Israel Corporation Limited

Financial Statements
As at March 31, 2006
(Unaudited)

Contents

Directors' Report to the Shareholders of Israel Corporation Ltd.

For the Three Months Ended March 31, 2006

DESCRIPTION OF THE CORPORATION AND ITS BUSINESS ENVIRONMENT

Israel Corporation Ltd. (hereinafter – "the Corporation") is an investment company engaged in the initiation, promotion and development of businesses in Israel and abroad, and is actively engaged in management of its Group companies.

The Corporation is held at the rate of 55% by the Ofer Group (as at the signing date of the financial statements) and 18% by Bank Leumi Le-Israel B.M.

The Corporation's strategy is designed to adapt its business structure to the business situation existing in Israel and globally, while expanding the Group's geographic dispersion and international market penetration in the manufacturing and marketing areas.

The results reflect the reorganization and efficiency measures taken, improvement of the cash flow and strategic acquisitions in the fertilizers and shipping made over the past several years.

The Group's activities are centered, mainly, in the chemicals, shipping, energy and advanced technology sectors, through an array of investee companies. The Corporation's headquarters provides management services, through a wholly-owned subsidiary, and is also actively involved in the strategic planning and business development of the investee companies.

This Directors' Report is submitted as part of the financial statements for the period ended March 31, 2006, and on the assumption that the reader is also in possession of the said financial statements. This report has been prepared in a condensed format for the aforementioned period on the assumption that the reader is also in possession of the periodic report for 2005.

FINANCIAL POSITION

- The total assets, as at March 31, 2006, amounted to NIS 26,340 million, compared with NIS 23,239 million, as at March 31, 2005.

- The working capital as at March 31, 2006 amounted to NIS 4,975 million, compared with working capital of NIS 2,688 million as at March 31, 2005.

- The balance of the long-term investments, loans and receivables as at March 31, 2006 amounted to NIS 532 million, compared with NIS 1,369 million as at March 31, 2005.

- The long-term liabilities, as at March 31, 2006, amounted to NIS 10,374 million, compared with NIS 9,105 million, as at March 31, 2005.

- The Corporation's shareholders' equity as at March 31, 2006 amounted to NIS 5,492 million, compared with NIS 4,075 million as at March 31, 2005, and NIS 5,398 million as at December 31, 2005.

RESULTS OF OPERATIONS

The Corporation ended the period of the report with earnings of NIS 244 million, compared with earnings of NIS 479 million in the corresponding period last year.

Set forth below are the factors which impacted the results of operations in the period of the report:

A. Israel Chemicals Ltd. (hereinafter – "ICL") finished the period of the report with earnings of $97 million compared with earnings of $95 million in the corresponding period last year.

B. ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM") finished the period of the report with earnings of $21 million, compared with earnings of $65 million in the corresponding period last year. ZIM's earnings in the corresponding period last year included a net capital gain of $31 million from sale of ships.

C. Tower Semiconductor Ltd. (hereinafter – "Tower") finished the period of the report with a loss of $45 million, compared with a loss of $55 million in the corresponding period last year.

   In the period of the report, the Group share of Tower's losses amounted to NIS 63 million, compared with NIS 4 million in the corresponding period last year (last year – after reduction of the balance of the provision for decline in value of the investment in Tower).

D. The results for the period of the report include non-recurring income, in the net amount of NIS 28 million, compared with non-recurring income in the net amount of NIS 149 million in the corresponding period last year.

E. The net financing expenses in the period of the report amounted to NIS 78 million, compared with expenses of NIS 46 million in the corresponding period last year. The increase in the expenses stems from the increase in the Libor interest rate compared with the corresponding period last year along with an increase in the total financial liabilities.

As an investments company, the Corporation's financial results are affected by the results of its investee companies as well as by non-recurring gains and losses.

CHANGES IN THE INVESTMENT PORTFOLIO

A. In the fourth quarter of 2005, the Corporation acquired about 0.6% of the shares of ICL for a consideration of NIS 133 million and an excess cost over book value was created for the Corporation in the amount of NIS 94 million.

   In the period of the report, the Corporation acquired an additional approximately 1.5% of ICL's shares for a consideration of NIS 355 million. Most of the shares were acquired from ICL employees after exercise of options they held. The excess of the cost over the book value amounts to NIS 253 million.

   Subsequent to the balance sheet date, acquired additional approximately 0.6% of ICL's shares for a consideration of NIS 173 million and an excess cost over book value was created for the Corporation in the amount of NIS 120 million.

   Up to the signing date of the financial statements, the Corporation had not yet allocated the excess cost to the identified assets and liabilities and, therefore, such excess cost is temporarily presented in the "other assets and deferred expenses" category.

CHANGES IN THE INVESTMENT PORTFOLIO (cont'd)

B. In February 2006, sale of Oil Refineries Ltd. (hereinafter – "ORL") to the State was completed and executed for an aggregate consideration of NIS 677 million, which was received as follows:

The amount of NIS 98 million, which was paid a as dividend, and the amount of NIS 579 million, which was paid by the State.

C. Regarding the commitment to invest in Tower subsequent to the balance sheet date, see the section on Tower.

Following is a brief summary of the financial results of the Corporation and the principal investees:

ISRAEL CHEMICALS LTD.

ICL finished the period of the report with earnings of $97 million, compared with earnings of $95 million in the corresponding period last year.

Sales of the ICL Group totaled 717 million in the period of the report, compared with $710 million in the corresponding period last year. The increase derives mainly from inclusion of the results of Astris, which was acquired in November 2005. In the period of the report, there was an increase in prices in most of the Group's areas of activity that was offset by a decrease in sales in the potash and other products.

The rate of the gross profit to the total sales in the period of the report was 37.6%, compared with 39.3% in the corresponding period last year. The decline in the gross profit rate stem, mainly, from the decline in potash sales and from an increase in the cost of main inputs, primarily an increase in energy prices and an increase in overland shipping prices.

