Millions of U.S. Dollars

Israel Corporation Ltd.
Condensed Consolidated Interim Financial Statements
At June 30, 2017
Unaudited

Contents

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
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Review Report of the Independent Auditors to the Shareholders of Israel Corporation Ltd.

We have reviewed the accompanying financial information of Israel Corporation Ltd. and its subsidiaries including the condensed consolidated interim statement of financial position as at June 30, 2017 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month and three-month periods then ended. The Board of Directors and Management are responsible for preparation and presentation of the financial information for this interim period in accordance with IAS 34 "*Financial Reporting for Interim Periods*", and are also responsible for preparation of financial information for these interim periods in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the interim financial information for this interim period based on our review.

Scope of the Review

We conducted our review in accordance with Review Standard 1, "Review of Interim Financial Information for Interim Periods Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of financial information for interim periods consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the above-mentioned financial information is not prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

In addition to that mentioned in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the accompanying attached financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above-mentioned conclusion, we direct attention to that stated in Note 6.C.3–5 regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly, no provision in respect thereof has been included in the financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 16, 2017

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At June 30		At December 31
	2017	**2016**	**2016**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**190**	279	211
Short-term investments and deposits	**626**	803	651
Trade receivables	**930**	980	966
Inventories	**1,276**	1,361	1,267
Assets held for sale	**122**	10	–
Other receivables and debit balances, including derivative instruments	**258**	338	251
Total current assets	**3,402**	3,771	3,346
Non-Current Assets			
Investments in associated companies accounted for using the equity method of accounting	**528**	703	714
Financial assets available for sale	**208**	255	253
Loan to related company	**231**	215	223
Derivative instruments	**124**	73	59
Deferred taxes, net	**148**	150	150
Property, plant and equipment	**4,469**	4,352	4,363
Intangible assets	**1,044**	1,468	1,026
Other non-current assets	**302**	298	289
Total non-current assets	**7,054**	7,514	7,077
Total assets	**10,456**	11,285	10,423

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Financial Position

	At June 30		At December 31
	2017	2016	2016
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Liabilities			
Credit from banks and others	**983**	841	946
Trade payables	**717**	753	644
Provisions	**81**	48	83
Other payables and credit balances, including derivative instruments	**672**	698	760
Total current liabilities	**2,453**	2,340	2,433
Non-Current Liabilities			
Debentures and long-term loans	**4,500**	5,112	4,633
Derivative instruments and other non-current liabilities	**10**	50	14
Provisions	**179**	128	185
Liabilities for deferred taxes	**319**	283	319
Long-term provisions for employee benefits	**641**	585	578
Total non-current liabilities	**5,649**	6,158	5,729
Total liabilities	**8,102**	8,498	8,162
Equity			
Share capital and premium	**326**	321	322
Capital reserves	**(152)**	(137)	(168)
Capital reserve in respect of transactions with controlling shareholder	**190**	190	190
Retained earnings	**480**	653	460
Total equity attributable to the owners of the Corporation	**844**	1,027	804
Holders of non-controlling interests	**1,510**	1,760	1,457
Total equity	**2,354**	2,787	2,261
Total liabilities and equity	**10,456**	11,285	10,423

Aviad Kaufman	Avisar Paz	Sagi Kabla
Chairman of the Board of Directors	CEO	CFO

Approval date of the financial statements: August 16, 2017

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Income

	For the Six Months Ended June 30		For the Three Months Ended June 30		Year Ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Sales	**2,617**	2,642	**1,322**	1,377	5,363
Cost of sales	**1,847**	1,860	**908**	960	3,705
Gross profit	**770**	782	**414**	417	1,658
Research and development expenses	**28**	36	**13**	19	73
Selling, transportation and marketing expenses	**363**	334	**183**	179	722
Administrative and general expenses	**133**	165	**65**	83	329
Other expenses	**40**	26	**34**	16	623
Other income	**(26)**	(36)	**(7)**	(40)	(71)
Operating income	**232**	257	**126**	160	(18)
Financing expenses	**279**	128	**137**	94	271
Financing income	**(169)**	(12)	**(61)**	(37)	(41)
Financing expenses, net	**110**	116	**76**	57	230
Share in income of associated companies accounted for using the equity method of accounting	**33**	51	**27**	37	70
Income (loss) before taxes on income	**155**	192	**77**	140	(178)
Taxes on income	**87**	23	**44**	7	50
Income (loss) for the period	**68**	169	**33**	133	(228)
Attributable to:					
Owners of the Corporation	**12**	90	**5**	81	(116)
Holders of non-controlling interests	**56**	79	**28**	52	(112)
Income (loss) for the period	**68**	169	**33**	133	(228)
Income (loss) per share attributable to the owners of the Corporation: (in dollars)					
Basic and diluted income (loss) per share	**1.53**	11.79	**0.63**	10.51	(15.34)

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Comprehensive Income

	For the Six Months Ended June 30		For the Three Months Ended June 30		Year Ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Income (loss) for the period	**68**	169	**33**	133	(228)
Components of other comprehensive income (loss) that will be recognized in future periods in the statement of income					
Foreign currency translation differences in respect of foreign activities	**90**	–	**60**	(48)	(90)
Net change in fair value of cash flow hedges transferred to the statement of income	**(17)**	(1)	**(8)**	3	(1)
Group's share in other comprehensive income (loss) of companies accounted for using the equity method of accounting	**(4)**	1	**(2)**	–	1
Effective portion of the change in fair value of cash flow hedges	**18**	(2)	**9**	(5)	–
Net change in fair value of financial assets available for sale	**(51)**	8	**(36)**	(5)	17
Taxes on income in respect of other components of other comprehensive income	**5**	(2)	**1**	1	(2)
Total	**41**	4	**24**	(54)	(75)
Components of other comprehensive income (loss) that will not be recognized in future periods in the statement of income					
Actuarial losses from defined benefit plans, net	**(9)**	(46)	**(5)**	(27)	(48)
Taxes on income in respect of other components of other comprehensive income	**2**	9	**1**	3	10
Total	**(7)**	(37)	**(4)**	(24)	(38)
Other comprehensive income (loss) for the period, net of tax	**34**	(33)	**20**	(78)	(113)
Comprehensive income (loss) for the period	**102**	136	**53**	55	(341)
Attributable to:					
Owners of the Corporation	**27**	73	**12**	42	(165)
Holders of rights non-controlling interests	**75**	63	**41**	13	(176)
Comprehensive income (loss) for the period	**102**	136	**53**	55	(341)

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to the owners of the Corporation						Non-controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Unaudited)							
	$ millions							
For the six months ended June 30, 2017								
Balance at January 1, 2017 (audited)	**322**	**(231)**	**63**	**190**	**460**	**804**	**1,457**	**2,261**
Share-based payments in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**11**	**11**
Expiration of options granted to Corporation employees	**4**	**–**	**(4)**	**–**	**–**	**–**	**–**	**–**
Dividend to holders of non-controlling interests in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(45)**	**(45)**
Sale of shares of subsidiary while retaining control	**–**	**2**	**–**	**–**	**11**	**13**	**12**	**25**
Income for the period	**–**	**–**	**–**	**–**	**12**	**12**	**56**	**68**
Other comprehensive income (loss) for the period, net of tax	**–**	**44**	**(26)**	**–**	**(3)**	**15**	**19**	**34**
Balance at June 30, 2017	**326**	**(185)**	**33**	**190**	**480**	**844**	**1,510**	**2,354**
For the six months ended June 30, 2016								
Balance at January 1, 2016 (audited)	318	(196)	61	190	588	961	1,761	2,722
Share-based payments in a subsidiary	–	–	–	–	–	–	8	8
Expiration of options granted to Corporation employees	3	–	(3)	–	–	–	–	–
Share-based payments in the Corporation	–	–	*–	–	–	*–	–	*–
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(52)	(52)
Non-controlling interests in business combinations from prior periods	–	–	–	–	–	–	(12)	(12)
Change in equity of investee companies accounted for using the equity method of accounting	–	–	–	–	(7)	(7)	(8)	(15)
Income for the period	–	–	–	–	90	90	79	169
Other comprehensive income (loss) for the period, net of tax	–	2	(1)	–	(18)	(17)	(16)	(33)
Balance at June 30, 2016	321	(194)	57	190	653	1,027	1,760	2,787

* Less than $1 million.