In the period of the report, income was included, in the amount $16 million, which was received from an insurance company as partial compensation. The said amount was received primarily for lost profits as a result of the flood damages in Sdom that took place at the end of 2004. The amount was recorded in the "cost of sales" category.

The negotiations between the potash manufacturers and the Chinese customers with respect to the potash prices in the framework of the annual agreement for 2006 took longer than was customary over the past several year. The extended negotiations gave rise to a discontinuance of shipments to China. In addition, other potash manufacturers decided to wait and see what the results of the negotiations Chinese customers would be and the long winter in Europe caused a significant decrease in the sales of potash from beginning of 2006 and an increase in the potash inventories. These factors caused a number of large potash manufacturers to give notice of a decrease of the manufacturing in their factories in order to conform the production to the sales.

The recovery in the electronics market generated an increase in demand for flame retardants, compared with the corresponding period last year. The sale prices of the chemicals used for oil drillings increased at a significant rate over the corresponding period last year.

ICL's performance product's activities with respect to end-user products are affected by the increase in competition in some of the target markets, as well as from the currency rate of exchange. The devaluation in the average exchange rate of the euro against the dollar compared with the corresponding period last year strengthened the competitive ability regarding some of the manufacturing activities in Europe.

Increase of the energy prices and decrease in the demand for magnesium adversely affected the earnings of ICL Metallurgy.

Note should also be made of the increases in energy prices, which impacted the manufacturing costs in other sectors as well.

ZIM INTEGRATED SHIPPING SERVICES LTD.

ZIM finished the period of the report with earnings of $21 million compared with earnings of $65 million in the corresponding period last year. Last year, the earnings included a net capital gain from sale of ships, in the amount of $31 million.

Set forth below is significant data from ZIM's statements of operations:

	Three Months Ended March 31	
	2006	2005
	Millions of Dollars	
Revenues from shipping and accompanying services	676	657
Operating expenses and cost of services	602	566
Depreciation	17	17
Gross profit	57	73
Administrative and general expenses	26	24
Operating earnings	31	49
Taxes on income	6	27
Capital gain from sale of ships, net of tax effect	-	31
Net income for the period	21	65

Set forth below is significant data from ZIM's statements of cash flows:

	Three Months Ended March 31	
	2006	2005
	Millions of Dollars	
Cash provided by operating activities	25	72
Acquisition of ships, investments and fixed assets	(9)	(35)
Proceeds from sale of ships, investments and fixed assets	5	115
Cash used in financing activities	(11)	(55)

Set forth below is significant data from ZIM's balance sheets:

	March 31	
	2006	2005
	Millions of Dollars	
Total financial liabilities	638	648
Total monetary assets	423	336
Shareholders' equity	526	454
Total assets	1,700	1,605

ZIM's revenues in the period of the report from shipping and accompanying services amounted to $676 million compared with $657 million in the corresponding period last year. In the period of the report, there was no material change in the average shipping price per container or the quantity of containers shipped.

The operating expenses and costs of services increased, mainly due to an increase in fuel prices of 60%, compared to corresponding period last year.

In the period of the report, ZIM shipped 486 thousand, about the same as in the corresponding period last year.

TOWER SEMICONDUCTOR LTD.

Tower finished the period of the report with a loss of $45 million, compared with a loss of $55 million in the corresponding period last year. The decrease in the loss stems from an increase in the total sales.

During the period of the report, Tower's sales totaled $36 million, compared with $23 million in the corresponding period last year, an increase of 55%.

The cost of sales in the period of the report amounted to $61 million, about the same as in the corresponding period last year, notwithstanding the increase in sales, due to efficiency measures taken.

1. In July 2005, Tower and the banks signed an amendment to the credit facility pursuant to which the banks will provide financing of $30 million subject to Tower raising a similar amount from investors. In addition, the financial covenants were updated.

   In January 2006, pursuant to a prospectus (by means of a rights' offering) published on the Tel-Aviv Stock Exchange and the NASDAQ in the United States, Tower raised the amount of $48.2 million through debentures convertible into Tower shares.

   The debentures are convertible into ordinary shares of Tower at the rate of one ordinary share for every $1.1 of debenture principal (subject to certain adjustments) repayable in one lump-sum payment of principal and interest in 2012.

   The Corporation invested $20 million in the debentures.

   During the period of the report, $6.6 million par value debentures were converted into Tower shares.

2. Subsequent to the balance sheet date, in May 2006, Tower signed an additional amendment to the credit facility with the lending banks pursuant to which principal, in the amount of $100 million, out of the long-term debt, which was scheduled to be repaid between October 2006 and June 2007, will be deferred until July 2007.

3. In May 2006, Tower and the lending banks signed a memorandum of understanding to change the structure of Tower's long-term debt to the banks, in the amount of $527 million. According to this memorandum:

   A. 30% of the debt will be converted into 52 million shares of Tower according to a formula that is based on the average price per share in the 10 trading days preceding the signing of the memorandum of understanding.

   B. The interest rate on the long-term debt will be reduced.

   C. The beginning of the period of payment of the principal payments will be deferred from July 2007 to September 2009.

   The conditions of the memorandum of understanding are subject to a commitment on the part of Israel Corporation to invest $100 million as well as the signing of a binding agreement with the banks.

   With respect to this matter, Israel Corporation committed to invest $100 million in Tower in exchange for 66 million Tower shares, based on the same base price at which the Tower shares will be issued to the banks. Israel Corporation's investment is subject to certain conditions defined in the agreements.

4. In order to support the plan for equipping FAB2 as early as possible, Tower and Israel Corporation signed an agreement pursuant to which Israel Corporation will order equipment according to the said plan, in the amount of $100 million, based on the following conditions:

   A. Israel Corporation is permitted to sell the equipment to Tower at a price equal to cost including expenses.

   B. Tower is permitted to acquire the equipment from Israel Corporation at a price equal to cost including expenses subject to its raising of capital in the amount of $100 million.

   C. Upon sale of the equipment to Tower by Israel Corporation, Tower will be the owner of the equipment.

   D. If 5 months after signing of the agreement, the equipment has not been sold to Tower, Israel Corporation will be permitted to sell it to a third party and Tower will pay Israel Corporation the difference between the acquisition cost and the proceeds received from the sale.

   The agreement is contingent on certain conditions defined in the agreement.

5. In December 2000, Tower received a Letter of Approval for an investment grant for FAB2 that came to an end on December 31, 2005. Tower is holding discussions with the Investments Center for receipt of approval for an expansion plan for FAB2 that will commence on January 1, 2006. The plan was submitted in April 2005. Tower's Management is unable to estimate if and when a Letter of Approval, as stated, will be received.

SOURCES OF FINANCING FOR THE CORPORATION AND THE HEADQUARTERS COMPANIES

As at March 31, 2006, the total financial liabilities of the Corporation and of the wholly owned and controlled headquarters companies (hereinafter – "the Headquarters Companies") amounted to NIS 3,050 million.

The investments of the Corporation and of the Headquarters Companies in liquid assets, as at the balance sheet date, amounted to NIS 1,854 million. The investments are mainly in short-term shekel deposits and treasury bills, medium-term dollar denominated debentures and CPI-linked corporate bonds.

In the period of the report, the Corporation received a loan, in the amount of $100 million, repayable in 3 equal annual payments commencing from the year 2012.

The Headquarters Companies made early repayment of long-term loans in the amount of $85 million.

The Corporation entered into a transaction for exchange of a CPI-linked liability in the amount of $152 million for a dollar liability.

EXPOSURE TO MARKET RISKS AND RISK MANAGEMENT

In the period of the report, there was no very material change compared with that described in the Report of the Board of Directors for 2005.

UPDATE REGARDING DESCRIPTION OF THE CORPORATION'S BUSINESS

In the period of the report, there was no material change compared with that described in the Periodic Report for 2005.

EVENTS OCCURRING DURING THE PERIOD OF THE REPORT AND THEREAFTER

1. In January 2006, Irit Issacson was appointed as a director of the Corporation.

2. On April 14, 2006, the Corporation distributed a dividend in the amount of NIS 238 million.

3. In May 2006, Mr. Gilad Shavit ceased serving as Deputy CEO of the Corporation.

4. In May 2006, Mr. Nir Gilad was appointed as Deputy CEO.

5. On March 27, 2006, the Corporation's Board of Directors approved a compensation plan for employees and officers by means of an issuance of shares (hereinafter – "the Plan"). According to the Plan, 1,860 shares were issued to the Corporation's CEO and 2,510 shares were issued to officers of the Corporation and employees of a subsidiary.

   The shares were issued for no consideration to a trustee pursuant to Section 102 of the Income Tax Ordinance (New Version) and the Regulations promulgated thereunder under the ordinary income track, and they are restricted for a period of 12 months from the issuance date. An approval from the Assessing Officer for the Plan has not yet been received.

6. In the period of the report, ZIM's Board of Directors decided, in light of the particular characteristics of the shipping industry, that transactions involving the lease of ships from interested parties for periods not in excess of five years will be considered transactions that are not extraordinary, this being subject to a number of limitations regarding the number of ships for short periods from interested parties and the monetary liabilities in respect thereof.

   Every lease transaction for a short period with an interested party that is made in violation of limitations determined will be considered an extraordinary transaction. As at March 31, 2006, ZIM is in compliance with the limitations determined.

   In addition, it was decided to approve a joint venture agreement (hereinafter – "the Framework Agreement") between ZIM and an interested party in the Corporation. The subject matter of the Framework Agreement is a joint venture agreement between ZIM and an interested party for 3 periods of 4 years each, commencing from the date of its approval by ZIM's General Meeting. Continuation of the joint venture agreement after a period of 4 years will be brought for approval in accordance with law in the institutions of ZIM and Israel Corporation. The Framework Agreement includes a number of restrictions, tests and benchmarks that are intended to ensure appropriateness, measurability, fairness and transparency of each transaction that is made under the Framework Agreement and will permit the Audit Committees and the Boards of Directors of ZIM and of Israel Corporation to examine each transaction's compliance with the conditions as stated. On May 11, 2006, the General Meetings of ZIM and Israel Corporation approved the joint venture agreement for the first period.

7. Regarding the financing arrangements in Tower subsequent to the balance sheet date, see Section on Tower.

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

Idan Ofer	**Yossi Rosen**
Chairman of the Board of Directors	**Chief Executive Officer**

May 30, 2006

The Board of Directors
Israel Corporation Limited

Dear Sirs:

Review of the unaudited interim consolidated financial statements as at March 31, 2006

At your request, we have reviewed the interim consolidated balance sheet of Israel Corporation Ltd. as at March 31, 2006, and the related consolidated statement of earnings, the statement of changes shareholders' equity and the consolidated statement of cash flows for the three-month period then ended.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel and included, inter alia, reading the said financial statements, reading the minutes of the Shareholders' Meetings and of the meetings of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

We received review reports of other auditors, regarding the interim financial statements of certain subsidiaries, whose assets constitute 4% of the total consolidated assets as at March 31, 2006 and whose revenues constitute 5% of the total consolidated revenues for the three-month period then ended. Furthermore, the data relating to the net asset value of the investments in affiliated companies and the Corporation's equity in the results of the these companies, is based on interim financial statements, some of which were reviewed by other auditors.

Since the review performed was limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said interim consolidated financial statements.