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to the owners of the Corporation						Non-controlling interests	Total equity
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Unaudited)							
	$ millions							
For the three months ended June 30, 2017								
Balance at April 1, 2017 (unaudited)	**323**	**(214)**	**55**	**190**	**472**	**826**	**1,472**	**2,298**
Share-based payments in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**9**	**9**
Expiration of options granted to Corporation employees	**3**	**–**	**(3)**	**–**	**–**	**–**	**–**	**–**
Dividend to holders of non-controlling interests in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(16)**	**(16)**
Sale of shares of subsidiary while retaining control	**–**	**1**	**–**	**–**	**5**	**6**	**4**	**10**
Income for the period	**–**	**–**	**–**	**–**	**5**	**5**	**28**	**33**
Other comprehensive income (loss) for the period, net of tax	**–**	**28**	**(19)**	**–**	**(2)**	**7**	**13**	**20**
Balance at June 30, 2017	**326**	**(185)**	**33**	**190**	**480**	**844**	**1,510**	**2,354**
For the three months ended June 30, 2016								
Balance at April 1, 2016 (unaudited)	318	(172)	65	190	584	985	1,774	2,759
Share-based payments in a subsidiary	–	–	–	–	–	–	3	3
Expiration of options granted to Corporation employees	3	–	(3)	–	–	–	–	–
Dividend to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(18)	(18)
Non-controlling interests in business combinations from prior periods	–	–	–	–	–	–	(12)	(12)
Income for the period	–	–	–	–	81	81	52	133
Other comprehensive loss for the period, net of tax	–	(22)	(5)	–	(12)	(39)	(39)	(78)
Balance at June 30, 2016	321	(194)	57	190	653	1,027	1,760	2,787

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Changes in Equity

	Attributable to the owners of the Corporation						Non-controlling interests	Total capital
	Share capital and premium	Translation reserve for foreign activities	Capital reserves	Capital reserve for transactions with controlling shareholder	Retained earnings	Total		
	(Audited)							
	$ millions							
For the year ended December 31, 2016								
Balance at January 1, 2016	318	(196)	61	190	588	961	1,761	2,722
Share-based payments in a subsidiary	–	–	–	–	–	–	15	15
Expiration of options granted to employees of a subsidiary	–	–	–	–	12	12	(12)	–
Expiration of options granted to Corporation employees	4	–	(4)	–	–	–	–	–
Share-based payments in the Corporation	–	–	*–	–	–	*–	–	*–
Dividends to holders of non-controlling interests in a subsidiary	–	–	–	–	–	–	(116)	(116)
Non-controlling interests in respect of business combinations in prior periods	–	–	–	–	–	–	(12)	(12)
Sale of shares of a subsidiary while retaining control	–	1	–	–	2	3	5	8
Change in equity of equity-accounted investee companies	–	–	–	–	(7)	(7)	(8)	(15)
Loss for the year	–	–	–	–	(116)	(116)	(112)	(228)
Other comprehensive loss for the year, net of tax	–	(36)	6	–	(19)	(49)	(64)	(113)
Balance at December 31, 2016	322	(231)	63	190	460	804	1,457	2,261

* Less than $1 million.

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the Six Months Ended June 30		For the Three Months Ended June 30		Year Ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from operating activities					
Income (loss) for the period	**68**	169	**33**	133	(228)
Adjustments:					
Depreciation and amortization	**192**	199	**96**	99	409
Financing expenses, net	**144**	88	**67**	25	174
Share in income of associated companies accounted for using the equity method of accounting	**(33)**	(51)	**(27)**	(37)	(70)
Other capital losses (gains), net	**(12)**	2	**(3)**	1	433
Share-based payment transactions	**11**	8	**9**	3	15
Gain from re-measurement to fair value of collar options	**20**	(6)	**14**	(13)	5
Taxes on income	**87**	23	**44**	7	50
	477	432	**233**	218	788
Change in inventories	**24**	–	**(4)**	57	70
Change in trade and other receivables	**56**	49	**79**	(68)	150
Change in trade and other payables	**(135)**	18	**(81)**	34	50
Change in provisions and employee benefits	**12**	37	**7**	22	96
	434	536	**234**	263	1,154
Income taxes received (paid), net	**(41)**	162	**(19)**	173	130
Dividends received	**35**	4	**–**	1	12
Net cash provided by operating activities	**428**	702	**215**	437	1,296
Cash flows from investing activities					
Investments in securities available for sale	**–**	(250)	**–**	–	(250)
Investments in long-term deposits	**(38)**	–	**(28)**	–	–
Short-term deposits and loans, net	**108**	(530)	**142**	(403)	(387)
Proceeds from sale of subsidiaries	**6**	17	**6**	–	17
Net proceeds from sale of shares of company accounted for using the equity method of accounting	**56**	–	**56**	–	–
Acquisition of property, plant and equipment and intangible assets	**(219)**	(341)	**(113)**	(154)	(632)
Provision of long-term loans to related company	**–**	(90)	**–**	(50)	(90)
Interest received	**2**	1	**1**	1	5
Other	**12**	(1)	**–**	3	1
Receipts from (payments for) derivative transactions not used for hedging, net	**43**	25	**11**	17	(8)
Net cash provided by (used in) investing activities	**(30)**	(1,169)	**75**	(586)	(1,344)

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

Israel Corporation Ltd.
Condensed Consolidated Interim Statements of Cash Flows

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from financing activities					
Dividend paid to holders of non-controlling interests	**(77)**	(52)	**(46)**	(52)	(87)
Receipt of long-term loans and issuance of debentures*	**853**	1,380	**225**	930	1,693
Repayment of long-term loans and debentures	**(1,047)**	(933)	**(400)**	(576)	(1,691)
Short-term credit from banks and others, net	**(34)**	(84)	**2**	(91)	14
Receipts from (payments for) derivative transactions used for hedging, net	**1**	(1)	**–**	–	(1)
Interest paid*	**(113)**	(100)	**(52)**	(46)	(206)
Net cash provided by (used in) financing activities	**(417)**	210	**(271)**	165	(278)
Increase (decrease) in cash and cash equivalents	**(19)**	(257)	**19**	16	(326)
Cash and cash equivalents at beginning of the period	**211**	537	**175**	266	537
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**(2)**	(1)	**(4)**	(3)	–
Cash and cash equivalents at the end of the period	**190**	279	**190**	279	211

* As at December 31, 2016, payments of principal and interest in respect of debentures, in the amount of about $60 million, were postponed in accordance with the trust certificates to January 1, 2017, since the contractual repayment date was not a business day.

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

Note 1 – 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. The consolidated financial statements include those of the Corporation, its subsidiaries (hereinafter – "the Group") along with the Group's rights in associated companies.

On January 7, 2015, the Corporation completed the split-up transaction (hereinafter – "the Transaction" or "the Transaction for Change in the Structure of the Corporation's Holdings"), further to the approval thereof on December 31, 2014 by the General Meeting of the Corporation's Shareholders.

For additional details and more information relating to the Transaction for Change in the Structure of the Corporation's Holdings – see Note 5 to the annual financial statements.

Commencing from the completion date of the Transaction, the Corporation is acting to advance and develop the Group's existing businesses in and outside of Israel. The Corporation operates, by means of two main investee companies, Israel Chemicals Ltd. (hereinafter – "ICL") and Oil Refineries Ltd. (hereinafter – "ORL").

The Corporation is involved in management of the Group companies through directors serving on the Boards of Directors of the Corporation's and related companies.

Note 2 – Basis of Preparation of the Financial Statements

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

The condensed consolidated interim financial statements were prepared in accordance with IAS 34, "Financial Reporting for Interim Periods" and do not include all of the information required in complete, annual financial statements. These statements should be read together with the financial statements for the year ended December 31, 2016 (hereinafter – "the Annual Financial Statements"). In addition, these financial statements were prepared in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports) 1970.

The condensed, consolidated, interim financial statements were approved for publication by the Corporation's Board of Directors on August 16, 2017.

B. Use of estimates and judgment

In preparation of the condensed consolidated interim 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.

Management's judgment, at the time of implementing the Group's accounting policies and the main assumptions used in the estimates involving uncertainty, are consistent with those used in preparation of the Annual Financial Statements.

Note 3 – Significant Accounting Policies

The Group's accounting policies in these condensed consolidated interim financial statements are the same accounting policies applied in the Annual Financial Statements.

Note 4 – Information on Activity Segments

A. General

Breakdown of the Group in to reportable operating segments in accordance with the relevant standard derives from Management's reports, which are based on the activity areas of the companies ICL and ORL, as detailed below:

1) **Israel Chemicals Ltd.** – ICL is a leading multi-national company engaged in the area of specialty minerals that operates a unique, integrated business model. ICL competitively extracts raw materials and utilizes sophisticated processing and product formulation technologies to add value to customers in three attractive end-markets: agriculture, food and engineered materials. The Company operates via two segments: (1) Essential Minerals, which extracts the raw materials for ICL and markets them to the potash, phosphate and magnesium markets; and (2) Specialty Solutions, which primarily produces bromine from the Dead Sea and manufactures and markets bromine and phosphorus compounds for the electronics, construction, oil & gas drillings and automotive industries; downstream products, mainly a broad range of acids, specialty phosphates and specialty minerals used as food additives and industrial intermediates; specialty fertilizers, liquid fertilizers and soluble fertilizers and slow-release fertilizers and controlled-release fertilizers; creative food ingredients and phosphate additives, which provide texture and stability solutions for the food markets.

   ICL's principal assets include: one of the world's richest, longest-life and lowest-cost sources of potash and bromine (the Dead Sea), potash mines in the United Kingdom and Spain, bromine compounds processing facilities located in Israel, the Netherlands and China, a unique integrated phosphate value chain, beginning with phosphate rock mines in the Negev Desert in Israel and running up to production facilities of value-added products in Israel, Europe, the United States, Brazil and China, an extensive global logistics and distribution networks with operations in over 30 countries. The Company has a focused and highly-experienced staff that develops production processes, new applications, formulations and products for its three key end markets – agriculture, food and engineered materials.

   ICL operates in the markets for potash, bromine, pure phosphoric acid, special phosphates, bromine-based and phosphorus-based flame retardants and chemicals for the prevention of the spreading of fires. ICL's products are used mainly in the areas of agriculture, electronics, food, fuel and gas exploration, water purification and desalination, detergents, cosmetics, medicines, vehicles and others.

   ICL's overseas operations consist mainly of the production of products that are integrated with or based on the activities of the companies in Israel or in closely related fields. About 95% of the Group's products are sold to customers outside of Israel.

Note 4 – Information on Activity Segments (Cont.)

A. General (Cont.)

2) **Oil Refineries Ltd.** (associated company) – ORL and its subsidiaries are industrial companies operating in Israel and are engaged, mainly, in production of fuel products, raw materials for the petrochemical industry and materials for the plastics industry, oils, wax and accompanying products. The factories of ORL's subsidiaries are integrated in ORL's facilities. In addition, ORL provides power and water (mainly electricity and steam) services to a number of industries located near the refinery in Haifa.