In the course of our review, including the reading of the review reports of other auditors as stated above, nothing came to our attention which would indicate the necessity of making material modifications to the interim consolidated financial statements referred to above, in order for them to be in conformity with generally accepted accounting principles and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Sincerely,

Somekh Chaikin
Certified Public Accountants (Isr.)

May 30, 2006

Consolidated Balance Sheets as at

	March 31		December 31
	2006	2005	2005
	Reported amounts		
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets			
Cash and cash equivalents	1,401	2,252	1,323
Marketable securities	2,708	885	2,206
Short-term loans and deposits	287	783	376
Trade receivables	3,142	2,832	3,448
Other receivables	921	660	739
Inventories	3,523	2,394	3,042
	11,982	9,806	11,134
Long-term investments, loans and receivables			
Investments in investee companies	158	895	887
Investments in other companies	26	19	26
Long-term deposits, loans and receivables	186	197	161
Deferred taxes	26	118	26
Inventories	136	140	133
	532	1,369	1,233
Fixed assets	12,384	11,230	12,271
Other assets and deferred expenses	1,442	760	1,189
Assets attributable to discontinued operations	-	74	-
	26,340	23,239	25,827

Idan Ofer	**Yossi Rosen**	**Avisar Paz**
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

May 30, 2006

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

	March 31		December 31
	2006	2005	2005
	Reported amounts		
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current liabilities			
Short-term credit from banks and others	2,103	2,848	1,748
Trade payables	2,162	1,820	2,222
Other payables	2,504	2,230	2,396
Proposed dividend payable	238	220	-
	7,007	7,118	6,366
Long-term liabilities			
Long-term liabilities to banks and others	5,081	5,924	5,362
Provision for reclamation and disposal of waste	102	123	98
Debentures	2,239	195	2,224
Deferred taxes	1,719	1,659	1,652
Debentures convertible into shares of the Corporation	3	-	-
Liabilities for employee severance benefits, net	1,230	1,204	1,271
	10,374	9,105	10,607
Debentures convertible into shares of the Corporation and shares of a subsidiary	-	96	8
Minority interest	3,467	2,795	3,448
Liabilities attributable to discontinued operations	-	50	-
Shareholders' equity	5,492	4,075	5,398
	26,340	23,239	25,827

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

Consolidated Statements of Earnings for the

	For the three month period ended March 31		For the year ended December 31
	2006	2005	2005
	Reported amounts		
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Sales, shipping and services	6,514	5,978	26,405
Cost of sales, shipping and services	5,010	4,454	20,069
Gross profit	1,504	1,524	6,336
Selling, transport and marketing expenses	434	448	1,871
General and administrative expenses	266	234	*1,002
Research and development expenses, net	39	35	136
	739	717	3,009
Operating earnings	765	807	3,327
Financing expenses, net	(78)	(46)	(237)
Other income (expenses), net	(5)	224	125
Earnings before income taxes	682	985	3,215
Income tax	(203)	(305)	(621)
Earnings after income taxes	479	680	2,594
Group's equity in earnings (losses) of affiliates, net	(46)	10	(80)
Minority interest in earnings of subsidiaries, net	(213)	(211)	(929)
Net earnings before cumulative effect	220	479	1,585
Cumulative effect of change in accounting method	24	-	(929)
Net earnings for the period	244	479	*1,585
	NIS	NIS	NIS
Basic earnings per share ordinary of NIS 1 par value			
Before cumulative effect of change in accounting method	**28.96**	**67.02	**218.11
Cumulative effect of change in accounting method	**3.10**	-	-
	32.06	**67.02**	**218.11**
Diluted earnings per share ordinary of NIS 1 par value			
Before cumulative effect of change in accounting method	**28.41**	**64.76	**215.65
Cumulative effect of change in accounting method	**3.09**	-	-
	31.50	64.76	215.65

* Restated – see Note 1B4.
** Restated – see Note 1B2.

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

Statements of Changes in Shareholders' Equity

	Share capital and capital reserves	Adjustments arising from translation of financial statements of investee companies	Dividend proposed subsequent to the balance sheet date	Retained earnings	Total
			Reported amounts		
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three-month period ended March 31, 2006 (unaudited)	***1,907**	**34**	**238**	***3,219**	***5,398**
Balance as at the beginning of the period					
Net earnings for the period	-	-	-	244	244
Dividend	-	-	(238)	-	(238)
Adjustments from translation of financial statements	-	73	-	-	73
Conversion of debentures into shares	7	-	-	-	7
Shares and options issued to employees	8	-	-	-	8
Balance as at end of the period	1,922	107	-	3,463	5,492
For the three-month period ended March 31, 2005 (unaudited)					
Balance as at the beginning of the period	1,503	(58)	220	1,947	3,612
Net earnings for the period	-	-	-	479	479
Dividend	-	-	(220)	-	(220)
Adjustments from translation of financial statements	-	(11)	-	-	(11)
Conversion of debentures into shares	97	-	-	-	97
Exercise of options	118	-	-	-	118
Balance as at end of the period	1,718	(69)	-	2,426	4,075

* Restated – see Note 1B4.

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

Statements of Changes in Shareholders' Equity (cont'd)

	Share capital and capital reserves	Adjustments arising from translation of financial statements of investee companies	Dividend proposed subsequent to the balance sheet date	Retained earnings	Total
			Reported amounts		
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the year ended December 31, 2005 (audited)					
Balance as at the beginning of the year	1,503	(58)	220	1,947	3,612
Net earnings for the year	-	-	-	*1,585	*1,585
Dividend	-	-	(220)	(75)	(295)
Dividend proposed subsequent to the balance sheet date			238	(238)	-
Adjustments from translation of financial statements	-	92	-	-	92
Conversion of debentures into shares	201	-	-	-	201
Exercise of options	199	-	-	-	199
Options issued to employees	*4	-	-	-	* 4
Balance as at end of the year	1,907	34	238	3,219	5,398

* Restated – see Note 1B4.

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

Consolidated Statements of Cash Flows for the

	For the three month period ended March 31		For the year ended December 31
	2006	2005	2005
	Reported amounts		
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Cash flows generated by operating activities:			
Net earnings for the period	**244**	479	*1,585
Adjustments to reconcile net earnings to net cash flows generated by operating activities (A)	**124**	337	1,751
Net cash inflow generated by operating activities	**368**	816	3,336
Cash flows generated by investing activities:			
Investments in investee and other companies	**(368)**	(13)	(156)
Acquisition of fixed assets and other assets	**(207)**	(340)	(1,264)
Long-term loans granted	**(2)**	(36)	(155)
Acquisition of marketable securities, net	**(472)**	(86)	(1,283)
Investment grant in respect of fixed assets	**11**	9	34
Proceeds from sale of fixed and other assets	**26**	503	604
Collection of long-term loans	**10**	11	42
Short-term loans and deposits in banks, net	**73**	(101)	271
Proceeds from sale of investments in investee and other companies	**579**	2	75
Acquisition of newly consolidated subsidiaries (B)	**-**	-	(1,286)
Net cash outflow generated by investing activities	**(350)**	(51)	(3,118)
Cash flows generated by financing activities:			
Exercise of options in the Corporation and in a subsidiary	**73**	119	203
Dividend paid to minority shareholders of subsidiaries	**(6)**	-	(219)
Dividend paid	**-**	-	(295)
Issuance of convertible debentures and receipt of long-term loans	**641**	1,424	5,281
Repayment of long-term liabilities	**(752)**	(1,338)	(4,763)
Receipt (repayment) of short-term loans, net	**90**	52	(389)
Net cash inflow generated(outflow generated) by financing activities	**46**	257	(182)
Translation differences of cash balances in autonomous investees	**14**	13	70
Increase in cash and cash equivalents	**78**	1,035	106
Balance of cash and cash equivalents at beginning of period	**1,323**	1,217	1,217
Balance of cash and cash equivalents at end of the period	**1,401**	2,252	1,323

* Restated - see Note 1B4.

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

Consolidated Statements of Cash Flows for the (cont'd)

	For the three month period ended March 31		For the year ended December 31
	2006	2005	2005
		Reported amounts	
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
A. Adjustments to reconcile net earnings to net cash flows generated by operating activities			
Income and expenses not involving cash flows:			
Group's equity in results of affiliates, net, less dividend	**156**	(7)	130
Minority interest in earnings of subsidiaries, net	**213**	211	929
Depreciation and amortization	**286**	263	1,221
Deferred taxes, net	**47**	137	125
Capital losses (gains) net	**9**	(226)	(313)
Erosion of short and long-term loans granted and increase in value of marketable securities, net	**(16)**	(8)	(52)
Erosion of loans received and of short-term and long-term liabilities, net	**(14)**	(8)	4
Increase (decrease) in liability for employee severance benefits, net	**(69)**	11	47
Expenses regarding to shares and options issued to employees	**8**	-	*4
Cumulative effect of change in accounting method	**(24)**	-	-
	596	373	2,095
Changes in asset and liability items:			
Decrease (increase) in trade and other receivables	**201**	57	(161)
Increase in inventories	**(427)**	(153)	(404)
Decrease in uncompleted voyages, net	**(36)**	(125)	(216)
Increase (decrease) in trade and other payables	**(212)**	184	461
Increase (decrease) in provision for reclamation and disposal of waste	**2**	1	(24)
	(472)	(36)	(344)
	124	337	**1,751**

* Restated – see Note 1B4.

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

Consolidated Statements of Cash Flows for the (cont'd)

	For the three month period ended March 31		For the year ended December 31
	2006	2005	2005
	Reported amounts		
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
B. Acquisition of newly consolidated subsidiaries			
Working capital (excluding cash and cash equivalents)	-	-	(293)
Investment in affiliated company that became a subsidiary	-	-	19
Fixed assets, other assets and long-term receivables	-	-	(1,018)
Deferred taxes	-	-	2
Long-term liabilities	-	-	4
	-	-	(1,286)
C. Non-cash transactions			
Conversion of debentures into shares of the Corporation and of a subsidiary	6	264	548
Acquisition of fixed assets on supplier credit	-	16	-

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

Note 1 - Reporting Principles and Accounting Policies

A. General

1. These interim financial statements have been prepared in accordance with generally accepted accounting principles applicable to the preparation of interim period financial statements in accordance with Standard No. 14 of the Israeli Accounting Standards Board and in accordance with the provisions of Section D of the Securities Regulations (Immediate and Periodic Reports), 1970.

2. The significant accounting policies applied in the preparation of these financial statements are consistent with those applied in the financial statements as at December 31, 2005, except for that stated in Section B. below.

3. These financial statements have been prepared in a condensed format as at March 31, 2006 and for the three-month period then ended. The financial statements should be read in conjunction with the annual financial statements as at December 31, 2005 and for the year then ended and the related notes.

B. First time application of new accounting standards

1. Accounting Standard No. 20 (Revised) regarding the Accounting Treatment of Goodwill and Intangible Assets when Purchasing an Investee Company

   As from January 1, 2006, the Corporation applies Accounting Standard No. 20 (Revised), regarding "The Accounting Treatment of Goodwill and Intangible Assets when Purchasing an Investee Company" (hereinafter – "the Standard") of the Israeli Accounting Standards Board. The Standard provides the accounting treatment for goodwill and intangible assets upon the acquisition of a subsidiary and an investee company that is not a subsidiary, including a company under joint control.

   The principal changes provided in the Standard as compared with the principles presently applied are: allocation of the excess acquisition cost of an investment in an investee company also to identifiable intangible assets of the acquired company; distinction between intangible assets with a limited useful life and intangible assets with an unlimited useful life; immediate recognition of a gain on the date of acquisition in the amount of the negative goodwill created upon the acquisition after offset against intangible assets and non-monetary assets of the investee company; discontinuance of the systematic amortization of positive goodwill and intangible assets with an unlimited useful life; distinction between the goodwill of a subsidiary and investee company that is not a subsidiary for the purpose of examining impairment in value.