ORL is applying, by means of early adoption, the provisions of IFRS 9 (2013). Since Israel Corporation is not applying the said Standards by means of early adoption, the Corporation makes adjustments to ORL's statements in its financial statements. The data included in this note includes the impacts of the early adoption of these Standards.

B. Evaluation of the segment's performance as part of the management reports is based on the EBITDA data (after certain adjustments made by the companies).

Adjustments in ORL – recording method deriving from the International Financial Reporting Standards, timing differences of purchase and sale of unhedged inventories, and adjustment of hedged inventories to market value.

Adjustments in ICL – net income attributable to the Corporation's shareholders less depreciation and amortization, net financing expenses, taxes on income and unusual expenses.

Note 4 – Information on Activity Segments (Cont.)

B. (Cont.)

Information regarding activities of the reportable segments is set forth in the following tables.

C. Information relating to Business Segments

	ICL	ORL	Adjustments (1)	Total
	Unaudited			
	$ millions			
For the six months ended June 30, 2017				
Sales to external customers	2,617	2,583	(2,583)	2,617
EBITDA income (2)	469	231	(233)	467
Depreciation and amortization	189	78	(75)	192
Financing income	(111)	(8)	(50)	(169)
Financing expenses	174	91	14	279
Share in income of equity-accounted investees	(2)	–	(31)	(33)
Extraordinary or non-recurring expenses (income) and adjustments	20	(55)	78	43
	270	106	(64)	312
Income before taxes	199	125	(169)	155
Taxes on income	83	33	(29)	87
Income for the period	116	92	(140)	68

(1) Most of the adjustments stem from the ORL segment.
(2) See Section B., above.

Note 4 – Information on Activity Segments (Cont.)

C. Information relating to Business Segments (Cont.)

	ICL	ORL	Adjustments (1)	Total
	Unaudited			
	$ millions			
For the six months ended June 30, 2016				
Sales to external customers	2,642	2,057	(2,057)	2,642
EBITDA income (2)	501	236	(240)	497
Depreciation and amortization	198	65	(64)	199
Financing income	(12)	(11)	11	(12)
Financing expenses	80	73	(25)	128
Share in income of equity-accounted investees	(9)	–	(42)	(51)
Extraordinary or non-recurring expenses (income) and adjustments	47	(29)	23	41
	304	98	(97)	305
Income before taxes	197	138	(143)	192
Taxes on income	27	23	(27)	23
Income for the period	170	115	(116)	169

(1) Most of the adjustments stem from the ORL segment.
(2) See Section B., above.

Note 4 – Information on Activity Segments (Cont.)

C. Information relating to Business Segments (Cont.)

	ICL	ORL	Adjustments (1)	Total
	Unaudited			
	$ millions			
For the three months ended June 30, 2017				
Sales to external customers	1,322	1,378	(1,378)	1,322
EBITDA income (2)	251	157	(157)	251
Depreciation and amortization	95	42	(41)	96
Financing income	(33)	(7)	(21)	(61)
Financing expenses	82	43	12	137
Share in income of equity-accounted investees	(1)	(1)	(25)	(27)
Extraordinary or non-recurring expenses (income) and adjustments	12	(12)	29	29
	155	65	(46)	174
Income before taxes	96	92	(111)	77
Taxes on income	41	19	(16)	44
Income for the period	55	73	(95)	33

(1) Most of the adjustments stem from the ORL segment, which is an associated company.
(2) See Section B., above.

Note 4 – Information on Activity Segments (Cont.)

C. Information relating to Business Segments (Cont.)

	ICL	ORL	Adjustments (1)	Total
	Unaudited			
	$ millions			
For the three months ended June 30, 2016				
Sales to external customers	1,377	1,132	(1,132)	1,377
EBITDA income (2)	278	113	(115)	276
Depreciation and amortization	99	33	(33)	99
Financing income	(17)	10	(30)	(37)
Financing expenses	57	16	21	94
Share in income of equity-accounted investees	(7)	–	(30)	(37)
Extraordinary or non-recurring expenses (income) and adjustments	30	(56)	43	17
	162	3	(29)	136
Income before taxes	116	110	(86)	140
Taxes on income	5	23	(21)	7
Income for the period	111	87	(65)	133

(1) Most of the adjustments stem from the ORL segment, which is an associated company.
(2) See Section B., above.

Note 4 – Information on Activity Segments (Cont.)

C. Information relating to Business Segments (Cont.)

	ICL	ORL	Adjustments (1)	Total
	(Audited)			
	$ millions			
2016				
Sales to external customers	5,363	4,321	(4,321)	5,363
EBITDA for the year (2)	1,051	427	(434)	1,044
Depreciation and amortization	401	141	(138)	404
Financing income	(25)	(2)	(14)	(41)
Financing expenses	157	134	(20)	271
Share in income of associated companies	(18)	–	(52)	(70)
Extraordinary or non-recurring expenses (income) and adjustments	653	(44)	49	658
	1,168	229	(175)	1,222
Income (loss) before taxes	(117)	198	(259)	(178)
Taxes on income	55	40	(45)	50
Income (loss) for the year	(172)	158	(214)	(228)

(1) Most of the adjustments stem from the ORL segment, which is an associated company.
(2) See Section B above.

Note 5 – Additional Information

A. The Corporation

1. On January 5, 2017, the Corporation issued, by means of expansion of the debentures (Series 11), NIS 790,170,000 par value debentures (Series 11). The proceeds from the issuance, net of the issuance expenses, amounted to about NIS 804 million (about $208 million – value on the transaction date). Standard & Poor's Maalot gave notice of provision of a rating of ilA for the above-mentioned expansion debentures (the Corporation was rated ilA/stable). For additional details – see Note 16.E.1(a) to the annual consolidated financial statements.

2. Further to that stated in Note 10.C to the annual financial statements, the Corporation continued making a "physical settlement" pursuant to the terms of the Financial Transaction, and as a result, during the period of the report, the number of shares held by the Corporation declined by a total of about 6,246 thousand shares, and as at June 30, 2017, the rate of the Corporation's holdings in ICL's issued share capital was about 48.2%, compared with 48.65% at the beginning of the year. As at the date of the report, the balance of the remaining shares in the financial transaction is 27.6 million shares and the balance of the period of the financial transaction is 2.3 years. As a result of the decline in the rate of holdings, the Corporation recognized an increase in the non-controlling interests, in the amount of about $12 million, and at the same time an increase in the retained earnings, in the amount of about $11 million, stemming from the difference between the "physical settlement" plus closing out of the derivative that stood against it, and the increase in the non-controlling interests. Subsequent to the date of the report, on August 16, 2017, the financial closing was completed with respect to an additional quantity of about 1,715 thousand shares of ICL through a "physical settlement", and the rate of the Corporation's holdings in ICL's issued share capital as at the aforesaid date was about 48.03%.

3. Further to that stated in Note 16.E to the annual financial statements, in May 2017, the Corporation signed an agreement with a consortium of banks, as noted in the Note, whereby the Corporation made early repayment of about $50 million out of the balance of the loan and signed an extension of the repayment date of the balance of the loan, in the amount of about $193 million, for a period of three years. In addition, deposits were released that had been made as collaterals in favor of the said loans, in the amount of about $60 million. The Corporation has no deposits serving as collateral.

4. On June 19, 2017, the Corporation sold 128 million shares of Oil Refineries Ltd. (hereinafter – "ORL") it held, constituting about 4% of ORL's issued share capital, on a fully-diluted basis. The proceeds from the sale, net of selling expenses, amounted to about $56 million (about NIS 199 million). After the said sale, the Corporation holds about 33.08% of ORL's share capital, compared with about 37.08% prior to the sale, and together with partners it controls ORL. As a result of the sale, the Corporation realized a capital loss of about $3 million, which was recorded in the statement of income in the "other expenses" category.

Note 5 – Additional Information (Cont.)

B. Israel Chemicals Ltd. (hereinafter – "ICL")

1. Non-marketable options

Grant date	Employees entitled	Number of instruments (in thousands)	Issuance details	Instrument terms	Vesting conditions	Expiration date
June 20, 2017. For the Chairman of the BOD of ICL – August 2, 2017 the date of the approval of the ICL's General Meeting.	Officers and senior employees of ICL	6,966	An issuance of non-marketable and non-transferrable options, for no consideration, under the 2014 Equity Compensation Plan (amended) to 498 ICL officers and senior employees in Israel and overseas.	Upon exercise, each option may be converted into one ordinary share of NIS 1 par value of ICL.	3 equal tranches: (1) one third at the end of 12 months after the grant date (2) one third at the end of 24 months after the grant date (3) one third at the end of 36 months after the grant date.	7 years from the grant date.
	Chairman of ICL's Board of Directors	165				

Additional Information	June 2017 Options Grant
Share price (in $)	4.49
CPI-linked exercise price (in $)	4.29
Expected volatility	31.91%
Expected life of options (in years)	7
Risk-free interest rate	0.38%
Total fair value (in $ millions)	11
Dividend – exercise price	Reduced on the ex-dividend date by the amount of the dividend per share

Note 5 – Additional Information (Cont.)

B. Israel Chemicals Ltd. (hereinafter – "ICL") (Cont.)

1. Non-marketable options (Cont.)

The options issued to the employees of ICL in Israel are covered by the provisions of Section 102 of the Israeli Income Tax Ordinance. The issuance will be performed through a trustee under the Capital Gains Track. The fair value of the options was estimated using the Black& Scholes model for pricing options. The exercise price is linked to the CPI that is known as of the date of payment, which is the exercise date. In a case of distribution of a dividend by the Company, the exercise price is reduced on the "ex dividend" date, by the amount of the dividend per share, based on the amount thereof in NIS on the effective date. The expected volatility was determined on the basis of the historical volatility of ICL's share prices. The expected life of the options was determined on the basis of Management's estimate of the period the employees will hold the options, taking into consideration their position with ICL and ICL's past experience regarding the turnover of employees. The risk-free interest rate was determined on the basis of the yield to maturity of shekel-denominated Israeli Government debentures, with a remaining life equal to the anticipated life of the options.