   The amounts of the goodwill amortization recorded in the statement of earnings in the corresponding period last year and in the year ended December 31, 2005, were $9 million and $43 million, respectively.

Note 1 - Reporting Principles and Accounting Policies (Cont'd)

B. First time application of new accounting standards (cont'd)

2. Accounting Standard No. 21 regarding Earnings per Share

As from January 1, 2006, the Corporation applies Accounting Standard No. 21, "Earnings per Share (hereinafter – "the Standard") of the Israeli Accounting Standards Board. In accordance with the provisions of the Standard, the Corporation calculates basic earnings per share with respect to earnings or loss, and basic earnings per share with respect to earnings or loss from continuing operations, which are attributable to the ordinary shareholders. The basic earnings per share is calculated by dividing the earnings or loss attributable to the ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period. In order to calculate the diluted earnings per share the Corporation adjusts the earnings or loss attributable to the ordinary shareholders, and the weighted-average number of outstanding ordinary shares, in respect of the effects of all the dilutive potential ordinary shares. The Corporation's share in the earnings of investee companies was calculated according to its portion of earnings per share of such investee companies multiplied by the number of shares held by the Corporation.

In accordance with the transitional provisions of the Standard, the comparative data regarding the earnings per share for prior periods were restated. The effects of the initial implementation of the Standard amounted to an increase in the basic earnings per share in the amount of NIS 3.38 and NIS 7.43 for the three-month period ended March 31, 2005 and for the year ended December 31, 2005, respectively, and an increase in the diluted earnings per share in the amount of NIS 1.12 and NIS 4.97 for the three-month period ended March 31, 2005 and for the year ended December 31, 2005, respectively as a result of the manner of taking dilutive potential ordinary shares into account.

3. Accounting Standard No. 22 regarding Financial Instruments: Disclosure and Presentation

As from January 1, 2006, the Corporation applies Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation" (hereinafter – "the Standard") of the Israeli Accounting Standards Board. The Standard provides the rules for presenting financial instruments in the financial statements and specifies the proper disclosure required in respect thereof. Furthermore, the Standard provides the method for classifying financial instruments as financial liabilities and as shareholders' equity, for classifying the interest, dividends, losses and gains related to them and the circumstances for offsetting financial assets and financial liabilities, and it cancels Opinion 53, "The Accounting Treatment of Convertible Liabilities" and Opinion 48, "The Accounting Treatment of Options".

The Standard was adopted on a prospective basis. In addition, a provision for loss included in the financial statements as at December 31, 2005, relating to a loss anticipated due to a decline in the rate of holdings as a result of the exercise of options or the conversion of convertible liabilities in investee companies, was cancelled on the commencement date of the Standard in the category "cumulative effect of change in accounting policy". The comparative figures relating to the prior period were not restated.

Note 1 - Reporting Principles and Accounting Policies (Cont'd)

B. First time application of new accounting standards (cont'd)

3. Accounting Standard No. 22 regarding Financial Instruments: Disclosure and Presentation (cont'd)

The effects of the initial implementation of the Standard were primarily as follows:

A. Expenses of issuing and raising loans, the balance of which as at March 31, 2006 was NIS 10 million, were presented net of the amount of the liability to which the expenses relate.

B. An increase in the net income, in the amount of NIS 24 million, due to cancellation of provisions for losses in respect of convertible securities in an investee company, which is included in the category "cumulative effect as at the beginning of the year of change in accounting method".

4. Accounting Standard No. 24 regarding Share-Based Payments

As from January 1, 2006 the Corporation adopted Accounting Standard No. 24, "Share-Based Payments" (hereinafter – "the Standard") of the Israeli Accounting Standards Board. In accordance with the provisions of the Standard, the Corporation recognizes share-based payment transactions in the financial statements, including transactions with employees or other parties that are settled by equity instruments, cash or other assets. Share-based payment transactions in which goods or services are received are recognized at their fair value.

With respect to transactions settled by equity instruments, the Standard applies to grants executed after March 15, 2005 that had not yet vested by January 1, 2006. Similarly, the Standard applies to changes in the terms of share-based payment transactions being settled by means of equity instruments that were executed after March 15, 2005, even if the changes in terms relate to grants that were executed before that date. In the financial statements for 2006, the financial statements for 2005 will be restated in order to reflect therein recording of the expense relating to the issuances, as stated.

The Corporation issued options to its employees in May 2005. Commencing with the first quarter of 2006, the balance of the fair value of the third increment of the options, that has not yet vested, in the amount of NIS 6.6 million, will be spread over the vesting period of the options (of which NIS 1.6 million in the period of the report). In addition, the comparative data relating to periods from March 15, 2005, relating to this increment was restated and reduced the earnings for 2005 by NIS 4 million.

Regarding the effect of implementation of the Standard on the results of operations in the period of the report, see Note D3.

Note 1 - Reporting Principles and Accounting Policies (Cont'd)

B. First time application of new accounting standards (cont'd)

5. Accounting Standard No. 25 regarding Revenues

As from January 1, 2006 the Corporation applies Accounting Standard No. 25, "Revenues" (hereinafter – "the Standard") of the Israeli Accounting Standards Board. The Standard relates to three types of transactions as follows: the selling of goods, the provision of services and the use of the entity's assets by others, which generates interest, royalties and dividends, and provides the required accounting treatment (recognition, measurement, presentation and disclosure principles) for these three types of transactions.