The cost of the embedded benefits of the said plans will be recognized in the income statements over the vesting period of each tranche taking into account also ICL's policy relating "Rule75" (accelerated the vesting period for employees where their age plus their years of employment exceed 75).

2. Restricted shares

<table>
<tr><th>Grant date</th><th>Employees entitled</th><th>Number of instruments (in thousands)</th><th>Additional information</th><th>Instrument terms</th><th>Vesting conditions</th><th>Fair value on the grant date (in $ millions)</th></tr>
<tr><td rowspan="2">June 20, 2017. For the Chairman of the BOD of ICL – August 2, 2017 the date of the approval of the ICL's General Meeting.</td><td>Officers and senior employees of ICL</td><td>2,233</td><td rowspan="2">The value of the restricted shares was determined according to the closing price on the TASE on the most recent trading day preceding the grant date (the date of approval of the BOD/General Meeting).</td><td rowspan="2">An issuance for no consideration, under the 2014 Equity Compensation Plan (amended)</td><td rowspan="2">3 equal tranches: (1) one-third at the end of 12 months after the grant date (2) one-third at the end of 24 months after the grant date (3) one-third at the end of 36 months after the grant date.</td><td>10</td></tr>
<tr><td>Chairman of ICL's Board of Directors</td><td>53</td><td>0.3</td></tr>
</table>

Note 5 – Additional Information (Cont.)

B. Israel Chemicals Ltd. (hereinafter – "ICL") (Cont.)

3. On March 23, 2017, Fitch Ratings lowered ICL's international corporate credit rating to BBB– with a stable rating outlook. Fitch's above-mentioned rating also applies to the ICL's debentures. According to ICL's estimate, the impact of the said rating reduction on its financial expenses, if any, will be negligible.

4. On June 7, 2017, ICL signed an agreement for sale of its entire holdings (50%) in IDE, for a consideration of about $178 million, which is to be paid in cash on the closing date of the transaction, net of transactions costs and subject to possible price adjustments stemming from the occurrence of certain events prior to the closing of the transaction. In ICL's estimation, the closing date of the transaction is expected to take place in 2017, and it is subject to fulfillment of preconditions, including receipt of approvals from the competent authorities. In light of that stated, during the period of the report, ICL reclassified the amount of about $122 million from the "investments in equity-accounted investees" category to the "assets held for sale" category.

C. Oil Refineries Ltd. (hereinafter – "ORL")

1. As at June 30, 2017, ORL and its subsidiaries, Carmel Olefins and Gadiv, are in compliance with the financial covenants provided for them in connection with their liabilities.

2. During March 2017, ORL signed an agreement (hereinafter – "the Agreement") with respect to availability of raw materials, mainly crude oil (hereinafter – "the Crude Oil"), with an international company. Execution of the Agreement took place in the second quarter of 2017. The Agreement permits ORL, among other things, to reduce during the period of the Agreement the quantities of the inventories of the Crude Oil it would have held in the absence of the inventory availability transaction, and as a result to manage, in the most optimal manner, the balances of its operating inventories, as well as to enjoy the financial advantages deriving from holding smaller inventory quantities, in the total scope of 1.8 million barrels, release of cash, in the amount of about $85 million, and diversification of the financing sources.

3. Further to that stated in Note 9.C.4 to the annual financial statements, ORL's General Meeting approved, after approval of ORL's Board of Directors, distribution of a dividend, in the amount of about $85 million, and on January 22, 2017, the dividend was paid (the share of Israel Corporation in the dividend, after taxes, is about $30 million).

4. On April 9, 2017, Standard & Poor's Maalot raised rating of ORL and of ORL's public debentures, from ilBBB+ to ilA–, with a stable rating outlook.

5. On April 26, 2017, ORL issued NIS 625,207,000 par value debentures (Series I), which are linked to the dollar. The proceeds from the issuance, net of the transaction costs, amounted to about $170 million. The debentures (Series I) were rated by Standard & Poor's Maalot at a rating of ilA–, with a stable rating outlook.

Note 5 – Additional Information (Cont.)

C. Oil Refineries Ltd. (hereinafter – "ORL") (Cont.)

6. On April 20, 2017, ORL received notice of announcement of a labor dispute in ORL and its subsidiaries, in accordance with the provisions of Sections 5A and 5B of the Law for Settlement of Labor Disputes. Negotiations were carried on between ORL and the representatives of the employees regarding the matters that are the subject of the notice, and on June 13, 2017, a document of agreements was signed between the Council of ORL employees and the New General Workers Union that led to conclusion of the labor dispute.

ORL has made early adoption of the provisions of IFRS 9 (2013). Since Israel Corporation had not made early adoption of the Standard, as stated, Israel Corporation makes adjustments to the statements or ORL in its financial statements. Set forth below is data including impacts of early adoption of the provisions of the Standard, as stated.

Condensed data regarding associated company – ORL

Condensed data regarding the interim statement of position:

	June 30 2017 (Unaudited)	June 30 2016 (Unaudited)	December 31 2016 (Audited)
		$ millions	
Main location of activities		ISRAEL	
Rate of ownership rights*	**33.08%**	37.08%	37.08%
Current assets	**1,362**	1,257	1,309
Non-current assets	**2,401**	2,368	2,359
Current liabilities	**(1,006)**	(1,033)	(1,124)
Non-current liabilities	**(1,723)**	(1,604)	(1,507)
Total net assets (100%)	**1,034**	988	1,037

* On June 19, 2017, the Corporation sold about 4% of ORL's shares. For details – see Note 5A4 above.

Note 5 – Additional Information (Cont.)

C. Oil Refineries Ltd. (hereinafter – "ORL") (Cont.)

Condensed data regarding associated company – ORL (Cont.)

Condensed data regarding the interim statement of income:

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2017	**2016**	**2017**	**2016**	**2016**
	(Unaudited)		(Unaudited)		(Audited)
	$ millions				
Revenues	**2,583**	2,057	**1,378**	1,132	4,320
Income	**92**	115	**73**	87	157
Other comprehensive income (loss)	**(11)**	(1)	**(2)**	(3)	4
Total comprehensive income	**81**	114	**71**	84	161

Note 6 – Contingent Liabilities, Commitments and Concessions

Further to that stated in Note 20 to the annual financial statements and except as stated below, there were no significant changes in the period of the report in the contingent liabilities, commitments and concessions.

A. The Corporation

1. On October 16, 2013, V-Cars filed a monetary claim in the District Court in Tel-Aviv (essentially identical to the claim filed in the United States against the Corporation that was rejected) against the Corporation. On dates from February 28, 2016 through March 2, 2016, four consecutive days of proof hearings were held at the conclusion of which the case was set for written summations. The plaintiff and the Corporation have submitted their summations in the case. The plaintiff filed its response summations on August 1, 2017. The Corporation estimates, based on the opinion of its legal advisors, that the chances the claim will succeed are low and, in any event, it believes, based on the opinion of its legal advisors, that the chance the Corporation will be required to pay the plaintiff a significant amount is remote.

Note 6 – Contingent Liabilities, Commitments and Concessions (Cont.)

A. The Corporation (Cont.)

2. On January 16, 2014, a shareholder of ORL filed a claim and a request for its certification as a class action against ORL, the Corporation and others. On March 10, 2016, the Court rejected the request for certification and ruled to award the requesting party for the request expenses, in the total amount of NIS 250,000. On April 18, 2016, the requesting party filed an appeal of the decision in the Supreme Court. On June 19, 2016, ORL, the Corporation and others filed in the Supreme Court a counter-appeal to the Court decision. Subsequent to the date of the report, on July 24, 2017, a hearing was held for oral supplementation of the claim. After the contentions of the parties were heard, the Court recommended to the appellant to withdraw the appeal and, accordingly, the appeal was cancelled with no order for expenses. Regarding the counter appeal filed by the respondents, the Supreme Court accepted it in part and reduced the amount of the expenses awarded to the appellant to only NIS 150,000.

3. On August 5, 2014, a request was filed in the District Court in Tel-Aviv–Jaffa (the Economics Division) for certification of a claim as a derivative claim (hereinafter – "the Request for Certification"), by a Corporation shareholder that allegedly holds 19 of the Corporation's shares (hereinafter – "the Requesting Party") against the Corporation, ZIM, Messrs. Gideon Langholz, Oded Degany, Zehavit Cohen and Michael Bricker (who serve as Corporation directors) and against Millennium Investments Elad Ltd. (hereinafter – "Millennium") and Mr. Idan Ofer (hereinafter – "the Respondents"). A copy of the statement of claim is attached to the Request for Certification. On June 26, 2016, a Court decision was rendered whereby the Request for Certification was rejected (hereinafter – "the Court Decision"). On September 25, 2016, Requesting Party filed an appeal of the court decision to the Supreme Court. A hearing was scheduled for completion of the oral contentions for December 18, 2017. Subsequent to the date of the report, on July 6, 2017, the appellant filed his summations. The date for the summations of the respondents is October 26, 2017, and the date for the reply summations is November 26, 2017. At this early and preliminary stage of the appeal, it is difficult to estimate the chances of these proceedings and their risks. In any event, as usual, a derivative claim (even if it is certified as a derivative claim), as well as appeal of the rejection of the request for certification of the claim as a derivative claim, does not pose a significant threat of a liability for a significant monetary amount on the part of the Corporation (this is the rationale forming the basis for this type of claim), and it appears that this is also true in this case.

Note 6 – Contingent Liabilities, Commitments and Concessions (Cont.)

A. The Corporation (Cont.)

4. On December 31, 2014, a request for certification of a claim as a derivative claim was filed in the District Court of Tel-Aviv–Jaffa (Economic Division) ("the Request for Certification"), by two shareholders who allegedly hold together 42 of the Corporation's shares (hereinafter – "the Plaintiffs"), against the Corporation, Messrs. Gideon Langholz, Oded Degany, Zehavit Cohen and Michael Bricker (who serve as Corporation directors) (hereinafter – "the Directors") and against Trigger Foresight (a limited partner) (hereinafter – "Trigger Foresight"). A copy of the statement of claim is attached to the Request for Certification. On December 10, 2015, a preliminary hearing was on the request for the approval and thereafter the case was set for hearings of the proofs on June 1, 2016 and on June 9, 2016. The Plaintiffs filed a request with the Court for discovery of documents. On May 15, 2016, the Court's decision was received wherein it determined that there is no place for hearing the request for discovery of documents prior to hearing the Request for Certification. On June 13, 2016, the Plaintiffs filed a request for leave to appeal in connection with the Court's decision to reject the request for discovery of documents (hereinafter – "the Request for Leave to Appeal"). On August 9, 2016, a notice and request was filed on behalf of the Plaintiffs and Trigger Foresight whereby they have reached agreements with each other. On October 26, 2016, a decision was rendered by the Supreme Court on the Request for Leave to Appeal whereby, in brief, the Request for Leave to Appeal was accepted in part and it was ruled that protocols of the Special Committee for the period determined are to be submitted to the District Court in order to determine whether to allow reading of the documents while a balancing is to be made between the relevance of these documents to that contended in the Request for Leave to Appeal and the claims of confidentiality raised by the Corporation. On November 8, 2016, a notification was filed on behalf of Israel Corporation with respect to delivery of documents (confidential documents) for the Court's perusal, to which were attached (in a sealed envelope for the Court's perusal only) the required protocols, and the parts the Corporation believes are confidential – were marked as such. On January 17, 2017, the Court's decision was rendered, which accepted the Corporation's position regarding application of the attorney/client privilege to the documents delivered to the Court, as noted above, and the Court determined that under the circumstances of the matter there is no justification to negate the privilege. Accordingly, the Court instructed the Corporation to transfer the said documents for perusal by the requesting parties, while "blacking out" the confidential sections protected by the privilege. June 28, 2017 and July 3, 2017 were set as the dates for hearing the proofs in the case. On March 19, 2017, the Plaintiffs filed a request to summon witnesses, wherein they requested the Court to summon Prof. Asher Blass for questioning, who prepared the opinion regarding the debt arrangement that is the subject of the request for certification of Antropi Investigation Services Ltd., and Mr. Nir Gilad. The response date to the request to summon witnesses was set as April 6, 2017. On May 9, 2017, the Court accepted the request to summon witnesses and instructed that Prof. Asher Blass and Mr. Nir Gilad be summoned to appear. On June 28, 2017, July 3, 2017 and July 19, 2017 hearings were held on the proofs. Additional hearings on the proofs were scheduled for December 2017.

   At this early and preliminary stage of the proceeding, it is difficult for the Corporation, based on the opinion of its legal advisors, to assess the chances of the proceeding and its risks. In any event, a derivative claim (even if it is ultimately approved as a derivative claim) does not create actual monetary exposure to the Corporation itself.

Note 6 – Contingent Liabilities, Commitments and Concessions (Cont.)

A. The Corporation (Cont.)

5. On January 15, 2015, a request was filed on behalf of Mr. Mordochai Gavrielli (hereinafter – "the Plaintiff"), as part of a proceeding for certification of a claim as a class action, in the amount of NIS 32.3 million (hereinafter – "the Request"), against the Corporation and, based on that alleged in the Request, against the members of the Corporation's Board of Directors, the Corporation's CEO on the relevant dates, the Corporation's CFO on the relevant dates (hereinafter – "the Officers") and the Corporation's controlling shareholder (hereinafter jointly and severally – "the Respondents"). The Plaintiff held 5 of the Corporation's shares between the dates October 14, 2014 through December 3, 2014. As part of an Immediate Report of the Corporation dated December 31, 2014, a notification was provided whereby there was a clerical error in the Report of the Board of Directors as at September 30, 2014, which was published on November 25, 2014 (hereinafter – "the Board of Directors"). Pursuant to that alleged in the Request, the clerical error is a "significant error in description of the financial position of the subsidiary", and this error caused the Plaintiff and additional shareholders, who bought and sold their shares during the period between November 25, 2014 (prior to the start of trading) through December 31, 2014 (after the close of trading) (hereinafter – "the Alleged Misleading Period"), to sustain significant harm. On January 5, 2016, a preliminary hearing on the claim was held. On May 17, 2016, a court hearing was held wherein the Plaintiff (regarding his affidavit), the expert on its behalf (regarding his opinion) and a declarant on behalf of the Corporation (on his affidavit) were questioned. On July 18, 2016, the requesting party filed summations on his behalf and on November 14, 2016, the respondents filed summations on their behalf, and on November 22, 2016, the requesting party submitted response summations. In the estimation of the Corporation's management, it is not possible to assess the probability that the District Court will reject the Request or will approve it (and will certify the claim as a class action).

6. On July 9, 2016, a request for certification of a claim as a derivative claim (hereinafter – "the Request for Certification") was filed in the District Court in Tel-Aviv–Jaffa (Economics Division) by Ms. Yehudit Langa, who alleges to hold shares of the Corporation (hereinafter – "the Claimant"), against the Corporation, against Mr. Idan Ofer and Millennium Investments Elad Ltd. (hereinafter, both together – "the Controlling Shareholders"), and against the Corporation's form CEO and 3 additional officers (hereinafter – "the Officers"). A copy of the statement of claim was attached to the Request for Certification. On April 30, 2017, the Court accepted the Request for Certification and approved maintaining the claim against the Officers and against the Controlling Shareholders. The Court determined, among other things, that provision of direct remuneration from the Controlling Shareholder to the Officers "breaches the balance" the legislator wished to achieve by means of the provisions enacted as part of Amendment No. 20 to the Companies Law, 1999 ("Amendment No. 20" and "the Companies Law"), and causes a situation wherein the Officers to which remuneration was promised, as stated, are in a position of a conflict of interests. Accordingly, the Court determined that the Corporation was required to bring the bonuses for approval of its competent authorities under the procedure provided in the Companies Law ("as worded in Amendment No. 20") for approval of the Corporation's remuneration policy.

Note 6 – Contingent Liabilities, Commitments and Concessions (Cont.)

A. The Corporation (Cont.)

6. (Cont.).

Therefore, the Court approved maintaining the claim against the Officers, and against the Controlling Shareholders, which respect to whom it was determined that they have a duty to return the bonuses to the Corporation's accounts "jointly and severally" with the Officers. The Court ruled that the Officers and the Controlling Shareholders are to bear the Claimant's expenses in the Request for Certification stage, in the amount of NIS 60,000. In addition, dates were set for commencement of the proceedings on the claim in the name of the Corporation by the Claimant. On May 23, 2017, the representative of the Officers notified the Court that negotiations are being carried on regarding the possibility of settling the dispute that is the subject of the proceeding by means of consent. In light of this, the Court was requested to stay all the dates set in the case. In light of that stated above, it is clear that the above-mentioned decision, which accepts the Request for Certification, would appear to increase the claim's chances of ultimately being accepted. Clearly, the respondents have the right to request a re-hearing with respect to the said decision. In any event, as usual, a derivative claim (even if it is approved as a derivative claim), does not create actual monetary exposure for the Corporation itself (indeed this is the rationale forming the basis for a claim of this type), and this is true in the present case as well.

7. In September 2013, the District Court in Lod issued a fixed liquidation order against Better Place, which is incorporated in Delaware in the United States, in which the Corporation holds about 30% of its shares. This liquidation order was recognized during October 2013 by the competent court in Delaware. As far as we know, a liquidation order has also been issued against subsidiaries of Better Place. In March 2014, the Corporation submitted to the Liquidator of Better Place a debt claim in the amount of about $72 million in respect of its investment in subordinated convertible notes issued by Better Place in November 2012 and February 2013. On September 2, 2014, the decision of the liquidators of Better Place was received whereby the debt claim submitted by the Corporation is rejected. No appeal of the decision on the debt was filed. Former officers of the Corporation have been summoned for investigation by the liquidator of Better Place. Further that stated above, on May 23, 2016, a claim was filed in the Central District Court of Lod by the liquidator of Better Place, in the amount of NIS 200 million, against, among others, a number of position holders in Better Place, including 3 former officers of the Corporation, in connection with their service in Better Place and actions or omissions of the defendants at the time of the liquidation. To the best of its knowledge, the Corporation is not one of the defendants. The date for submission of the statements of defense was set as September 10, 2017 and a pre-trial hearing was set for October 22, 2017.

Note 6 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. ICL

1. On June 30, 2017, there was a partial collapse of the dyke in Pond 3 in the plants of Rotem Amfert Israel, which is used for accumulation of phosphogypsum water that is created as a by-product of the production processes. ICL ceased immediately use of the active phosphogypsum ponds. On July 3, 2017, ICL returned to production at full capacity under a temporary approval to activate Pond 4 by the Ministry of Environmental Protection. The Company was instructed by the Ministry of Environmental Protection to submit a plan within the next few months relating to the future operation of the phosphogypsum water ponds. To the best of ICLs knowledge, investigations have been commenced by the Ministry of Environmental Protection and the Israeli authorities. ICL is taking action to explore solutions for, among other things, restoration of the ponds in the short- and long-term and to rectify any environmental harm caused, to the extent required. ICL's actions are being carried out in full coordination and close cooperation with the Israeli environmental authorities, including the Ministry of Environmental Protection and the Nature and National Parks Authority. The Company is committed to environmental responsibility, and for years has worked closely with the Israeli environmental authorities to maintain the Negev's natural reserves in the area of its facilities.