In February 2006, a Clarification to this Standard was published by the Israeli Accounting Standards Board – Clarification No. 8 – "Reporting Revenues on a Gross or Net Basis". The Clarification provides that an entity acting as an agent or intermediary without bearing the risks and enjoying the rewards stemming from the transaction will present its revenues on a net basis (as a profit or a commission). On the other hand, an entity acting as a principal supplier that bears the risks and enjoys the rewards deriving from the transaction will present its revenues on a gross basis, while separately presenting the related revenues and the expenses.

The initial implementation of the Standard and its related Clarification had no effect on the Corporation's results of operations and its financial position.

Note 2 - Rates of Changes in the Consumer Price Index and the Dollar Exchange Rate

Presented below is the rate of change in the Consumer Price Index and the representative rate of exchange of the U.S. dollar in the reported periods:

	CPI	Representative exchange rate of the U.S. $
	%	%
During the three-month period ended March 31, 2006	0.58	1.35
During the three-month period ended March 31, 2005	(0.60)	1.23
During the year ended December 31, 2005	2.39	6.85

Note 3 - Investments and Supplementary Information

A. Tower Semiconductor Ltd. (hereinafter – Tower)

1. In July 2005, Tower and the banks signed an amendment to the credit facility pursuant to which the banks will provide financing of $30 million subject to Tower raising a similar amount from investors. In addition, the financial covenants were updated.

In January 2006, pursuant to a prospectus (by means of a rights' offering) published on the Tel-Aviv Stock Exchange and the NASDAQ in the United States, Tower raised the amount of $48.2 million through debentures convertible into Tower shares.

Note 3 - Investments and Supplementary Information (Cont'd)

A. Tower Semiconductor Ltd. (hereinafter – Tower) (Cont'd)

The debentures are convertible into ordinary shares of Tower at the rate of one ordinary share for every $1.1 of debenture principal (subject to certain adjustments) repayable in one lump-sum payment of principal and interest in 2012.

The Corporation invested $20 million in the debentures.

During the period of the report, $6.6 million par value debentures were converted into Tower shares.

2. Subsequent to the balance sheet date, in May 2006, Tower signed an additional amendment to the credit facility with the lending banks pursuant to which principal, in the amount of $100 million, out of the long-term debt, which was scheduled to be repaid between October 2006 and June 2007, will be deferred until July 2007.

3. In May 2006, Tower and the lending banks signed a memorandum of understanding to change the structure of Tower's long-term debt to the banks, in the amount of $527 million. According to this memorandum:

   A. 30% of the debt will be converted into 52 million shares of Tower according to a formula that is based on the average price per share in the 10 trading days preceding the signing of the memorandum of understanding.

   B. The interest rate on the long-term debt will be reduced.

   C. The beginning of the period of payment of the principal payments will be deferred from July 2007 to September 2009.

   The conditions of the memorandum of understanding are subject to a commitment on the part of Israel Corporation to invest $100 million as well as the signing of a binding agreement with the banks.

   With respect to this matter, Israel Corporation committed to invest $100 million in Tower in exchange for 66 million Tower shares, based on the same base price at which the Tower shares will be issued to the banks. Israel Corporation's investment is subject to certain conditions defined in the agreements.

4. In order to support the plan for equipping FAB2 as early as possible, Tower and Israel Corporation signed an agreement pursuant to which Israel Corporation will order equipment according to the said plan, in the amount of $100 million, based on the following conditions:

   A. Israel Corporation is permitted to sell the equipment to Tower at a price equal to cost including expenses.

   B. Tower is permitted to acquire the equipment from Israel Corporation at a price equal to cost including expenses subject to its raising of capital in the amount of $100 million.

   C. Upon sale of the equipment to Tower by Israel Corporation, Tower will be the owner of the equipment.

Note 3 - Investments and Supplementary Information (Cont'd)

A. Tower Semiconductor Ltd. (hereinafter – Tower) (Cont'd)

D. If 5 months after signing of the agreement, the equipment has not been sold to Tower, Israel Corporation will be permitted to sell it to a third party and Tower will pay Israel Corporation the difference between the acquisition cost and the proceeds received from the sale.

The agreement is contingent on certain conditions defined in the agreement.

5. In the period of the report, the Corporation included its share in Tower's losses, in the amount of NIS 63 million, based on the rate of the Corporation's share in the additional investment as described in the agreements noted above.

6. In December 2000, Tower received a Letter of Approval for an investment grant for FAB2 that came to an end on December 31, 2005. Tower is holding discussions with the Investments Center for receipt of approval for an expansion plan for FAB2 that will commence on January 1, 2006. The plan was submitted in April 2005. Tower's Management is unable to estimate if and when a Letter of Approval, as stated, will be received.

B. In the fourth quarter of 2005, the Corporation acquired about 0.6% of the shares of Israel Chemicals (hereinafter – "ICL") for a consideration of NIS 133 million and an excess cost over book value was created for the Corporation in the amount of NIS 94 million.

In the period of the report, the Corporation acquired an additional approximately 1.5% of ICL's shares for a consideration of NIS 355 million. Most of the shares were acquired from ICL employees after exercise of options they held. The excess of the cost over the book value amounts to NIS 253 million.

Subsequent to the balance sheet date, acquired additional approximately 0.6% of ICL's shares for a consideration of NIS 173 million and an excess cost over book value was created for the Corporation in the amount of NIS 120 million.

Up to the signing date of the financial statements, the Corporation had not yet allocated the excess cost to the identified assets and liabilities and, therefore, such excess cost is temporarily presented in the "other assets and deferred expenses" category.

C. In February 2006, sale of Oil Refineries Ltd. (hereinafter – "ORL") to the State was completed and executed for an aggregate consideration of NIS 677 million, which was received as follows:

The amount of NIS 98 million, which was paid as a dividend, and the amount of NIS 579 million, which was paid by the State.