   In light of the preliminary stages of the cost evaluation process, its complexity and the uncertainty regarding future resolutions and demands, ICL cannot estimate the expected restoration costs at this stage. Nevertheless, ICL recorded a provision, in an immaterial amount, which reflects the expenses that are expected to be incurred in the short term. ICL is in contact with its insurance carriers with reference to the relevant insurance policies regarding the matters described above.

2. Subsequent to the date of the report, in July 2017, two applications for certification of a claim as a class action were filed against ICL, one in the District Court in Beer Sheva and the other in the District Court in Tel Aviv, as a result of a partial collapse of the dyke in the evaporation pond of Rotem Amfert Israel, which caused contamination of the Ashalim Stream and its surrounding area. The requesting parties contend that ICL breached various provisions of the environmental laws, including, the provisions of the Law for Prevention of Environmental Hazards and the Water Law as well as provisions of the Torts Ordinance, breach of a statutory duty and negligence. In the framework of the first application, the Court is requested to instruct ICL to rectify the harm caused as a result of its omissions in order to prevent recurrence of the damage caused as well as to grant a monetary remedy for non-pecuniary damages. The monetary remedy was not defined, however, according to the requesting parties, the amount of the personal claim is NIS 1,000 ($283) for all residents of the State of Israel, which totals 8.68 million persons. In the framework of the second application, the Court is requested to grant a monetary remedy in an amount of not less than NIS 250 million ($71 million), and concurrently to award personal compensation in the amount of NIS 2,000 ($567) for all residents of the State of Israel, this being in respect of non-pecuniary damages. Furthermore, the Court was requested to instruct ICL to comply with the relevant laws and the rules provided thereunder. In light of the very early stage of the proceeding and the limited number of similar court cases, it is difficult, at this stage, to predict the outcome of the applications.

Note 6 – Contingent Liabilities, Commitments and Concessions (Cont.)

B. ICL (Cont.)

3. Further to Note 20B2b(1) to the Annual Financial Statements, on June 30, 2017, the Supreme Court determined that the permit to pile up the salt in Sallent, which includes certain conditions, will be extended by one year, up to June 30, 2018. In addition, the Court determined that before March 31, 2018, ICL will be entitled to request an extension for an additional year, up to June 30, 2019. With respect to the extension for the second year, the Court determined that the competent authorities are permitted to provide conditions for granting an extension as stated.

4. In June 2017, ICL received an assessment from the Israeli Tax Authority whereby it is required to pay additional tax in respect of the 2012–2014 tax years, in the amount of about $50 million. ICL disputes the assessment and is considering its further course of action. Based on ICL’s estimation, as at the date of the report there is a sufficient provision in the books, in an immaterial amount.

5. During the second quarter of 2017, as part of its efficiency plan, ICL signed a five-year collective labor agreement with the Workers’ Union of Rotem Amfert Israel, which includes a plan for early retirement of 30 employees. As a result, ICL increased the provision of termination benefits for employees, in the amount of about $15 million, against the “other expenses” category in the statement of income.

6. During March 2017, a claim was filed by Great Lakes Chemicals, a subsidiary of Chemtura Corporation (hereinafter – "Great Lakes"), against Dead Sea Bromine Company Ltd. (hereinafter – "DSB"), in the U.S. District Court for the Southern District of New York, in the United States. As part of the claim, Great Lakes is claiming damages, in an amount of about $27 million, in respect of an alleged breach of an agreement covering supply and sale of bromine and downstream bromine products from 2003 and is requesting issuance of a declaratory order enforcing the agreement from 2003. DSB rejects the damages claimed, including any related responsibility or obligation. In ICL's estimation, the chances that Great Lakes’ alleged claims will be rejected exceed the chances that they will be accepted.

7. Further to Note 20 to the Annual Financial Statements, in April 2017, the National Council for Planning and Building approved amendments to the National Outline Plan (NOP) 14B, which includes the Barir field and transferred the plan for government approval. In addition, in March 2017, the Supreme Court sitting as the High Court of Justice rejected the petition of residents of Arad against the policy document of the National Council for Planning and Building regarding the mining plan in the Barir field.

Note 6 – Contingent Liabilities, Commitments and Concessions (Cont.)

C. ORL

1. Subsequent to the date of the report, the Supreme Court handed down a judgment dismissing the plaintiff's appeal of the District Court's judgment, which dismissed a claim in the amount of NIS 135 million (as at the filing date) and a motion for its certification as a class action, for claims that ORL breached its duty of disclosure, due to the way in which it presented supplier credit and the inventory availability transaction in its financial statements.

2. Further to Note 20B3(j) of the Annual Statements regarding a claim against ORL in the amount of NIS 753 million (as at the date of its filing), with a motion for its certification as a class action, for the fire that broke out in the intermediate materials storage tank on ORL's premises in December 2016, ORL believes, based on the opinion of its legal counsel representing it in this case, that at this early stage, it is difficult to assess the results of the proceedings or ORL's exposure. However, based on the evidentiary basis of the claim and the results of similar proceedings, it is more likely than not that the claim will be dismissed. ORL submitted an appropriate notice regarding the claim to the insurers.

3. In the period of the report, Carmel Olefins received a warning in respect of claims of non-conformance regarding the values measured in one of the factory's stacks, compared with the values stated in the emission permit. Carmel Olefins submitted a detailed response to the warning. At this preliminary stage, ORL is not able to estimate the exposure for the warning.

4. Subsequent to the date of the report, on August 11, 2017, ORL was delivered a warning of an alleged violation with respect to non-compliance with the maximum emissions requirements pursuant to ORL's emissions permit, and an apparent violation of the provisions of the permit relating to conformance of two stacks in ORL's plant to the stack air-pollution examination procedure determined by the Ministry of Environmental Protection. ORL has 14 days to submit its response to the warning and it intends to submit a response within this period. Due to the very early stage of the matter, ORL is not able to estimate the exposure.

5. As detailed in Note 20.B(3)(a)-(i) to the annual financial statements, legal, administrative and other proceedings are being carried on against the ORL Group regarding environmental protection. In the estimation of ORL's management, based on an opinion of its legal advisors and the legal advisors of ORL's subsidiaries, at this stage, it is not possible to estimate the impacts, if any, on the financial statements as at June 30, 2017 and, accordingly, no provisions in respect thereof have been included in the financial statements.

Note 7 – Financial Instruments

Fair value

(1) Fair value compared with book value

The carrying value in the books of certain financial assets and financial liabilities, including: cash and cash equivalents, investments, deposits and short-term loans, receivables and debit balances, investments and long-term debit balances, short-term credit, payables and credit balances, long-term loans bearing variable interest and other long-term liabilities, as well as derivative financial instruments, correspond to or approximate their fair values.

The following table details the book value and fair value of groups of financial instruments presented in the financial statements not at their fair values:

	As at					
	June 30, 2017		June 30, 2016		December 31, 2016	
	Book value	Market value	Book value	Market value	Book value	Market value
	Unaudited		Unaudited		Audited	
	Millions of dollars					
Debentures	**2,825**	**2,944**	2,700	2,796	2,704	2,745
Long-term loans from financial institutions and others	**992**	**1,021**	1,250	1,282	1,135	1,153

(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 data in the market.

Note 7 – Financial Instruments (Cont.)

(2) Hierarchy of fair value (Cont.)

	June 30 2017	June 30 2016	December 31 2016
	(Unaudited)	(Unaudited)	(Audited)
		Book Value	
		$ millions	
Assets			
Marketable securities held for trade (1)	**–**	25	10
Assets available for sale* (3)	**208**	255	253
Derivatives used for accounting hedge (2)	**25**	6	17
Derivatives used for economic hedge (2)	**107**	14	8
Call (Put) options on ICL shares (Collar) (3)	**45**	89	74
	385	389	362
Liabilities			
Derivatives used for accounting hedge (2)	**1**	2	1
Derivatives used for economic hedge (2)	**15**	64	21
	66	66	22

(1) Level 1.
(2) Level 2.
(3) Level 3.

(3) Financial instruments measured at fair value at Level 3

* Investment in 15% of the share capital of YTH, which is subject to a three-year lock-up period as required by Chinese law. Measurement of the fair value of the discount rate in respect of the lock-up period was calculated by use of the Finnerty 2012 Model and is based on an estimate of the period in which the restriction on marketability applies and a standard deviation of the yield on a YTH share in this period. The impact stemming from a possible and reasonable change in these data items, which are not observed, is not material.

Note 7 – Financial Instruments (Cont.)

(3) Financial instruments measured at fair value at Level 3 (Cont.)

The following table presents a reconciliation between the opening balance and the closing balance with respect to Call (Put) options on ICL shares (Collar) measured at fair value at Level 3 in the fair value hierarchy:

	For the Six Months Ended June 30		For the Three Months Ended June 30		Year Ended December 31
	2017	**2016**	**2017**	**2016**	**2016**
	Unaudited		**Unaudited**		**Audited**
	Millions of dollars				
Opening balance	**74**	81	**63**	75	81
Settlement in respect of financial transaction*	**(12)**	–	**(6)**	–	(6)
Settlement in respect of dividend adjustment component	**3**	2	**2**	1	4
Total gains (losses) recognized in the statement of income:					
Realized	**(3)**	(2)	**(2)**	(1)	(4)
Unrealized	**(17)**	8	**(12)**	14	(1)
Closing balance	**45**	89	**45**	89	74

* See Note 2.A.5

(4) Data regarding measurement of fair value at Level 2 and Level 3

Level 2

The fair value of forward contracts on foreign currency is determined using trading programs that are based on their market prices. The market price is determined based on a weighting of the exchange rate and the appropriate interest coefficient for the period of the transaction along with an index of the relevant currencies.

The fair value currency options and options on energy prices is determined using trading programs that are based on the customer model in the account, internal value, standard deviation, interest and period of the option.

The fair value of contracts for exchange (SWAP) of interest rates and energy prices is determined using trading programs and is based on the market prices, period up to settlement of the contract and the credit risks of the parties to the contract.

The fair value of currency and interest exchange (SWAP) transactions is based on the market interest rates for discounting the future cash flows on the basis of the terms and length of the period up to maturity of each transaction and using market interest rates.

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

Note 7 – Financial Instruments (Cont.)

(4) Data regarding measurement of fair value at Level 2 and Level 3 (Cont.)

Level 3

The fair value of derivate assets at Level 3 is measured every quarter by an external appraiser using the "Black and Scholes" model, which is used for measuring options. Measurement of the value is examined by professional parties in the Corporation. Despite the fact that the Corporation believes that the fair values determined for purposes of measurement and/or disclosure are appropriate, use of different assumptions or measurement methods could change the fair value. Regarding measurement of fair value, a possible reasonable change of one or more of the assumptions could increase (decrease) the income loss and the equity, as shown below:

	Change in income (loss) and equity			
	$ millions	$ millions	$ millions	$ millions
	Rise of 100 base points	Rise of 50 base points	Fall of 50 base points	Fall of 100 base points
Change in interest rate as at June 30, 2017*	**(2)**	**(1)**	**1**	**2**
Change in interest rate as at June 30, 2016*	(4)	(2)	2	4
Change in interest rate as at December 31, 2016*	(2)	(1)	1	2

* Based on a risk free interest curve.

	Change in income (loss) and equity			
	$ millions	$ millions	$ millions	$ millions
	Increase of 10%	Increase of 5%	Decrease of 5%	Decrease of 10%
Change in the fluctuations of the price of an ICL share as at June 30, 2017**	**2**	**1**	**(1)**	**(2)**
Change in the fluctuations of the price of an ICL share as at June 30, 2016**	3	1	(1)	(2)
Change in the fluctuations of the price of an ICL share as at December 31, 2016**	2	1	(1)	(2)

** As at June 30, 2017 and 2016 and as at December 31, 2016, the standard deviation was about 27.6%, 33.3% and 30.6%, respectively.

Israel Corporation Ltd.

Condensed separate information provided in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970

As at June 30, 2017

(Unaudited)

Israel Corporation Ltd.
Condensed Separate Information provided in
accordance with Regulation 38D of the Securities Regulations
(Periodic and Immediate Reports), 1970
As at June 30, 2017
Unaudited

Contents

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
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To the Shareholders of Israel Corporation Ltd.

Re: Special Report of the Auditors' with respect to Separate-Company Interim Financial Information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970

Introduction

We have reviewed the separate-company interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2017 and for the six-month and the three-month periods then ended. The separate-company interim financial information is the responsibility of the Corporation's Board of Directors and Management. Our responsibility is to express a conclusion on the separate-company interim financial information based on our review.

Scope of the Review

We conducted our review in accordance with Review Standard 1, "Review of Interim Financial Information for Interim Periods Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate-company interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and on the review report of other auditors, nothing has come to our attention that causes us to believe that the above-mentioned financial information is not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above-mentioned conclusion, we direct attention to that stated in Note 6.C.3–5 to the Corporation's consolidated financial statements regarding certain legal proceedings and other contingencies against ORL and its subsidiaries, which in the estimation of the managements of the defendant companies, based on the opinion of their legal advisors, it is not possible to predict at this point the impact thereof on the financial statements, if any, and accordingly no provision in respect thereof has been included in the financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 16, 2017

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2017
Condensed Interim Statements of Financial Position Information

	At June 30		At December 31
	2017	**2016**	**2016**
	(Unaudited)		(Audited)
	In Millions of U.S. Dollars		
Current Assets			
Cash and cash equivalents	**86**	116	97
Short-term deposits	**560**	693	622
Loan to investee company	**150**	–	–
Dividend receivable	**–**	–	15
Other receivables and debit balances	**3**	1	1
Derivative instruments	**28**	23	28
Total current assets	**827**	833	763
Non-Current Assets			
Investments in investee companies	**1,599**	1,895	1,670
Loans to wholly-owned subsidiaries	**128**	115	117
Loan to related company	**231**	215	223
Derivative instruments	**64**	73	56
Total non-current assets	**2,022**	2,298	2,066
Total assets	**2,849**	3,131	2,829

The additional information accompanying the condensed separate financial information is an integral part thereof.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2017
Condensed Interim Statements of Financial Position Information

	At June 30		At December 31
	2017	**2016**	**2016**
	(Unaudited)		**(Audited)**
	In Millions of U.S. Dollars		
Current Liabilities			
Current maturities in respect of non-current liabilities	**351**	346	358
Other payables and credit balances	**61**	66	64
Derivative instruments	**2**	10	10
Total current liabilities	**414**	422	432
Non-Current Liabilities			
Debentures and long-term loans	**1,588**	1,675	1,587
Derivative instruments	**–**	5	4
Long-term balances	**2**	2	2
Deferred taxes, net	**1**	–	–
Total non-current liabilities	**1,591**	1,682	1,593
Total liabilities	**2,005**	2,104	2,025
Equity			
Share capital and premium	**326**	321	322
Capital reserves	**(152)**	(137)	(168)
Capital reserve for transactions with controlling shareholder	**190**	190	190
Retained earnings	**480**	653	460
Total equity attributable to the owners of the Corporation	**844**	1,027	804
Total liabilities and equity	**2,849**	3,131	2,829

Aviad Kaufman **Chairman of the Board of Directors**	**Avisar Paz** **CEO**	**Sagi Kabla** **CFO**

Approval date of the financial statements: August 16, 2017

The additional information accompanying the condensed separate financial information is an integral part thereof.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2017
Condensed Interim Statements of Income Information

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Administrative and general expenses	**(3)**	(4)	**(1)**	(2)	(8)
Other income (expenses)	**(22)**	6	**(16)**	13	(4)
Operating income (loss)	**(25)**	2	**(17)**	11	(12)
Financing expenses	**(91)**	(52)	**(47)**	(33)	(103)
Financing income	**58**	13	**27**	20	21
Financing expenses, net	**(33)**	(39)	**(20)**	(13)	(82)
Share in income (losses) of investee companies, net	**77**	125	**45**	86	(24)
Income (loss) before taxes on income	**19**	88	**8**	84	(118)
Taxes on income (tax benefit)	**7**	(2)	**3**	3	(2)
Income (loss) for the period attributable to the owners of the Corporation	**12**	90	**5**	81	(116)

The additional information accompanying the condensed separate financial information is an integral part thereof.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2017
Condensed Interim Statements of Comprehensive Income Information

	For the Six Months Ended June 30		For the Three Months Ended June 30		Year Ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Income (loss) for the period attributable to the owners of the Corporation	**12**	90	**5**	81	(116)
Components of other comprehensive income (loss) that will be recognized in future periods in the statement of income					
Effective portion of the change in fair value of cash flow hedges	**18**	(2)	**8**	(5)	1
Net change in fair value of cash flow hedges transferred to the statement of income	**(17)**	(1)	**(8)**	3	(1)
Taxes on income in respect of other components of other comprehensive income	**–**	–	**–**	–	3
Other comprehensive income (loss) in respect of investee companies, net	**21**	3	**11**	(25)	(35)
Total	**22**	–	**11**	(27)	(32)
Components of other comprehensive income (loss) that will not be recognized in future periods in the statement of income					
Taxes on income in respect of other components of other comprehensive income	**–**	–	**–**	–	2
Other comprehensive income (loss) in respect of investee companies, net	**(7)**	(17)	**(4)**	(12)	(19)
Total	**(7)**	(17)	**(4)**	(12)	(17)
Other comprehensive income (loss) for the period, net of tax	**15**	(17)	**7**	(39)	(49)
Total comprehensive income (loss) for the period attributable to the owners of the Corporation	**27**	73	**12**	42	(165)

The additional information accompanying the condensed separate financial information is an integral part thereof.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2017
Condensed Interim Statements of Cash Flows Information

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from operating activities					
Income (loss) for the period attributable to the owners of the Corporation	**12**	90	**5**	81	(116)
Adjustments:					
Financing expenses, net	**33**	39	**20**	13	82
Share in losses (income) of investee companies, net	**(77)**	(125)	**(45)**	(86)	24
Capital loss, net	**3**	–	**3**	–	–
Loss (gain) on re-measurement to fair value of collar options	**20**	(6)	**14**	(13)	5
Taxes on income (tax benefit)	**7**	(2)	**3**	3	(2)
	(2)	(4)	**–**	(2)	(7)
Change in receivables	**(1)**	–	**(2)**	(1)	(1)
	(3)	(4)	**(2)**	(3)	(8)
Income tax received (paid), net	**(2)**	208	**–**	183	208
Dividends received	**99**	49	**40**	47	77
Net cash provided by operating activities	**94**	253	**38**	227	277
Cash flows from investing activities					
Short-term deposits and loans, net	**108**	(563)	**142**	(395)	(494)
Net proceeds from sale of shares of investee company	**56**	–	**56**	–	–
Provision of long-term loan to related company	**–**	(90)	**–**	(50)	(90)
Collection (payment) of long-term loans from investee companies	**(150)**	78	**(150)**	–	78
Interest received	**2**	1	**1**	1	3
Receipts (payments) in respect of settlement of derivatives, net	**(6)**	3	**(2)**	(2)	(4)
Net cash provided by (used in) investing activities	**10**	(571)	**47**	(446)	(507)

The additional information accompanying the condensed separate financial information is an integral part thereof.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2017
Condensed Interim Statements of Cash Flows Information

	For the				
	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	In Millions of U.S. Dollars				
Cash flows from financing activities					
Receipt of long-term loans and issuance of debentures	**208**	305	**–**	305	365
Repayment of long-term loans and debentures*	**(272)**	(200)	**(50)**	(93)	(326)
Interest paid*	**(53)**	(40)	**(19)**	(9)	(82)
Receipt (payment) for settlement of derivatives used for hedging, net	**1**	(1)	**–**	–	(1)
Net cash provided by (used in) financing financing activities	**(116)**	64	**(69)**	203	(44)
Net increase (decrease) in cash and cash equivalents	**(12)**	(254)	**16**	(16)	(274)
Cash and cash equivalents at the beginning of the period	**97**	370	**70**	132	370
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**1**	–	**–**	–	1
Cash and cash equivalents at the end of the period	**86**	116	**86**	116	97

* On December 31, 2016, payments of principal and interest in respect of the debentures, in the amount of about $60 million, were postponed in accordance with the trust indentures to January 1, 2017, since the contractual payment date was not a business day.