D. On March 27, 2006, the Corporation's Board of Directors approved a compensation plan for employees and officers by means of an issuance of shares (hereinafter – "the Plan"). According to the Plan, 1,860 shares were issued to the Corporation's CEO and 2,510 shares were issued to officers of the Corporation and employees of a subsidiary.

The shares were issued for no consideration to a trustee pursuant to Section 102 of the Income Tax Ordinance (New Version) and the Regulations promulgated thereunder under the ordinary income track, and they are restricted for a period of 12 months from the issuance date. An approval from the Assessing Officer for the Plan has not yet been received.

An expense in the amount of NIS 6.6 million was included in respect of the plan in the financial statements for the reported period.

Note 3 - Investments and Supplementary Information (Cont'd)

E. In the period of the report, the Board of Directors of ZIM Integrated Shipping Services Ltd. (hereinafter – "ZIM") decided, in light of the particular characteristics of the shipping industry, that transactions involving the lease of ships from interested parties for periods not in excess of five years will be considered transactions that are not extraordinary, this being subject to a number of limitations regarding the number of ships for short periods from interested parties and the monetary liabilities in respect thereof.

Every lease transaction for a short period with an interested party that is made in violation of limitations determined will be considered an extraordinary transaction. As at March 31, 2006, ZIM is in compliance with the limitations determined.

In addition, it was decided to approve a joint venture agreement (hereinafter – "the Framework Agreement") between ZIM and an interested party in the Corporation. The subject matter of the Framework Agreement is a joint venture agreement between ZIM and an interested party for 3 periods of 4 years each, commencing from the date of its approval by ZIM's General Meeting. Continuation of the joint venture agreement after a period of 4 years will be brought for approval in accordance with law in the institutions of ZIM and Israel Corporation. The Framework Agreement includes a number of restrictions, tests and benchmarks that are intended to ensure appropriateness, measurability, fairness and transparency of each transaction that is made under the Framework Agreement and will permit the Audit Committees and the Boards of Directors of ZIM and of Israel Corporation to examine each transaction's compliance with the conditions as stated. On May 11, 2006, the General Meetings of ZIM and Israel Corporation approved the joint venture agreement for the first period.

F. In the period of the report, ICL recorded income, in the amount $16 million, constituting partial compensation for lost profits and damage to property as a result of the flood damages in Sdom in 2004. The amount was recorded in the "cost of sales" category.

G. In the framework of agreements of ICL and its subsidiaries from July 2004 regarding a securitization agreement for the sale of debts of customers to companies from the RaboBank International Group, debts of customers in the amount of $190 million were sold in cash as at balance sheet date (March 31, 2005 – $205 million, December 31, 2005 – $217 million).

The maximum amount of the monetary resources at the disposal of the purchasing companies for the purpose of purchasing debts of customers of the subsidiaries is $220 million, on a current basis, such that the amounts received from the customers whose debts were sold will be used to purchase new customer debts.

Note 4 - Contingent Liabilities

For details in connection with the contingent liabilities, see Note 19 of the Corporation's financial statements as at December 31, 2005.

Note 5 - Business Segment Information

	Fertilizers									Eliminations	
	Potash	Phosphate	Eliminations	Total	Industrial Products	Performance products	Shipping	Energy	Other activities	& unrelated expenses	Total consolidated
	Reported amounts										
	(Unaudited)	(Unaudited)	Unaudited	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three month period ended March 31, 2006											
Other operating sales and revenues, net:											
Unaffiliated customers	**671**	**443**	**-**	**1,114**	**1,012**	**1,120**	**3,124**	**-**	**144**	**-**	**6,514**
Inter-segment	**156**	**80**	**(38)**	**198**	**14**	**10**	**30**	**-**	**61**	**(313)**	**-**
Total other operating sales and revenues, net	**827**	**523**	**(38)**	**1,312**	**1,026**	**1,130**	**3,154**	**-**	**205**	**(313)**	**6,514**
Operating earnings	**240**	**5**	**6**	**251**	**290**	**115**	**146**	**-**	**(24)**	**(13)**	**765**
Group's equity in the net earnings (losses) of affiliates, net	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**5**	**(59)**	**-**	**(46)**

	Fertilizers									Eliminations	
	Potash	Phosphate	Eliminations	Total	Industrial Products	Performance products	Shipping	Energy	Other activities	& unrelated expenses	Total consolidated
	Reported amounts										
	(Unaudited)	(Unaudited)	Unaudited	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
For the three month period ended March 31, 2005											
Other operating sales and revenues, net:											
Unaffiliated customers	1,033	447	-	1,480	790	663	2,841	-	204	-	5,978
Inter-segment	135	85	(38)	182	10	5	22	-	69	(288)	-
Total other operating sales and revenues, net	1,168	532	(38)	1,662	800	668	2,863	-	273	(288)	5,978
Operating earnings	334	27	1	362	150	77	215	-	13	(10)	807
Group's equity in the net earnings (losses) of affiliates, net	-	-	-	-	-	-	9	6	(5)	-	10

Note 5 - Business Segment Information (cont'd)

	Fertilizers									Eliminations	
	Potash	Phosphate	Eliminations	Total	Industrial Products	Performance products	Shipping	Energy	Other activities	& unrelated expenses	Total consolidated
	Reported amounts										
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Year ended December 31, 2005											
Other operating sales and revenues, net:											
Unaffiliated customers	4,157	2,088	-	6,245	3,570	2,997	12,840	-	753	-	26,405
Inter-segment	612	372	(175)	809	50	47	111	-	272	(1,289)	-
Total other operating sales and revenues, net	4,769	2,460	(175)	7,054	3,620	3,044	12,951	-	1,025	(1,289)	26,405
Operating earnings (losses)	1,497	68	(5)	1,560	692	240	859	-	(6)	*(18)	*3,327
Group's equity in the net earnings (losses) of affiliates, net	-	3	-	3	-	-	49	69	(201)	-	(80)

* Reclassified – see Note 1B4.