The additional information accompanying the condensed separate financial information is an integral part thereof.

Israel Corporation Ltd.
Condensed Interim Separate-Company Financial Information as at June 30, 2017
Additional Information

General

The interim separate-company financial information is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970, and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970, regarding separate-company financial information of an entity. The interim separate-company financial information should be read together with the separate-company financial information as at December 31, 2016 and for the year then ended and together with the condensed consolidated financial statements as at December 31, 2016 and as at June 30, 2017.

In this separate-company interim financial information:

A.	The Corporation	–	Israel Corporation Ltd.
B.	Subsidiaries	–	Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Corporation.
C.	Investee companies	–	Companies where the Corporation's investment therein is included, directly or indirectly, in the financial statements using the equity basis of accounting.

Additional Information

A. Subsequent to the date of the report, on August 2, 2017, the Board of Directors of ICL decided to distribute a dividend, in the amount of about $32 million, about $0.0245 per share. The dividend will be distributed on September 13, 2017. The share of the Corporation's and the headquarters companies – about $15 million.

B. On May 9, 2017, the Board of Directors of ICL decided to distribute a dividend, in the amount of $34 million, about $0.026 per share. The dividend was distributed on June 20, 2017. The share of the Corporation's and the headquarters companies – about $16 million.

C. On February 14, 2017, the Board of Directors of ICL decided to distribute a dividend, in the amount of $57 million, about $0.044 per share. The dividend was distributed on April 4, 2017. The share of the Corporation's and the headquarters companies – about $25 million.

D. Further to that stated in Note 4.C.2 to the annual financial statements – separate-company information as at December 31, 2016, in the second quarter of 2017, the Corporation provided short-term loans, in the aggregate amount of $150 million, to ICL. The loans are for a period of up to nine months and they bear weighted interest at an annual rate of 1.51%–1.88%. Subsequent to the date of the report, expansion of the credit framework that will be provided to ICL, in the amount of up to $250 million, was approved.

Israel Corporation Ltd.

Quarterly Report regarding Effectiveness of the Internal Control over the Financial Reporting and the Disclosure in accordance with Regulation 38C(a)

As at June 30, 2017

(Unaudited)

Quarterly Report regarding Effectiveness of the Internal Control over the Financial Reporting and the Disclosure in accordance with Regulation 38C(a):

Management, under the supervision of the Board of Directors of Israel Corporation Ltd. (hereinafter – "the Corporation"), is responsible for determining and maintaining proper internal control over the Corporation's financial reporting and disclosure.

For this purpose, the members of management are:

Avisar Paz, CEO;

Sagi Kabla, CFO

Maya Alscheich-Kaplan, In-House Counsel and Corporation Secretary;

Internal control over the financial reporting and disclosure includes the Corporation's existing controls and procedures, which were planned by the CEO and the most senior officer in the finance area or under their supervision, or by a party actually executing the said functions, under the supervision of the Corporation's Board of Directors, which were intended to provide a reasonable level of confidence regarding the reliability of the financial reporting and preparation of the financial statements in accordance with law, and to ensure that information the Corporation is required to disclose in the statements it publishes under law was gathered, processed, summarized and reported on the date and in the format prescribed by law.

The internal control includes, among other things, controls and procedures that were planned to ensure that information the Corporation is required to disclose, as stated, was accumulated and transferred to Corporation management, including to the CEO and to the most senior officer in the finance area or to a party actually executing the said functions, in order to enable making decisions at the appropriate time, with respect to the disclosure requirement.

Due to its inherent limitations, the internal control over the financial reporting and disclosure is not intended to provide complete assurance that a material misrepresentation or omission of significant information in the statements will be avoided or discovered.

In the Annual Report regarding the effectiveness of the internal control over the financial reporting and the disclosure, which was attached to the Periodic Report for the period ended December 31, 2016 (hereinafter – "the Latest Annual Report regarding the Internal Control"), the Board of Directors and Management evaluated the Corporation's internal control; based on this evaluation, the Corporation's Board of Directors and Management reached the conclusion that the internal control as stated, as at December 31, 2016, is effective.

Up to the date of the report, no event or matter was brought to the attention of the Board of Directors or Management that is capable of changing the evaluation of the effectiveness of the Internal Control, as presented in the framework of the Latest Annual Report regarding the Internal Control.

As at the date of the report, based on the Latest Annual Report regarding the Internal Control, and based on information brought to the attention of Management and the Board of Directors as stated above, the internal control is effective.

Management representation: attached hereto (respectively) are: (a) a signed declaration of the CEO; and (b) a signed declaration of the most senior officer in the finance area.

Management Representation

Declaration of the CEO

In accordance with Regulation 38C(d)(1) of the Securities Regulations (Periodic and Immediate Reports), 1970

I, Avisar Paz, declare that:

(1) I have examined the interim financial statements of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2017 (hereinafter – "the Statements").

(2) As far as I am aware, the Statements do not include a misrepresentation of a material fact and they do not lack a material fact that is required so that the representations included therein, in light of the circumstances in which such representations were included, will not be misleading with reference to the period covered by the Statements.

(3) As far as I am aware, the financial statements and other financial information included in the Statements properly reflect, in all material respects, the Corporation's financial position, results of operations and cash flows as at the dates and for the periods to which the Statements relate.

(4) I have disclosed to the Corporation's auditing CPAs, Board of Directors and Audit and Financial Statements Committees, based on my most up-to-date estimation with respect to the internal control over the Corporation's financial reporting and disclosure:

  (a) All the significant deficiencies and weaknesses in determination or operation of the internal control over the financial reporting and disclosure that might reasonably have an unfavorable impact on the Corporation's ability to gather, process, summarize or report financial information in such a manner that could cause doubt with respect to the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law; and –

  (b) Every fraud, whether or not significant, wherein the CEO is involved or a party under his direct supervision or other employees are involved that have a significant function in the internal control over the financial reporting and disclosure;

(5) I, alone or together with others in the Corporation:

  (a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010, to the extent it is relevant to the financial statements and the other information presented in the Statements is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and –

  (b) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to reasonably ensure the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law, including in accordance with generally accepted accounting principles (GAAP);

  (c) No event or matter that occurred during the period between the date of the latest Periodic Report and the date of this report was brought to my attention that is sufficient to change the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control over the Corporation's financial reporting and disclosure.

Nothing in that stated above detracts from my responsibility or the responsibility of any other person under any law.

August 16, 2017

____

Avisar Paz, CEO

Management Representation

Declaration of the most Senior Officer in the Finance Area

In accordance with Regulation 38C(d)(2) of the Securities Regulations (Periodic and Immediate Reports), 1970

I, Sagi Kabla, declare that:

(1) I have examined the interim financial statements and the other financial information included in in the statements for interim periods of Israel Corporation Ltd. (hereinafter – "the Corporation") as at June 30, 2017 (hereinafter – "the Statements").

(2) As far as I am aware, the financial statements and the other financial information included in the Statements do not include a misrepresentation of a material fact and they do not lack a material fact that is required so that the representations included therein, in light of the circumstances in which such representations were included, will not be misleading with reference to the period covered by the Statements.

(3) As far as I am aware, the financial statements and other financial information included in the Statements properly reflect, in all material respects, the Corporation's financial position, results of operations and cash flows as at the dates and for the periods to which the Statements relate.

(4) I have disclosed to the Corporation's auditing CPAs, Board of Directors and Audit and Financial Statements Committees, based on my most up-to-date estimation with respect to the internal control over the Corporation's financial reporting and disclosure:

  (a) All the significant deficiencies and weaknesses in determination or operation of the internal control over the financial reporting and disclosure to the extent it relates to the financial statements and the other financial information included in the Statements, which could reasonably have an adverse impact on the Corporation's ability to gather, process, summarize or report financial information in such a manner that could cause doubt with respect to the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law; and –

  (b) Every fraud, whether or not significant, wherein the CEO is involved or a party under his direct supervision or other employees are involved that have a significant function in the internal control over the financial reporting and disclosure;

(5) I, alone or together with others in the Corporation:

  (a) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to ensure that significant information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 2010, to the extent it is relevant to the financial statements and the other information presented in the Statements is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and –

  (b) Have determined controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, which are designed to reasonably ensure the reliability of the financial report and preparation of the financial statements in accordance with the provisions of law, including in accordance with generally accepted accounting principles (GAAP);

  (c) No event or matter that occurred during the period between the date of the latest Periodic Report and the date of this report was brought to my attention that is sufficient to change the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control over the Corporation's financial reporting and disclosure.

Nothing in that stated above detracts from my responsibility or the responsibility of any other person under any law.

August 16, 2017

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Sagi Kabla, CFO